US–MEXICO ECONOMIC TIES:
A Comprehensive Analysis

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KEY FINDINGS

- Bilateral trade between the U.S. and Mexico reached record highs in 2023–2024, with a widening U.S. trade deficit driven by rapidly growing imports.
- Key sectors—such as automotive, electronics, machinery, and energy—form the backbone of this integrated North American supply chain.
- The United States is the largest source of foreign direct investment in Mexico, with U.S. companies significantly expanding their operations.
- The nearshoring trend has accelerated, enhancing supply chain resilience and reducing reliance on distant markets.
- Trump's 2025 tariffs, purportedly aimed at addressing security concerns, introduced short-term disruptions have, so far, been mitigated through policy adjustments under USMCA rules.
- Despite temporary challenges, the long-term outlook for U.S.–Mexico economic ties remains robust, with continued growth and mutual benefits.

INTRODUCTION

The economic relationship between the United States and Mexico has grown increasingly complex and interdependent over recent decades. With trade volumes reaching record highs and foreign direct investment (FDI) playing a crucial role in shaping bilateral dynamics, both nations continue to benefit from—and be challenged by—the evolving landscape of global commerce. This analysis examines recent trade trends, FDI flows, and the nearshoring phenomenon that has redefined supply chains in North America. Additionally, it addresses the disruptive impact of Trump's 2025 tariffs, which have introduced an element of uncertainty into an otherwise robust relationship. Overall, the analysis provides a neutral and detailed look at how U.S.–Mexico economic ties are adapting to contemporary challenges while also exploring potential strategic opportunities for policymakers and businesses alike (Villarreal, 2024; Office of the United States Trade Representative, 2025).

RECENT TRADE TRENDS AND KEY SECTORS

In recent years, the trade relationship between the United States and Mexico has reached unprecedented levels. In 2023, bilateral goods trade was estimated at approximately \$798.9 billion, and by 2024, this figure had grown to around \$839.9 billion (Rogers & Brown, 2023). U.S. exports to Mexico reached roughly \$334 billion in 2024, while imports from Mexico climbed to about \$505.9 billion, resulting in a widening U.S. trade deficit with Mexico of approximately \$171.8 billion (Office of the United States Trade Representative, 2025). This widening gap is not a new phenomenon; rather, it reflects a long-term trend where Mexico's exports have grown more rapidly than U.S. exports, driven largely by integrated supply chains and the increasing sophistication of manufacturing processes on both sides of the border (BBVA Research, 2024).

Key Sectors in Bilateral Trade:

The automotive industry stands out as the most critical sector within this bilateral framework. For instance, in 2023, Mexico was the primary supplier of motor vehicles and auto parts to the United States, with imported vehicles valued at around \$85 billion and auto parts at approximately \$66.3 billion (Villarreal, 2024). In addition, sectors such as electronics, machinery, and energy have experienced robust trade flows. The U.S. has exported refined petroleum products and coal, totaling close to \$36.8 billion in 2023, while importing crude oil and natural gas valued at about \$19.8 billion (Rogers & Brown, 2023). Agricultural products, although smaller in volume compared to manufactured goods, also form a vital part of the trade basket, particularly as Mexico supplies the U.S. with winter produce (BBVA Research, 2024). Such figures underscore how deeply intertwined the two economies have become and highlight the importance of stable trade relations for sustaining growth on both sides of the border.

Foreign Direct Investment and the Role of U.S. Companies in Mexico

Foreign direct investment is a central pillar of the U.S.–Mexico economic relationship. The United States is the largest source of FDI in Mexico, with an FDI stock estimated at $130.3 billion as of 2022 (Mexico News Daily, 2023). In 2023, U.S. companies contributed nearly 38% of the new FDI into Mexico, representing roughly $13.6 billion of total incoming investment (Mexico News Daily, 2023). This investment flows predominantly into key sectors such as automotive manufacturing, electronics, and consumer goods. Major U.S. multinationals, including GM, Ford, and various automotive suppliers, have expanded their operations in Mexico to capitalize on lower production costs and proximity to the U.S. market (Villarreal, 2024).

Notably, recent developments in the automotive industry underscore the significance of U.S. FDI. For example, in mid-2024, Tesla announced plans to build a large electric vehicle (EV) gigafactory in Nuevo León, with a projected investment exceeding $5 billion (Kelly, 2024). Such announcements have reinforced the role of Mexico as an attractive destination for U.S. businesses seeking to optimize their global supply chains through nearshoring strategies. This influx of investment not only bolsters Mexico's manufacturing capacity but also enhances technological exchange and employment opportunities, thereby contributing to the overall economic dynamism of the region (Lellouche Tordjman et al., 2024).

THE IMPACT OF NEARSHORING ON SUPPLY CHAINS, MANUFACTURING, AND TRADE BALANCES

The nearshoring trend has emerged as a critical driver of economic change in North America. This strategy, defined by relocating production and sourcing closer to end markets, has gained momentum due to rising labor costs in Asia, persistent supply chain disruptions from global crises, and escalating trade tensions between the United States and China (Lellouche Tordjman et al., 2024). Mexico, with its geographical proximity to the United States and favorable trade agreements like the USMCA, has become the prime beneficiary of this trend.

Effects on Supply Chains and Manufacturing:

Nearshoring has led to a reconfiguration of supply chains where components may cross the U.S.–Mexico border multiple times during production. This has been especially evident in the automotive and electronics sectors. For example, an estimated 40% of the content in certain Mexican-manufactured exports is of U.S. origin—a clear indication of the tightly knit production networks between the two countries (Rogers & Brown, 2023). As a result, U.S. companies are increasingly relying on Mexican manufacturing to reduce lead times and improve supply chain resilience, thereby enhancing overall competitive advantage. Additionally, regions such as Baja California, Nuevo León, and Puebla have seen significant industrial growth, spurred by investments aimed at capitalizing on nearshoring (Lellouche Tordjman et al., 2024).

Trade Balance Considerations:

Nearshoring has also influenced the trade balance between the two nations. While the U.S. trade deficit with Mexico has widened, this is partly due to the increased importation of intermediate goods that are later re-exported as finished products. In this context, the trade deficit does not fully capture the economic symbiosis between the two countries, as the integration of supply chains benefits both economies by creating jobs and enhancing production efficiency (BBVA Research, 2024). Overall, the nearshoring trend represents a mutually beneficial strategy that bolsters domestic production in the United States while driving industrial growth in Mexico.

TRUMP'S 2025 TARIFFS AND THEIR REPERCUSSIONS

A pivotal moment in the recent history of U.S.–Mexico economic relations was the imposition of tariffs by President Trump in early 2025. Citing concerns related to fentanyl trafficking and illegal immigration, the U.S. government abruptly implemented a 25% tariff on all imports from Mexico (Lawder, Ljunggren, & Madry, 2025). This decision threatened nearly $500 billion in annual Mexican exports and generated immediate uncertainty among businesses on both sides of the border.

Immediate and Long-Term Effects:

The initial reaction to the tariffs was one of cautious engagement. Mexican officials, while protesting the measures, opted for negotiation rather than immediate retaliation. Within days, the U.S. adjusted its policy by exempting imports that met USMCA rules-of-origin requirements from the 25% tariff (White & Case LLP, 2025). This partial reversal was critical in mitigating potential disruptions to integrated industries, particularly in the automotive and electronics sectors. Nevertheless, goods that did not qualify for the exemption, such as certain agricultural and raw materials, remained subject to high tariffs. The overall effect was an injection of uncertainty into the supply chains, prompting some U.S. companies to delay expansion plans or reconsider further investments in Mexico (Kelly, 2024).

Broader Strategic Implications:

Politically, the tariffs marked an unprecedented use of trade policy to address non-economic issues. By linking tariffs to national security concerns—specifically, the need to combat drug trafficking and unauthorized migration—the Trump administration blurred the lines between economic and domestic policy. This strategy forced Mexico to weigh the cost of economic disruption against the political necessity of addressing these issues. While diplomatic channels eventually led to adjustments in the tariff regime, the episode served as a reminder of how vulnerable integrated supply chains are to unilateral policy decisions (Lawder et al., 2025). Ultimately, despite the temporary strain, both nations have a vested interest in maintaining stable trade relations, as the long-term benefits of cooperation far outweigh the short-term disruptions (Office of the United States Trade Representative, 2025).

CONCLUSION

The multifaceted economic relationship between the United States and Mexico remains a cornerstone of North American commerce. Recent trends indicate robust trade volumes, significant U.S. FDI in Mexico, and a rapidly growing nearshoring movement that is reshaping supply chains. While Trump's 2025 tariffs introduced an element of uncertainty and prompted a temporary reordering of priorities, the enduring benefits of the bilateral relationship continue to drive mutual investment and trade. The integration of supply chains, particularly in manufacturing and automotive industries, underscores the depth of economic interdependence between the two countries. As both nations adapt to evolving global challenges—be they trade tensions, policy shifts, or market disruptions—the need for stable, predictable economic frameworks becomes ever more critical. Policymakers and business leaders must continue to work collaboratively to ensure that the dynamic U.S.–Mexico economic partnership remains resilient and responsive to future challenges (Rogers & Brown, 2023; Villarreal, 2024).

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