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U.S.-Mexico Trade Relations

The 118th Congress is engaged in a range of legislative and oversight activities related to trade policy toward Mexico, which in 2023 became the largest U.S. trade partner. Mexico is also of interest to Congress because of its proximity to the United States and the extensive bilateral trade and investment relationship under the U.S.-Mexico-Canada Agreement (USMCA). 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. Congress may consider how to improve cooperation with Mexico in areas of mutual interest, including supply chain resilience, 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 128 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 \$1.8 trillion in 2023, equal to about 6% of U.S. GDP of \$28.8 trillion. Per capita GDP in Mexico was \$13,927 in 2023, compared to \$80,474 in the United States. 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.

Source: Economist Intelligence Unit.

U.S.-Mexico Trade

In 2023, Mexico ranked first among all U.S. trading partners, with \$798.9 billion in total trade in goods (exports plus imports) between the two countries. In comparison, U.S. goods trade with Canada totaled \$773.9 billion, while trade with China totaled \$575.0 billion. The United States is by far Mexico’s most important trading partner, accounting for 60% (\$726.7 billion) of Mexico’s total merchandise trade with the world. It is followed by China (\$123.3 billion), and Canada (\$30.8 billion). Mexico relies heavily on the United States as an export market, with 80% of its exports destined for the United States.

Merchandise trade between the United States and Mexico increased exponentially since NAFTA entered into force, with U.S. imports from Mexico increasing faster than U.S. exports. The merchandise trade balance went from a surplus of \$1.7 billion in 1993 (the year before NAFTA entered into force) to a deficit that reached \$152.5 billion in 2023.

Merchandise trade data in this section of the report was obtained by CRS from the U.S. International Trade Commission’s DataWeb and from Trade Data Monitor on

June 4, 2024. Services trade data was obtained from the U.S. Bureau of Economic Analysis (BEA).

U.S. Merchandise Exports

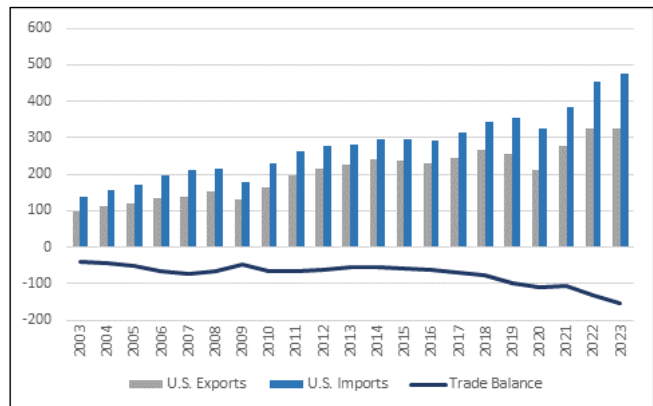
Mexico ranks second, after Canada, among markets for U.S. merchandise exports. The value of U.S. merchandise exports to Mexico increased from \$41.6 billion in 1993 (the year before NAFTA’s entry into force) to \$323.1 billion in 2023. Major U.S. exports to Mexico in 2023, included petroleum and coal products (\$36.8 billion), motor vehicle parts (\$24.9 billion), semiconductors and other electronic components (\$17.8 billion), basic chemicals (\$12.7 billion), and computer equipment (\$11.7 billion).

U.S. Merchandise Imports

Mexico ranks first among suppliers of U.S. imports, followed by China and Canada. U.S. merchandise imports from Mexico increased from \$39.9 billion in 1993 to \$475.6 billion in 2023. Leading U.S. merchandise imports from Mexico in 2023 included motor vehicles (\$85.0 billion), motor vehicle parts (\$66.3 billion), computer equipment (\$28.6 billion), oil and gas (\$19.8 billion), and electrical equipment (\$18.8 billion).

Figure 1. U.S.-Mexico Merchandise Trade 2003-2023

Current U.S. \$ in billions



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

Services Trade

The United States had a deficit in services trade with Mexico of \$630 million in 2022 (latest available data), 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 to \$38.3 billion. Services 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 holds the largest stock of foreign direct investment in Mexico, with a total of \$130.3 billion in 2022 (latest year available), according to the BEA. BEA data show that Mexican FDI in the United States increased from \$4.1 billion in 1997 (the earliest data available) to \$54.0 billion in 2022 (by ultimate beneficial owner). According to Mexican government data, the United States was the largest source by far of FDI flows to Mexico in 2023, accounting for 37.8% (\$13.6 billion) of the total. It was followed by Spain (10.5% or \$3.8 billion), Canada (9.6% or \$3.5 billion), Japan (8.1% or \$2.90 billion), and Germany (6.7% or \$2.4 billion).

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 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.

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.

USMCA maintains 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 is not expected to 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

Congress may monitor U.S.-Mexico trade policy issues and the overall bilateral economic relationship, especially as it relates to USMCA and U.S. economic interests. Some Members 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 enforcement of the agreement, particularly on worker rights, and the scaling back of provisions such as ISDS and auto rules of origin. Other major U.S.-Mexico trade issues for Congress include

- Ongoing USMCA disputes with Mexico, specifically in regard to Mexico's energy sector, protection of worker rights in Mexico, and potential USMCA violations of Mexico's genetically engineered corn policies.
- Concerns over the possibility of China using Mexico as a platform to circumvent U.S. tariffs on goods from China and investing in Mexico's manufacturing sector.
- Collaboration under the U.S.-Mexico High-Level Economic Dialogue and the North American Leaders' Summit, including in semiconductor and information technology supply chains, production of electric vehicles, border infrastructure and modernization projects, economic development in southern Mexico and Central America, information technology and security, and workforce development.

See also, CRS Report R44981, *The United States-Mexico-Canada Agreement (USMCA)*, by M. Angeles Villarreal and CRS Report R42917, *Mexico: Background and U.S. Relations*, by Clare Ribando Seelke.

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