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IN FOCUS

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U.S.-Mexico Trade Relations

The U.S.-Mexico economic and trade relationship is of interest to Congress because of Mexico's proximity to the United States, the extensive bilateral trade and investment relationship under the U.S.-Mexico-Canada Agreement (USMCA), and the strong bilateral cultural and economic ties. The United States shares strong trade ties with Mexico and any disruption to the economic relationship could adversely affect investment, employment, productivity, or North American competitiveness. Policymakers may consider how to improve cooperation with Mexico in areas of mutual interest, including economic competitiveness, trade facilitation, energy security, and endeavors such as the U.S.-Mexico High-Level Economic Dialogue and the North American Leaders' Summit.

Mexico's Economy

Mexico is the second-largest economy in Latin America. It has a population of 127 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 $1.4 trillion in 2022, equal to about 5% of U.S. GDP of $25.5 trillion. In purchasing power parity (PPP), Mexican GDP was greater, $2.7 trillion, 11% of U.S. GDP. Mexico's per capita GDP is relatively high by global standards, within the World Bank's upper-middle income category. Mexico's GDP growth generally follows U.S. economic trends, with higher fluctuations.

U.S.-Mexico Trade

In 2022, Mexico ranked second, after Canada, among all U.S. trading partners. Total U.S. merchandise trade (exports plus imports) with Mexico amounted to $779.1 billion in 2022. In comparison, U.S. trade with Canada totaled $793.0 billion, while trade with China totaled $690.3 billion. The United States is by far Mexico's most important export market for goods, with approximately 80% of Mexican exports destined for the United States. Canada is Mexico's second most important trading partner, with China ranking third. Merchandise trade between the United States and Mexico increased exponentially since 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 $130.5 billion in 2022. In comparison, the U.S. trade deficit with China was more than double this amount at $382.3 billion.

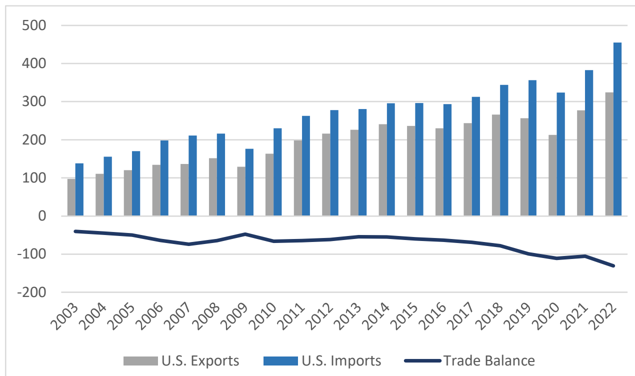
U.S. Merchandise Exports

Mexico ranks second, after Canada, among markets for U.S. merchandise exports. The value of U.S. merchandise exports to Mexico increased from $41.6 billion in 1993 (the year before NAFTA's entry into force) to $324.3billion in 2022. Leading U.S. exports to Mexico in 2022 included petroleum and coal products ($40.5 billion), motor vehicle parts ($17.5 billion), oil and gas ($15.1 billion) basic chemicals ($14.1 billions), and resin and similar products ($11.1 billion).

U.S. Merchandise Imports

Mexico ranks second, after China, among suppliers of U.S. imports. U.S. merchandise imports from Mexico increased from $39.9 billion in 1993 to $454.8 billion in 2022. Leading U.S. merchandise imports from Mexico in 2022 included motor vehicles ($72.2 billion), motor vehicle parts ($57.7 billion), computer equipment ($37.7 billion), oil and gas ($18.6 billion), and electrical equipment ($16.1 billion).

Figure 1. U.S.-Mexico Merchandise Trade 2002-2022
Current U.S. $ in billions



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

Services Trade

In 2022, the United States had a deficit in services trade with Mexico of $630 million in 2022, compared to a surplus of $2.7 billion in 2021. U.S. services exports to Mexico increased from $30.5 billion in 2021 to $37.7 billion in 2022, while imports increased from $27.8 billion in 2021 to $38.3 billion in 2021. Trade 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. According to the U.S. Bureau of Economic Analysis, the stock of U.S. FDI increased from $15.2 billion in 1993 (the year before NAFTA) to a high of $130.3 billion in 2022. While the stock of Mexican FDI in the United States is much lower, it has increased significantly over the past 20 years, from $4.1

billion in 1997 (the earliest data available) to $54.0 billion in 2022 (by ultimate beneficial owner).

U.S.-Mexico Supply Chains

Many economists credit NAFTA with helping U.S. manufacturing industries, especially the U.S. auto industry, become more competitive through the development of North American supply chains. 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 and electronics, 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 USMCA

NAFTA, which entered into force on January 1, 1994, contained provisions on tariff and nontariff barrier elimination, customs procedures, technical barriers to trade, government procurement, foreign investment, services trade, temporary entry for business persons, intellectual property rights (IPR) protection, and dispute resolution.

On July 1, 2020, USMCA replaced NAFTA. Composed of 34 chapters and 12 side letters, USMCA retains most of NAFTA's provisions, while making notable changes to market access provisions for motor vehicles and agriculture products, rules on investment, government procurement, IPR, and on worker rights and the environment. New provisions on digital trade, state-owned enterprises, and currency misalignment are part of the new agreement.

Some USMCA provisions that most affect the U.S.-Mexico trade relationship arguably include changes to the rules of origin for motor vehicles, the new chapter on digital trade, and more enforceable provisions on worker rights. For example, USMCA modified NAFTA rules of origin for motor vehicles by raising the minimum level of regional value content from 62.5% to 75%, adding a wage requirement that 40%-45% of motor vehicle content be made by workers earning at least $16 per hour, and requiring 70% of a vehicle's steel and aluminum originate in North America. On labor issues, USMCA added a new "rapid response" mechanism to provide a faster independent panel investigation of labor disputes.

USMCA maintains the NAFTA state-to-state mechanism for dispute settlement, as well as the binational dispute settlement mechanism to review trade remedy disputes. It maintains 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, which was very important for U.S. investors in Mexico. It also maintains U.S.-Mexico ISDS in other sectors, provided the claimant exhausts national remedies first.

Many economists state that USMCA will not have a measurable effect on U.S. trade and investment with Mexico, jobs, wages, or overall economic growth as most of the bilateral trade liberalization took place under NAFTA. The U.S. business community contends that USMCA will strengthen North American supply chains, especially after the COVID-19 pandemic. Some analysts contend that the United States and Mexico could strengthen North American supply chains by bringing the two countries into better alignment in regulatory areas, tax incentives, collaboration with the private sector, and investment in human capital.

Issues for Congress

Given the size of U.S.-Mexico trade and investment, many U.S. policymakers follow trade policy issues. Some policymakers view NAFTA/USMCA as vital for U.S. firms, workers and farmers, and beneficial to U.S. economic interests. Others are concerned over issues such as worker rights and the scaling back of ISDS provisions, which could adversely affect U.S. investors in Mexico.

Numerous policymakers and industry representatives have expressed serious concerns about the Mexican government's actions to strengthen the state's role in the energy sector. The U.S. government argues that these actions violate USMCA and has filed a USMCA trade dispute against Mexico. On worker rights issues, some Members are concerned about Mexico's ability to implement labor reforms required by USMCA. Stakeholders contend that the agreement could strengthen North American supply chains and provide a mechanism by which the United States and Mexico could cooperate on regulatory areas critical to strengthening supply chains, aligning tax incentives, collaborating with the private sector, and investing in human capital. Mexican officials have pointed to a USMCA-established "Competitiveness Committee" as another important framework to advance shared interests.

In its oversight capacity, Congress may be interested in ongoing collaboration with Mexico. In 2021, President Joseph Biden and Mexican President Andrés Manuel López Obrador relaunched the U.S.-Mexico High-Level Economic Dialogue. Efforts include collaboration on semiconductor and information technology supply chains, production of electric vehicles, border infrastructure and modernization projects, economic development in southern Mexico and Central America, regulatory cooperation, information technology and security, and workforce development.

Alexa Apodaca, CRS Research Assistant, contributed to this report.

M. Angeles Villarreal, Specialist in International Trade and Finance

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