



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

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Summary

In the remainder of the 112th Congress, policymakers will likely maintain an active interest in Mexico on issues related to cross-border trade, Mexico's participation in the Trans-Pacific Partnership (TPP) agreement negotiations, economic conditions in Mexico, migration, and border issues. Congress also will likely take an interest in the economic policies of Mexican President-elect Enrique Peña Nieto, who is expected to enter into office for a six-year term on December 1, 2012. During his campaign, Peña Nieto advocated a 10-point economic plan that includes, among other measures, implementing recently passed legislation to counter monopolistic practices, passing fiscal reform, opening up the oil sector to private investment, making farmers more productive, and doubling infrastructure investments.

The bilateral economic and trade relationship with Mexico is of interest to U.S. policymakers because of Mexico's proximity to the United States, the high level of bilateral trade, and the strong cultural and economic ties that connect the two countries. Also, it is of national interest for the United States to have a prosperous and democratic Mexico as a neighboring country. Mexico is the United States' third-largest trading partner, while the United States is, by far, Mexico's largest trading partner. Mexico ranks third as a source of U.S. imports, after China and Canada, and second, after Canada, as an export market for U.S. goods and services. The United States is the largest source of foreign direct investment (FDI) in Mexico.

The United States and Mexico have strong economic ties through the North American Free Trade Agreement (NAFTA), which has been in effect since 1994. Prior to NAFTA, Mexico had followed a strong protectionist policy for decades until it began to unilaterally liberalize its trade regime in the late 1980s. Not all trade-related job gains and losses since NAFTA can be entirely attributed to the agreement because of the numerous factors that affect trade, such as Mexico's trade liberalization efforts, economic conditions, and currency fluctuations. NAFTA may have accelerated the ongoing trade and investment trends that were already taking place at the time. Most studies show that the net economic effects of NAFTA on both countries have been small but positive, though there have been adjustment costs to some sectors within both countries.

In June 2012, President Barack Obama announced that the nine countries involved in the TPP negotiations had extended an invitation to Mexico and Canada to join negotiations for the proposed multilateral free trade agreement. The proposed TPP would likely enhance the economic links Mexico already has with the United States and Canada under NAFTA. This could include further reduction of barriers to trade and the negotiation of key issues in areas such as agriculture, intellectual property rights protection, government procurement, regulatory cohesion, and others.

The United States, Mexico, and Canada have made efforts since 2005 to increase cooperation on economic and security issues through various endeavors, most notably by participating in the North American Leaders Summits. The most recent Summit was hosted by President Obama on April 2, 2012, in Washington, DC. The three leaders discussed issues on the economic well-being, safety, and security of North America and issued a joint statement renewing their commitment to regulatory cooperation in key areas of interest.

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Introduction

The bilateral economic relationship with Mexico is of key interest to the United States because of Mexico's proximity, the high volume of trade with Mexico, and the strong cultural and economic ties between the two countries. Mexico is one of the United States' key trading partners, ranking second among U.S. export markets and third in total U.S. trade (imports plus exports). Under the North American Free Trade Agreement (NAFTA), the United States and Mexico have developed significant economic ties. Trade between the two countries more than tripled since the agreement was implemented in 1994. Through NAFTA, the United States, Mexico, and Canada form the world's largest free trade area, with about one-third of the world's total gross domestic product (GDP). Mexico has a population of 114 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).

The United States and Mexico share many common 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.¹ During the remainder of the 112th Congress, policymakers will likely maintain an active interest in Mexico on issues related to cross-border trade between the two countries, Mexico's participation in the Trans-Pacific Partnership (TPP) agreement negotiations, economic conditions in Mexico, migration, and border issues. Congress may also take an interest in the economic policies of President-elect Enrique Peña Nieto of Mexico, who was elected in July 2012.

Mexican President-elect Enrique Peña Nieto is expected to enter into office for a six-year term on December 1, 2012. During his campaign, he advocated a 10-point economic plan that includes, among other measures, implementing recently passed legislation to counter monopolistic practices, passing fiscal reform, opening up the oil sector to private investment, making farmers more productive, and doubling infrastructure investments. Peña Nieto also endorses an active international trade policy aimed at increasing Mexico's trade with Asia, South America, and other markets. His government is likely to take an active role in the negotiations for a TPP.²

This report provides an overview of U.S.-Mexico trade and economic trends, the Mexican economy, the effects of NAFTA, and other major economic and trade issues between the United States and Mexico.

U.S.-Mexico Economic Relations

Mexico's gross domestic product (GDP) was an estimated \$1.1 trillion in 2011, about 7% of U.S. GDP of \$15.0 trillion. Per capita income in Mexico is significantly lower than in the United States. In 2011, Mexico's per capita GDP in purchasing power parity³ was \$17,040, or 64% lower

¹ For more information on issues related to Mexico, see CRS Report RL32724, *Mexico: Issues for Congress*, by Clare Ribando Seelke.

² For more information and background on the implications of Mexico's 2012 elections, see CRS Report R42548, *Mexico's 2012 Elections*, by Clare Ribando Seelke.

³ Purchasing power parity (PPP) reflects the purchasing power of foreign currencies in their own markets in U.S. (continued...)

than U.S. per capita GDP of \$47,190 (see **Table 1**). Ten years earlier, in 2001, Mexico's per capita GDP in purchasing power parity was \$10,653, or 70% lower than the U.S. amount of \$36,082. 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. Exports accounted for 32% of Mexico's GDP in 2011, as shown in **Table 1**, and over 80% of Mexico's exports are headed to the United States.

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

	Mexico		United States	
	2001	2011 ^a	2001	2011 ^a
Population (millions)	101	114	285	313
Nominal GDP (US\$ billions) ^b	710	1,113	10,286	15,006
Nominal GDP, PPP ^c Basis (US\$ billions)	1,079	1,939	10,286	15,006
Per Capita GDP (US\$)	7,012	9,950	36,082	47,190
Per Capita GDP in \$PPPs	10,653	17,040	36,082	47,190
Total Exports of Goods and Services (US\$ billions)	159	342	731	1,499
Exports as % of GDP ^d	24%	34%	10%	14%
Total Imports of Goods and Services (US\$ billions)	168	350	1,153	2,230
Imports as % of GDP ^d	26%	35%	14%	19%

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

- a. Most figures for 2011 are estimates.
- b. Nominal GDP is calculated by EIU based on figures from World Bank and World Development Indicators.
- c. PPP refers to purchasing power parity, which reflects the purchasing power of foreign currencies in U.S. dollars.
- d. Exports and Imports as % of GDP derived by EIU.

U.S.-Mexico Trade

The United States is, by far, Mexico's leading partner in merchandise trade, while Mexico is the United States' third-largest trade partner after China and Canada. Mexico ranks second among U.S. export markets after Canada, and is the third-leading supplier of U.S. imports. U.S. trade with Mexico increased rapidly since NAFTA entered into force in January 1994. U.S. exports to Mexico increased from \$54.8 billion in 1994 to \$174.4 billion in 2011, an increase of 218%. Imports from Mexico increased from \$51.6 billion in 1994 to \$285.4 billion in 2011, an increase of 453% (see **Figure 1**). In services, the United States had a surplus of \$2.2 billion in 2010 (the

(...continued)

dollars.

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

most recent available data). U.S. exports in services to Mexico totaled \$3.8 billion in 2010, while U.S. imports totaled \$1.6 billion.⁵ Total services trade with Mexico is approximately equal to 1% of total merchandise trade with Mexico.

The trade balance with Mexico went from a surplus of \$3.1 billion in 1994 to a deficit of \$99.5 billion in 2011. In 2011, 13% of total U.S. merchandise exports were destined for Mexico and 12% of U.S. merchandise imports came from Mexico. After the significant decrease in trade in 2009 that resulted from the global economic downturn, U.S.-Mexico trade increased considerably in 2010 and 2011. Part of the increase in trade with Mexico may be attributed to the increasing trade in energy. Crude petroleum oil accounts for 15% of total U.S. imports from Mexico. The value of U.S. crude oil imports from Mexico increased over 500% since the 1990s, increasing from \$6.3 billion in 1996 to \$39.8 billion in 2011. Mexico is the leading destination for U.S. exports in refined oil. The value of U.S. refined oil exports to Mexico increased by \$18.4 billion from 1996 to 2011, from \$1.0 billion to \$19.4 billion, approximately an 1800% increase.⁶

As stated previously, Mexico relies heavily on the United States as an export market; this reliance has diminished very slightly over the years. The percentage of Mexico's total exports going to the United States decreased from 83% in 1996 to 79% in 2011. Mexico's share of the U.S. market has lost ground since 2002. In 2003, China surpassed Mexico as the second-leading supplier of U.S. imports. The United States is losing market share of Mexico's import market. Between 1996 and 2011, the U.S. share of Mexico's total imports decreased from 75% to 50%. China is Mexico's second-leading source of imports.

Although some of the increase in U.S.-Mexico trade since the 1990s could be attributable to NAFTA, there are other variables that affect trade, such as exchange rates and economic conditions. Mexico's currency crisis of 1995 limited the purchasing power of the Mexican people in the years that followed and also made products from Mexico less expensive for the U.S. market. Economic factors such as these played a role in the increasing U.S. trade deficit with Mexico. Several studies between 2003 and 2004 on the effects of NAFTA found that U.S. trade deficits with Mexico were largely driven by macroeconomic trends, and, in the case of U.S.-Mexico trade, caused by the respective business cycles in Mexico and the United States.⁷ Strong U.S. growth in the 1990s, combined with Mexico's deep recession in 1995, were the main factors cited for the large deficits.⁸

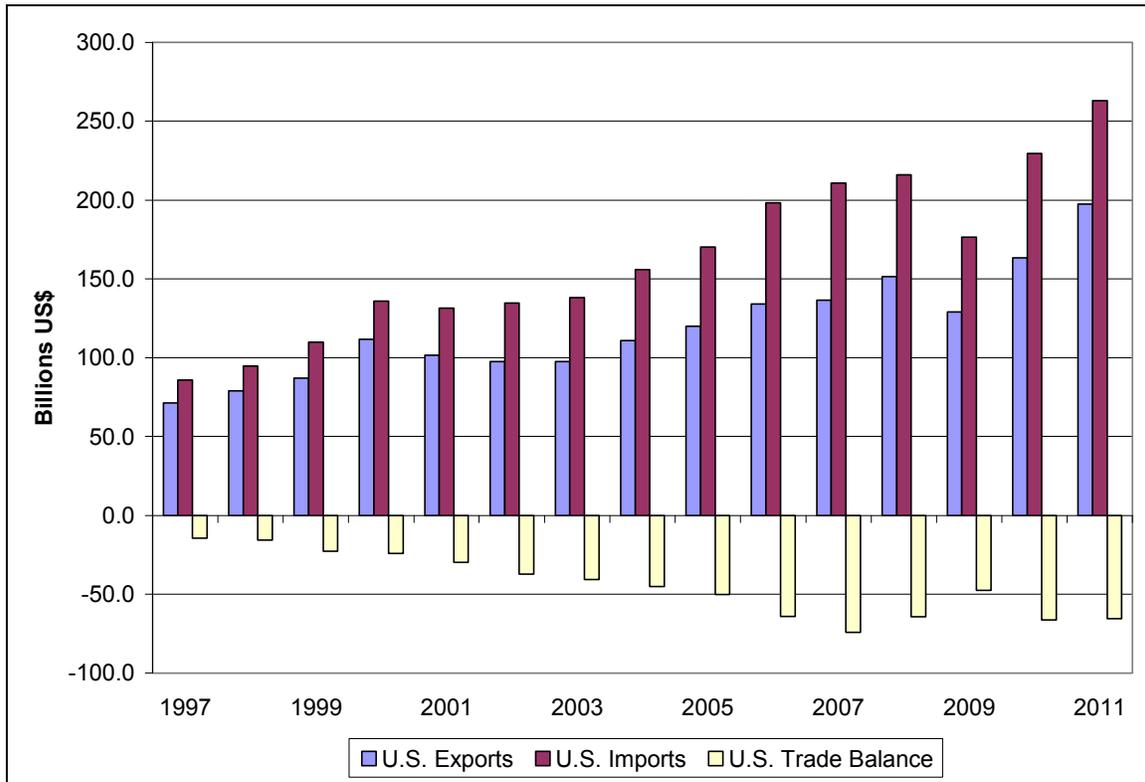
⁵ U.S. Bureau of Economic Analysis interactive statistics, available at <http://www.bea.gov>.

⁶ Based on data from the U.S. International Trade Commission at the Harmonized Tariff Schedule (HTS) 4-digit level.

⁷ See CRS Report RS21737, *NAFTA at Ten: Lessons from Recent Studies*, by J. F. Hornbeck.

⁸ *Ibid.*

Figure 1. U.S. Merchandise Trade with Mexico
(U.S. \$ in billions)



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

The leading U.S. import from Mexico in 2011 was crude petroleum oil.⁹ Crude petroleum oil imports amounted to \$39.8 billion, or 15%, of total U.S. imports from Mexico in 2011 (see **Table 2**). After sharp decreases in 2009 caused by the global economic downturn, all leading imports from Mexico increased in 2010 and 2011. The next leading U.S. import items in 2011 from Mexico were passenger automobiles (\$15.5 billion); television receivers (\$14.9 billion); automatic data processing machines (\$13.8 billion); and auto parts (\$13.7 billion). Mexico is the third-leading supplier of total U.S. energy imports, after Canada and Saudi Arabia. Crude oil imports from Mexico totaled \$39.8 billion in 2011, accounting for 12% of total U.S. crude oil imports.

⁹ Based on data from the U.S. International Trade Commission (USITC) Interactive Tariff and Trade DataWeb using Harmonized Tariff Schedule (HTS) number 2709 for crude petroleum oil.

Table 2. U.S. Imports from Mexico: 2007-2011

(U.S. \$ in billions)

Items (HTS4-digit)	2007	2008	2009	2010	2011	% Total in 2011
Crude petroleum oil	30.5	37.1	22.1	29.4	39.8	15%
Passenger motor vehicles	13.5	13.9	10.0	14.5	15.4	6%
Television receivers	18.7	18.3	15.1	15.7	14.9	6%
Data processing machines	5.6	5.5	7.0	12.6	13.8	5%
Motor vehicle parts	10.1	9.4	7.7	11.7	13.7	5%
Other	132.5	131.6	114.5	145.7	165.5	63%
Total	210.8	215.9	176.5	229.7	263.1	100%

Source: Compiled by CRS using USITC Interactive Tariff and Trade DataWeb at <http://dataweb.usitc.gov>: Harmonized Tariff Schedule (HTS) 4-digit level.

Note: Nominal U.S. dollars.

Table 3. U.S. Exports to Mexico: 2007-2011

(U.S. \$ in Billions)

Items (HTS4-digit)	2007	2008	2009	2010	2011	% Total in 2011
Refined petroleum oil	5.3	9.1	6.3	11.4	19.4	10%
Motor vehicle parts	8.0	8.3	7.2	10.6	13.2	7%
Telephones (including cellular)	2.3	3.2	3.4	4.9	5.4	3%
Electronic circuits	3.6	3.7	3.7	5.9	4.9	3%
Data processing machines	2.4	2.4	2.5	3.2	4.1	2%
Other	114.9	124.9	105.8	127.2	150.6	76%
Total	136.5	151.5	129.0	163.3	197.5	100%

Source: Compiled by CRS using USITC Interactive Tariff and Trade DataWeb at <http://dataweb.usitc.gov>: HTS4-digit level.

Note: Nominal U.S. dollars.

The leading U.S. export item to Mexico in 2011 was refined petroleum oil¹⁰ (10% of total U.S. exports), as shown in **Table 3**. After a 31% decrease in 2009 due to a decline in oil prices and the economic downturn, U.S. exports in refined petroleum oil products to Mexico increased by 81% in 2010 and 70% in 2011. The next leading U.S. export items in 2011 were auto parts (\$13.2 billion); telephone apparatus (including cellular telephones) (\$5.4 billion); electronic circuits (\$4.9 billion); and automatic data processing machines (\$4.1 billion). Total U.S. exports to Mexico increased by 21% in 2011. Mexico ranks first among export markets for U.S. refined oil. In 2011, U.S. refined oil exports to Mexico amounted to 21% of total U.S. refined oil exports.

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. FDI consists of investments in real estate, manufacturing plants, and retail facilities, in which the foreign investor owns 10% or more of the entity. The United States is the largest source of FDI in Mexico. The stock of U.S. FDI increased from \$17.0 billion in 1994 to \$91.4 billion in 2011, a 440% increase (see **Table 4**).

Mexican FDI in the United States is much lower than U.S. investment in Mexico, with levels of Mexican FDI fluctuating over the last 10 years. In 2010, Mexican FDI in the United States totaled \$12.6 billion (see **Table 4**).

The sharp rise in U.S. investment in Mexico since NAFTA is also a result of the liberalization of Mexico's restrictions on foreign investment in the late 1980s and the early 1990s. Prior to the mid-1980s, Mexico had a very protective policy that restricted foreign investment and controlled the exchange rate to encourage domestic growth, affecting the entire industrial sector. Mexico's trade liberalization measures and economic reform in the late 1980s represented a sharp shift in policy and helped bring in a steady increase of FDI flows into Mexico. NAFTA provisions on foreign investment helped to lock in the reforms and increase investor confidence. Under NAFTA, Mexico gave U.S. and Canadian investors nondiscriminatory treatment of their investments as well as investor protection. NAFTA may have encouraged U.S. FDI in Mexico by increasing investor confidence, but much of the growth may have occurred anyway because Mexico likely would have continued to liberalize its foreign investment laws with or without the agreement.

Nearly half of total FDI investment in Mexico is in the manufacturing industry, of which the maquiladora industry forms a major part. (See "Mexico's Export-Oriented Assembly Plants" below.) In Mexico, the industry has helped attract investment from countries such as the United States that have a relatively large amount of capital. For the United States, the industry is important because U.S. companies are able to locate their labor-intensive operations in Mexico and lower their labor costs in the overall production process.

¹⁰ Based on data from the USITC using HTS number 2710 for refined petroleum oil.

**Table 4. U.S.- Mexican Foreign Direct Investment Positions:
1994-2010 Historical Cost Basis**

(U.S. \$ in millions)

Year	Mexican FDI in the U.S.	U.S. FDI in Mexico
1994	2,069	16,968
1995	1,850	16,873
1996	1,641	19,351
1997	3,100	24,050
1998	2,055	26,657
1999	1,999	37,151
2000	7,462	39,352
2001	6,645	52,544
2002	7,829	56,303
2003	9,022	56,851
2004	7,592	63,384
2005	3,595	73,687
2006	5,310	82,965
2007	8,478	91,046
2008	8,420	87,443
2009	11,492	89,419
2010	12,591	90,304
2011	n.a.	91,402

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

Mexico's Export-Oriented Assembly Plants

Mexico's export-oriented assembly plants are closely linked to U.S.-Mexico trade in various labor-intensive industries such as auto parts and electronic goods. These plants generate a large amount of trade with the United States, and a majority of the plants have U.S. parent companies. Foreign-owned assembly plants, which originated under Mexico's maquiladora program in the 1960s,¹¹ account for a substantial share of Mexico's trade with the United States. The border region with the United States has the highest concentration of assembly plants and workers. Prior

¹¹ Mexico's export-oriented industries began with the maquiladora program established in the 1960s by the Mexican government, which allowed foreign-owned businesses to set up assembly plants in Mexico to produce for export. Maquiladoras could import intermediate materials duty-free with the condition that 20% of the final product be exported. The percentage of sales allowed to the domestic market increased over time as Mexico liberalized its trade regime. U.S. tariff treatment of maquiladora imports played a significant role in the industry. Under HTS provisions 9802.00.60 and 9802.00.80, the portion of an imported good that was of U.S. origin entered the United States duty-free. Duties were assessed only on the value added abroad. After NAFTA, North American rules of origin determine duty-free status. Recent changes in Mexican regulations on export-oriented industries merged the maquiladora industry and Mexican domestic assembly-for-export plants into one program called the Maquiladora Manufacturing Industry and Export Services (IMMEX).

to NAFTA, a maquiladora was limited to selling up to 50% of the previous year's export production to the domestic market. Most maquiladoras currently export the majority of their production to the U.S. market.

Private industry groups have stated that these operations help U.S. companies remain competitive in the world marketplace by producing goods at competitive prices. In addition, the proximity of Mexico to the United States allows production to have a high degree of U.S. content in the final product, which could help sustain jobs in the United States. Critics of these types of operations argue that they have a negative effect on the economy because they take jobs from the United States and help depress the wages of low-skilled U.S. workers.

Some observers believe that the correlation in maquiladora growth after 1993 is directly due to NAFTA, but in reality it was a combination of factors that contributed to growth. Trade liberalization, wages, and economic conditions, both in the United States and Mexico, all affected the growth of Mexican export-oriented assembly plants. Although some provisions in NAFTA may have encouraged growth in certain sectors, manufacturing activity has been more influenced by the strength of the U.S. economy and relative wages in Mexico.

Mexico's Regulations for Manufacturing Plants

Changes in Mexican regulations on export-oriented industries after NAFTA merged the maquiladora industry and Mexican domestic assembly-for-export plants into one program called the Maquiladora Manufacturing Industry and Export Services (IMMEX). In 2001, the North American rules of origin determined the duty-free status for a given import and replaced the previous special tariff provisions that applied only to maquiladora operations. The initial maquiladora program ceased to exist and the same trade rules applied to all assembly operations in Mexico.

NAFTA rules for the maquiladora industry were implemented in two phases, with the first phase covering the period 1994-2000, and the second phase starting in 2001. During the initial phase, NAFTA regulations continued to allow the maquiladora industry to import products duty-free into Mexico, regardless of the country of origin of the products. This phase also allowed maquiladora operations to increase maquiladora sales into the domestic market. Phase II made a significant change to the industry in that the new North American rules of origin determined duty-free status for U.S. and Canadian products exported to Mexico for maquiladoras. The elimination of duty-free imports by maquiladoras from non-NAFTA countries under NAFTA caused some initial uncertainty for the companies with maquiladora operations. Maquiladoras that were importing from third countries, such as Japan or China, would have to pay applicable tariffs on those goods under the new rules.

Mexico had another program for export-oriented assembly plants called the Program for Temporary Imports to Promote Exports (PITEX) that was established in 1990 to allow qualifying domestic producers to compete with maquiladoras. In 2007, a new set of government regulations on export-oriented industries merged the maquiladora industry and PITEX plants into the Maquiladora Manufacturing Industry and Export Services, or IMMEX. Industry data regarding

Mexico's export-oriented assembly plants no longer distinguish maquiladora plants from other Mexican manufacturing plants.¹²

Plants and Employment Levels

The number of maquiladora plants, which mostly export to the United States, expanded rapidly in the 1990s after NAFTA implementation. Plants increased from 1,920 at the end of 1990 to 3,590 in 2000, and then fell to 2,860 in 2003. Between 2004 and 2007, the last year maquiladoras were classified as such by the Mexican government, the number of plants stayed at approximately the same level, about 2,819.¹³ After July 2007, the Mexican government published statistics for all manufacturing plants in Mexico under the IMMEX program (which combined maquiladora data with other manufacturing).

Mexico's manufacturing plants are highly concentrated along the U.S.-Mexico border, and have contributed highly to North American integration, though other states in central Mexico also have a large number of plants. As of April 2012, Baja California, with 971 plants, had the highest number of plants of all Mexican states, followed by Nuevo León with 659 plants, Chihuahua with 474 plants, Coahuila with 388 plants, and Tamaulipas with 363 plants. All of these states are located along the border with the United States (see **Appendix A**). In employment, Chihuahua has the highest number of manufacturing jobs in Mexico. As of April 2012, Chihuahua had 263,590 employees in the manufacturing sector. Nuevo León ranked second with 228,822 jobs, followed by Baja California with 223,300 jobs, Coahuila with 185,516 jobs, and Tamaulipas with 164,247 jobs. The country's total number of manufacturing plants was 5,075 with 1,921,006 jobs as of April 2012.¹⁴

Worker Remittances to Mexico

Remittances are one of the three highest sources of foreign currency for Mexico, along with oil and tourism. Most worker remittances to Mexico come from workers in the United States who send money back to their relatives in Mexico. Mexico receives the largest amount of remittances in Latin America and the third-largest in the world, after India and China. After a 16.0% decline in remittances in 2009, following the global financial crisis, remittances increased in 2010 and 2011. Reports from Mexico's Central Bank show that remittances increased by an estimated 8% in 2011 over 2010.¹⁵

Remittances are often a stable financial flow for some regions in Mexico as workers in the United States make efforts to send money to family members. Annual remittances to Mexico grew substantially between 2001 and 2008, from \$8.9 billion to \$25.1 billion, an increase of 182.0%. The annual growth rate reached a high of 26.3% in 2003, then continued at a slower rate until 2009, when they fell by 16% (see **Table 5**). Although the relationship between GDP growth and

¹² Federal Reserve Bank of Dallas, "Spotlight: Maquiladora Data, Mexican Reform Clouds View of Key Industry," *Southwest Economy*, Issue 3, May/June 2007.

¹³ Based on data from the Mexican government agency, *Instituto Nacional de Estadística y Geografía* (INEGI), at <http://www.inegi.org.mx>.

¹⁴ INEGI, *IMMEX Program Statistics*, July 2012.

¹⁵ Ricardo Lopez, "Mexican immigrants living in the U.S. sent an estimated 8% more money back to relatives last year compared with 2010, thanks to an improving U.S. job market," *Chicagotribune.com*, January 11, 2012.

the level of remittances is not very clear, the Mexican government attributed the 2009 decline to the global financial crisis.¹⁶

Table 5. Percent Changes in Remittances to Mexico

(U.S. \$ in billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Amount	8.9	10.5	13.3	16.6	20.0	23.7	24.0	25.1	21.1	21.3
% Change	—	18.5%	26.3%	25.2%	20.6%	18.5%	1.0%	4.9%	-16.0%	0.9%

Source: Compiled by CRS using data from the Inter-American Development Bank, The Multilateral Investment Fund.

Worker remittance flows to Mexico have an important impact on the Mexican economy, in some regions more than others. Some studies on remittance flows to Mexico report that in southern Mexican states, remittances mostly or completely cover general consumption and/or housing. One study estimates that 80% of the money received by households goes for food, clothing, health care, and other household expenses. Another study estimates that remittances in Mexico are responsible for about 27%, and up to 40% in some cases, of the capital invested in microenterprises throughout urban Mexico.¹⁷ The economic impact of remittance flows is concentrated in the poorer states of Mexico. The government has sponsored programs to channel the funds directly to infrastructure and investment rather than consumption.¹⁸

Regulatory Cooperation

The United States, Mexico, and Canada have made efforts since 2005 to increase cooperation on security and economic issues through various endeavors, most notably by participating in trilateral summits known as the North American Leaders Summits. The most recent Summit was hosted by President Barack Obama on April 2, 2012, in Washington, DC, at the White House, where he met with Mexican President Felipe Calderón and Canadian Prime Minister Stephen Harper to discuss the economic well-being, safety, and security of the United States, Mexico, and Canada.

After the meeting, the three leaders issued a joint statement in which they renewed their commitment to North American cooperation in the following key areas of interest: protection and enforcement of intellectual property rights (IPR); enhancement of collective energy security, including the safe and efficient exploration and exploitation of resources; advancement of the goals of the Energy and Climate Partnership of the Americas and enhancement of electricity interconnection in the Americas; support of efforts to advance a lasting global solution to the challenge of climate changes; and the recognition of the importance of adopting the Budapest Convention on Cybercrime, including Canada's commitment to ratifying the Convention and

¹⁶ E. Eduardo Castillo, "Mexico Sees Record 15.7 percent Annual Drop in Money Sent Home by Migrants," Associated Press, January 27, 2010.

¹⁷ The Federal Reserve Bank of Dallas report "Workers' Remittances to Mexico" (2004) evaluated the economic impact of worker remittances to Mexico and cites a number of reports by the World Bank and the Mexican government.

¹⁸ Ibid., p. 4.

Mexico's necessary preparations for signing it. In addition, the leaders announced the North American Plan for Animal and Pandemic Influenza (NAPAPI) to strengthen North America's response to future animal and pandemic influenza events. In the area of strengthening security in the Americas and concerns about transnational organized crime, the three governments agreed to launch in 2012 a consolidated Central America Integration System-North America Security Dialogue to deepen regional security coordination and cooperation.¹⁹

The first North American Leaders' Summit took place on March 23, 2005, in Waco, TX; this was followed by several trilateral summits in Mexico, Canada, and the United States.²⁰ The March 2005 Summit resulted in increased efforts to enhance North American regulatory cooperation through the former initiative known as the Security and Prosperity Partnership of North America (SPP). The main goal was to increase and enhance prosperity in the United States, Canada, and Mexico through regulatory cooperation. The SPP was endorsed by all three countries, but it was not a signed agreement or treaty and contained no legally binding commitments or obligations. Although the SPP built upon the existing trade and economic relationship of the three countries, it was distinct from the existing North American Free Trade Agreement (NAFTA).

The former SPP has evolved to other efforts pursued by the Obama Administration for regulatory cooperation, which have included separate bilateral endeavors. In May 2010, the United States and Mexico released the *Declaration Concerning Twenty-first Century Border Management* and, in December 2011, the United States and Canada announced the *Beyond the Border Action Plan: A Shared Vision for Perimeter Security and Economic Competitiveness*. In February 2012, the United States and Mexico announced the High-Level Regulatory Cooperation Council (HLRCC) to help align regulatory principles, an effort similar to the U.S.-Canada Regulatory Cooperation Council.

Most efforts to increase North American regulatory cooperation generally have followed the recommendations of special working groups created under the SPP. These recommendations have included (1) increasing the competitiveness of North American businesses and economies through more compatible regulations; (2) making borders smarter and more secure by coordinating long-term infrastructure plans, enhancing services, and reducing bottlenecks and congestion at major border crossings; (3) strengthening energy security and protecting the environment by developing a framework for harmonization of energy efficiency standards and sharing technical information; (4) improving access to safe food and health and consumer products by increasing cooperation and information sharing on the safety of food and products; and (5) improving the North American response to emergencies by updating bilateral agreements to enable government authorities from the three countries to help each other more quickly and efficiently during times of crisis.

Some critics of North American trilateral cooperation contend that it has been an attempt to create a common market or economic union in North America. Others have contended that past efforts under the SPP were contributing to the creation of a so-called "NAFTA Superhighway" that would link the United States, Canada, and Mexico with a "super-corridor." Proponents of North American competitiveness and security cooperation view the initiatives as constructive to

¹⁹ The White House, Office of the Press Secretary, *Joint Statement by North American Leaders*, April 2, 2012.

²⁰ After the first North American Leaders' Summit in 2005, the three countries have participated in the following: March 31, 2006, in Cancún, Quintana Roo, Mexico; February 23, 2007, in Ottawa, Ontario, Canada; August 20-21 in Montebello, Quebec, Canada; April 21-22, 2008, in New Orleans, Louisiana; and August 8-11, 2009, in Guadalajara, Jalisco, Mexico.

addressing issues of mutual interest and benefit for all three countries. Business groups generally support increased North American cooperation and believe that it is necessary to enhance the competitiveness of U.S. businesses in the global market.

The Mexican Economy

Mexico has an open market economy, but this has not always been the case. The transformation of Mexico began in the late 1980s, when the government started to liberalize its trade policy and adopt economic reform measures.

History of Economic Reforms

In the late 1980s and early into the 1990s, the Mexican government implemented a series of measures to restructure the economy that included steps toward trade liberalization. For many years, Mexico had protectionist trade policies to encourage industrial growth in the domestic economy, but the policies did not have the expected positive results on industrial growth. The 1980s in Mexico were marked by inflation and a declining standard of living. After the 1982 debt crisis, in which the Mexican government was unable to meet its foreign debt obligations, the country began experiencing a number of economic challenges. Much of the government's effort in addressing the challenges was placed on privatizing state industries and moving toward trade liberalization. Efforts included privatization of sea ports, railroads, telecommunications, electricity, natural gas distribution, and airports. The negotiation and implementation of NAFTA played a major role in Mexico's changing economic policy in the early 1990s.

Mexico's economic reforms initially attracted a large amount of private foreign investment, but by 1993 the inflow of foreign capital began to slow down. By the end of 1994, Mexico faced a currency crisis, putting pressure on the government to abandon its previous fixed exchange rate policy and adopt a floating exchange rate regime. As a result, Mexico's currency plunged by around 50% within six months, sending the country into a deep recession.²¹ Several factors influenced the decision to float the peso: overspending in the economy had generated a significant current account deficit; the Mexican government had accumulated large levels of debt with insufficient reserves; and the banking system was facing a crisis due to overexposure.²² Mexico's finance minister at the time, Guillermo Ortiz, stated later that Mexico had "no choice" but to float the peso because the government had run out of reserves.²³

In the aftermath of the 1994 devaluation, Mexican President Ernesto Zedillo took several steps to restructure the economy and lessen the impact of the currency crisis among the more disadvantaged sectors of the economy. The goal was to create conditions for economic activity so that the economy could adjust in the shortest time possible. The United States and the IMF assisted the government by putting together an emergency financial support package of up to \$50 billion, with most of the money coming from the U.S. Treasury. The Zedillo Administration wanted to demonstrate its commitment to fulfill all its financial obligations without a default on

²¹ The Economist Intelligence Unit (EIU), "Mexico Finance: The Peso Crisis, Ten Years On," January 3, 2005.

²² Agustín G. Carstens and Alejandro M. Werner, "Mexico's Monetary Policy Framework Under a Floating Exchange Rate Regime," Banco de México, May 1999.

²³ EIU, "Mexico Economy: Mexico Begins to See Benefits of Free-Floating Peso," December 20, 2004.

its debt by adopting tight monetary and fiscal policies to reduce inflation and absorb some of the costs of the banking sector crisis. The austerity plan included an increase in the value-added tax, budget cuts, increases in electricity and gasoline prices to decrease demand and government subsidies, and tighter monetary policy.²⁴

The peso steadily depreciated through the end of the 1990s, which led to greater exports and helped the country's exporting industries. However, the peso devaluation also resulted in a decline in real income, hurting the poorest segments of the population and also the newly emerging middle class. NAFTA and the change in the Mexican economy to an export-based economy helped to soften the impact of the currency devaluation.

Following the lead of former President Ernesto Zedillo, former President Vicente Fox continued efforts to liberalize trade, privatize government enterprises, and deregulate the economy. Through tighter monetary and fiscal policies, the Fox Administration was able to decrease the fiscal deficit, control inflation, and help economic growth.

Current Economic Conditions

The Mexican economy grew by 3.9% in 2011 and is expected to grow by 3.7% in 2012 and 3.8% in 2013.²⁵ The economy has recovered since 2009, when the global financial crisis, and the subsequent downturn in the U.S. economy, resulted in the sharpest economic contraction in the Mexican economy in 20 years. Mexico's economy is estimated to have contracted by 6.6% in 2009, while the Mexican peso depreciated against the dollar by 25%.²⁶ Trends in Mexico's GDP growth generally follow U.S. economic trends, as shown in **Figure 2**. Mexico experienced the deepest recession in the Latin America region following the crisis. This is largely due to its high dependence on manufacturing exports to the United States, though other factors have also contributed. Other Latin American countries experienced negative economic consequences from the global financial crisis, but to a lesser extent.

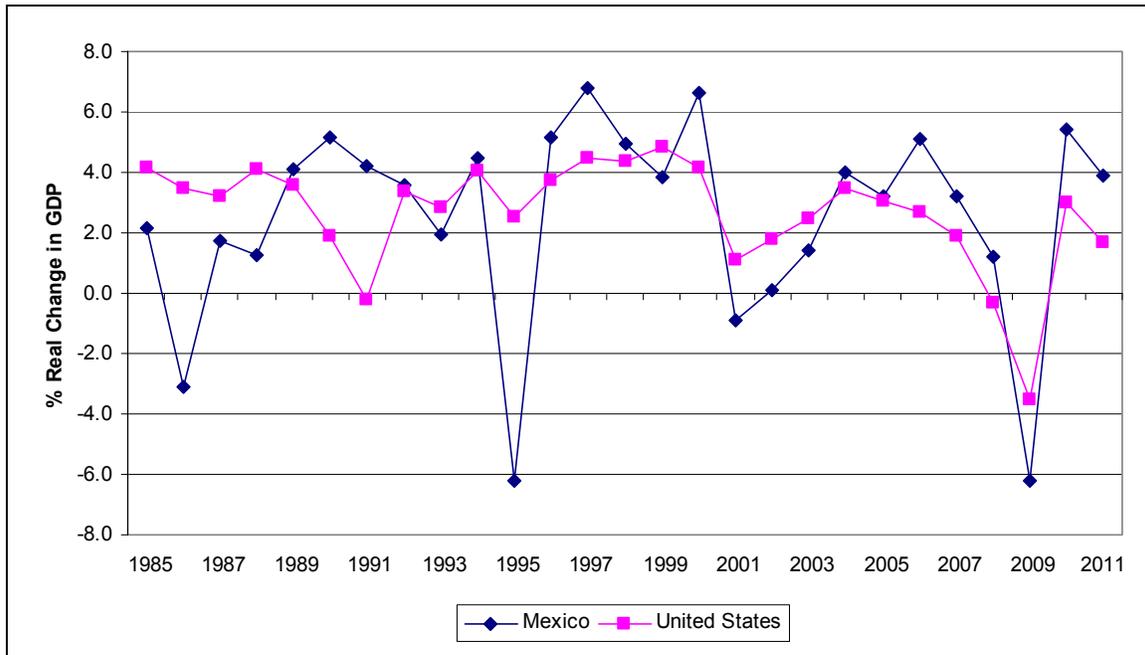
Mexico outperformed Brazil in economic growth in 2011 (3.9% compared to 2.7%) and is forecast to do the same in 2012. The Economist Intelligence Unit reports that Mexico's sound macroeconomic fundamentals, solid banking sector, and competitive export sector are helping Mexico's economy and its ability to weather external conditions. However, Mexico's economic growth has been limited by a need for structural reforms in the labor, education, energy, and fiscal sectors.²⁷

²⁴ Joachim Zietz, "Why Did the Peso Collapse? Implications for American Trade," *Global Commerce*, Volume 1, No. 1, Summer 1995.

²⁵ EIU, *Country Report: Mexico*, August 2012.

²⁶ International Monetary Fund (IMF), "IMF Executive Board Concludes 2010 Article IV Consultation with Mexico," Public Information Notice (PIN) No. 10/39, March 16, 2010, p. 2.

²⁷ EIU, "Time for BRICs to become MRICs?," August 6, 2012.

Figure 2. GDP Growth Rates for the United States and Mexico

Source: Economist Intelligence Unit.

President Calderón implemented a number of measures to help cushion the economy from the fallout of the global economic crisis. These policy measures and Mexico's prior economic performance helped the economy begin to recover and the exchange rate to improve.²⁸ Mexico's Central Bank made substantial interventions to stabilize conditions in the foreign exchange market and secured lines of credit through the U.S. Federal Reserve swap line and the International Monetary Fund (IMF) to improve confidence in the economy. The IMF set up flexible credit lines to help countries deal with the effects of the global recession and provided a credit line of \$48 billion for Mexico in 2009, which was renewed in March 2010. In early 2011, Mexico secured a new flexible line of credit from the IMF for \$72 billion, the largest credit line that the IMF has ever extended to protect Mexico from possible external shocks.²⁹ Mexico has indicated that it does not intend to draw on the resources, but sought the renewal to provide confidence to investors and financial markets in the event that global conditions were to deteriorate.³⁰

²⁸ IMF, "IMF Executive Board Concludes 2010 Article IV Consultation with Mexico," PIN No. 10/39, March 16, 2010.

²⁹ Ibid.

³⁰ IMF, "Mexico Recovering, but Crisis Spotlights Challenges, says IMF," *Survey Magazine: In the News*, March 16, 2010.

Informality and Poverty

Mexico has a large informal sector that is estimated to account for approximately one-quarter to one-third of total employment.³¹ Mexico's legal framework makes a distinction between salaried and non-salaried employment and is fundamental to Mexico's social policy.³² Workers in the formal sector are defined as salaried workers employed by a firm that registers them with the government and are covered by Mexico's social security programs. Informal sector workers are defined as non-salaried workers who are usually self-employed. These workers have various degrees of entitlement to other social protection programs.³³ Salaried workers can be employed by industry, such as construction, agriculture, or services. Salaried employment is the most common form of employment, accounting for approximately 57% of the workforce. Non-salaried employees are defined by 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.³⁴

Many workers in the informal sector suffer from poverty, which has been one of Mexico's more serious and pressing economic problems for many years. Although the government has made progress in poverty reduction efforts, poverty continues to be a basic challenge for the country's development. The Mexican government's main program from which many informal sector workers benefit the *Oportunidades* program (formerly known as Progresa). The 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. This program provides cash transfers to families in poverty who demonstrate that they regularly attend medical appointments and can certify that children are attending school. The government provides educational cash transfers to participating families. The program also provides nutrition support to pregnant and nursing women and malnourished children.³⁵

Economists and other experts often cite the informal sector as a hindrance to the country's economic development. A recent report by the Migration Policy Institute contends that there are two lines of argument that attempt to explain the reason for such a large informal sector: (1) overregulation of businesses; and (2) an unintended incentive to informality created by Mexico's social protection programs.³⁶ The report cites evidence suggesting that the scale of informality in Mexico may result in a lower level of productivity, but it is not clear whether it hinders economic growth.³⁷ Another study published by the Brookings Institution presents a hypothesis that Mexico's social programs benefitting the informal sector have led to larger than optimal informal employment that lowers aggregate labor productivity and causes a lower rate of growth in GDP.³⁸

³¹ Gordon H. Hanson, *Understanding Mexico's Economic Underperformance*, the Woodrow Wilson International Center for Scholars and the Migration Policy Institute, August 2012, p. 6.

³² Santiago Levy, *Good Intentions, Bad Outcomes, Social Policy, Informality, and Economic Growth in Mexico*, Brookings Institution, 2008.

³³ *Ibid.*, p. 33.

³⁴ *Ibid.*, p. 12.

³⁵ Santiago Levy, *Progress Against Poverty*, Brookings Institution, 2006.

³⁶ Gordon H. Hanson, p. 6.

³⁷ *Ibid.*, p. 7.

³⁸ Santiago Levy, p. 7.

Energy Sector

Mexico's long-term economic recovery and stability partially depend upon what happens in the oil industry. In 2010, Mexico was the seventh-largest producer of oil in the world and the third largest in the Western Hemisphere.³⁹ The Mexican government depends heavily on oil revenues, which provide 30% to 40% of the government's fiscal revenues, but oil production in Mexico is declining rapidly. Many industry experts state that Mexican oil production has peaked and that the country's production will continue to decline in the coming years.⁴⁰

The Mexican government has used oil revenues from its state oil company, P  troleos Mexicanos (Pemex), for government operating expenses, which has come at the expense of needed reinvestment in the company itself. Because the government relies so heavily on oil income, any decline in production has major fiscal implications. In 2008, the government enacted new legislation that sought to reform the country's oil sector, which was nationalized in 1938,⁴¹ and to help increase production capability. The reforms permit Pemex to create incentive-based service contracts with private companies. Some analysts contend, however, that the reforms did not go far enough and that they do little to help the company address its major challenges.⁴²

Mexico's President-elect Enrique Pe  a Nieto of the centrist Institutional Revolutionary Party (PRI) has vowed to convince his party, which nationalized the industry and has blocked previous attempts at reforming the energy sector, and the PRI-aligned oil workers' union, to allow further energy reforms to move forward. The narrow margin of Pe  a Nieto's victory and his coalition's apparent failure to capture a majority in either chamber of the Mexican Congress, however, may make it difficult to reform the energy sector. Another issue that may block energy reforms from moving forward is the nationalist left's strong showing in the July 1, 2012, elections. The leftist coalition led by the Party of the Democratic Revolution (PRD) has the second-largest bloc in the lower house of the Mexican Congress and remains staunchly opposed to increasing private involvement in Pemex.⁴³

Most experts contend that Pemex has only the capacity to produce in shallow waters and needs to bring in new technologies and know-how through private investment to allow the company to successfully explore and produce in the deep waters in the Gulf of Mexico.⁴⁴ The lack of further reforms is reportedly keeping Mexico from allowing much-needed foreign investment for oil exploration. Though the performance-based contracts are expected to increase production and reserves, Pemex faces serious challenges in finding new, productive wells and also lacks resources for investment in increasing engineering capacity and exploration.⁴⁵

³⁹ U.S. Energy Information Administration (EIA), *Country Analysis Briefs, Mexico Oil*, July 2011. According to EIA, the next country analysis for Mexico is scheduled to be released later in August 2012.

⁴⁰ Ibid.

⁴¹ Article 27 of Mexico's 1917 constitution states that the Mexican government has exclusive legal authority to exploit, distribute, and process hydrocarbons in the country.

⁴² Woodrow Wilson International Center for Scholars, Latin American Program, *The Outlook for Energy Reform in Latin America*, March 2010.

⁴³ For more information and background on the implications of Mexico's 2012 elections, see CRS Report R42548, *Mexico's 2012 Elections*, by Clare Ribando Seelke.

⁴⁴ Ibid.

⁴⁵ CSIS Americas Program, *Hemisphere Highlights*, January 2010, p. 2.

In February 2012, the United States and Mexico signed the U.S.-Mexico Trans-Boundary Hydrocarbon agreement, which addresses issues related to the development of oil and gas reservoirs that cross the international maritime boundary between the two countries in the Gulf of Mexico. Before the agreement can take effect, both the United States and Mexico must review and accept the agreement, a process that is currently underway. Part of the purpose is to enhance energy security in North America and support responsible stewardship of the Gulf of Mexico, according to a press release from the U.S. State Department.⁴⁶ The agreement is intended as a step forward in clarifying relations between the two countries in managing energy resources in portions of the Gulf of Mexico and also represents an example of U.S.-Mexico efforts to develop a sustainable energy trade relationship.⁴⁷

Mexico's Regional Free Trade Agreements

Mexico has had a growing commitment to trade integration and liberalization through the formation of free trade agreements (FTAs) since the 1990s, and its trade policy is among the most open in the world. The pursuit of FTAs with other countries not only provides economic benefits, but could also potentially reduce Mexico's economic dependence on the United States. In an effort to increase trade with other countries, Mexico has a total of 12 free trade agreements involving 44 countries. These include agreements with most countries in the Western Hemisphere including the United States and Canada under NAFTA, Chile, Colombia, Costa Rica, Nicaragua, Peru, Guatemala, El Salvador, and Honduras.

Mexico has ventured out of the hemisphere in negotiating FTAs, and, in July 2000, entered into agreements with Israel and the European Union. Mexico became the first Latin American country to have preferred access to these two markets. Mexico has also completed an FTA with the European Free Trade Association (EFTA) of Iceland, Liechtenstein, Norway, and Switzerland. The Mexican government has continued to look for potential free trade partners, and expanded its outreach to Asia in 2000 by entering into negotiations with Singapore, Korea, and Japan. Negotiations on FTAs with Korea and Singapore are stalled. In addition to the bilateral and multilateral free trade agreements, Mexico is a member of the WTO,⁴⁸ the Asia-Pacific Economic Cooperation (APEC) forum, and the OECD.

⁴⁶ U.S. Department of State, Fact Sheet, "U.S.-Mexico Transboundary Hydrocarbons Agreement," February 20, 2012.

⁴⁷ U.S. Department of State, "Remarks by Secretary of State Hillary Rodham Clinton at the Signing of the U.S.-Mexico Transboundary Agreement," February 20, 2012.

⁴⁸ The WTO allows member countries to form regional trade agreements under Article under certain rules. The position of the WTO is that regional trade agreements can often support the WTO's multilateral trading system by allowing groups of countries to negotiate rules and commitments that go beyond what was possible at the time under the WTO. The WTO has a committee on regional trade agreements that examines regional groups and assesses whether they are consistent with WTO rules. See The World Trade Organization, "Understanding the WTO: Cross-Cutting and New Issues, Regionalism: Friends or Rivals?" <http://www.wto.org>.

Proposed Trans-Pacific Partnership (TPP) Agreement

On June 18, 2012, President Obama announced that the nine countries involved in the negotiations of the proposed Trans-Pacific Partnership (TPP) had extended an invitation to Mexico to join negotiations for the proposed regional free trade agreement.⁴⁹ The announcement for the invitation to Canada to join negotiations came on June 19, 2012. Current countries involved in the negotiations include the United States, Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, and Vietnam. The proposed TPP was announced in November 2011. It aims to achieve a high standard and comprehensive regional FTA among Asia-Pacific nations. Shortly after the proposed TPP negotiations were announced, the leaders of Japan, Canada, and Mexico sought consultations with TPP partner countries so that they could join the negotiations.

The proposed TPP would likely enhance the links Mexico already has with the United States and Canada under NAFTA. This could include further reduction of barriers to trade and the negotiation of key issues in areas such as agriculture, intellectual property rights protection, government procurement, regulatory cohesion, investment issues, and others.⁵⁰ The Mexican government agreed to several conditions that TPP countries had placed on its entry into the negotiations, including a commitment to “high standards.” The conditions included that Mexico would not be able to reopen any existing agreements that were already made by the current TPP partners, unless they agreed to revisit something previously agreed upon. Thus far, TPP partners have only closed out one chapter of the agreement, which is expected to have about 26 chapters in total.

NAFTA and the U.S.-Mexico Economic Relationship

The North American Free Trade Agreement (NAFTA) has been in effect since January 1994. There are numerous indications that NAFTA has achieved many of the intended trade and economic benefits as well as incurred adjustment costs. This has been in keeping with what most economists maintain, that trade liberalization promotes overall economic growth among trading partners, but that there are significant adjustment costs.

Most of the trade effects in the United States related to NAFTA are due to changes in U.S. trade and investment patterns with Mexico. At the time of NAFTA implementation, the U.S.-Canada Free Trade Agreement already had been in effect for five years, and some industries in the United States and Canada were already highly integrated. Mexico, on the other hand, had followed an aggressive import-substitution policy for many years prior to NAFTA in which it had sought to develop certain domestic industries through trade protection. One example is the Mexican automotive industry, which had been regulated by a series of five decrees issued by the Mexican government between 1962 and 1989. The decrees established import tariffs as high as 25% on

⁴⁹ For more information, see CRS Report R42344, *Trans-Pacific Partnership (TPP) Countries: Comparative Trade and Economic Analysis*, by Brock R. Williams.

⁵⁰ Aaron Lorenzo, Daniel Pruzin, Amy Tsui, and Peter Menyasz, “Mexico Invited to Join TPP Negotiations; Rhodes Says Discussions with Canada ‘Close’,” *Bloomberg BNA International Trade Daily*, June 16, 2012.

automotive goods and had high restrictions on foreign auto production in Mexico. Under NAFTA, Mexico agreed to eliminate these restrictive trade policies.

Not all changes in trade and investment patterns between the United States and Mexico since 1994 can be attributed to NAFTA because trade was also affected by other unrelated economic factors such as economic growth in the United States and Mexico, and currency fluctuations. Also, trade-related job gains and losses since NAFTA may have accelerated trends that were ongoing prior to NAFTA and may not be totally attributable to the trade agreement. Overall, Mexico has experienced a slight shift in the composition of trade with the United States since the late 1980s from oil to non-oil exports.

Effects on the U.S. Economy

The overall effect of NAFTA on the U.S. economy has been relatively small, primarily because two-way trade with Mexico amounts to less than 3% of U.S. GDP. Thus, any changes in trade patterns with Mexico would not be expected to be significant in relation to the overall U.S. economy. In some sectors, however, trade-related effects could be more significant, especially in those industries that were more exposed to the removal of tariff and non-tariff trade barriers, such as the textile and apparel, and automotive industries.

Since NAFTA, the automotive, textile, and apparel industries have experienced some of the more noteworthy changes in trading patterns, which may also have affected U.S. employment in these industries. U.S. trade with Mexico has increased considerably more than U.S. trade with other countries, and Mexico has become a more significant trading partner with the United States since NAFTA implementation.

In the automotive industry, the industry comprising the most U.S. trade with Mexico, NAFTA provisions consisted of a phased elimination of tariffs, the gradual removal of many non-tariff barriers to trade including rules of origin provisions, enhanced protection of intellectual property rights, less restrictive government procurement practices, and the elimination of performance requirements on investors from other NAFTA countries. These provisions may have accelerated the ongoing trade patterns between the United States and Mexico. Because the United States and Canada were already highly integrated, most of the trade impacts on the U.S. automotive industry relate to trade liberalization with Mexico. Prior to NAFTA Mexico had a series of government decrees protecting the domestic auto sector by reserving the domestic automobile market for domestically produced parts and vehicles. NAFTA established the removal of Mexico's restrictive trade and investment policies and the elimination of U.S. tariffs on autos and auto parts. By 2006, the automotive industry has had the highest dollar increase (\$41 billion) in total U.S. trade with Mexico since NAFTA passage.

The main NAFTA provisions related to textiles and apparel consisted of eliminating tariffs and quotas for goods coming from Mexico and eliminating Mexican tariffs on U.S. textile and apparel products. To benefit from the free trade provision, goods were required to meet the rules of origin provision, which assured that apparel products that were traded among the three NAFTA partners were made of yarn and fabric made within the free trade area. The strict rules of origin provisions were meant to ensure that U.S. textiles producers would continue to supply U.S. apparel companies that moved to Mexico. Without a rules of origin provision, apparel companies would

have been able to import low-cost fabrics from countries such as China and export the final product to the United States under the free trade provision.⁵¹

While some U.S. industries may have benefitted from increased demand for U.S. products in Mexico, creating new jobs, other industries have experienced job losses. Data on the effects of trade liberalization with Mexico are limited and the effect on specific sectors of the U.S. economy is difficult to quantify. Trade-related job gains and losses since NAFTA may have accelerated trends that were ongoing prior to NAFTA and may not be totally attributable to the trade agreement.⁵² Quantifying these effects is challenging because of the other economic factors that influence trade and employment levels. The devaluation of the Mexican peso in 1995 resulted in lower Mexican wages, which likely provided an incentive for U.S. companies to move to lower their production costs. Trade-related employment effects following NAFTA could have also resulted from the lowering of trade barriers, and from the economic conditions in Mexico and the United States influencing investment decisions and the demand for goods.

Effects on the Mexican Economy

A number of studies have found that NAFTA has brought economic and social benefits to the Mexican economy as a whole, but that the benefits have not been evenly distributed throughout the country. Most studies after NAFTA have found that the effects on the Mexican economy tended to be modest at most.⁵³ While there have been periods of positive growth and negative growth in Mexico after the agreement was implemented, much of the increase in trade began in the late 1980s when the country began trade liberalization measures. Though its net economic effects may have been positive, NAFTA itself has not been enough to lower income disparities within Mexico, or between Mexico and the United States or Canada.

A 2005 World Bank study assessing some of the economic impacts from NAFTA on Mexico concluded that NAFTA helped Mexico get closer to the levels of development in the United States and Canada. The study states that NAFTA helped Mexican manufacturers adapt to U.S. technological innovations more quickly and likely had positive impacts on the number and quality of jobs. Another finding was that since NAFTA went into effect, the overall macroeconomic volatility, or wide variations in the GDP growth rate, has declined in Mexico. Business cycles in Mexico, the United States, and Canada have had higher levels of synchronicity since NAFTA, and NAFTA has reinforced the high sensitivity of Mexican economic sectors to economic developments in the United States.⁵⁴

Several economists have noted that it is likely that NAFTA contributed to Mexico's economic recovery directly and indirectly after the 1995 currency crisis. Mexico responded to the crisis by implementing a strong economic adjustment program but also by fully adhering to its NAFTA obligations to liberalize trade with the United States and Canada. NAFTA may have supported the resolve of the Mexican government to continue with the course of market-based economic

⁵¹ See CRS Report RL31723, *Textile and Apparel Trade Issues*, by Bernard A. Gelb.

⁵² See CRS Report 98-783, *NAFTA: Estimates of Job Effects and Industry Trade Trends After 5 1/2 Years*, by Mary Jane Bolle.

⁵³ See CRS Report RS21737, *NAFTA at Ten: Lessons from Recent Studies*, by J. F. Hornbeck.

⁵⁴ Daniel Lederman, William F. Maloney, and Luis Servén, *Lessons from NAFTA for Latin America and the Caribbean*, The World Bank, 2005.

reforms, resulting in increasing investor confidence in Mexico. The World Bank study estimates that FDI in Mexico would have been approximately 40% lower without NAFTA.⁵⁵

One of the main arguments in favor of NAFTA at the time it was being proposed by policymakers was that the agreement would improve economic conditions in Mexico and narrow the income gap between Mexico and the United States. Studies that have addressed the issue of economic convergence⁵⁶ have noted that economic convergence in North America might not materialize under free trade as long as “fundamental differences” in initial conditions persist over time. One study argues that NAFTA is not enough to help narrow the disparities in economic conditions between Mexico and the United States and that Mexico needs to invest more in education; innovation and infrastructure; and in the quality of national institutions. The study states that income convergence between a Latin American country and the United States is limited by the wide differences in the quality of domestic institutions, in the innovation dynamics of domestic firms, and in the skills of the labor force.⁵⁷ Another study also notes that the ability of Mexico to improve economic conditions depends on its capacity to improve its national institutions, adding that Mexican institutions did not improve significantly more than those of other Latin American countries during the post-NAFTA period.⁵⁸

Mexican wages rose steadily from the early 1980s until the mid-1990s, when the currency crisis hit. After a drop in average real wages in 1996 of 15.5%, real wages increased steadily until 2000, when the average rate of growth was 11.8%. Since then the average rate of growth has only varied slightly. Mexico’s trade liberalization measures may have affected the ratio between skilled and non-skilled workers in Mexico. In 1988, the real average wage of skilled workers in Mexico’s manufacturing industry was 2.25 times larger than that of non-skilled workers. This ratio increased until 1996, when it was about 2.9, but then remained stable until 2000.⁵⁹ The World Bank study found that NAFTA brought economic and social benefits to the Mexican economy, but that the agreement in itself was not sufficient to ensure a narrowing of the wage gap between Mexico and the United States. The study states that NAFTA had a positive effect on wages and employment in some Mexican states, but that the wage differential within the country increased as a result of trade liberalization.⁶⁰

Mexican Trucking Issue

U.S. implementation of NAFTA trucking provisions has been a major trade issue between the United States and Mexico for several years. Under NAFTA, Mexican commercial trucks were to

⁵⁵ Ibid.

⁵⁶ Economic convergence can be broadly defined as a narrowing of the disparities in the economic levels and the manufacturing performances of particular countries or their regions. The goal of the theory of economic convergence is to research and analyze the factors influencing the rates of economic growth and real per capita income in countries.

⁵⁷ Daniel Lederman, William F. Maloney, and Luis Servén, *Lessons from NAFTA for Latin America and the Caribbean*, The World Bank, 2005.

⁵⁸ William Easterly, Norbert Fiess, and Daniel Lederman, “NAFTA and Convergence in North America: High Expectations, Big Events, Little Time,” *Economia*, Fall 2003.

⁵⁹ Esquivel, Gerardo, and José Antonio Rodríguez-López, “Technology, trade, and wage inequality in Mexico before and after NAFTA,” *Journal of Development Economics*, 2003.

⁶⁰ Daniel Lederman, William F. Maloney, and Luis Servén, *Lessons from NAFTA for Latin America and the Caribbean*, The World Bank, 2005.

have been given full access to four U.S. border states in 1995 and full access throughout the United States in 2000. Citing safety concerns, however, the United States refused to implement NAFTA's trucking provisions. The Mexican government objected and claimed that U.S. actions were a violation of U.S. commitments under NAFTA. A NAFTA dispute resolution panel supported Mexico's position in February 2001. President Bush indicated a willingness to implement the provision, but the U.S. Congress required additional safety provisions in the FY2002 Department of Transportation Appropriations Act (P.L. 107-87). The United States and Mexico cooperated to resolve the issue and engaged in numerous talks regarding safety and operational issues. On July 6, 2011, the two countries signed a Memorandum of Understanding (MOU) to resolve the dispute. In October 2011, the United States granted the first permit to provide international long-haul cargo services to a Mexican trucking company.

Bush Administration Pilot Program for Mexican Trucks

On November 27, 2002, with safety inspectors and procedures in place, the Bush Administration announced that it would begin the process that would open U.S. highways to Mexican truckers and buses. However, environmental and labor groups went to court in early December to block the action. On January 16, 2003, the U.S. Court of Appeals for the Ninth Circuit ruled that full environmental impact statements were required for Mexican trucks to be allowed to operate on U.S. highways. The U.S. Supreme Court reversed that decision on June 7, 2004.

In February 2007, the Bush Administration announced a pilot project to grant Mexican trucks from 100 transportation companies full access to U.S. highways. In September 2007, the Department of Transportation (DOT) launched a one-year pilot program to allow approved Mexican carriers beyond the 25-mile commercial zone in the border region, with a similar program allowing U.S. trucks to travel beyond Mexico's border and commercial zone. Over the 18 months that the program existed, 29 motor carriers from Mexico were granted operating authority in the United States. Two of these carriers dropped out of the program shortly after being accepted, while two others never sent trucks across the border. In total, 103 Mexican trucks were used by the carriers as part of the program.⁶¹

In the FY2008 Consolidated Appropriations Act (P.L. 110-161), signed into law in December 2007, Congress included a provision prohibiting the use of FY2008 funding for the establishment of the pilot program. However, the DOT determined that it could continue with the pilot program because it had already been established. In March 2008, the DOT issued an interim report on the cross-border trucking demonstration project to the Senate Committee on Commerce, Science, and Transportation. The report made three key observations: (1) the Federal Motor Carrier Safety Administration (FMCSA) planned to check every participating truck each time it crossed the border to ensure that it met safety standards; (2) there was less participation in the project than was expected; and (3) the FMCSA implemented methods to assess possible adverse safety impacts of the project and to enforce and monitor safety guidelines.⁶²

In early August 2008, DOT announced that it would be extending the pilot program for an additional two years. In opposition to this action, the House approved on September 9, 2008 (by a vote of 396 to 128), H.R. 6630, a bill that would have prohibited DOT from granting Mexican

⁶¹ Ibid.

⁶² Department of Transportation, "Cross-Border Trucking Demonstration Project," March 11, 2008.

trucks access to U.S. highways beyond the border and commercial zone. The bill also would have prohibited DOT from renewing such a program unless expressly authorized by Congress. No action was taken by the Senate on the measure.

On March 11, 2009, the FY2009 Omnibus Appropriations Act (P.L. 111-8) terminated the pilot program. The FY2010 Consolidated Appropriations Act, passed in December 2009 (P.L. 111-117), did not preclude funds from being spent on a long-haul Mexican truck pilot program, provided that certain terms and conditions were satisfied. Numerous Members of Congress urged President Obama to find a resolution to the dispute in light of the effects that Mexico's retaliatory tariffs were having on U.S. producers (see section below).

A truck safety statistic on "out-of-service" rates indicates that Mexican trucks operating in the United States are now safer than they were a decade ago. The data indicate that Mexican trucks and drivers have a comparable safety record to U.S. truckers. Another study indicates that the truck driver is usually the more critical factor in causing accidents than a safety defect with the truck itself. Service characteristics of long-haul trucking suggest that substandard carriers would likely not succeed in this market.⁶³

Mexico's Retaliatory Tariffs

In response to the abrupt end of the pilot program, the Mexican government announced in March 2009 that it would retaliate 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, which went into effect on March 19, 2009, ranged from 10% to 45% and covered a range of products that included fruit, vegetables, home appliances, consumer products, and paper.⁶⁴ Subsequently, a group of 56 Members of the House of Representatives wrote to United States Trade Representative Ron Kirk and DOT Secretary Ray LaHood requesting the Administration to resolve the trucking issue.⁶⁵ The bipartisan group of Members stated that they wanted the issue to be resolved soon 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.⁶⁶

On August 16, 2010, the Mexican government announced a revised list of retaliatory tariffs on imports from the United States. The revised 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 that were 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.

⁶³ See CRS Report RL31738, *North American Free Trade Agreement (NAFTA) Implementation: The Future of Commercial Trucking Across the Mexican Border*, by John Frittelli.

⁶⁴ Rosella Brevetti, "Key GOP House Members Urge Obama to Develop New Mexico Truck Program," *International Trade Reporter*, March 26, 2009.

⁶⁵ Amy Tsui, "Plan to Resolve Mexican Trucking Dispute 'Very Near,' DOT's LaHood Tells Lawmakers," *International Trade Reporter*, March 11, 2010.

⁶⁶ *Ibid.*

Products that were removed from the list included peanuts, dental floss, locks, and other products.⁶⁷ The revised retaliatory tariffs were lower than the original tariffs and ranged from 5% to 25%. Mexico reportedly rotated the list of products to put more pressure on the United States to seek a settlement for the trucking dispute.⁶⁸ 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.

The Mexican government indicated it was willing to resolve the ongoing dispute with the Obama Administration. In March 2011, President Obama and Mexican President Calderón announced that they had agreed on a way to move forward to resolving the dispute. Mexico stated that once a final agreement was reached, it would suspend retaliatory tariffs in stages, beginning with reducing tariffs by 50% at the signing of an agreement and suspending the remaining 50% when the first Mexican carrier was granted operating authority under the program.⁶⁹ By October 2011, Mexico had suspended all retaliatory tariffs on U.S. exports to Mexico.

U.S. Concept Document for Long Haul Trucking

In January 2011, the Obama Administration presented an “initial concept document” to Congress and the Mexican government for a new long-haul trucking program with numerous safety inspection requirements for Mexican carriers. The concept document would put in place a new inspection and monitoring regime in which Mexican carriers would have to apply for long-haul operating authority. The proposed project would include several thousand trucks and eventually bring as many vehicles as are needed into the United States.⁷⁰ A DOT press release from January 6, 2011, stated that a formal proposal on which the public would have the opportunity to comment would be released in the coming months.⁷¹ The Mexican government responded positively to the initiative, stating that it would not continue rotating the list of retaliatory tariffs, but that it would keep the current tariffs in place until a final accord was reached.⁷²

The U.S. concept document outlined a proposed program with three sets of elements. The first set of elements, pre-operations elements, included an application process for Mexican carriers interested in applying for long-haul operations in the United States; a vetting process by the U.S. Department of Homeland Security and the Department of Justice; a safety audit of Mexican carriers applying for the program; documentation of Mexican commercial driver’s license process to demonstrate comparability to the U.S. process; and evidence of financial responsibility (insurance) of the applicant. The second set of elements, operations elements, included the following: monitoring procedures that included regular inspections and electronic monitoring of

⁶⁷ *Inside U.S. Trade’s World Trade Online*, “Pork, Cheeses, Fruits to Face new Tariffs Due to Mexico Trucks Dispute,” August 17, 2010.

⁶⁸ *Inside U.S. Trade’s World Trade Online*, “New Mexican Retaliatory Tariffs in Trucks Dispute Designed to Spur U.S.,” September 3, 2010.

⁶⁹ *Washington Trade Daily*, “A Trucking Breakthrough,” Volume 20, No. 45, March 4, 2011.

⁷⁰ Rosella Brevetti and Nacha Cattán, “DOT’s LaHood Presents ‘Concept’ Paper on Resolving NAFTA Mexico Truck Dispute,” January 13, 2011.

⁷¹ U.S. Department of Transportation Press Release, “U.S. Cross-Border Trucking Effort Emphasizes Safety and Efficiency,” January 6, 2011.

⁷² Josh Mitchell, “U.S. Jump-Starts Bid to End Truck Dispute with Mexico,” *The Wall Street Journal*, January 7, 2011.

long-haul vehicles and drivers; a follow-up review (first review) to ensure continued safe operation; a compliance review (second review) upon which a participating carrier would be eligible for full operation authority; and a Federal Motor Carrier Safety Administration (FMCSA) review that included insurance monitoring and drug and alcohol collection and testing facilities. The third set of elements, transparency elements, would require Federal Register notices by the FMCSA; a publically accessible website that provides information on participating carriers; the establishment of a Federal Advisory Committee with representation from a diverse group of stakeholders; periodic reports to Congress; and requirements for DOT Office of the Inspector General reports to Congress.⁷³

Pilot Program on NAFTA Long-Haul Trucking Provisions

On July 6, 2011, the two countries signed a Memorandum of Understanding (MOU) to resolve the dispute over long-haul cross-border trucking.⁷⁴ Within 10 days after signing of the MOU, Mexico suspended 50% of the retaliatory tariffs. Mexico agreed to suspend the remainder of the tariffs within five days of the first Mexican trucking company receiving its U.S. operating authority.⁷⁵ On October 21, 2011, Mexico suspended the remaining retaliatory tariffs.

The new program was announced by the DOT Federal Motor Carrier Safety Administration (FMCSA). DOT Secretary LaHood stressed that roadway safety would be a priority in the program.⁷⁶ The program came as a result of numerous meetings between Secretary LaHood, other Obama Administration officials, lawmakers, safety advocates, industry representatives, and others to address concerns. According to the FMCSA, the final text of the program addresses recommendations of over 2,000 commenters to the proposal issued in April 2011.⁷⁷ Under the program, trucks will be required to comply with all Federal Motor Vehicle Safety Standards and must have electronic monitoring systems to track hours-of-service compliance. In addition, DOT is to review the complete driving record of each driver in addition to having drug testing requirements for all drivers. Other requirements include an assessment of abilities to understand the English language and U.S. traffic signs.⁷⁸ Under the new agreement, Mexico will provide reciprocal authority for U.S. carriers to engage in cross-border long-haul operations in Mexico.

On October 14, 2011, the FMCSA granted the first permit to provide international long-haul cargo services to Monterrey-based trucking firm Transportes Olympic. The company successfully completed a pre-authorization safety audit and had been a participant in the Bush Administration's 2007 pilot program.⁷⁹

⁷³ U.S. Department of Transportation, *Concept Document: Phased U.S.-Mexico Cross-Border Long Haul Trucking Proposal*, January 6, 2011, at <http://www.fmcsa.dot.gov>.

⁷⁴ Federal Motor Carrier Safety Administration (FMCSA), *News Release*, "United States and Mexico Announce Safe, Secure Cross-Border Trucking Program: U.S.-Mexico Agreements Will Lift Tariffs and Put Safety First," July 6, 2011.

⁷⁵ *NAFTA Works*, "The United States and Mexico Sign a Memorandum of Understanding on Long-Haul Cross-Border Trucking," Volume 3, Alert 18, July 2011.

⁷⁶ FMCSA, *News Release*, "United States and Mexico Announce Safe, Secure Cross-Border Trucking Program: U.S.-Mexico Agreements Will Lift Tariffs and Put Safety First," July 6, 2011.

⁷⁷ *Ibid.*

⁷⁸ *Ibid.*

⁷⁹ Rosella Brevetti, "Mexico Suspends Tariffs as Trucking Program is Launched," *International Trade Reporter*, October 27, 2011.

The International Brotherhood of Teamsters strongly opposes the pilot program and, together with Public Citizen and the Sierra Club, filed an amended petition on November 23, 2011, with the U.S. Court of Appeals for the District of Columbia Circuit to block the program. The suit was initially filed on September 2, 2011, in the U.S. Court of Appeals for the Ninth Circuit by the Teamsters and Public Citizen on the grounds that the program put public safety and U.S. jobs at risk. The Sierra Club joined in amending the suit in November, adding an environmental claim that was not in the initial filing.⁸⁰

Other Trade Issues

Dolphin-Safe Tuna Labeling Dispute

The United States and Mexico are involved in a trade dispute regarding U.S. dolphin-safe labeling provisions and tuna imports from Mexico. U.S. labeling provisions establish conditions under which tuna products may voluntarily be labeled as “dolphin-safe.” These products may not be labeled as dolphin-safe if the tuna is caught by intentionally encircling dolphins with nets. According to the Office of the United States Trade Representative (USTR), some Mexican fishing vessels use this method when fishing for tuna. Mexico asserts that U.S. tuna labeling provisions deny Mexican tuna effective access to the U.S. market.⁸¹

In October 2008, Mexico filed a request for World Trade Organization (WTO) dispute settlement consultations with the United States regarding U.S. provisions on voluntary dolphin-safe labeling on tuna 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.”⁸² In September 2011, a WTO panel that was established in April 2009 circulated its final report to other WTO Members and the public. This report found that the objectives of U.S. voluntary tuna labeling provisions are legitimate and that any adverse effects felt by Mexican tuna producers are the result of choices made by Mexico’s own fishing fleet and canners. However, the panel also found U.S. labeling provisions to be “more restrictive than necessary to achieve the objectives of the measures.”⁸³ The Obama Administration is appealing the WTO ruling. Mexico’s economy ministry said that it plans to file a counter-appeal.⁸⁴

The government of Mexico wants the United States to broaden its dolphin-safe rules to include Mexico’s longstanding tuna fishing technique. It cites statistics showing that modern equipment has greatly reduced dolphin mortality from its height in the 1960s and that its ships carry independent observers who can verify dolphin safety.⁸⁵ However, some environmental groups that

⁸⁰ *International Trade Reporter*, “Suit to Block Program that Opens Border to Mexican Trucks Amended in D.C. Circuit,” December 1, 2011.

⁸¹ Office of the United States Trade Representative (USTR), “U.S. Appeal in WTO Dolphin-Safe Tuna Labeling Dispute with Mexico,” January 23, 2012, available at <http://www.ustr.gov>.

⁸² *Ibid.*

⁸³ *Ibid.* For more information, see the USTR website at <http://www.ustr.gov>.

⁸⁴ Eric Martin, “U.S. Appeals WTO Ruling in Mexico Dolphin-Safe Tuna Dispute,” *Bloomberg Businessweek*, January 20, 2012.

⁸⁵ Tim Carman, “Tuna, meat labeling disputes highlight WTO control,” *The Washington Post*, January 10, 2012.

monitor the tuna industry dispute claims by the Mexican government, stating that even if no dolphins are killed during the chasing and netting, some are wounded and later die. In other cases, they argue, young dolphin calves may not be able to keep pace and are separated from their mothers and later die. These groups contend that if the United States changes its labeling requirements, cans of Mexican tuna could be labeled as “dolphin-safe” when it is not.⁸⁶ However, an industry spokesperson representing three major tuna processors in the United States contends that U.S. companies would probably not buy Mexican tuna even if it is labeled as dolphin-safe because these companies “would not be in the market for tuna that is not caught in the dolphin-safe manner.”⁸⁷

The tuna labeling dispute began over 10 years ago. In April 2000, the Clinton Administration lifted an embargo on Mexican tuna under relaxed standards for a dolphin-safe label. This was in accordance with internationally agreed procedures and U.S. legislation passed in 1997 that encouraged the unharmed release of dolphins from nets. However, a federal judge in San Francisco ruled that the standards of the law had not been met, and the Federal Appeals Court in San Francisco sustained the ruling in July 2001. Under the Bush Administration, the Commerce Department ruled on December 31, 2002, that the dolphin-safe label may be applied if qualified observers certify that no dolphins were killed or seriously injured in the netting process. Environmental groups, however, filed a suit to block the modification. On April 10, 2003, the U.S. District Court for the Northern District of California enjoined the Commerce Department from modifying the standards for the dolphin-safe label. On August 9, 2004, the federal district court ruled against the Bush Administration’s modification of the dolphin-safe standards and reinstated the original standards in the 1990 Dolphin Protection Consumer Information Act. That decision was appealed to the U.S. Ninth Circuit Court of Appeals, which ruled against the Administration in April 2007, finding that the Department of Commerce did not base its determination on scientific studies of the effects of Mexican tuna fishing on dolphins. In late October 2008, Mexico initiated World Trade Organization dispute proceedings against the United States, maintaining that U.S. requirements for Mexican tuna exporters prevents them from using the U.S. “dolphin-safe” label for its products.⁸⁸

2006 Sugar Dispute

The United States and Mexico resolved a long-standing trade dispute in 2006 involving sugar and high fructose corn syrup. Mexico argued that the sugar side letter negotiated under NAFTA 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. Mexico also complained that imports of high fructose corn syrup (HFCS) sweeteners from the United States constituted dumping, and it imposed anti-dumping duties for some time, until NAFTA and WTO dispute resolution panels upheld U.S. claims that the Mexican government colluded with the Mexican sugar and sweetener industries to restrict HFCS imports from the United States.

In late 2001, the Mexican Congress imposed a 20% tax on soft drinks made with corn syrup sweeteners to aid the ailing domestic cane sugar industry, and subsequently extended the tax

⁸⁶ Ibid.

⁸⁷ Ibid.

⁸⁸ Daniel Pruzin, “Mexico Initiates WTO Dispute Proceeding Against U.S. ‘Dolphin-Safe’ Label for Tuna,” *International Trade Reporter*, October 30, 2008.

annually despite U.S. objections. In 2004, the United States Trade Representative (USTR) initiated WTO dispute settlement proceedings against Mexico's HFCS tax, and following interim decisions, the WTO panel issued a final decision on October 7, 2005, essentially supporting the U.S. position. Mexico appealed this decision, and in March 2006, the WTO Appellate Body upheld its October 2005 ruling. In July 2006, the United States and Mexico agreed that Mexico would eliminate its tax on soft drinks made with corn sweeteners no later than January 31, 2007. The tax was repealed, effective January 1, 2007.

The United States and Mexico reached a sweetener agreement in August 2006. Under the agreement, Mexico can export 500,000 metric tons of sugar duty-free to the United States from October 1, 2006, to December 31, 2007. The United States can export the same amount of HFCS duty-free to Mexico during that time. NAFTA provides for the free trade of sweeteners beginning January 1, 2008. The House and Senate sugar caucuses expressed objections to the agreement, questioning the Bush Administration's determination that Mexico is a net-surplus sugar producer to allow Mexican sugar duty-free access to the U.S. market.⁸⁹

⁸⁹ 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.

Appendix A. Map of Mexico

Figure A-I. Map of Mexico



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