

OPINION

The USMCA Review and the Mexican Economy: Between Renegotiation and Limbo

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1 | Introduction

In the last decade of the twentieth century, the vast majority of economies moved toward opening their markets for goods and services, as well as capital. This opening—together with the curtailment of state intervention in the economic sphere and the prioritization in macroeconomic policy of fiscal prudence and low inflation—were hallmark features of the shift in the prevailing economic paradigm (Williamson 1990; Sachs et al. 2018). The drive toward the liberalization of trade and investment flows, combined with the difficulties encountered in negotiating multilateral trade agreements (Gallagher 2008b), led to a new emphasis on regional and preferential trade agreements within strategies of economic integration.

In this context, the entry into force of the North American Free Trade Agreement (NAFTA) between Mexico, the United States, and Canada in 1994 inaugurated a new stage of globalization geared toward open regionalization, in which groups of geographically proximate economies signed preferential trade deals with each other (Estevadeordal and Suominen 2008; Hufbauer and Schott 2005). It also paved the way for preferential trade agreements with more far-flung trading partners, such as the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)—of which Mexico and Canada are members, but from which Trump withdrew the United States in 2017. Notably, NAFTA also pioneered a new type of preferential trade agreement that imposed US-style standards in numerous nontrade areas, such as intellectual property rights, while also limiting governments' "policy space" in exchange for supposedly guaranteeing access to the US market—thus largely constraining public policy rather than the private sector (Gallagher 2008a; Rodrik 2018).

The growing geopolitical tensions that have marked the present century, together with shortcomings in the international trade architecture—in which China and some of the dynamic economies of Southeast Asia have come to occupy leadership positions in manufactured-goods trade, with persistent trade surpluses alongside sustained and rapid expansion trajectories of their productive capacity—have transformed the global landscape (Autor et al. 2016; Baldwin 2016; Stiglitz 2018). The first Trump administration interpreted this situation, together with the deindustrialization of the United States and an upturn in manufactured exports in Mexico (Blecker 2016, 2019), as a motive for NAFTA to be renegotiated to secure a more privileged position for the United States. After a difficult renegotiation process, it was replaced in 2020 by the United States–Mexico–Canada Agreement (USMCA)¹ (Arnaud 2024a; Blecker 2021; Blecker et al. 2021; Office of the United States Trade Representative 2020; Schott and Cimino-Isaacs 2019).

Trump's return to the presidency in 2025, and his adoption of commercial protectionism as a central instrument of his economic policy (Baldwin 2025) have dealt a heavy blow to the operation and prospects of the USMCA and more generally to Mexico's export-led growth strategy. The abrupt imposition of double-digit tariff rates by the United States, including new tariffs levied (or threatened) on Canada and Mexico, have become major concerns for these countries' governments and business communities. For Mexico, the radical shift in US trade policy compels a rethinking of the country's development agenda, in both the short and long term. This reflection must cover a series of aspects concerning the transformation of the country's productive structure as well as its relationship with the patterns of production linkages and the dynamics of trade and capital flows under various scenarios (BEA 2024; Banco de México 2025c).

On a more positive note, attention should be paid to leveraging the potential—albeit with heterogeneous and uncertain momentum—for *nearshoring* of production from other global regions (especially in Asia) to Mexico and other US neighbors. This strategy, as is well known, was originally stimulated by the earlier US–China trade war in Trump’s first term, the Covid pandemic, the volatility of transportation costs, exchange rate adjustments, and the repercussions of all these factors through the disruption of thousands of global value chains. These factors led firms to reprioritize resilience over pure cost minimization in decisions about the location of plants and suppliers (Berasaluce 2024; Curzio 2024; Fernández and Bravo 2023; IMF 2024a; World Bank 2025). Yet, as will also be discussed below, the Trump administration is instead trying to force the *reshoring* of manufacturing production and jobs to the United States, not to neighbors or regional trading partners.

2 | Background: The Mexican Economy Under NAFTA

NAFTA’s entry into force in 1994 inaugurated a new dynamic in North America’s regional integration, characterized by trade liberalization and the liberalization of investment flows among the 3 participating countries (Blecker 2019, 2021; Burfisher et al. 2019). As Figure 1 shows, with NAFTA already underway in the second half of the 1990s, foreign direct investment (FDI) in Mexico gathered strength (Banco de México 2025c; World Bank 2025). Indeed, the institutional framework guaranteed by NAFTA regarding enhanced protection of property rights, the creation of Investor–State Dispute Settlement (ISDS), the commitment to the free repatriation of profits, and other pro-corporate rules fostered a better business climate and attracted greater FDI inflows into Mexico (Miller 2018; USITC 2019). Meanwhile, the dynamism of FDI lasted only a few years as it has more recently remained stagnant at approximately US\$35 billion, an amount equivalent to between 2.5% and 3% of Mexico’s gross domestic product (GDP). In fact, this share trended downward in the 2014–2024 period, which includes the first 4 years after NAFTA was transformed into USMCA (IMF 2024a; Secretaría de Economía 2024). Even more

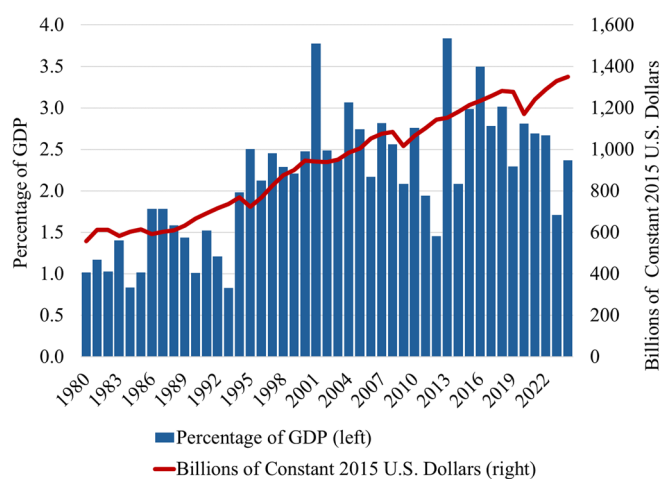


FIGURE 1 | Foreign direct investment in Mexico in constant 2015 US dollars and as a percentage of GDP, 1980–2024. *Source:* Authors’ calculations based on World Bank (2025).

worrisome, FDI in Mexico corresponding to the construction of new plants (greenfield investment) has been far lower in magnitude and even less dynamic in recent years.

With NAFTA, the gross value of Mexico’s exports grew rapidly and changed in composition, moving away from the earlier concentration (in the late 1970s and early 1980s) in petroleum. Manufacturing, which had represented close to 12% of total exports, came to account for more than 80% of that total (Banco de México 2025a; BEA 2024; Fernández and Bravo 2023).

Contrary to the promise of export-led growth by the administration of Carlos Salinas de Gortari (1988–1994), Mexico’s economy under NAFTA did not manage to escape the trap of slow expansion (Blecker 2016, 2022; Moreno-Brid 2016; Moreno-Brid and Ros 2009). Despite higher FDI and double-digit average annual growth rates of manufacturing exports, the weakening of backward and forward linkages with the rest of the productive apparatus and the muted response of investment translated into average real GDP growth of less than 3% per year in the following decades (IMF 2024b; World Bank 2025). In fact, 2014–2024 average annual growth of real GDP averaged barely over 1% (IMF 2024b). Today, Mexico’s real GDP per capita is below the 2018 level. The lack of dynamism in economic activity has meant insufficient job creation. Thus, despite significant increases in minimum wages and other recent improvements, the national labor market is still characterized by dualism, informality, and precariousness (see employment figures in INEGI 2024).²

There were undoubtedly benefits from the manufacturing export boom and post-NAFTA structural transformation, but they were distributed unequally, both geographically and across sectors, genders, and factors of production (wages and profits and wages of more and less educated workers) (Borraz and López-Córdova 2007; Fernández and Bravo 2023; Hanson 2004; Nicita 2009). The agreement facilitated the expansion of large exporting firms and the relative development of certain regions in the North and center of the country. Yet, the rest of the productive apparatus, and a large part of the country, failed to receive these benefits. Most small and medium-sized enterprises (SMEs), as well as broad areas of southern Mexico, were excluded and fell further behind. For example, domestic agricultural producers, particularly small-scale maize farmers, were severely affected by the sudden and harsh competition from imports at low prices, aided by larger production scales and US subsidies (Polaski 2004). This situation contributed to consolidate a dual pattern in the national economy—a dynamic export sector relatively integrated with the US market, coexisting with the remainder that was largely lagging and excluded from global value chains (Blecker 2016, 2022; Hershberg and Long 2023). Another effect of NAFTA was to deepen the Mexican economy’s dependence on the US market, which has proved very risky for Mexico during Trump’s two administrations in the United States (especially the second).

In other words, although exports became the engine of economic growth, their pulling power over the rest of the country’s productive sectors was limited and insufficient. An important factor in this outcome was that gross fixed capital formation followed a distinctly moderate expansion pattern. Private

consumption, for its part, remained weak, undermined by the highly unequal distribution of income, due in part to the weak enforcement of labor rights in Mexican industries. Thus, the average growth rate of the Mexican economy declined, and its trajectory became more vulnerable to swings in US manufacturing (BEA 2024; Blecker 2022; Fernández and Bravo 2023). Another factor was the lack of backward linkages of export production—based largely on the maquiladora model of assembly operations—to the rest of the domestic Mexican economy (Moreno-Brid et al. 2005; Moreno-Brid and Ros 2009).

After a few years, growing dissatisfaction emerged with the results of the neoliberal model and, accordingly, with the scope of NAFTA. Although NAFTA's potential as a tool for regional integration was unquestionable, it began to be argued that it brought about a transformation of the productive structure that was increasingly unable to place the Mexican economy on a trajectory of robust, sustained, inclusive, and sustainable development (Blecker 2016, 2022; Hershberg and Long 2023; Moreno-Brid 2013).

3 | The Renegotiation of NAFTA and Transition to USMCA

The pressure to renegotiate NAFTA came during President Trump's first administration, starting with his threat to withdraw the United States from the agreement in April 2017. During his 2016 campaign, Trump had called NAFTA “the worst trade deal ever approved” (Severns 2016). The overarching main objective of the United States in the ensuing renegotiation was to reduce the bilateral US trade deficit with Mexico, with the purpose of inducing a “return” of manufacturing jobs to the United States. A related aim was to eliminate supposedly excessive or unfair incentives for FDI in Mexico, such as the strong protections for foreign investment in the original NAFTA, low wages in export industries, and the lax enforcement of Mexico's legally mandated labor rights (Arnaud 2024a; Blecker 2021; Blecker and Ankner 2025; Blecker et al. 2021). A key part of Trump's strategy at that time was to raise uncertainty about the continuation of North America's special trade relations and to sow doubts about the security Mexico offers to foreign investors. The point of this “weaponized uncertainty” (Crowley and Ciuriak 2018) was to use higher perceived risk to lead firms to relocate their manufacturing plants to the United States.

In the process leading to the signing of NAFTA, and to cement a multinational framework of guarantees for foreign investors, Mexico gave up significant policy space (Gallagher 2008a). Indeed, with the aim of consolidating the pro-market reforms inaugurated in the mid-1980s and subsequently extended, additional guarantees were granted to the property rights of foreign investors in exchange for secure and preferential access for Mexican exporters to the US market (Miller 2018). In fact, Mexico's negotiators for the USMCA wanted to continue sacrificing policy space by renewing protections for foreign investors to secure their interest in investing in the country (Arnaud 2024b). US negotiators made certain demands in the initial phases of the renegotiation that would have undermined these protections, precisely because of the first Trump administration's desire to discourage investment in Mexican industries.

For the automotive sector—which is the largest regionally integrated manufacturing sector in North America and one that flourished in Mexico under NAFTA—the Trump administration proposed stricter rules of origin. It asked to make them tougher for overall North American content and to add a requirement of 50 & US content for any product seeking duty-free treatment. For all sectors, it proposed abolishing, or at least drastically weakening, the 3 types of regional dispute-settlement mechanisms—investor–state, state–state, and for trade remedies (disputes over antidumping and countervailing duties) (Arnaud 2024b; Blecker and Ankner 2025; USITC 2019).

The United States' initial proposals in that renegotiation also included a “dollar-for-dollar” parity requirement in government procurement (a proposal aimed mainly at Canada) and the imposition of “voluntary” restraints on Mexican exports linked to the objective of reducing the bilateral trade imbalance. In addition, the Trump administration proposed including a Sunset Clause, under which the agreement would have terminated after 5 years unless it were renegotiated. Such a provision, had it been approved, would have undermined virtually any FDI project in Mexico by making its comparative advantage as a privileged export platform protected by the provisions of the agreement highly uncertain for any duration beyond 5 years (USITC 2019).

These and many other radical demands were designed in their original form to make firms reluctant to invest in Mexico and instead to encourage them to bring jobs back to the United States. Both the Canadian and Mexican negotiators and certain powerful US economic interests resisted the most extreme US demands—which some observers labeled “poison pills” (Arnaud 2024a). The reaction translated into mobilizations and high-level political negotiations in favor of maintaining a more open regional trade regime with greater legal and temporal certainty. Thus, Trump's negotiators were at that time forced to accept softened versions of various proposals and simply to abandon others (Arnaud 2024a).

In that negotiation process, the Trump administration maintained strong pressure on the governments of Canada and Mexico, including threats to abandon the trilateral negotiations or to convert them into bilateral ones. Citing supposed “national security” criteria, Trump also threatened to impose a new unilateral tariff of 25% on all US automotive imports. On the same grounds, the first Trump administration imposed tariffs of 25% on steel and 10% on aluminum imports from Canada and Mexico along with other countries in 2018. The steel and aluminum tariffs on the two USMCA partners were later withdrawn to ensure the passage of the new trade agreement (see Blecker et al. 2021; Blecker and Ankner 2025) but were subsequently reinstated and increased to 50% for both products in 2025 (Hammond and Kitamura 2025).

The result of the (highly contentious) renegotiation process was the launching of USMCA, the new regional preferential trade agreement that replaced NAFTA on July 1, 2020. Reflecting the Trump administration's desire to favor US interests to a greater extent and to resort to protectionist measures even among USMCA members (a tendency greatly augmented at the start of Trump's second term in 2025), the name of the new agreement

omitted any reference to either free trade or North America (Hershberg and Long 2023).

Some of the most significant changes in USMCA compared to NAFTA related to the requirements for tariff-free treatment in the automotive sector, (1) raising the regional content requirement for automobiles from 62.5% to 75%; (2) mandating that 70% of the value of the steel and aluminum used in producing a vehicle must be of North American origin; and (3) requiring that 40% of the value of automobiles (45% for light trucks) must be produced by workers who earn at least US\$16 per hour. The new agreement also included other new provisions, such as strengthening the protection of trade secrets and digital-type copyrights and adjusting the end of patent protection for regulatory delays (Blecker and Ankner 2025; USITC 2019). Of relevance was the weakening of the ISDS mechanism, which was eliminated entirely between the United States and Canada, and applied to Mexico mainly in the energy, infrastructure, and public services sectors. In other sectors, private investors would have to exhaust their remedies in the national court system before having recourse to an ISDS proceeding and could no longer claim that any regulations that reduce potential profits would be considered “tantamount to expropriation.”

If NAFTA was already, so to speak, a “shallow” form of regional integration in that it was limited to liberalizing trade and investment relations, the USMCA is an even more transactional model, giving greater importance to the bilateral relations of the United States with each of the other 2 nations (Hershberg and Long 2023). Even with its changes, the USMCA remained (until Trump’s return to the White House) grounded in the idea of North America as a regionally integrated trading zone, with guaranteed market access and generally tariff-free trade for most goods between the 3 member countries to face competition from Asia, Europe, and other global regions.

4 | Trends in US–Mexican Trade and Investment Under USMCA

Despite the Trump administration’s intention to reduce them, imports from Mexico rose notably in the first 4 years of USMCA (see Figure 2). The US goods trade deficit with Mexico increased from US\$106.4 billion in 2019, the year before USMCA entered into force, to US\$161.4 billion in 2023, and US\$171.8 billion in 2024. This outcome reflects a rise in US imports from Mexico that was nearly 10 percentage points higher than the increase in US exports in the opposite direction (Banco de México 2025a, 2025b; BEA 2024). This outcome, of course, is the opposite of what Trump intended when he launched the renegotiation of NAFTA in 2017 and promoted the new USMCA in 2019–2020, which could explain why he has become so eager to undermine an agreement that he approved 5 years earlier.

Regarding foreign investment, net FDI into Mexico was equivalent to 2.5% of GDP in 2020–2023, slightly below the 2.6% average under NAFTA (1994–2019) (see Figure 1 and IMF 2024a; World Bank 2025; Secretaría de Economía 2024). By the later period, almost 40% of FDI inflows to Mexico originated in the United States, half of which went to the

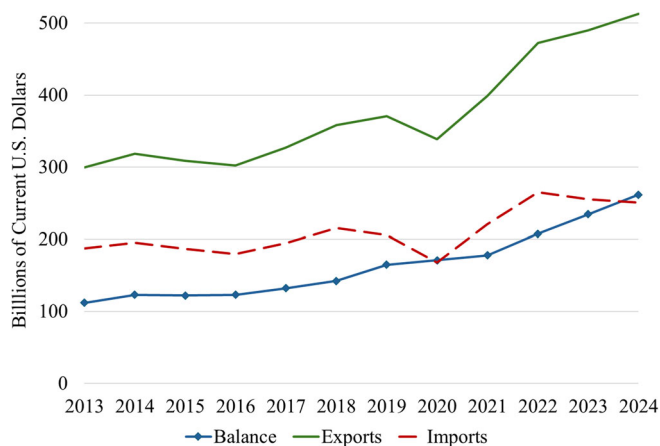


FIGURE 2 | Mexico’s bilateral trade with the United States, in billions of current US dollars, 2013–2024. *Source:* Authors’ calculations, based on Banco de México (2025a, 2025b).

manufacturing sector (Secretaría de Economía 2024). Importantly, among the 3 North American countries, Mexico experienced the largest increase in jobs “supported” by USMCA trade (Meltzer and Coulibaly 2024, 46), which again is contrary to what Trump wanted to achieve in renegotiating NAFTA.

The dynamism of Mexican exports and the sustained flow of FDI to the country in the first years of the USMCA can be attributed to three factors. First, approval of the agreement ended temporarily the uncertainty that had been generated during the NAFTA renegotiation process about Mexico’s continuation as a privileged platform for exporting manufactures to the United States and Canada (Arnaud 2024a; Brookings Institution 2024). Second, the sharp and unilateral increase by the United States in tariffs on a considerable range of imports from China (initiated under Trump in 2018–2020 and continued under Biden in 2021–2024) directly favored Mexico’s price competitiveness in the US market (Curzio 2024). A third element pushing in the same direction was the disruption of multiple global value chains (GVCs) in world production and trade caused by the Covid-19 pandemic in 2020–2021 (Berasaluce 2024; Fernández and Bravo 2023). See Figure 2.

The phenomenon of relocating production to a regional neighbor of a major advanced economy market—to avoid the risks of global supply chain disruptions; rising shipping costs; or the US–China trade war, referred to as nearshoring (or friendshoring)—should in principle favor Mexico because of its privileged position in USMCA and close proximity to the United States (Berasaluce 2024; Curzio 2024). By 2024, Mexico had become the largest single exporter to the United States, displacing China (see Figure 3). Yet, to date there is no evidence that a large portion of this shift is accounted for by nearshoring. In fact, most of the reduction in China’s share in the US market compared to earlier years has been captured by other countries, such as Vietnam (Blecker and Ankner 2025; Meltzer and Coulibaly 2024). In addition, the outlook for trade in North America remains uncertain because of the agreement’s sunset clause, even more so taking into account Trump’s new protectionist actions and threats since early 2025, as discussed further below.

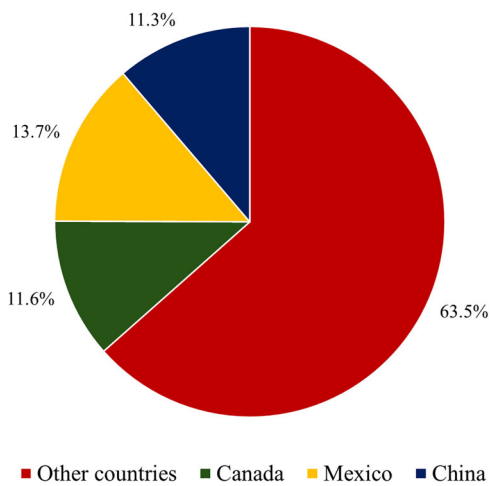


FIGURE 3 | Imports of US goods by country of origin in percentage of total imports of US goods, 2024. *Source:* Authors' calculations, based on BEA (2024).

5 | Prospects for the USMCA Review

The USMCA is subject to a sunset clause that mandates its review beginning in 2026, and its renewal or termination by 2036. Although preparations for the review are already underway in all 3 countries at the time of this writing (fall 2025), the review officially begins on July 1, 2026. If the agreement is not renewed (with possible amendments) in 2026—which will happen if any one country declines to extend the agreement at that time—, then a series of annual reviews would be initiated, up to a final deadline of 2036 for extension or termination.

This review process can be seen as a threat, but it can also be viewed as an opportunity to address long-term structural issues to adapt the agreement to new economic and political realities, as well as to respond to the specific demands of the three member countries. Still, the opportunity to adapt the USMCA in a way that favors the interests of the region overall is severely undermined by the protectionist US agenda under Trump. One of the most important obstacles is the Trump administration's insistence (especially in his second term) on achieving a bilateral trade surplus with each US trading partner through tariff increases or the imposition of other restrictive measures proclaimed and implemented via presidential executive orders, or via "deals" that will allegedly open foreign markets to more US exports.

In this context, if USMCA is to remain relevant for Mexico, the first priority is to seek exemptions from the new US tariffs ordered by Trump since January 2025—and guarantees (as much as these can be believed with Trump in power) that additional new tariffs will not be imposed unilaterally. Above all, a stable legal framework must be secured, fully subject to the trilateral regulation that is agreed upon, under which the 3 countries maintain open and preferential access for their exports to the rest of the region. This framework must also comply with the norms established regarding regional content, property rights, labor rights, dispute settlement, environmental standards, and other matters. All of this points are indispensable if a renewed USMCA is to help the structural transformation of the Mexican economy.

Maintaining the special capacity to attract FDI to serve as an export platform to the United States should be a priority objective for Mexico in such a renegotiation (Meltzer and Coulibaly 2024), at least in the short term. This element is key given the geopolitical environment marked by tensions unleashed by the Trump administration in world trade and Mexico's existing lock-in to a strategy of export-led growth targeted principally on the US market. Even if this strategy has provided only limited benefits to the Mexican economy overall since the advent of NAFTA in 1994, as discussed earlier, the consequences of being forced to abandon the export orientation of its industries abruptly would be catastrophic for Mexico, especially in the short run.

The deep uncertainty triggered by the US neo-protectionist strategy has altered the dynamics of trade and capital flows worldwide, as well as the stability of foreign exchange and equity markets (Ortiz-Mena and Marroquín Bitar 2025), which is an immense challenge for Mexico's development agenda and for that of the region (Ciuriak 2019; Crowley and Ciuriak 2018). Added to this scenario are the reconfiguration of the international matrix of production and trade after Covid, the uncertain evolution and relative magnitude for Mexico of FDI flows motivated by nearshoring, and the continuation of armed conflicts in various parts of the world (Berasaluce 2024; Curzio 2024).

Today, at the end of 2025, the possible renegotiation or review of the USMCA is a challenge for Mexico, which it faces amid great uncertainty and under constant US threats and additional tariff hikes. The renegotiation or review, if it occurs, will proceed in a manner that is anything but smooth and lacks a common regional spirit. The outcome consisting of minor modifications is, in our view, best set aside. The current consensus points to a US approach "with a heavy hand," marked by attempts to impose certain deep changes that, according to the Trump administration, would be pro-United States. It will undoubtedly be marked by tensions associated with Trump's new tariffs, especially those levied on automobiles, steel, and aluminum, as well as those specifically targeted on Canada or Mexico. The result is up in the air. It will depend to a significant extent on whether Mexican and Canadian negotiators have an effective and well-coordinated capacity to promote the interests of the region as a whole rather than those of a single country (Trew et al. 2024) and whether domestic interest groups in the United States can be mobilized in opposition to Trump administration demands as they were in the earlier renegotiation of NAFTA (Arnaud 2024a, 2024b).

We consider it unlikely that the renegotiation or review of USMCA will address further improvements in working conditions and labor rights in a particular country or at the regional level, as previously promoted by the three governments (see Trew et al. 2024). Still, some analysts consider that the second Trump administration will seek to weaponize the Rapid Response Mechanism (RRM)³ for labor rights in the USMCA review (North America Compass 2025). For example, the United States could seek to ban imports produced with forced labor into North America, which would be a provision aimed at restricting imports of either finished or intermediate goods from China.

Issues will undoubtedly be addressed relating to the application of policies and incentives for attracting FDI, the regional

content of exports within the region, nontariff barriers, and especially measures to be applied in the face of Chinese competition. Canadian and US automotive interests, with bipartisan support on the US side, have expressed their desire to restrict imports of Chinese electric vehicles (EVs) into the North American market. Some officials, already in the Biden era, had called for restricting the import of cars manufactured in Mexico by Chinese firms (Meltzer and Coulibaly 2024). Under Trump those pressures will intensify and will also extend to attempts to curb China's presence not only in the content of exports to the United States but even in important sectors of the Mexican economy. In fact, restrictions are already in place in activities considered to be of regional security interest, such as communications and intelligence.

It should also be noted that Trump has entirely discarded and reversed Biden's clean energy agenda and is actively promoting hydrocarbon fuel-intensive energy and opposing both wind and solar power. We are certain that the Trump administration will oppose any initiative that would make climate change an objective,⁴ so long as Trump or another MAGA ("Make America Great Again") Republican is in the White House. The Trump administration is likely to push for changes in rules governing energy trade and foreign investment in energy and utilities that would prioritize fossil fuels over clean energy (wind, solar), as it has in negotiations with other countries including the European Union. Moreover, it is probable that the renegotiation or review will become entangled in considerations regarding the regulation of migration flows, drug trafficking, and measures against organized crime. This blending of the trade agenda with non-trade issues and supposed "national security" concerns is a central feature of the second Trump administration in its relations with Mexico, Canada, and other countries.

The longer it takes for the review and renewal of USMCA to conclude, the greater the uncertainty will be regarding its scope and time horizon, and therefore regarding its relevance as guidance for FDI to Mexico (and for investment in the United States or Canada). This uncertainty causes acute disruptions in the planning and dynamics of trade in goods and capital flows in the region, particularly to Mexico's detriment. It is worth noting that Katherine Tai, the US Trade Representative, under Biden, already suggested the convenience for the United States of a contentious review process stating,

The whole point [of the review] is to maintain a certain level of discomfort, which may involve a certain level of uncertainty... and we also have to understand that that discomfort is actually a feature, not a bug.

(Quoted in Brookings Institution 2024)

This intimidation stance has hardened greatly and has extended to US international negotiations in Trump's second term. Perhaps the most complex challenge for Mexico, and indeed for all countries, lies in President Trump's mercurial character, which makes his decisions about tariffs and other policies volatile and hard to predict. Moreover, Trump is widely known for failing to honor prior US international commitments, including those that he negotiated and signed, as in the case of the USMCA. In fact, during his first term Trump proclaimed that,

This is the largest, most significant, modern and balanced trade agreement in history. All of our citizens will benefit. It is the best and most important trade deal ever made by the USA.

(The White House 2018)

Yet, as discussed earlier, he immediately began to violate that agreement in his second term by imposing new tariffs unilaterally, supposedly "on an emergency basis" and for "national security" reasons, on imports from Canada and Mexico. This strategy included increases in tariff rates on steel and aluminum, from which both countries had previously been exempt, as well as on automobiles (for which trade i.e., compliant with USMCA rules of origin is exempted),⁵ as well as more broad-based tariffs. Therefore, there is no guarantee that he will comply with what he agrees to, not even in the short term. This loss of the United States' international credibility and reputation constitutes one of the most destructive elements of what Baldwin (2025) calls the "hacking" of the global trading system by Trump and his MAGA allies. It represents a particular risk for an economy like Mexico's, whose manufacturing production is highly integrated with that of the United States and whose growth depends largely on the latter's economic performance (Blecker 2022; Ibarra and Blecker 2016).

5.1 | Nearshoring Versus Reshoring: Can Mexico Leverage USMCA?

As is well known, the tensions of the U.S.–China trade war, together with the effects of the pandemic and the armed conflict between Russia and Ukraine, revealed acute fragilities in the global system of production and trade based on large international value chains (Berasaluce 2024). The abrupt and prolonged interruption of multiple global value chains led major transnational corporations to recognize the need to reconstruct radically the international location of their production plants and their trade (Curzio 2024). As a guide to this relocation, nearshoring has emerged as an important influence on direct investment flows, that is, the pressure to relocate plants closer to the destination markets for exports. A central point in this shift is to give higher priority to resilience and political affinity over merely efficiency-based considerations of minimizing unit costs (Curzio 2024; Fernández and Bravo 2023). The nearshoring strategy does emphasize locating production where unit costs are minimized *within* a regional economy, like that of USMCA or the European Union.

In this context, Mexico has been highlighted as one of the economies that, in principle, has the most favorable prospects for nearshoring (see, e.g., Jiménez Chalico and Ortiz Velásquez 2023, on semiconductors). Its common border with the United States, its membership in a preferential regional trade agreement, its political affinity with the United States (at least, before the current Trump regime), and its trajectory as a major exporter to the North underpin these prospects. This outlook depends strongly on the path followed in the imminent review or renegotiation of USMCA. If that process were to strengthen the competitiveness of the region overall, as NAFTA (and to some extent USMCA) once did, Mexico's nearshoring prospects would be enhanced (Berasaluce 2024).

Unfortunately for Mexico, the Trump administration has knocked down this scenario. It has triggered brutal uncertainty regarding the dynamics of world trade, exchange rates, and international capital flows. The unilateral imposition by the United States of high tariffs, considerable in percentage terms and subject to unpredictable variations, introduces significant distortions into the investment and sourcing decisions of multinational and transnational firms.

Within this wave, the US commitment to the continuation or renegotiation of USMCA has been put in doubt, mainly because Trump frequently denounces Mexico in his speeches as a disloyal partner that has taken advantage of the United States by exporting much more than it buys and thus attracting jobs. In numerous and repeated statements, he portrays Mexico as a threat, not a partner. In the MAGA viewpoint, USMCA appears to undermine US interests by fostering net export surpluses of Mexico and Canada with the United States, as NAFTA did previously.

What direction will the USMCA and its renegotiation take? Will it remain fundamentally oriented toward bolstering regional competitiveness, or will it be modified to favor the United States even more? Will the renegotiation process manage to establish a clear and reliable regulatory framework with medium-term legitimacy to foster preferential trade among the three members vis-à-vis the rest of the world? These points are crucial for any firm interested in investing in Mexico with the purpose of exporting to the rest of the region, driven by the dynamics of nearshoring or not (Meltzer and Coulibaly 2024).

Trump views the reshoring of production to the United States, induced by tariffs and one-sided trade “deals” favoring the US side, as a fundamental instrument of his policy for national industrial revival and the resurgence of domestic manufacturing employment. In other words, he seeks to attract (or force) FDI flow into the United States. He advocates relocating production lines and even entire manufacturing plants, especially automotive, to the United States, which have long been installed in Mexico (or other countries like China, India, Ireland, or Vietnam, for other industries such as electronics and pharmaceuticals). This realpolitik of the Trump administration runs counter to what Berasaluce (2024) and Curzio (2024), among other analysts, envisioned for the future of the USMCA as the basis for deeper North American integration through trilateral supply chains.

Thus, in the Trump administration's view, the goal is reshoring, not nearshoring. The former directly favors the United States, the latter Mexico, in the zero-sum view of trade held by this administration and its MAGA supporters. Meanwhile, this zero-sum view of trade and investment ignores the potential for a cooperative strategy of regional integration in which Canada, Mexico, and the United States would pursue complementary forms of industrial development. The United States will not be competitive in the global economy if it forces the construction of high-cost productive facilities behind protectionist barriers, which could be located more efficiently in Mexico (or Canada or other trading partners). By contrast, a trilateral approach could make the entire region more competitive globally—and more efficient for domestic consumers in all 3 countries—but only if there is a political will to achieve it.

Trump's reshoring strategy is not the only obstacle clouding the future of nearshoring for Mexico. The longstanding weakening of public investment, accentuated in recent governments, which has translated into infrastructure with severe shortcomings, also undermines Mexico's prospects for nearshoring. There are evident insufficiencies in ports, highways, railways, energy supply, especially of the renewable type, not to mention infrastructure for digital technologies. These infrastructure deficiencies reduce the productivity and competitiveness of the Mexican economy and lessen its attractiveness as a destination for FDI aimed at exporting to the US and Canadian markets (see Moreno-Brid and Pérez-Medina 2024).

Another worrisome factor that is frequently cited is the legal uncertainty stemming from Mexico's judicial reform, which was enacted at the end of the administration of Andrés Manuel López Obrador (AMLO) in 2024, and mandates popular election of judges. Conventional economic theory implies that firms making locational decisions for their FDI and production should prefer countries that have predictable and stable political and economic environments, including an impartial judicial system. A reliable legal and regulatory framework that guarantees property rights is therefore considered by some to be indispensable for Mexico, as for any economy embedded in global trade and financial circuits (see Fernández and Bravo 2023). One may doubt the importance of this factor, because global capital has long shown a proclivity to invest in (or offshore production to) countries that have authoritarian regimes (e.g., China or Myanmar), or where corruption is rife and there is little respect for the rule of law or intellectual property rights in the western sense.

In the past 2 decades, many economists have emphasized the soundness of Mexico's macro fundamentals, since inflation is low and its budget deficit has generally been contained, as a factor that can help to attract FDI. Mexico's public-sector revenues as a proportion of GDP have long been very low, below the Organization for Economic Cooperation and Development (OECD) and Latin American averages (World Bank 2025). In the short term, Mexico faced significant fiscal challenges as of 2025. At the close of December 2024, it became evident that the previous administration of AMLO, despite its rhetoric in favor of austerity, had left a fiscal deficit of close to 6% of GDP. This figure is among the highest in decades. It obliged the incoming government of Claudia Sheinbaum to undertake a contractionary fiscal policy of spending cuts, especially to public investment (IMF 2024b). Without a deep tax reform, transfer policies to the population, which have so characterized the current and previous governments, face a severely jeopardized future. It could be argued that global investors are more interested in the stability of the peso and Mexico's financial markets rather than its public finances per se, but they care about the chronic lack of infrastructure investment that results from fiscal constraints and the potential for fiscal deficits to destabilize the exchange rate.

An additional constraint on nearshoring is the limited resources and capabilities of Mexico's development banking institutions. The longest-standing development banks in Mexico, NAFINSA and the Banco de Comercio Exterior, are far from being heavyweight actors in the intermediation of resources for long-term

productive investment projects (Moreno-Brid and Pérez-Medina 2024). Their insufficiency is not, and is unlikely to be, compensated by commercial banking, much less by private, long-term venture capital. Furthermore, in the sphere of monetary and financial policy, another obstacle, not only for near-shoring but also for the robust development of the Mexican economy, is the tendency for the peso to be overvalued, which sharpens the balance-of-payments constraint on the long-term growth of productive activity in Mexico (Ibarra and Blecker 2016; Moreno-Brid 1998). Although peso appreciation helps contain inflationary pressures, it also reduces the international price competitiveness of Mexican manufactures and the profitability of investment in Mexico's export industries (Ibarra and Ros 2019; IMF 2024b; Moreno-Brid and Ros 2009). The adverse effect of this trend is compounded by the lack of an active industrial development policy committed to strengthening innovation, domestic linkages, and value-added generation, a policy that would be in line with those applied by the advanced nations and by China and other emerging economies (IMF 2024b; Juhász et al. 2024). On this note, the announcement in the fall of 2025 that Mexico would consider increasing tariffs to up to 50% on EVs (among other goods) originating from countries outside of Mexico's trade agreements (China included) can be interpreted as an effort by the Mexican government to signal alignment with US interests.

Having a skilled labor force in the country is another crucial factor for a dynamic insertion in regional and indeed global trade (Fernández and Bravo 2023). In this regard, Mexico must invest in education and technical training to ensure its labor force is prepared for the demands of advanced industries seeking to relocate (Curzio 2024). Unless it has sufficient workers with the skills required by global value chains, Mexico will fall behind in international competition, as well as in the generation of value added and high-wage employment.

In addition, although the Trump administration considers environmental issues irrelevant and therefore will likely pay no attention to the subject in the USMCA renegotiation,⁶ from a long-term perspective it is essential that all countries adopt a development agenda and an industrial policy grounded in promoting ecological sustainability and responsible environmental practices. We consider that the current regression under the Trump government in this area will have to be corrected. Sooner rather than later, the global community will have to regain its commitment and awareness of the imperative that firms operate under the pursuit of profits subject to compliance with high environmental standards and consistent with limiting (if not reversing) climate change. Even if it is not a topic in the USMCA renegotiation, Mexico and Canada should implement policies that promote the use of renewable energies and the reduction of carbon emissions—and the United States must also do so again in the future.

5.2 | A Special Challenge for Mexico

An unavoidable question arises today; if NAFTA, later converted into USMCA, failed to place Mexico on a dynamic development path, as argued earlier, why is it important for the country to try to maintain the privileged access to the US market that it has

enjoyed under these trade agreements? Why are the Mexican government and public so concerned about the possibility that USMCA will not continue, or that it will undergo major changes that would limit this privileged access in the upcoming renegotiation or review with the Trump administration?

The answer is not simple. The country has oriented its economic activity, mainly manufacturing, toward the US market. Thus, through deeper regional integration taking advantage of the accord's regulatory framework, Mexico's trade dependence on the United States has tightened. That dependence cannot be significantly altered in the short term. In fact, a sudden rupture of the agreement would entail severe repercussions on economic activity and employment. The truncation of the country's export capacity would cause immense and immediate harm, given that a large share of the most relevant productive initiatives in this area is motivated and justified by the specific conditions and advantages provided by the USMCA (Moreno-Brid and Pérez-Medina 2024; Moreno-Brid and Ros 2009).

Nevertheless, it is important to recognize that the conjuncture in 2025, taking into account the country's growth and development prospects under the current regional trade dynamics, is inconsistent with NAFTA's promises since 1994, renewed in 2020 with the formation of USMCA. As has been widely documented, although some social indicators have improved, economic growth has weakened. The limited capacity of the export model, in the absence of a modern industrial policy,⁷ to generate domestic production linkages, quality employment, and strategic investment, especially public, calls into question the scant effectiveness of this policy orientation as a lever for national development (Moreno-Brid et al. 2005, 2013, 2016; Moreno-Brid and Pérez-Medina 2024).

Thus, accepting termination of the treaty is far from a desirable option, given the high cost it would entail for the Mexican economy, at least in the short run. At the same time, in the medium and long term it is urgent, indeed indispensable, to build a strategy of productive transformation and insertion into globalization consistent with the country's essential development imperatives. This strategy must recognize that certain sectors, such as domestically oriented manufacturing and advanced technology services, with high potential spillovers to domestic employment, investment, and innovation, have been left behind with the emphasis on trade agreements with (and exports within) North America. The revitalization of those activities through a modern, sustainable, and development-oriented industrial policy, articulated with a boost to the domestic market and strong linkages to upstream domestic production, is key to trigger a robust and inclusive development trajectory. Promoting these sectors, not merely as appendages of regional trade but rather as engines of domestic structural transformation, is essential to overcome the external constraint on Mexico's economic growth.

5.3 | Some Reflections on Mexico's USMCA Renegotiation Strategy

The Mexican government's most immediate priority in the USMCA review should be to try to obtain the elimination of the new tariffs imposed by Trump in 2025 and guarantees against

the imposition of additional ones. More precisely, Mexico should seek to ensure that, (1) any product that complies with what the USMCA stipulates enters the United States at a zero tariff; (2) products that do not comply are subject to the tariff corresponding to most-favored-nation (MFN) rates; and (3) any negotiated increases in the required degree of regional content for trade favored under USMCA do not imply granting the United States an advantage vis-à-vis the other 2 members.

However, the prospects are not encouraging for Mexico, since the European Union and Japan have agreed to tariffs of “only” 15%, while the United Kingdom has secured a 10% cap, albeit with many exceptions and exemptions. As a result, Mexico’s export competitiveness is undermined because products that do not meet the USMCA regional content requirement now face tariffs of at least 25%. The automotive sector is particularly affected as its exports face a tariff of about 18%, since the 25% tariff is applied to auto parts that are not from the region under the “national security” rationale in the US market.⁸ In fact, Mexico and Canada are disadvantaged under the current (as of October 2025) US tariff regime insofar as their automotive exports to the United States are subject to duties of up to 25%, while imported cars and auto parts from Japan are subject only to a 15% rate. In steel and aluminum, this discrepancy is not observed to date, insofar as all imports into the United States face tariffs of 50%, but that can change from 1 day to the next (and is something from which Canada and Mexico should seek relief in the USMCA review process).

Thus, the challenge for Mexico is immense, as is the uncertainty. Crucial questions remain unanswered for now regarding what the United States will seek to impose in the renegotiation. Issues that will surely be on the table, beyond tariffs, include trade and FDI relations between Mexico and China; regional (or national) content requirements for products to qualify for USMCA tariff exemptions; and the relocation of Chinese EV plants to Mexico, among others. An additional threat to Mexico is the continuing insistence by Trump on linking the USMCA renegotiation to entirely unrelated matters, such as migration and drug trafficking into the United States, and others such as taxes on remittances (or, for Canada, a possible Digital Services Tax).

A further concern is whether Trump will be willing to uphold any commitments he makes in the USMCA renegotiation process, or if he would feel free to place additional tariffs on Mexico and Canada again in an arbitrary and unilateral fashion. Yet, Mexico and Canada have little choice but to negotiate with the Trump administration and seek the best outcome they can obtain in a revised and extended USMCA.

6 | By Way of Conclusion

The USMCA, despite its defects or limitations from the standpoint of Mexico’s economic development, including the adoption of a series of more restrictive provisions for intra-regional trade (especially in automobiles), provides a regionally agreed upon supranational legal and regulatory framework that helps facilitate trade and investment among the member countries. Even with its limitations, it is an instrument in favor of a

regional economic entity that has the potential to serve as a reconfiguration of economic integration conducive to greater growth and development in the three member economies. This outcome requires that a spirit of trilateral cooperation prevail among the three members. Given such a cooperative spirit, important modifications could be identified in the design and provisions of USMCA that would further strengthen the region’s competitiveness, complemented, of course, by a set of other policies—macroeconomic, industrial, innovation, labor, and ecological—oriented toward more robust, inclusive, and sustainable development.

The climate of tension derived from the threats and demands by the US government during the stage of renegotiating NAFTA and its transformation into the USMCA showed that Mexico can navigate diplomatic difficulties with Canada and the United States and that the three can achieve a collaborative dynamic for preferential regional trade and investment. That said, the current climate in Washington is averse to consideration of the interests of third parties, Mexico and Canada included. The Trump team and MAGA forces tend to see almost everything in the trade or economic sphere through a zero-sum lens, believing what benefits other countries harms the United States. If this view prevails in the USMCA renegotiation, the cooperative spirit described above will not be manifest in a renewed agreement, even if one is reached.

On July 20, 2025, US Secretary of Commerce Howard Lutnick declared that the USMCA will be renegotiated in 2026 and that the Trump administration “... will seek a profound transformation of the trade agreement’s conditions to curb the offshoring of jobs and protect US industry...” (Valdelamar 2025, authors’ translation). Even more ominous for Mexico, Lutnick added, “He [Trump] doesn’t want cars built in Canada or Mexico when they can be built in Michigan and Ohio. It’s just better for American workers” (Sorace 2025). This statement indicates that the Trump negotiators will seek a fundamental redesign of the agreement, based not on strengthening trilateral complementarity and the competitiveness of the North American region overall but rather on incentivizing direct investment in the United States and (supposedly) reducing its trade deficit. USMCA provisions that the Trump administration is likely to seek to modify include those having to do with calculations of regional content, the relationship with China, automotive rules of origin, and investment rules and tax matters, all mixed with topics such as migration flows, drug trafficking, and organized crime.

Mexico will have to make use of all its diplomatic talent and its access to actors capable of exerting persuasion or economic and political pressure within the United States, and with other actors, to achieve a renegotiation of the USMCA that, in addition to cutting uncertainty at the root, serves to position the national economy as an attractive recipient of FDI within an agenda of robust, sustainable, and inclusive development. At the same time, Mexico needs to reconsider seriously the trade-off between policy space and privileged access to the US market, and if it should seek to restore more of the former if it is forced to concede some of the latter—or even if it is not—so that the country can pursue more of its domestic development goals in the long run. Whether Mexico can achieve these objectives is a

fundamental question whose answer, as of today, is blowing in the wind.

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Conflicts of Interest

The authors declare no conflicts of interest.

Endnotes

¹USMCA is the US name for the agreement. In keeping with Trump's economic nationalism, each country was allowed to put its own name first. Thus, the agreement is known in Mexico as the Tratado-México-Estados Unidos-Canadá (T-MEC) and in Canada as the Canada-United States-Mexico Agreement (CUSMA) in English and Accord Canada-États Unis-Mexique (ACEUM) in French.

²It is worth recognizing that NAFTA also entailed certain adverse consequences for the US economy, especially job losses and greater inequality, which in turn have fueled political movements to the right. According to Hakobyan and McLaren (2016), the reductions in US tariffs on imports from Mexico caused significant declines in the wages of less-skilled workers, concentrated in the local areas most exposed to those tariff cuts (where the affected industries were most concentrated). Choi et al. (2024) find these tariff reductions caused significant losses of manufacturing employment that spurred a persistent shift toward electoral support for the Republican Party, lasting at least through 2016 (the year of Trump's first victory), with the effects concentrated similarly in the most exposed localities (counties). These findings do not necessarily imply support for the protectionist solutions proposed by Trump, but they indicate a politico-economic challenge to seek other responses to industrial job losses, rising wage inequality, and growing support for protectionist policies in the United States—and an alternative way to design a process of regional integration in North America that benefits workers and does not worsen inequality in all 3 countries. Some suggestions can be found in Gallagher et al. (2009) and Trew et al. (2024).

³"The RRM provides any interested party with the opportunity to petition the U.S. government to start a case on the basis of sufficient, credible evidence that workers' rights are being denied at a specific facility in Mexico. Those rights include the right to freedom of association and collective bargaining, which are guaranteed under both Mexican law and the terms of the USMCA" (Office of the United States Trade Representatives 2024). It was included in USMCA at the behest of Congressional Democrats in 2019 as a condition for their votes in favor of the agreement (see Blecker and Ankner 2025). Under the Biden and AMLO administrations, the RRM was successfully used to promote worker rights in areas such as free elections of union representation and back pay for laid off workers in Mexico, with no notable negative effects on trade or investment.

⁴In fact, it may be worse if Trump pressures Canada and Mexico into privileging investment in fossil fuels (coal, petroleum, natural gas) over renewable energy and into purchasing greater quantities of US exports of the former (especially natural gas)—as he has in his trade "deals" with other countries. Because all three USMCA members are major suppliers of fossil fuels, they need to counter powerful vested interests in "brown energy" production to prioritize investments in clean energy.

⁵See Bowdle and Kamal (2025), who observe that the share of US importers claiming preferential treatment had already declined under

USMCA compared to NAFTA because of the increased costs of documenting compliance under the stricter rules of origin in the former. With the default US tariff rate on automobiles raised from the old MFN rate of 2.5% to the new "national security" rate of 25% (a 10-fold increase) in Trump's second term, automotive firms have greater incentives to demonstrate compliance but face higher costs in doing so that are likely to reduce GDP and economic welfare further.

⁶As noted earlier, it is possible that the Trump administration could try to promote fossil fuel production and disadvantage clean energy (wind, solar) in the USMCA renegotiation. Canada and Mexico, along with environmental activists in all 3 countries, will need to be on guard to oppose any such efforts if they arise.

⁷With the shift toward market reforms since the mid-1980s, so-called vertical industrial policies were eliminated. Some initiatives, such as the maquiladora program and the ALTEX and PITEX oriented to promote gross exports (with no attention to domestic value-added generation) remained in operation.

⁸Curiously, the difference in these tariff rates puts long-established US automakers such as General Motors and Ford, which source inputs in Canada and Mexico and assemble vehicles there, at a disadvantage relative to British, European, or Japanese automobile producers.

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