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Deep Trade and Manufacturing Integration Align Interests

The United States' and Mexican economies are tightly linked together. The relationship is large, with about a half-trillion dollars in bilateral trade annually, making Mexico the United States' second largest trading partner and the United States by far Mexico's largest. While China has regained its position as the largest trading partner of the United States, the United States and Mexico share depth of economic integration that makes the relationship quite distinct.

The United States and Mexico do not simply trade products, they build them together. Parts and materials whiz back and forth across the border as products are made. Barley grown in the northwest United States, for example, is shipped to Mexico, where it is brewed into beer, bottled, and shipped to consumers on both sides of the border. The auto industry is the most iconic example. The thousands of parts that come together to make a car in North America come (predominately) from across the continent, are built up into larger components like brake systems and transmissions, and then shipped to a plant for final assembly. This process routinely involves several shipments crossing the U.S.-Mexico and U.S.-Canada borders in a process designed to maximize the competitive advantages of each economy and to achieve a scale that makes the industry globally competitive. Today, about half of U.S.-Mexico trade is trade in inputs that fuel production on the other side of the border.

This deep productive integration binds the U.S. and Mexican economies in both the short and long term. The two economies have become synchronized, and tend to experience periods of growth and recession together. At a deeper level, their competitiveness is also linked. When one country undertakes an effort to improve its productivity, this translates into better priced inputs for the other, sharing the benefit. Problems, too, are often shared. Barriers to trade, whether in the form of tariffs or simply long wait-times for trucks to get through congested border crossings, have a magnified negative impact on the regional economy, since the production of a single car or beer can involve multiple border crossings.

In short, the U.S. and Mexican economies are so deeply connected that they tend to thrive or suffer together. It is therefore in the interest of both countries to work hard and together to promote the economic success of the entire region.

New Challenge, New Opportunity: A Focus on Inclusive Growth

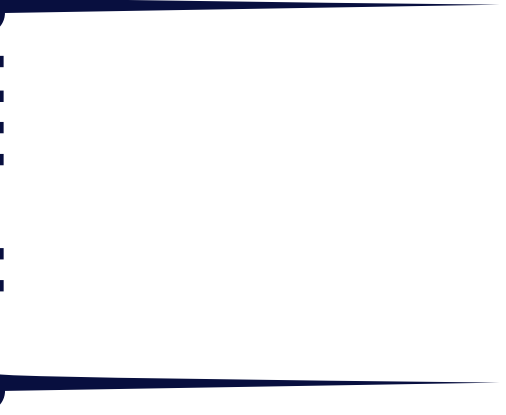
With the election of President Joe Biden in the United States begins a new chapter in bilateral relations. It may be tempting to some to simply attempt to reconstruct the pre-2016 U.S.-Mexico economic agenda, and there are certainly many components of that agenda that should be recovered, but it would be a mistake to simply ignore the last four years. Instead, a forward looking agenda must be built that learns from past mistakes and responds to the needs of a region in economic distress as a result of COVID-19, fast-paced technological advance, and challenges related to structural inequality. Since the modern era of U.S.-Mexico economic relations began with NAFTA in the 1990s, the agenda has broadened and deepened, beginning with a narrow focus on trade and investment before expanding to become a broader competitiveness agenda that included issues like transportation infrastructure, energy integration, and educational exchange. Now, the regional economic agenda must once again expand to prioritize not only trade, investment, and competitiveness, but also inclusive growth.

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The arrival of the Biden administration at a time when both countries face pandemic-induced recessions and after the ratification of the USMCA creates both a need and opportunity for a major update to the U.S.-Mexico economic agenda. This is not an opportunity to return to the old agenda but rat d

The USMCA should instead be a structure for coo

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Endnotes

[1] I would like to thank the members of the UCSD U.S.-Mexico Forum 2025 working group on economic relations for our excellent dialogue, which contributed greatly to my thinking on this topic.

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[3] Mexico has the 16th highest (most unequal) Gini coefficient and the United States has the 35th highest Gini coefficient among the 110 countries for which data is available. Average values for the 2015-2018 period were calculated by the author using Gini index values as reported by the World Bank.

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