THE U.S. AND MEXICO: A SPECIAL RELATIONSHIP

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Executive Summary

President Trump's policies carry risks and opportunities for one of the United States' most vital relationships — that with Mexico. U.S. actions that cause cooperation to break down could damage both prosperity and security in the United States. Alternatively, both the U.S. and Mexico could strengthen cooperation rooted in national interests, allowing deeper linkages that benefit the U.S. economy, enhance stability in Mexico, and alleviate security challenges on the border.

Across all trade relationships, the administration appears to seek simultaneously to:

- repatriate industrial production and employment back to the U.S. (reshoring);
- open new markets for U.S. investment and exports;
- construct more geopolitically secure supply lines (nearshoring);
- limit security threats to the homeland.

These aims are not mutually exclusive, and all could be achieved if pursued in a balanced manner. But in the case of Mexico, the U.S. does not appear to be striking this balance. The lack of predictability in trade policy, and the failure to use tools available through existing agreements such as the U.S.–Mexico–Canada–Agreement, or USMCA, are creating contradictory signals and leading the U.S. to leave opportunities on the table.

If the administration sends contradictory signals on its trade policy with Mexico, the likely result will be a significant increase in business uncertainty. Beyond the potentially damaging economic effects on U.S. investment decisions, this could have geopolitical consequences, hindering efforts to ensure politically and geographically resilient supply chains. It could also damage the Mexican economy in ways that potentially strengthen organized crime.

To simultaneously advance the four key U.S. objectives — restoring manufacturing jobs; building geographically resilient supply chains; gaining economic policy concessions from Mexico; and enhancing the political stability of a neighbor critical to U.S. security — the brief recommends that the Trump administration:

- recognize Mexican President Sheinbaum's popularity and openness to compromise as an opportunity to deepen the economic relationship rather than sever it;
- use the unique legal and institutional features of USMCA to advance the interests of both countries, particularly the improvement of labor conditions and the nearshoring of manufacturing;
- use diplomacy and USMCA mechanisms to leverage U.S. energy expertise and deepen U.S. investment in Mexico's renewable energy sector;
- encourage deeper U.S. investment and engagement in sectors of the Mexican economy other than manufacturing, such as entertainment, retail, financial services, tourism, and healthcare;
- recognize that economic dealmaking lends itself to security cooperation.

Introduction

Mexico is "special" to the United States in the sense of being a neighbor; an economy whose industrial supply chains are deeply intertwined with those of the U.S.; a partner in a unique set of institutional relationships; and a country with fragilities whose difficulties could have serious economic and security implications for the U.S. This vital bilateral relationship faces deep challenges amid rising uncertainty on the future of North American integration. Key aspects of the United States–Mexico–Canada

Agreement, or USMCA — the treaty governing investment and trade relations in the region — are being ignored, and the treaty itself is scheduled for a review that is all but certain to take the form of a renegotiation.

All this is happening against the backdrop of a recalibration of the United States' economic strategies both at home and abroad. Across all its bilateral relationships, the administration is seeking simultaneously to repatriate industrial production and employment back to the U.S. (reshoring); open new markets for U.S. investment and exports; construct more geopolitically secure supply lines (nearshoring); and limit security threats to the homeland. These aims are not mutually exclusive, and all could be achieved to maximum effect if pursued in a form that seeks to optimize the balance of costs and benefits over different time horizons.

In the context of the current bilateral U.S.– Mexico economic relationship, a focus on reshoring as the overwhelming priority could lead to negative economic consequences for the United States, particularly over the near term. Further, the impact on the bilateral relationship of pushing too far in that direction could militate against achieving the other goals, potentially leading to negative consequences in the fields of both economics and security.

However, the current political moment and the review of the USMCA provide opportunities to find greater balance across these goals, deepening the economic relationship in mutually beneficial ways. The agreement contains "rules of origin" that make tariff levels dependent on where final goods and their intermediate inputs are produced, a mechanism that could be employed in the service of both reshoring and nearshoring. Provisions on labor standards could be used to enhance incomes and economic security on both sides of the border.

The review could be used to bolster workers' well-being; deepen cooperation on energy; expand the rules of origin regime to electronics and information technology; and incentivize investment in the services sector, where gains in Mexico would be less likely to be seen as coming at the expense of the U.S. working class. Such a strategy could also enhance growth and stability on both sides of the border.

Conversely, steps that threaten to sever the relationship completely could have negative consequences for the U.S., particularly given the deep economic and industrial interconnections that have developed over the decades.

Background: A deeply intertwined partnership

Since the launch of the initial North American Free Trade Agreement, or NAFTA, on Jan. 1, 1994, trade flows between the U.S. and Mexico have grown more than tenfold. Mexico is now the U.S.'s largest trading partner, accounting for $840 billion of bilateral trade (Figure 1),[1] rising from third place in 1993, when Mexico was well behind Canada and Japan (Figure 2).[2]

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[1] "Countries and Regions, Mexico," Office of the U.S. Trade Representative, https://ustr.gov/countries-regions/americas/mexico#:~:text=Mexico%20Trade%20Summary,(%2430.6%20billion)%20from%202023.

[2] "United States Trade Summary 1993," World Integrated Trade Solution, https://wits.worldbank.org/CountryProfile/en/Country/USA/Year/1993/SummaryText.

Figure 1

Mexico's Growing Importance to U.S. Trade

	U.S. Exports To (1993)	U.S. Exports From (1993)	Total U.S. Trade With (1993)	U.S. Exports To (2024)	U.S. Exports From (2024)	Total U.S. Trade With (2024)
Canada	100	114	214	349	413	763
Japan	48	110	158	80	148	228
Mexico	42	41	83	334	506	840
China	9	34	43	144	439	583

Units: Billions of dollars annually

Source: World Integrated Trade Solution, World Bank,
https://wits.worldbank.org/CountryProfile/en/Country/USA/Year/1993/SummaryText

Figure 2

The stock of U.S. investment in Mexico as of 2023 was $144.5 billion, according to the U.S. Bureau of Economic Analysis, putting Mexico ahead of both China and France in terms of the physical stock of U.S. investment located overseas.[3] The investment relationship is not wholly one-sided — the stock of Mexican investment in the U.S. amounted to roughly $38 billion at the end of 2023 in sectors including steel, chemicals, beverages, and groceries.[4] This investment has grown rapidly in the 2020s, averaging roughly $5 billion annually over the past four years.[5]

NAFTA created a free-trade area across the U.S., Canada, and Mexico, leading to a progressive elimination of tariffs for the majority of commerce involving the three countries.[6] Even as the treaty was being concluded in 1992, concerns arose about the impact on the U.S. economy, articulated most memorably by presidential candidate H. Ross Perot, who said he could hear a "giant sucking sound" as jobs flowed from the U.S. to Mexico. The aggregate employment effects across the U.S. economy as a whole are disputed, though an Organisation for Economic Co-Operation and Development, OECD, study has consensus estimates seeing a relatively small net impact.[7]

A 2014 study by the U.S. International Trade Commission noted that "more recent contributions to the literature have not overturned the consensus of little or no effects of NAFTA on aggregate labor market outcomes in the United States, but they have emphasized exceptions to this general rule: they find significant effects on labor

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[3] "Direct Investment by Country 2023," Bureau of Economic Analysis, 5, https://www.bea.gov/sites/default/files/2024-07/dici0724.pdf.
[4] "Direct Investment by Country 2023," Bureau of Economic Analysis, 9.
[5] Council of the Americas, "Mexican Investment in the United States: Jobs, Regional Presence, and Economic Growth," Webinar, April 4, 2025, https://www.as-coa.org/watchlisten/mexican-investment-united-states-jobs-regional-presence-and-economic-growth. One household name example is Grupo Bimbo, a major food manufacturer headquartered in Mexico whose brands include Thomas' English Muffins, Entenmann's, and Takis, which has invested close to $10 billion in the U.S. and has 23,000 associates in the U.S.
[6] "North American Free Trade Agreement (NAFTA)," Office of the U.S. Trade Representative, https://ustr.gov/about-us/policy-offices/press-office/ustr-archives/north-american-free-trade-agreement-nafta.
[7] C. O'Leary, R. Eberts, and B. Pittelko, "Effects of NAFTA on U.S. Employment and Policy Responses," *OECD*, no. 131 (Feb. 2012): 25, http://dx.doi.org/10.1787/5k9ffbqlvk0r-en.

outcomes that are concentrated in certain parts of the country and in certain industries."[8] The Economic Policy Institute notes that the localized effects of NAFTA had held down wages and led to a net destruction of jobs, particularly among factory workers without a college degree.[9] Other targeted studies bear this out, finding a particularly large impact of NAFTA on the employment and income of women without college educations and minority workers in areas with limited industrial diversity in the Southeast and Midwest of the U.S.[10] Broadly speaking, the research is consistent with a picture of aggregate gains in the U.S. and losses that were concentrated in geographic, industrial, and demographic terms.

During his first term, President Trump replaced NAFTA with a new free trade agreement, the USMCA, seeking to counter some of the above developments by including provisions aimed at the auto industry in particular.[11] These included requirements that the minimum vehicular content originating within USMCA boundaries rise from 62.5 percent to 75 percent; that core components including engines and transmissions, and 70 percent of all steel used, be sourced within USMCA boundaries; and that at least 40 to 45 percent of the total manufacturing cost be from high-wage areas with a manufacturing wage of at least $16 an hour, which would exclude Mexico.

USMCA also created a Rapid Response Mechanism, or RRM, whereby the U.S. government could receive complaints about labor violations at the level of single establishments in Mexico, and, where confirmed, withdraw USMCA benefits from such facilities.[12] The Office of the U.S. Trade Representative noted in September 2024 that 27

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[8] Justino de la Cruz and David Riker, "The Impact of NAFTA on U.S. Labor Markets, Office of Economics Working Paper," U.S. International Trade Commission, June 2014, 5, https://www.usitc.gov/publications/332/ec201406a.pdf.
[9] Robert E. Scott, "The High Price of Free Trade," Economic Policy Institute, June 2003, https://www.epi.org/publication/briefingpapers_bp147/.
[10] Felipe Benguria, "The Impact of NAFTA on U.S. Local Labor Market Employment," *Journal of Human Resources* 60, no. 3 (July 2023): 1-72, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3722619.
[11] Kyla H. Kitamura and Liana Wong, "USMCA: Automotive Rules of Origin," CRS Products, Library of Congress, December 2024, https://www.congress.gov/crs-product/IF12082.
[12] "Chapter 31 Annex A; Facility Specific Rapid Response Labor Mechanism," Office of the U.S. Trade Representative,

cases had been brought to the RRM in the three years since it had gone into effect, of which 21 had already been settled. The settlements benefited 36,000 workers, resulting in free and fair union elections, higher wages, and the reinstatement of workers whose employment had been wrongly terminated.[13]

In 2022, Mexico overtook China as the U.S.'s largest source of imports. This reflected higher U.S. tariffs on China and an increasing focus on supply-chain resilience in the wake of the COVID–19 pandemic. Mexico is not only a major market for U.S. exports but also a key source of intermediate goods imports that are inputs into either U.S. domestic consumption or U.S. exports. According to the Bureau of Economic Analysis, the $1.6 trillion in U.S. manufacturing exports in 2023 included $191 billion of imported content, of which roughly $33 billion came from Mexico, making up 2.5 percent of all manufacturing exports.[14]

But to look solely at what the U.S. exports rather than at total industrial production understates the dependence of U.S. manufacturing on Mexican inputs. This is particularly true in the automotive sector, as roughly 85 percent of all U.S. auto production in 2023 was sold at home. According to the International Trade Commission, of the $197 billion in auto parts imported by the U.S. in 2024, $81 billion worth (41 percent) came from Mexico, more than from Canada, China, Japan, Korea, and Germany combined. (Indeed, the auto parts industry in the Midwest experienced much of the localized negative impact on employment that followed NAFTA).[15] Meanwhile, 57 percent of Mexico's imports of intermediate goods in 2022 came from the United

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https://ustr.gov/issue-areas/enforcement/dispute-settlement-proceedings/fta-dispute-settlement/usmca/chapter-31-annex-facility-specific-rapid-response-labor-mechanism.

[13] "Fact Sheet; The USMCA Rapid Response Mechanism Delivers For Workers," Office of the U.S. Trade Representative, September 2024, https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2024/september/fact-sheet-usmca-rapid-response-mechanism-delivers-workers.

[14] "Trade in Value Added (TiVA) Selected and Underlying Tables, Imported Content in U.S. Gross Exports by Importing Sector and Purchasing Region," Bureau of Economic Analysis, updated June 30, 2025, https://apps.bea.gov/iTable.

[15] "Automotive Parts Trade Data Visualization," International Trade Administration, updated 2025, https://www.trade.gov/data-visualization/automotive-parts-trade-data-visualization.

States, yet another sign of how intertwined industrial supply chains are within North America.[16]

The National Highway Traffic Safety Administration publishes a detailed breakdown of the percentage origin by country of every automobile brand sold in the U.S.; the selection below from the 2024 report makes the same point (Figure 3).[17]

Percentage Content by Country for Selected Vehicles Available in the U.S.

Brand and Model of Car	Source Country and Percentage of Manufacturing Source Country is Responsible For									
	U.S. or Canada	Mexico	Japan	South Korea	Germany	China	U.K.	Country Responsible for Final Assembly	Country Responsible for Manufacturing Engine	Country Responsible for Manufacturing Transmission
Toyota Tundra	55	15	15					U.S.	U.S.	U.S.
Ford Escape	32	25						U.S.	Mexico/U.S.	U.S.
Fiat Chrysler (Dodge) RAM	67	27						U.S.		
Honda CR-V	60					15		U.S.	U.S.	U.S.
GMC Sierra	37	36						U.S.	Mexico/U.S.	Mexico/U.S.
BMW X5	28				19			U.S.		
Hyundai Santa Fe	50			30				U.S.	U.S.	South Korea
VW Atlas	50	32						U.S.	Mexico	
Jaguar Range Rover Evoque	9				15		54	U.K.	U.K.	U.S.
Audi Q540	2	70			20			Mexico	Hungary	Germany

Source: U.S. Department of Transportation, National Highway Traffic Safety Administration (NHTSA),
https://www.nhtsa.gov/sites/nhtsa.gov/files/2025-02/MY2024-AALA-Alphabetical-2.4.45.pdf

Figure 3

Another indication of these deep interconnections can be seen in a breakdown of cross-border trade between the U.S. and Mexico, where much bilateral trade is in the same sector — automobiles, parts, and machinery — as one might expect when firms have spread production processes across cross-border plants (Figures 4 and 5).

[16] "Mexico Intermediate Goods Imports," World Integrated Trade Solution, https://wits.worldbank.org/CountryProfile/en/Country/MEX/Year/2022/TradeFlow/Import/Partner/all/Product/UNCTAD-SoP2.

[17] "American Automobile Labeling Act Report Manufacturing Year 2024," National Highway Traffic Safety Administration, 2024, https://www.nhtsa.gov/sites/nhtsa.gov/files/2025-02/MY2024-AALA-Alphabetical-2.4.25.pdf.

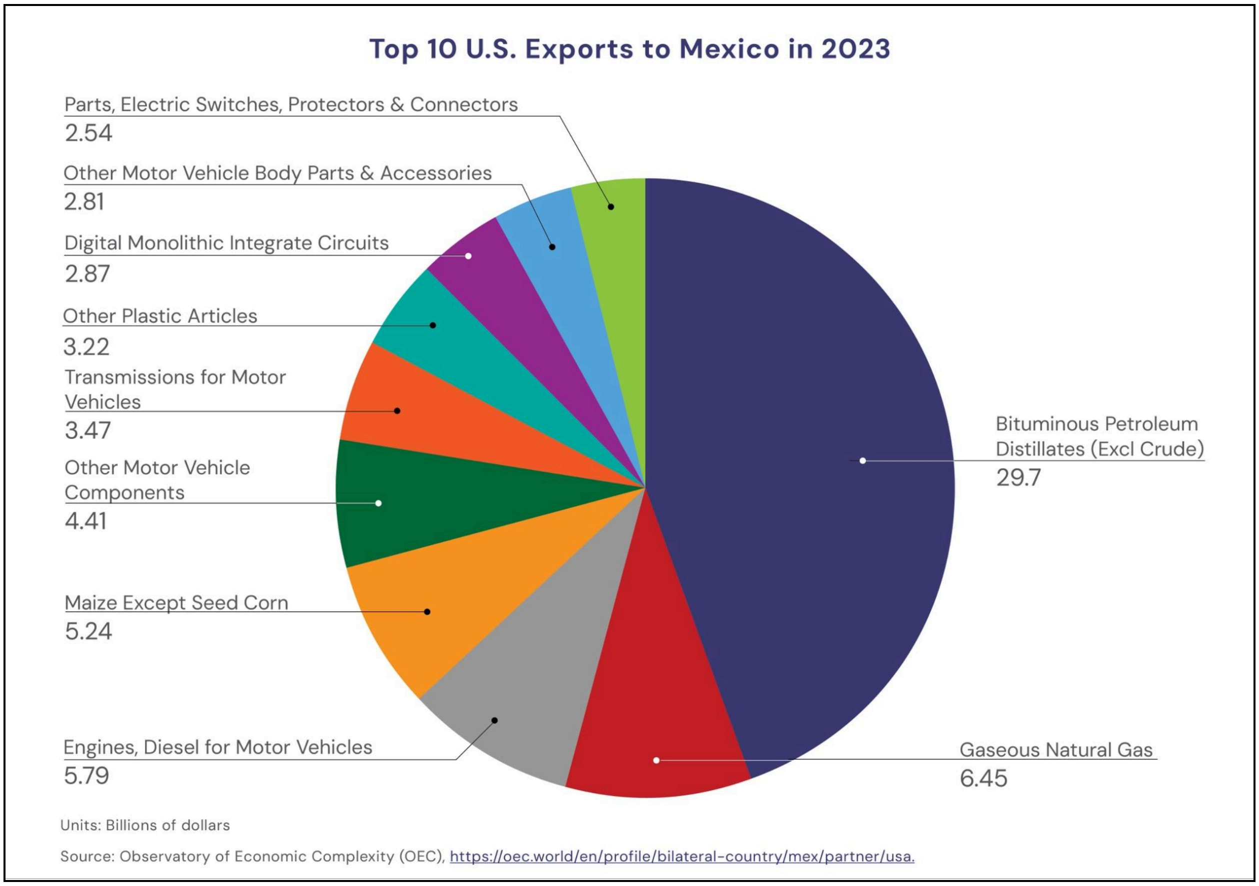
Top 10 U.S. Exports to Mexico in 2023
Parts, Electric Switches, Protectors & Connectors
2.54
Other Motor Vehicle Body Parts & Accessories
2.81
Digital Monolithic Integrate Circuits
2.87
Other Plastic Articles
3.22
Transmissions for Motor Vehicles
3.47
Other Motor Vehicle Components
4.41
Maize Except Seed Corn
5.24
Engines, Diesel for Motor Vehicles
5.79
Bituminous Petroleum Distillates (Excl Crude)
29.7
Gaseous Natural Gas
6.45
Units: Billions of dollars
Source: Observatory of Economic Complexity (OEC), https://oec.world/en/profile/bilateral-country/mex/partner/usa.

Figure 4

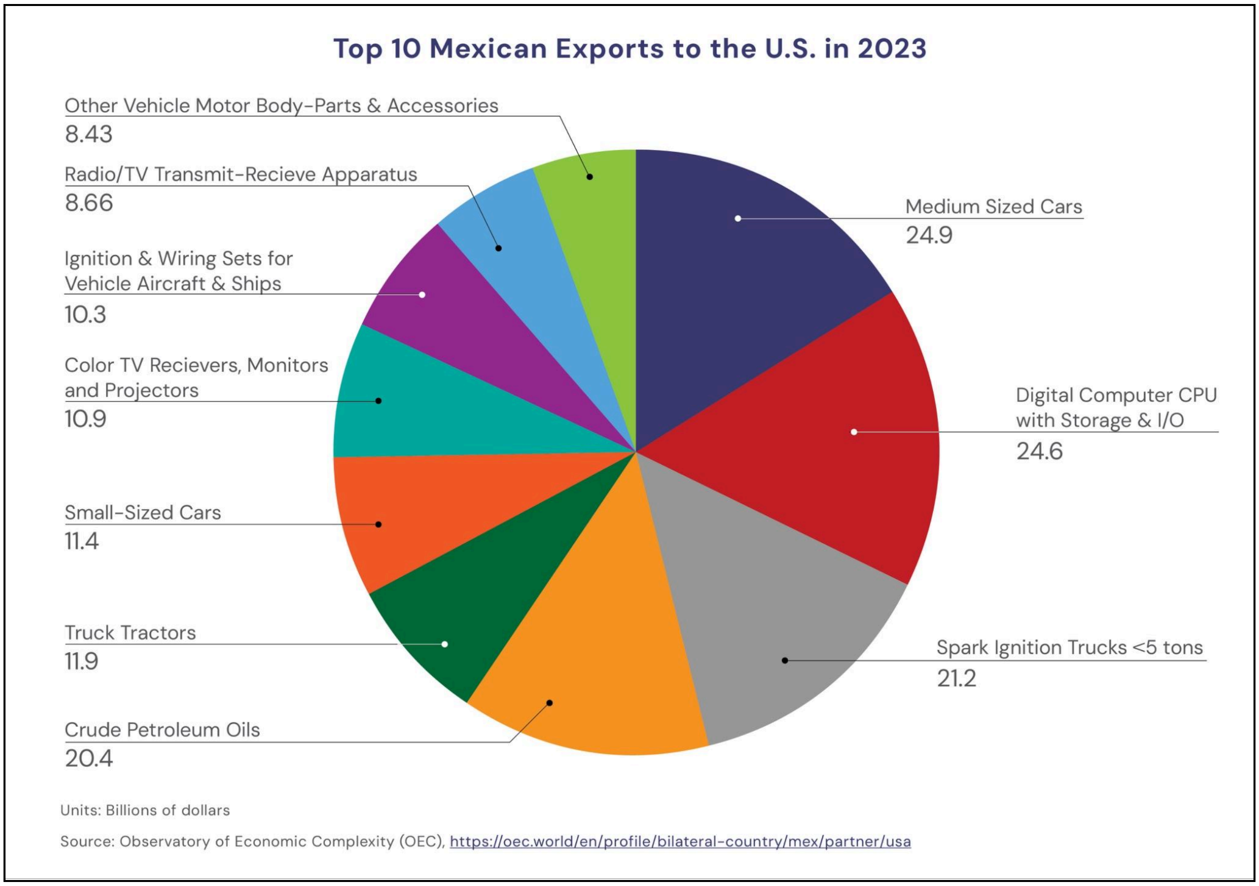

Figure 5

Employment statistics also show a continental automotive industry especially from the point of view of the three traditional U.S. automakers: GM, Ford, and Stellantis (formerly Chrysler).

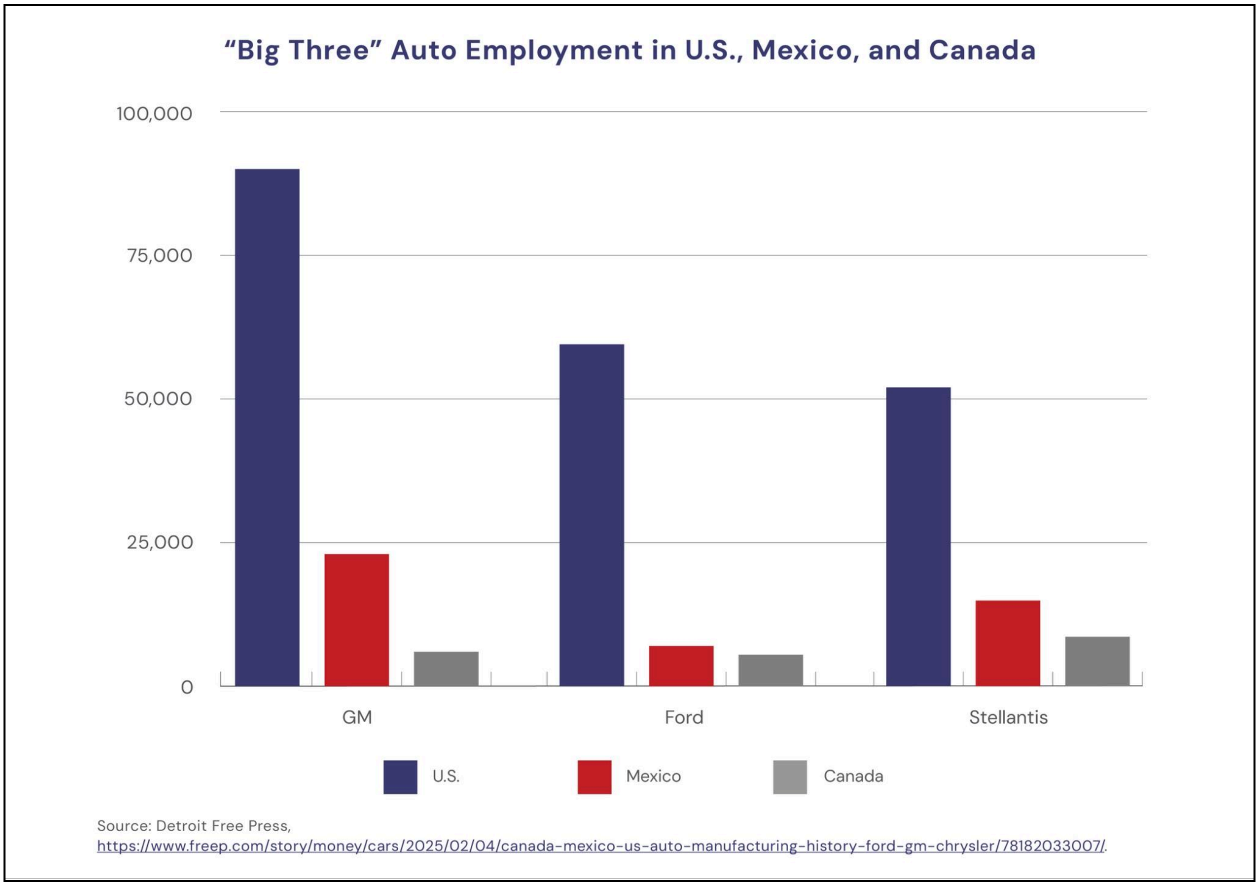

Figure 6

The U.S. International Trade Administration estimates that, in 2022, exports of goods and services to Mexico accounted for roughly 1.1 million U.S. jobs, or roughly 11.3 percent of all export jobs.[18] Among the states, Texas is Mexico's largest trading partner, generating roughly 34 percent of the U.S.'s total $795 billion bilateral trade with its southern neighbor that year.[19] The Office of the U.S. Trade Representative notes that the state was the U.S.'s biggest exporter, generating $455 billion from goods exports in 2024, with 27 percent going to Mexico.

The launch of NAFTA also led to a significant increase in bilateral agricultural trade, with Mexico becoming the U.S.'s largest or second-largest trading partner in the sector for

[18] "Jobs Supported by Exports by Destination," International Trade Administration, https://www.trade.gov/data-visualization/jobs-supported-exports-destination.
[19] "Mexico's Trade with Texas," Mexico Secretaría de Relaciones Exteriores, 2024, https://embamex.sre.gob.mx/eua/images/stories/2024/Economicos/tradebystate/Texas.pdf.

both exports at roughly $30 billion annually, and imports at roughly $41 billion annually in recent years. The trade is complementary, with the U.S. largely supplying grains, oilseeds, and meat, and receiving fruits, vegetables, and spirits.[20] CoBank, the U.S. rural cooperative bank, has drawn attention to the extraordinary pace of recent growth in Mexico's imports of U.S. agricultural products and projects an extremely strong increase in demand for U.S. cheese.[21]

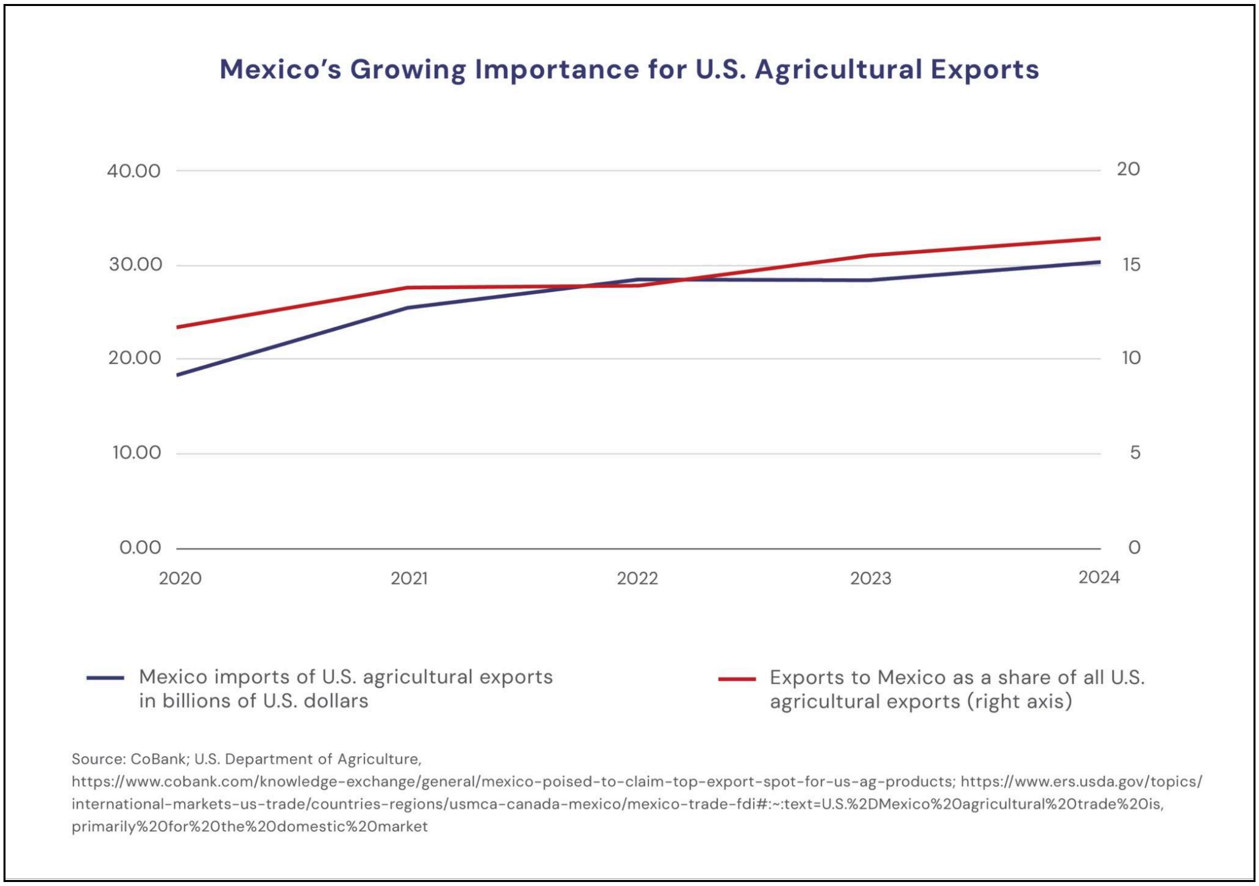

Figure 7

[20] "Agricultural Trade," Economic Research Service, U.S. Department of Agriculture, April 1, 2025, https://www.ers.usda.gov/data-products/ag-and-food-statistics-charting-the-essentials/agricultural-trade#:~:text=US%20agricultural%20export%20values%2C%20not,of%20US%20agricultural%20export%20valu.

[21] Rob Fox, "Mexico Poised to Claim Top Spot for U.S. Ag Products," CoBank, May 1, 2025, https://www.cobank.com/knowledge-exchange/general/mexico-poised-to-claim-top-export-spot-for-us-ag-products.

Before NAFTA led to a significant increase in Mexico's exports of manufactured goods, oil was the country's major export. However, state-run companies dominate both the petroleum and electricity sectors, and their inefficiencies have led to declining oil production and energy bottlenecks that have held back growth and investment. A reform attempt in 2013 under the center-right Industrial Revolutionary Party, or PRI, led to constitutional amendments that permitted greater participation by international investors in both sectors.

However, this effort did not get very far before Andrés-Manuel López Obrador — known universally as AMLO — won the 2018 presidential election and restored policies based on a deeply rooted strain of energy nationalism in Mexico. His desire to keep Mexico's state-run oil and electricity companies — PEMEX and CFE, respectively — at the commanding heights of the economy led to Biden administration complaints that Mexico was ignoring its USMCA obligations by sheer regulatory obstructionism, to little avail.[22] And just before leaving office, AMLO pushed through constitutional changes that once again formalized a central role for PEMEX and CFE in the energy sector.[23] These changes could hamstring Mexico's economy and limit a large area of mutually beneficial cooperation with the U.S.

The trade in energy products across the Rio Grande River has deepened considerably following the shale revolution in the United States. The U.S. continues to import certain grades of crude oil from Mexico but exports refined petroleum products to that country. In addition, Mexico is a big importer of U.S. natural gas — it relies on the U.S. for 70 percent of its supply of a fuel critical for its electrical power plants.[24]

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[22] Yuka Hayashi, "U.S. Initiates Trade Fight With Mexico Over Energy Policy," *Wall Street Journal,* July 22, 2022, https://www.wsj.com/politics/u-s-initiates-trade-fight-with-mexico-over-energy-policy-11658322032.

[23] Adam Williams, "Mexico Energy Industry Transformed by Constitutional Reforms," Wilson Center Mexico Institute, Jan. 3, 2025, https://www.wilsoncenter.org/article/mexico-energy-industry-transformed-constitutional-reforms.

[24] Duncan Wood, "Why U.S.–Mexico Energy Interdependence Must Be Strengthened," *The Hill,* May 28, 2025, https://thehill.com/opinion/energy-environment/5320383-us-mexico-energy-interdependence/.

Despite increasing cross-border trade and the deepening integration of its manufacturing sector with that of the U.S., Mexico's economy and society continue to face difficulties. There are wide gaps in income between regions, and there has been relatively little diffusion of technological or managerial knowhow from the U.S.–facing export sector into other portions of the economy. An OECD study cited by the Brookings Institution found that education levels are significantly lower than in the U.S. or Canada, with 60 percent of the population between the ages of 25 to 64 having attained only a secondary education.[25]

These social and economic issues have fueled migratory pressures from the country's poorer regions. They have also interacted with low state capacity, particularly at the level of subnational governments, fueling the rise of violent organized crime syndicates engaged in narcotics and human trafficking, creating a persistent challenge in the bilateral relationship.

Shifts in U.S. policy

In his first term in office, President Trump launched a successful renegotiation of NAFTA to replace it with USMCA, a treaty that contained substantial modifications in favor of the U.S. Even so, the trade relationship has been characterized by a high degree of uncertainty since President Trump took office again. There have been repeated instances of tariffs being threatened, levied, lifted, and levied again.[26] In addition, the tariffs have been imposed under different rationales with economy-wide or sectoral implications, depending on the tools used to impose them.

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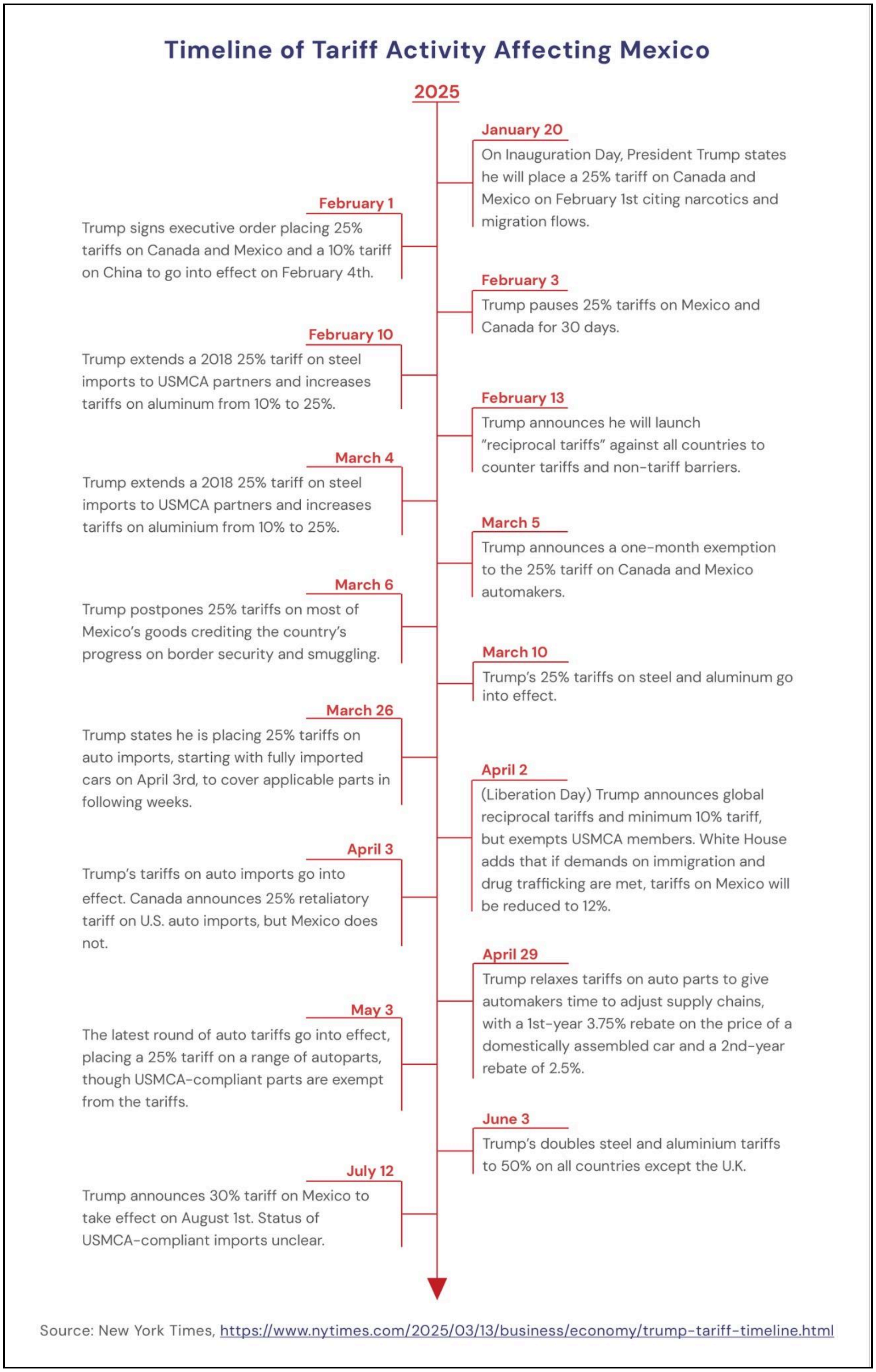
[25] Sylvia B. Ortega Salazar, "Preparing Mexican Youth to Harness Job Opportunities in North American Higher Technology Supply Chains," in *USMCA Forward* (Washington, D.C.: Brookings Institution, 2023), Graph 10, https://www.brookings.edu/articles/usmca-forward-2023-chapter-3-human-capital/.
[26] Talya Minsberg, "A Timeline of Trump's On-Again, Off-Again Tariffs," *New York Times*, updated July 14, 2025, https://www.nytimes.com/2025/03/13/business/economy/trump-tariff-timeline.html.



Timeline of Tariff Activity Affecting Mexico
2025
January 20
On Inauguration Day, President Trump states he will place a 25% tariff on Canada and Mexico on February 1st citing narcotics and migration flows.
February 1
Trump signs executive order placing 25% tariffs on Canada and Mexico and a 10% tariff on China to go into effect on February 4th.
February 3
Trump pauses 25% tariffs on Mexico and Canada for 30 days.
February 10
Trump extends a 2018 25% tariff on steel imports to USMCA partners and increases tariffs on aluminum from 10% to 25%.
February 13
Trump announces he will launch "reciprocal tariffs" against all countries to counter tariffs and non-tariff barriers.
March 4
Trump extends a 2018 25% tariff on steel imports to USMCA partners and increases tariffs on aluminium from 10% to 25%.
March 5
Trump announces a one-month exemption to the 25% tariff on Canada and Mexico automakers.
March 6
Trump postpones 25% tariffs on most of Mexico's goods crediting the country's progress on border security and smuggling.
March 10
Trump's 25% tariffs on steel and aluminum go into effect.
March 26
Trump states he is placing 25% tariffs on auto imports, starting with fully imported cars on April 3rd, to cover applicable parts in following weeks.
April 2
(Liberation Day) Trump announces global reciprocal tariffs and minimum 10% tariff, but exempts USMCA members. White House adds that if demands on immigration and drug trafficking are met, tariffs on Mexico will be reduced to 12%.
April 3
Trump's tariffs on auto imports go into effect. Canada announces 25% retaliatory tariff on U.S. auto imports, but Mexico does not.
April 29
Trump relaxes tariffs on auto parts to give automakers time to adjust supply chains, with a 1st-year 3.75% rebate on the price of a domestically assembled car and a 2nd-year rebate of 2.5%.
May 3
The latest round of auto tariffs go into effect, placing a 25% tariff on a range of autoparts, though USMCA-compliant parts are exempt from the tariffs.
June 3
Trump's doubles steel and aluminium tariffs to 50% on all countries except the U.K.
July 12
Trump announces 30% tariff on Mexico to take effect on August 1st. Status of USMCA-compliant imports unclear.
Source: New York Times, https://www.nytimes.com/2025/03/13/business/economy/trump-tariff-timeline.html

Figure 8

As shown in the timeline above, in the case of Mexico, the U.S. threatened 25 percent tariffs on the country on Feb. 1, citing the issues of fentanyl and migration; paused the tariffs for 30 days on Feb. 3; reimposed them on March 4; lifted the tariffs on automobile imports on March 5; and suspended many other tariffs on the country on March 6. Separately, the administration put a 25 percent tariff on steel and aluminum imports from all countries, including Mexico, on Feb. 10 (and doubled these on June 3). However, Mexico did not face any additional tariffs on April 2, when the administration unveiled its broad “retaliatory tariffs” ranging from 10 to 50 percent against all countries. Although the White House soon suspended the “reciprocal tariff” plan against all countries (except China) for another 90 days, the exclusion of Mexico and Canada from the initial scheme suggests some recognition of the importance of USMCA.

However, Mexico was hit on March 26 (alongside all other countries) with 25 percent import tariffs on the non–U.S. content of automobiles. On April 29, the auto tariffs were eased partially with an announcement that tariffs would not be “stacked” (i.e., fentanyl and other tariffs would not be additive to the auto tariffs).[27] In addition, auto parts sourced within USMCA were also exempted from the tariff, but only partially and temporarily. On July 12, after the 90-day suspension of the initial “retaliatory tariffs,” Mexico was hit with 30 percent tariffs, the same as the European Union, but lower than Canada’s 35 percent tariff. While the announcement did not specify this, a White House official reportedly stated that goods that trade under USMCA would likely be exempt.[28]

Despite the relatively easier treatment of Mexico, the tariffs on all the non–U.S. content of USMCA–compliant automobiles imported from Mexico and the scheduled expiry of the tariff reimbursement for auto parts are formally at odds with the treaty. Thus, the moves seem designed to force a repatriation of large portions of auto parts

[27] Ana Swanson and Jack Ewing, “Trump Grants Carmaker Some Relief from His Punishing Tariffs,” *New York Times,* April 29, 2025, https://www.nytimes.com/2025/04/29/us/politics/trump-auto-tariffs-executive-order.html.
[28] Alan Rappeport, “After Months of Negotiations, Trump Imposes More Tariffs on Mexico,” *New York Times,* July 12, 2025, https://www.nytimes.com/2025/07/12/business/trump-tariffs-mexico.html.

manufacturing back into the U.S. Indeed, the relevant executive order says that the goal is to "more effectively eliminate the national security threat … create jobs in the automotive industry that increase the number of employees in the domestic automotive industry … and ensure that benefits of production are concentrated in the United States." [29]

All this is happening against the backdrop of — and contrary to — a legally binding treaty that still exists. However, the USMCA is subject to a review that needs to be concluded by July 1, 2026. Although the review is not supposed to be a full-scale renegotiation, it will likely function as one. And it is unclear if the administration wishes to continue with the agreement. President Trump has said of USMCA: "This was a transitional deal. I don't know that it's necessary anymore," and Commerce Secretary Howard Lutnick has said that he expects a "real revisiting of USMCA."[30]

The treaty does contain a provision allowing a party to provide six months' notice of a desire to withdraw, but it is more likely that the White House will use the review to push Mexico and Canada for even more concessions.[31] Formally, if one of the parties does not commit to a 16-year extension of USMCA by July 1, 2026, the treaty does not lapse automatically, but rather envisages further annual reviews until 2036 (16 years from its launch in 2020). In practice, the economic outcome of a "zombie treaty" could well resemble an abrogation, especially since current practice already includes tariffs that are contrary to the agreement.

However, in congressional testimony, U.S. Trade Representative Jamieson Greer has suggested that the administration does see a role for continuing with USMCA. He stated

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[29] "Amendments to Adjusting Imports of Automobiles and Automobile Parts into the United States," The White House, April 29, 2025, https://www.whitehouse.gov/presidential-actions/2025/04/amendments-to-adjusting-imports-of-automobiles-and-automobile-parts-into-the-united-states.
[30] Brett Samuels, "5 Takeaways from Trump's Meeting with Canada's Mark Carney," *The Hill* via Yahoo News, May 6, 2025, https://www.yahoo.com/news/5-takeaways-trump-meeting-canada-173628365.html.
[31] "USMCA Text, Final Provisions," Office of the U.S. Trade Representative, Article 34.7, https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/34_Final_Provisions.pdf.

that “the agreement must also be effective in strengthening regional supply chains, and preventing free riding from third countries, especially China,” strongly hinting that tighter rules of origin were going to be an issue.[32] He also cited the importance of securing and potentially expanding market access granted by USMCA for U.S. corn and energy — goals in conformity with those of influential U.S. interests.

Thus, the administration seems to be pursuing different goals at the same time. The message from the auto tariffs suggests an intent to force a move back into the U.S. of large portions of the industrial capacity that migrated to Mexico. But the administration also seems to view deeper cross-border supply-chain integration with Mexico as beneficial to U.S. security and corporate economics, provided this is combined with efforts to keep China from using the country as a low-tariff beachhead to access U.S. markets. Finally, it also wants Mexico to live up to its market-opening commitments under USMCA.

The administration’s rapid-fire actions and statements thus may in part reflect that it has not yet decided how to reconcile these goals and in what order to prioritize them. But while these multiple goals contribute to perceptions of policy uncertainty, they also hint at the possibility of arriving at compromise solutions that could elicit Mexican responses consistent with U.S. national interests.

The Mexican response

Since the beginning of the year, Mexico has given repeated signs that it views the relationship as vital, even under a government that might seem ideologically very distant from the U.S.

[32] United States Senate Committee on Finance, *Hearing to Consider the Anticipated Nomination of Jamieson Greer, of Maryland, to be United States Trade Representative,* Feb. 6, 2025, 18, https://www.finance.senate.gov/imo/media/doc/responses_to_questions_for_the_record_to_jamieson_greer.pdf.

President Claudia Sheinbaum, who was elected in 2024 with an overwhelming majority, is a member of the left-wing Morena Party. Her predecessor AMLO was the founder of the party and espoused a prickly nationalist populism. For all their ideological differences, in his first term, Trump had a good working relationship with AMLO and once tweeted about his counterpart that he was "a man who I like and respect, and who has worked so well with us."[33]

Political observers believed such a relationship would be hard for Sheinbaum to replicate given her history (she participated in protests in the 1970s with her left-wing European émigré intellectual parents), and her professional background in energy engineering, with a focus in recent years on climate issues.[34] Nevertheless, even while maintaining a steely insistence on Mexico's sovereignty, she has deftly managed the relationship through rough patches — and she has done so with approval ratings hovering around 75 percent, an enviable level when compared to peers in other countries.[35]

Days before Trump's threat to impose a 25 percent tariff on Canada and Mexico for failing to control flows of narcotics and migrants was to take effect, Sheinbaum transferred 29 major cartel leaders jailed in her country to the custody of the U.S. The decision did not allay the tariff threat immediately, but won Sheinbaum goodwill in U.S. antinarcotics circles, with a former Drug Enforcement Agency operations head observing, "This shows President Sheinbaum's willingness to work with us to target and dismantle the criminal organizations that have impacted the United States and Mexico for generations."[36] Sheinbaum has signaled in other ways that she is sensitive to

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[33] Donald Trump (@realDonaldTrump), "All necessary work has been completed to declare Mexican Cartels terrorist organizations," X, Dec. 6, 2019, https://x.com/realDonaldTrump/status/1203096598462504961?s=20.
[34] Stephania Taladrid, "The Mexican President Who's Facing Off with Trump," *New Yorker,* April 21, 2025, https://www.newyorker.com/magazine/2025/04/28/claudia-sheinbaum-profile.
[35] Chase Harrison, "Approval Tracker: Mexico's President Claudia Sheinbaum," Americas Society/Council of the Americas, updated July 1, 2025, https://www.as-coa.org/articles/approval-tracker-mexicos-president-claudia-sheinbaum.
[36] Alan Feuer, "Mexico Transfers Dozens of Cartel Operatives to U.S. Custody," *New York Times,* Feb. 27, 2025, https://www.nytimes.com/2025/02/27/us/politics/mexico-cartel-sheinbaum-trump.html.

administration concerns about violence and organized crime. She is taking a more hardline approach to the issue than that suggested by AMLO's "hugs, not bullets" approach, appointing a trusted collaborator who presided over a sharp drop in crime when she was mayor of Mexico City to head a key civilian anticrime force.[37] She has moved to defuse a domestic controversy by acknowledging that her government had requested U.S. drone surveillance flights.[38] These actions have closed some of the gaps with the United States on the issue. However, tensions have not completely abated, as suggested by recent reports of White House anger that she had rebuffed U.S. pressure to accept the deployment of U.S. troops on Mexican soil.[39]

Such efforts to square U.S. demands with Mexican sovereignty have also been evident in other contested economic areas. Uniquely among the U.S.'s major trading partners, Mexico has not imposed retaliatory tariffs unlike Canada, China, and the E.U.[40] And in a recent interview, Economy Minister Marcelo Ebrard took the tariffs in stride, maintaining that what mattered was not so much the tariffs on Mexican exports, but rather the country's relative position as long as tariffs on other countries were even higher.[41]

President Sheinbaum has complied with a USMCA panel decision in a dispute and agreed to allow imports of genetically modified organism, or GMO, corn in products. At the same time, she has also overseen the passage of a constitutional amendment that

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[37] David Mora, "Mexico Struggles for Security Under White House Duress," International Crisis Group, April 29, 2025, https://www.crisisgroup.org/latin-america-caribbean/central-america/mexico-united-states/mexico-struggles-security-under-white-house-duress.
[38] "Mexico President Says Her Government Requested U.S. Surveillance Drone Flights," Associated Press, Feb. 19, 2025, https://apnews.com/article/mexico-us-trump-drones-cia-13af9277fbbbf6ff4dfd470efc9cb647.
[39] "Mexico's President Says She Rejected Trump's Plans to Send Troops Across the Border," Associated Press, May 3, 2025, https://apnews.com/article/mexico-trump-sheinbaum-us-migration-5223b4afa52a7da1011cff86aaa41e86.
[40] Christoper Shim and Will Merrow, "Here's How Countries Are Retaliating Against Trump's Tariffs," Council on Foreign Relations, March 21, 2025, https://www.cfr.org/article/heres-how-countries-are-retaliating-against-trumps-tariffs.
[41] Dora Villaneuva and Robert Gonzalez Amador, "El Fobaproa será un lastre per lo menos hasta 2057," *La Jornada,* May 12, 2025, https://www.jornada.com.mx/2025/05/12/economia/019e1eco.

prevents the planting of GMO corn seeds in Mexico, which suggests a willingness and ability to triangulate seemingly irreconcilable demands between domestic politics and foreign policy.[42]

On energy, another bone of contention, Sheinbaum is trying to soften the nationalist edge of AMLO–era policies that rolled back a 2013 reform attempt and made the economics of private sector involvement in the power sector more challenging. Her modifications keep the Federal Electricity Commission's monopoly on transmission, but allow the private sector to account for up to 46 percent of generation. Questions will still likely remain about whether private sector generators' access to the grid will be predictable and remunerative, and, especially, on whether points of contention will be heard by impartial regulatory and judicial bodies (another area that saw rollback by AMLO).[43]

In another sign of how important Sheinbaum believes USMCA to be, she has already hinted at a willingness to align some external tariffs with the U.S., particularly those on China.[44] This could help alleviate U.S. worries that China is using Mexico as an assembly location to make an end run around U.S. tariffs. At the same time, concerns within Mexico that such a step could cut that country off from electrical vehicle technologies, where China is in the lead and U.S. interest appears to be flagging, could be assuaged by allowing Chinese inbound investment far south of current automotive

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[42] Kate Linthicum, "Don't Mess with Mexico's Maíz: Constitutional Amendment to Ban GMO Corn Seeds," *Los Angeles Times,* March 13, 2023, https://www.latimes.com/world-nation/story/2025-03-13/mexico-bans-planting-of-gmo-american-corn.

[43] David L. Goldwyn and César Emiliano Hernández Ochoa, "Mexico's New Electricity Law Could Boost the Country's Energy Sector. But Big Questions Remain," *New Atlanticist,* March 21, 2025, https://www.atlanticcouncil.org/blogs/new-atlanticist/mexicos-new-electricity-law-could-boost-the-countrys-energy-sector/.

[44] Josh Xiao, "Mexico to Weigh Tariffs on China in Potential Win for Trump," Bloomberg*,* March 6, 2025, https://www.bloomberg.com/news/articles/2025-03-07/mexico-to-review-china-tariffs-in-potential-win-for-trump.

clusters in Mexico and walling it off from U.S. markets through USMCA Rules of Origin. [45]

Argument: The costs of misunderstanding the U.S.–Mexico economic relationship

Although concerns about flows of narcotics and migration have been serious challenges in U.S.–Mexico relations, the economic relationship has also been jeopardized by the administration's singular focus on bilateral trade balances and a view that countries running surpluses are taking advantage of the U.S. Whatever the merits of this argument in general, they may be particularly inapplicable in the case of Mexico.

Economists typically prefer to view persistent trade surpluses and deficits in more global terms, rather than strictly bilateral ones, particularly when it comes to diagnosing economic practices that have deleterious effects on other countries. And here, a focus on the bilateral trade surplus overlooks that Mexico has mostly been running small aggregate trade deficits for almost three decades now. There is no evidence of systematic suppression of domestic consumption in order to build trade surpluses as often alleged about China. Similarly, there have been no complaints of intellectual property theft, forced technology transfer, or other practices the U.S. deplores.

But beyond this, the discussion of large bilateral trade deficits specifically overstates putative losses to the U.S. Precisely because cross-border supply chains reflect multiple movements of the same product across borders, the headline value of Mexican exports to the U.S. understates the actual value-added by U.S. workers and processes during production.

[45] As Arturo Sarukhán, former Mexican ambassador to the U.S., suggested in an interview with the author in June 2025.

A 2023 OECD study looks at Mexico's foreign value-added levels in exports across industries and finds that they are about 50 percent in motor vehicles and parts.[46] However, there are significant differences across both industries in terms of the amount of U.S.–sourced inputs embedded in Mexican exports back to the U.S. The U.S. itself accounted for about 74 percent of all the foreign content in Mexican auto exports to the U.S., yet another indication of deep supply-chain integration.[47]

The OECD has also found that roughly 70 percent of all content in Mexican electronics exports reflects foreign value-added.[48] Meanwhile, in Mexican exports to the U.S., only 15 percent of the foreign value-added in this sector is from the U.S., with 43 percent coming from China, and 40 percent from other Asian countries.[49] This strongly suggests that in the sectors of consumer electronics and information technology, Mexico is being used as a final assembly point by firms that are not based within the region. As concerns about the linkages between security and economics increase in the U.S., an extension of some version of rules of origin to advanced industries beyond the automotive sector could become a point of agreement between the U.S. and Mexico.[50]

Along these lines, Mexico has recently proposed that USMCA include a chapter on semiconductors,[51] even as the administration has recently launched a Section 232 investigation into whether excessive reliance on imports presents a threat to U.S. national security. Mexico would welcome additional inbound upstream investment in the sector, and the U.S. could prefer a larger portion of such content being "nearshored" rather than wholly repatriated within the borders of the U.S. in cases where it makes

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[46] "ICO/TIVA Highlights: GVC indicators for Mexico," OECD, November 2023, 2, https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/trade-in-value-added/tiva-2023-MEX.pdf.
[47] Alonso de Gortari, "Disentangling Global Value Chains," National Bureau of Economic Research, May 2019, 13, https://www.nber.org/system/files/working_papers/w25868/w25868.pdf.
[48] "ICO/TIVA Highlights," 2.
[49] De Gortari, "Disentangling," 13.
[50] Sarukhan interview.
[51] Diego Valverde, "Mexico Seeks USMCA Semiconductor Policy Upgrade," *Mexico Business News*, May 22, 2025, https://mexicobusiness.news/cloudanddata/news/mexico-seeks-usmca-semiconductor-policy-upgrade-ai-week.

economic sense. If the complete restoration of wholly U.S. supply chains proves economically infeasible, Mexico shares a land border with the United States and is less likely to be affected by geopolitical or other disruptions to long-range seaborne trade.

Further, unlike other countries in South or Southeast Asia, Mexico is already embedded in the USMCA's institutional mechanisms, giving the U.S. a forum to address issues of concern. It has long-standing investor-state dispute resolution mechanisms and complex rules of origin in the automotive sector that can not only determine the extent of content from outside the area, but even ensure a minimum level of participation for higher-paid workers. In other words, when it comes to influencing the behavior of trading partners with existing tools, there is no country more amenable than Mexico.

The United States also has another tool unavailable in other countries in the RRM — an ability to monitor labor standards at the facility level and bar firms that fall short from receiving USMCA trade benefits until shortfalls are remedied. These tools have helped raise Mexican workers' wages substantially in some instances, which helps ease the anxiety of U.S. workers.[52]

At the same time, the automobile industry — which is at the center of the storm — is now sufficiently integrated across supply chains that unbundling it could carry substantial costs over the short term in the form of supply chain interruptions. Some effects are already being felt in the form of both price increases[53] and profit warnings by major U.S. auto manufacturers.[54] The United Auto Workers union, or UAW, has recognized this possibility, stating that "auto companies that have enjoyed years of

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[52] Natascha Elena Uhlmann, "Unmoved by Tariff Threats, Mexican GM Workers Win a Double-Digit Wage Hike," *Labor Notes,* April 17, 2025, https://labornotes.org/2025/04/unmoved-tariff-threats-mexican-gm-workers-win-double-digit-wage-hike.
[53] Nora Eckert, "Ford Raising Prices on Mexico–Produced Models Maverick and Mach-E, Citing Tariffs," *USA Today,* May 7, 2025, https://www.usatoday.com/story/money/cars/ford/2025/05/07/ford-price-increase-mexico-tariffs-mustang-mach-e-maverick-bronco-sport/83492756007/.
[54] Kalea Hall, "GM Cuts 2025 Profit Forecast, Expects up to $5 Billion Tariff Impact," Reuters, May 1, 2025, https://www.reuters.com/business/autos-transportation/gm-forecasts-2025-core-profit-including-tariff-hit-2025-05-01/.

record profits should absorb the cost of these tariffs rather than passing them on to consumers."[55]

Persistent uncertainty on the future of the U.S.–Mexico relationship has had other negative outcomes. For example, the automaker Stellantis had to announce furloughs at five U.S. plants, citing potential interruptions in the supply of critical auto parts manufactured in Canada and Mexico.[56] This possibility too was acknowledged by the UAW, which has asked that "workers must be held harmless during any disruption that accompanies the reshoring process, with financial support from the federal government if necessary."[57]

Uncertainty about tariffs and broader U.S. economic goals has also led firms to defer investment and make alternative plans for supply chains, thus depressing both activity and confidence. Signs of heightened uncertainty have become clearly visible in surveys of consumer confidence, and particularly in surveys of businesses. A recent example can be seen in the comments section of the most recent survey by the Institute for Supply Management.[58]

But beyond the impact on the U.S. economy, uncertainty about the relationship (and worse yet, a complete unwinding) could have significant negative consequences in Mexico. Deep supply-chain integration with the U.S. has allowed the Mexican economy to diversify its economic structures away from the pattern of commodity-dominated exports that characterizes much of the rest of Latin America. Over the last 30 years, this

[55] "In a Victory for Autoworkers, Auto Tariffs Mark the Beginning of the End of NAFTA and the 'Free Trade' Disaster," United Auto Workers, March 26, 2025, https://uaw.org/tariffs-mark-beginning-of-victory-for-autoworkers/.
[56] Kalea Hall, David Shepardson, and Nora Eckert, "Stellantis to Temporarily Lay Off 900 Workers as Tariffs Bite," Reuters, April 4, 2025, https://www.reuters.com/business/autos-transportation/stellantis-says-will-temporarily-lay-off-900-us-workers-following-tariff-2025-04-03/.
[57] "Victory for Autoworkers," United Auto Workers.
[58] "June 2025 ISM Report On Business," Institute for Supply Management, June 2025, https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/pmi/june.

development has also helped the country escape the serial balance of payments crises that befell it in the 1980s and have continued to hit many countries in South America.

Exports to USMCA partners account for over 5 million jobs in Mexico, roughly 1 in every 4 jobs in the private sector. Within this, 3 million jobs involve vehicles, transportation equipment, and machinery — all part of the deeply integrated supply chains described above.[59] The economic impact of a rupture of the relationship would be bad for the U.S., but could be devastating for Mexico. And, as a substantial portion of the export industry is located close to the U.S., estimates suggest that roughly 1 million of these jobs (or 50 percent of all formal jobs in the area) are in the border cities from Tijuana to Nuevo Laredo. Increased joblessness in these border towns could provide more recruits and motivation for crime and violence, making it a direct U.S. security concern.[60]

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[59] Luz María de la Mora, "USMCA and Nearshoring: The Triggers of Trade and Investment Dynamics in North America," in *USMCA Forward,* Chapter 1, Table 3, https://www.brookings.edu/articles/usmca-and-nearshoring-the-triggers-of-trade-and-investment-dynamics-in-north-america/.

[60] Julian Resendiz, "Border Economy Increasingly Dependent on Maquiladoras," *Border Report,* March 4, 2023, https://www.borderreport.com/news/trade/border-economy-increasingly-dependent-on-maquiladoras/.

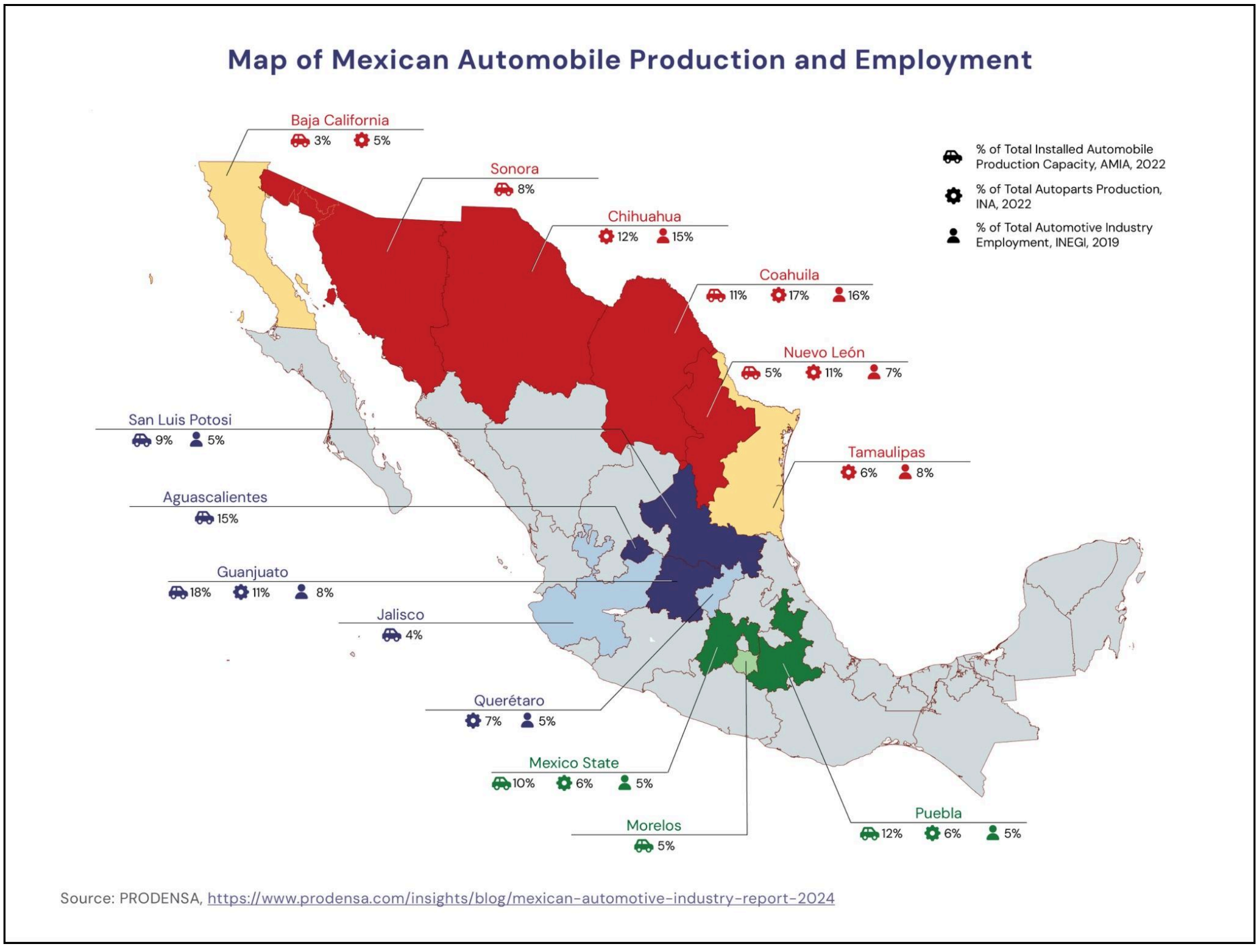

Figure 9

The way ahead: Some recommendations

The United States faces choices around four key objectives: restoring manufacturing jobs within the United States; building geographically resilient supply chains; gaining economic policy concessions from Mexico; and enhancing political stability in a neighbor critical to U.S. security. Ideally, it would treat these goals as equally important, and use current opportunities and frameworks to achieve all of them. To do so, the U.S. should consider the following steps.

Recognize President Sheinbaum's popularity and openness to compromise as an opportunity to deepen the economic relationship rather than sever it.

- Mexico has serious economic needs that the U.S. is better-placed to fulfill than any other country. President Sheinbaum's immense personal popularity, her seeming willingness to accommodate various U.S. concerns, and her good relationship with President Trump (at least thus far) suggest there is space for maneuver.[61]

Use the unique legal and institutional features of USMCA to advance the interests of both countries.

- USMCA includes tools to address U.S. labor and security concerns and find areas where U.S. and Mexican interests coincide. Higher tariffs for non–USMCA content and stricter rules of origin would ensure that a larger portion of automotive output sold in the U.S. is manufactured inside the free-trade area. Ratcheting up the fraction of automotive content subject to a higher minimum wage and adding a minimum wage for Mexican auto workers could improve labor standards in both countries. Extending these rules to information technology would respond to security concerns and help boost manufacturing in Mexico.

Use diplomacy and USMCA mechanisms to leverage U.S. energy expertise and deepen U.S. investment in a sector critical for Mexico's growth.

- Energy has been a contentious issue, with the U.S. arguing — correctly — that Mexico has stepped away from commitments to liberalize the sector despite problems with both electricity supply and oil production. The United States has technology and companies willing to move into these industries, all in a sector close to President Trump's heart. And given Sheinbaum's own background as a climate scientist, there might be scope for U.S. investment in renewable energy

[61] Natalie Kitroeff, "'You're Tough': How Mexico's President Won Trump's Praise," *New York Times*, March 14, 2025, https://www.nytimes.com/2025/03/14/world/americas/sheinbaum-trump-mexico-tariffs.html.

ventures in Mexico.[62] U.S. powers of persuasion during the review could be used to push for positive-sum outcomes in these sectors.

Encourage deeper U.S. investment and engagement in sectors of the Mexican economy other than manufacturing.

- The U.S. could work with Mexico to find investment opportunities in nontradeable sectors such as entertainment, retail, financial services, tourism, and healthcare. Education is key here, and Mexico lags most of the OECD. While the U.S. climate seems to have turned against foreign aid to support social spending, there is a strong national security case for engaging selectively with its southern neighbor on this front.

Recognize that economic outcomes in Mexico have security implications for the U.S. and tailor its diplomatic strategy accordingly.

- There is increasing bipartisan agreement in Washington that economics and security are intertwined. Deepening the U.S.–Mexico relationship could create more secure and robust supply chains if USMCA were used to enhance industrial, communications, energy, and food security in North America. Positive economic spillovers from such an outcome could also enhance cooperation on bilateral security concerns. This should be preferred to choices that sever that relationship — or allow it to atrophy — potentially creating economic dislocations in Mexico that might exacerbate the U.S.'s security challenges.

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[62] While the national political climate in the U.S. might have become less favorable to renewables, some of the leading projects and industries in the sector are based in Mexico's largest trading partner, Texas. See J. David Goodman, "America's Oil Country Increasingly Runs on Renewables," *New York Times,* Sept. 18, 2024, https://www.nytimes.com/2024/09/18/us/texas-grid-renewables-battery-storage-solar.html.

Conclusion

The U.S. has spent more than three decades deepening its engagement with Mexico in its effort to create an integrated regional economy in North America. This integration has been governed by institutional mechanisms — first in NAFTA and then in USMCA — that include unique tools to force change in policies of concern to the U.S. The future of economic engagement is now in doubt as the administration sends mixed messages about whether it wants to abrogate such engagement completely, modify it selectively in favor of the United States, or deepen it to exclude the U.S.'s economic competitors from its immediate neighborhood.

These choices could come to a head soon, as the parties to USMCA launch a scheduled review of the agreement — one that is likely to take the form of a renegotiation. The review will take place against a backdrop of U.S. working-class concerns about globalization, worries about strengthening and securing U.S. supply chains, and talk of recalibrating the global footprint of the U.S. These are not easy issues to navigate, but they are almost certainly more navigable with USMCA than without it. The mechanisms embedded within the treaty allow the U.S. to achieve its multiple goals, provided it does so in the spirit of seeking positive-sum outcomes across all its goals over different time horizons — reindustrialization, market-opening in Mexico, supply-chain security, and stabilizing the bilateral relationship. Administration strategy would ideally move in this direction, thus potentially achieving all its goals.

A stronger Mexican economy that is wealthier, more diversified, more educated, and affords lawful opportunities for advancement to people beyond involvement in (relatively) low-wage occupations centered on exports to the U.S. will benefit citizens on both sides of the border. It would also lead to a significant improvement in the security environment in the U.S.'s immediate neighborhood and could possibly serve as a model for regions farther south in the Western Hemisphere. And greater U.S. investments in certain Mexican sectors will aid U.S. jobs and companies.

About the author

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