

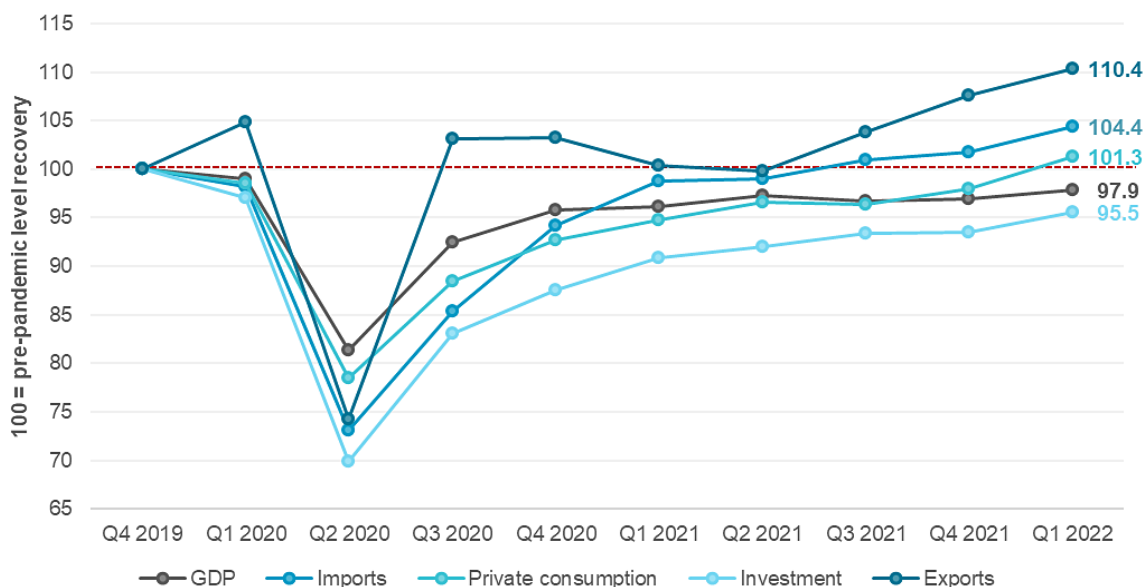
Brief analysis

Two years on, USMCA has boosted the Mexican economic recovery, but faces challenges in energy, environmental and labor issues

This Friday marks the two-year anniversary of the United States-Mexico-Canada Agreement (USMCA). Signed in November 2018, with a final Protocol of Amendment in December 2019, USMCA entered into force on July 1st, 2020.

Although the two years that have elapsed represent a fraction of the duration period of the Agreement –which is valid for 16 years, with periodic opportunities to extend it¹–, its implementation already shows positive results. Inaugurated in the context of a global health and economic crisis, **USMCA has provided a boost for the Mexican economic recovery since it began: after contracting almost 30% at the beginning of the crisis (in the 2nd quarter of 2020) exports showed the most dynamic recovery in the 3rd quarter of 2020, with a quarterly increase of 39%².**

Mexican economic recovery has been stronger in exports and imports than in overall GDP



Additionally, exports already show a level 10.4% higher than that observed at the end of 2019, and imports are 4.4% higher³ (a feat not yet achieved by national Gross Domestic Product, or GDP, which hasn't recovered its pre-pandemic level). Both performances exceed those of other components such as private domestic consumption or investment (private consumption has grown 1.3% in that period and investment has fallen by 4.5%). **The recovery for exports has been greater for those whose destination is a USMCA country. Mexican exports to the United States and Canada have grown at a faster rate than those sent to the rest of the**

¹Final Texts of the United States-Mexico-Canada Agreement. [Chapter 34. Final Provisions.](#)

²INEGI. [Offer and Demand of goods and services](#), seasonally adjusted series, 2013 base.

³INEGI. [Offer and Demand of goods and services](#), seasonally adjusted series, 2013 base.

world; while exports to North America have grown 44% between January 2020 and April 2022, those to other countries have increased by 28%⁴.

The momentum produced by USMCA has also allowed economic sectors related to trade and the external sector to have a more dynamic recovery: at the end of the 1st quarter of 2022, the manufacturing industry already shows a level 4.6% higher than it had in the 1st quarter of 2020, while wholesale trade has grown 10.4% in the same period. These sectors -which together contribute more than a quarter of the country's GDP- are two of only four that not only [show a recovery compared to levels observed before the crisis](#), but exceed the level they would have achieved had they continued with the previous economic trend.

Challenges for the Agreement

Two years of USMCA have also highlighted the challenges that persist to achieve full compliance with its provisions and to take advantage of the opportunities it provides. **In terms of the energy sector and environmental matters, as well as in the agricultural and labor spheres, there are pending issues that Mexico must attend to in order to increase its competitiveness within the framework of the Agreement.**

The divide between energy policy in Mexico and the priorities in the other signatory countries is perhaps the most pressing issue to ensure a more harmonious trade relationship in the region. Although the Energy Reform initiative proposed in 2021 –which [would have generated conflicts](#) with the provisions of the Agreement regarding Investment, Cross-Border Trade in Services, Environmental Issues and State-Owned Enterprises, among others– was not approved, the issue remains a concern for members of the US government and Congress. A request for a panel to resolve potential conflicts between the Mexican government's energy policy and USMCA has not been ruled out⁵.

Furthermore, **although agricultural trade in North America has benefited from the implementation of the Agreement, there are certain conflicts between Mexico and the United States.** Specifically, the efficiency in the approval of biotechnological products, which is included in the provisions of the USMCA, has lagged in Mexico, where no application has been approved since 2018. The Office of the United States Trade Representative has expressed concern about the matter⁶. For its part, the presidential decree regarding the prohibition of imports of transgenic corn and glyphosate⁷ for 2021 (although it has a vague definition of the products involved) has generated concern from the US corn sector⁸.

In labor matters, to which chapter 23 is dedicated, compliance with the rights of free association and collective bargaining, as well as working conditions in terms of salary level, safety, working hours and discrimination, are issues in which Mexico must continue to advance. The use of the Rapid Response Labor Mechanism in specific cases such

⁴Economic Information System, Banxico. [Exports](#) by country.

⁵Bloomberg. [US Poised to Escalate Claim Mexico Violated Free-Trade Pact](#). June 23, 2022.

⁶USTR. [Readout of Ambassador Katherine Tai's Meeting with Mexico's Secretary of Agriculture and Rural Development Victor Villalobos and Mexico's Secretary of Economy Tatiana Clouthier](#), July 7, 2021.

⁷[Decree](#) in the Official Gazette of the Federation, December 31, 2020.

⁸Corn Refiners Association. [Letter to Secretary Vilsack and USTR Katherine Tai Regarding Leading Concerns of the US Food and Agriculture Trade Relationship with Mexico](#). March 22, 2021.

as those regarding General Motors⁹ and Tridonex¹⁰ (the resolution of which was reached between the US government and said company) have made it possible to reach agreements that seek to guarantee access to free association and collective bargaining for the workers involved, but they also underline the challenges that persist for the country's employed population in general.

Some specific issues, such as the difference in interpretations regarding [Automotive Rules of Origin](#) or complaints of labor abuse at a Panasonic plant in Reynosa, Tamaulipas, are pending resolution. In the case of the Rules of Origin applied to the automotive sector, the difference in interpretations that persists between the United States on the one hand and Mexico and Canada on the other, has resulted in the establishment of a State-to-State dispute settlement panel under the provisions of USMCA, after the consultation stage with the United States did not reach a consensus. Trade representatives for Mexico, the United States and Canada have been in communication during the process, the solution of which will have implications for the costs faced by the automotive industry, as well as the extent to which the region's producers are able to take advantage of the trade benefits of the Agreement. Regarding the Panasonic case, a petition for review under the Rapid Response Mechanism regarding freedom of association and collective bargaining was delivered on May 18th 2022¹¹.

USMCA in Mexico's 32 states

Beyond the current and potential conflicts with the provisions included in USMCA's 34 chapters, Mexico must work towards ensuring that the benefits of the Agreement reach all regions of the country. In states such as Oaxaca, Tabasco (a state where oil and gas extraction account for over 90% of exports) and Chiapas, for example, although exports have grown by 135%, 103% and 51%, respectively between the first quarter of 2020 and 2022, they still only contribute 2.6% of the country's total exports. USMCA's boost to trade with the United States and Canada, as well as the constant communication between the three countries, must also be used to stimulate economic activity in the southeast region of the country, particularly in industries where they have comparative advantages and potential for more dynamism.

After the implementation of the Agreement, communication between the three countries has been strengthened, with regular meetings between trade representatives and the reactivation of the High-Level Economic Dialogue, whose purpose is to share strategic priorities and seek progress in the regional economy. Constant communication gives Mexico an opportunity to prevent and address potential conflicts, and ensure that its energy, environmental and labor policies are aligned with USMCA, so that it may take full advantage of the benefits the Agreement grants for trade and growth in the Mexican industry.

USMCA is currently in effect until 2036, but in accordance with the Revision and Extension of Validity provision, a review will be carried out in 2026, in which a joint evaluation will be made of the Agreement's operation, and recommendations for improvements will be made. **The dialogue between countries and the alignment of public policies in Mexico, the United States and Canada, as well as ensuring an economic environment in Mexico that guarantees compliance with the rule of law and transmits certainty to potential investors,**

⁹Ministry of Economy. [Mexico and the US announce remediation course for denial of workers' rights in automotive manufacturing facilities](#). July 8, 2021.

¹⁰USTR. [United States Reaches Agreement with Mexican Auto Parts Company to Protect Workers' Rights](#). August 10, 2021.

¹¹USTR. [United States Seeks Mexico's Review of Alleged Freedom of Association and Collective Bargaining Violations at Panasonic Facility](#). May 18, 2022.

will be essential to ensure the longevity of USMCA, and the use of its benefits to achieve higher levels of investment, jobs and a dynamic regional economy.

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