# Does the current political environment open promising directions in the complex Mexico-United States economic integration?

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**Abastract**

In September 2021 took place the first anniversary of the Mexico, United States and Canada Trade Agreement, T-MEC, by its Spanish acronym, with the progressive heads of state of those countries, which adhere to distributive policies, the defense of workers´ rights, ethnic minorities, women and children.[1] These leaders represent a political shift vis-a-vis their predecessors and the economic model of the last three decades, when the North American Free Trade Agreement or NAFTA, was instrumented, with austerity policies, Change of the PRI by the PAN in the presidency of the republic and total continuity in economic policies. The SARS-CoV-2 pandemic affected economic agendas and the implementation and development of T-MEC, thus invalidating any type of evaluation. This article focuses on political change in the USA and opportunities therein for Mexico, as of the recent trade exchange structure, in which China has played and plays an important role.

**Resumen**

El primer aniversario del T-MEC tuvo lugar en septiembre de 2021, con mandatarios progresistas en Canadá, México y Estados Unidos, por su adherencia a políticas distributivas, la defensa de los derechos de los trabajadores, de las minorías étnicas, las mujeres y los niños. Representan, estos líderes, un giro político respecto a sus predecesores y el modelo económico de las últimas tres décadas, durante las que rigieron el TLCAN y las políticas de austeridad y hubo alternancias partidistas no en políticas de desarrollo. La epidemia SARS-CoV-2 afectó las agendas económicas y la puesta en marcha y desarrollo del TMEC e invalidan toda evaluación. Por ello y en atención a que la integración es un proyecto político, con instrumentos y efectos económicos, este artículo se centra en el cambio político en EEUU y las oportunidades que éste pueda brindar a México, partiendo de la estructura del intercambio comercial de los últimos años en el cual China ha jugado y juega rol importante.

[1] In Latin America populism is characterized as a dictatorial trend, appealing directly to the people and, therefore, weakening democracy, congress and political parties.

Palabras clave: Estados Unidos, México, T-MEC, integración, comercio, crecimiento económico.

Key words: United States, Mexico, T-MEC, integration, trade and economic growth.

## I Introduction

With progressive governments in Canada, Mexico and the United States, the first year of T-MEC comes to an end, in a contrasting political environment, compared to that of the agreement´s negotiations and of most of the 25 years of NAFTA. In December 1st 2019, Andrés Manuel López Obrador took office as president of Mexico, after winning the July 2018 elections, with a progressive platform focused on reducing inequality and poverty, controlling inflation, eliminating corruption and exercising republican public expenditure austerity. Although his administration participated in the last T-MEC negotiations, López Obrador personal envoy it was not the main Mexican negotiator. In the United States, Joseph Biden substituted Donald Trump in the presidency, with a legislative agenda characterized be a high distributive content and more public intervention and management in the economy. In Canada, Prime Minister Justin Trudeau, took office in 2015, with a progressive platform, and various coincidences with the López Obrador agenda.

Expectations were expressed around the world for the arrival of Joseph Biden to the presidency of the United States. The return, at least formally, to the leadership of international relations and domestic politics of his Democratic predecessors was expected. Nevertheless, doubts were abundant on the changes in international politics, which are and have been bipartisan and have not had any radical changes since the end of the Second World War.

Mexico was not immune to questions posed by the new US administration. First, there were expectations around formal changes: substituting Trump´s harsh and belligerent language by Biden´s cordial style. Second, because of his domestic economic policy proposals with a high social content, and, third, the announcement made about the US returning to forms of diplomacy exercised since the end of the Second World War.

If internally, changes are somewhat radical, in foreign policy it is surprising to see the only few proposed and implemented modifications, because in effect, Biden restored the Democrat version of US imperialism: "soft in form, firm in essence"[2], the application of which Latin American has remote and recent memories, as now seen in Cuba and Venezuela, as well as on migration measures.

Whether it is domestic or foreign policy, it is evident that the key motivation of the new US president is defending national interests, strengthening the economy and reducing inequality and discrimination. Biden expressed and defined this nationalist purpose during his meeting with Russian president, Vladimir Putin, June 16, 2021: "This is not about trust. This is about self-interest and verification of self-interest". Therefore, it is legitimate and necessary for Mexico to identify its own interests and opportunities to advance them within the T-MEC framework, as well as within the reorientation of the domestic and foreign policy of the new Democrat administration.

Therefore, it is imperative to analyze motivations of the US president and his party. Some may express partisan needs, others reflect national aspirations, or might only be wishes, personal ambitions. For Mexico, a key issue is how T-MEC constitutes a sort of contention aimed at advancing Mexican national interests.

At the economic and political level, the Biden administration has launched controversial initiatives which, under the slogan, "Buy American" and "Building Back Better", serve to ensure a second Democrat term, as long as real middle income and jobs increase, keeping inflation under control.

Idiosyncrasy of US policy and legislative bustle have placed Biden before a dilemma of negotiating only with his party and accepting the more progressive Democrat proposals, or compromising with moderate Republican sectors and deepening division in Democratic ranks. This is particularly grave in foreign policy traditionally adopted through bipartisan agreements, which suggest there will be no breaking away from US international policies. It is yet to be seen if Biden is able to restore the prestige of his country and trust of his allies, eroded by Trump.

[2] Old pedagogical saying.

To highlight possible opportunities for Mexico in the context of President Biden's political priorities and legislative initiatives, this article is drafted as follows: section II discusses political changes in the USA. Section III analyzes new opportunities for regional economic integration and deepening of trade exchanges. The last section is for conclusions.

## II Political changes in the United States and economic integration space

Biden´s domestic and foreign actions are of special interest to Mexico. Therefore, it is necessary to analyze them within the framework of T-MEC commitments. This section discusses relevant factors, highlighting national and international economic policies, their relation to productive policies supporting workers, small sized businesses and infrastructure, as well as measures to develop new technologies. This analysis should consider goals, distributive challenges and cost-benefit of changes taking place. (The White House, 2021a).

Biden moves forward internally to weaken Trump´s social base and Republican opposition to his programs, some of which are breaking away from fiscal austerity policies, free exchange and a limited government, applied throughout the last seven administrations, including Carter´s, Clinton´s and Obama's, all Democrats who dealt with the effects of economic crises, as well as with fiscal and trade imbalances inherited by the Republicans. On one hand, Biden must face Trump´s tackling of the pandemic and fiscal policy costs, that reduced direct taxes of big corporations and an increase on Chinese import tariffs, which increased mass consumer goods, thus affecting consumption and, on the other, damaging alliances with the global community, withdrawing from various international accords.

Thus, various budgetary bills are now being discussed, aimed at post pandemic management, speeding up the vaccination process, especially in the face of a new variant, and increasing social and physical infrastructure expenditure. Republican congress votes made Biden somewhat reduce expenditure goals and the distributive impact of his policy. After one year of taking office, he reiterates that his priority is domestic policy, reconstructing and strengthening the national economy (The White House, 2021b). This first year, his actions confirm his readiness to deliver on his promises, as seen through his negotiations with the Congress opposition and his defense of the government expenditure budget.

Pre pandemic levels recovery of economic growth, jobs, salaries and final consumption, in the midst of yet unresolved production problems, has increased inflation and reduced acceptance of Biden's policies, which seems to indicate that in the US public opinion, inflation has stronger political effects than tackling unemployment and increasing income, which is punishing the Democratic party, that is, it is putting at risk its fragile majority in Congress (Krugman, 2021A). Discounting gasoline and some food peak prices, more structural inflation is about 4%, quite far from it being hyperinflation, as is also the case with 6.8% total inflation, nothing alarming and which, at any rate, may fall with the reestablishment of trade flows and job supply, which are still contained (Krugman, 2021B).

Biden´s economic policies have been compared to Democrat President F. D. Roosevelt´s who, to tackle the Great Depression, substituted the liberal model that led to the crisis with the well-known *New Deal*, which expanded the role of the State in the national economy (Sagredo S, 2013). It must be noted that such expansion of State power consolidated the position of the United States, as a world leader and its hegemonic power. In effect, upon winning the Second World War and restoring its economy, "The United States could act as a hegemonic power, thanks to its enormous economic power, accomplished by the strengthening of the State" (Zartman, 2009).

**National interests and the intersection between national and international**

Since his inauguration, president Biden promoted the 2021 American Rescue Plan (COVID-19 Vaccine Incentives Package), the *Buy American Act* and the *American Jobs Plan*, with the purpose of the economy recovering, generating jobs and increasing family income, supporting families and children, promoting green technologies to fight climate change, investing in physical and social infrastructure, and giving incentives for scientific and technological development in specific sectors, among other measures. These policies have been challenged by Republican and some Democrat congressmen, for different reasons, as for instance, fiscal balance and price stability, the very expensive budgetary cost and financing via higher taxes, as of a date that is still being debated, related to economic growth and increase in production and profits, expected from productivity gains. On the other hand, said economic programs, social assistance aid and salary increases, are greatly accepted by US society (Saad, 2021).

Approval of these initiatives constitutes obstacles the president has had to overcome, because said bipartisan consensus implies accepting proposals from the opposition, pushing President Biden to redefine goals, without yielding too much ground. What prevails over the role of the negotiator expected of him is that of the *transformational* president (Kumar, 2021), even at the expense of the opposition branding him as the president that would turn the USA into a "socialist country". Therefore, Mitch McConnell, Senate Republican Leader, said it was the opposition's responsibility to thwart that pretension. In response, Biden has highlighted his commitment to fund public expenditure, hiking taxes on corporations and the richest, with the purpose of building a fair, strong and innovative economy, capable of competing internationally with research and development, and the highest job investment since the Second World War (The White House, 2021c).

If some of these initiatives already approved (the XXX bill on infrastructure…. are consolidated, president Biden expands the role of the State aimed at establishing a New Washington Consensus, likely to consolidate displacing the previous one (Sandbur, 2021). Thus conceived, the economic policy goes beyond prosperity and international relations. It pushes transformations in values and the exercise of power. For instance, the then Secretary of State, Hillary Clinton, declared "we are not only in a political and economic competition, we are in a competition of ideas… Our model embodies universal principles that turn it into the best model for any country" (C-SPAN, 2011).

In effect, the economy is a scenario of power relations and, throughout the XXI century, power of the United States has been challenged by China (Santa-Cruz, 2020) and has pushed Washington to reestablish relations with its allies around the world, vindicating hegemony and reestablishing *Pax Americana* (Layne, 2012). Nonetheless, since the 2008 financial crisis, something that has been made clear is change in global wealth –and power- from West to East, with China and its growth in the international scene. Until now, the strategy to stop China discourages external investment flows to that country, whereas efforts to contain new technological progress have been fruitless and China is now consolidating as the engine of world economy and technological development power, with a 10.000% per cent growth in the number of patents the US has granted China between 2001 and 2020. In absolute terms, this was a 260 increase in 2001 and 27000 in 2021, exceeding by far the 19000 granted to Germany (Federal Reserve Bank of St. Louis, 2021).

On China, President Biden has clearly shown his intention to continue along his predecessor´s action lines. He said that he sees Beijing as the “most serious competitor”, because of the threat it represents for democratic values. He has also mentioned the need of facing economic abuses of the Asian giant, human rights violations, intellectual property damage and global governance (The White House, 2021 a). However, unlike Trump, Biden is willing to make use of selective cooperation, with the purpose of facing areas of mutual interest that require efforts from both countries, as for instance, climate change.

Simultaneously, Biden maintains US confrontation with Russia inherited by the previous administration, thus deteriorating the bilateral relationship. In response, Vladimir Putin and Xi Jinping strengthened their “strategic partnership” (Isachenkov et al, 2021), revealing that US belligerence has induced a close relationship with countries that the United States believes challenge its hegemony. In a diplomatic spiral, Biden seeks to strengthen alliances and induce countries to align, “to pick sides”, as it happened with the Quadrilateral Security Dialogue, QUAD, or the costly alternative of staying at the margins (Zhang, 2020).

In the world triangle comprised, on one hand, of the United States and its allies and, on the other, China and Russia, and the amorphous others very distant from a Non-Aligned Movement, it is evident that this battle is far from the Cold War, for ideological reasons, because it is rather an imperialist dispute for economic, political, geostrategic, technological and military power. Furthermore, there is also an outstanding interconnection of various countries around the world, derived from the globalization process and the emergence of various power centers that, in one way or another, affect decision making in the international scenario.

Biden introduced and convinced the leaders of the Group of Seven to join the "Build Back Better World" B3W strategy, and with the “Green Belt and Road”, as democratic credit alternatives to Chinese loans, a sort of spearhead authoritarianism throughout the world (The White House 2021d), the United States would concentrate on Latin America and the Caribbean, whereas the other G7 nations would focus on countries of their particular interest. The B3W initiative will contribute hundreds of billions of dollars in infrastructure project credit and, thus, fight China and stop its growth and influence in the world (The White House, 2021d). This attempt made Biden meet with Putin, in a meeting where millimetric preparations on both sides could not fail. US interest does not lie in turning Putin into an ally, only in silencing him around US policy against China and cooling off –or slowing down-close economic, military and spatial ties of US rivals. It did not take long for Europe to react, manifest and substantiate its decision to speak through its own voice with the two countries. Merkel's possible successor, Armin Laschet, declared the need to defend German interests and to have a good relationship with its main export destination, whereas, Merkel and Macron planned a summit with Putin to agree on "paths of flowing dialogue" and joint actions on issues of reciprocal interest (Fleming et al, 2021). That is why, it comes as no surprise to see Biden´s conciliatory signs to Russia, by freezing military aid to the Ukraine, cancelling sanctions to companies building the Nord Stream gas pipeline between Russia and Germany, authorizing the return of ambassadors and announcing the establishment of a permanent dialogue to ensure Strategic Stability, turning Russia from an enemy to a pillar of order, as mentioned in the joint communique (The White House, 2021e). In politics, nothing is written on stone, everything flows and moves.

## III Does T-MEC open new paths to integrate economic potential of the North American Region?

In this one-year T-MEC anniversary, the content and scope of which is explained in detail in Puyana (2020), and after six months of Biden taking office, it is worth asking how this new agreement differs from NAFTA, a national economy framework for over two decades. It makes no sense repeating the many and very serious assessments of NAFTA, but rather specifying relevant changes that allow to expect different results and if they are appropriate for current contingencies, as for instance, pandemic and globalization effects, that have exacerbated economic cycles, low economic growth, and greater inequality in functional income distribution and revealed the dependence cost of the domestic inputs and final consumer goods market on value chains and, for developing countries, difficulties advancing towards the most capital intensive production fragments. All this questions even more the absence of selective productive sectoral policies.

Is T-MEC the instrument to meet claims of more State intervention in the planning and implementation of economic policy in general and sectoral in particular, suggesting the return of the Developmental State invoked by Biden? Does it allow economies to grow with more jobs and better salaries and does the “Buy American” strategy mean “Buy T-MECian”, extending privileges throughout the entire T-MEC region, and does it mean incentives will be provided in the United States and Mexico, to replace US imports from China and its technological capacity? Regardless of the declared decision to stop the push of the Chinese economy and reduce trade relations, these questions have no answers in relevant official documents (The White House, 2021f, 2021g).

The integrationist project is related to the interest that each signing country grants it and it depends on the weight each country has in the world scene. For the United States, the world economic power, the world is its region of influence, an evident reality even when considering only effective trade ties that shape exchange networks among countries, in which the US, China and the European Union constitute global focal nodes, while Canada and Mexico are relatively isolated markets in the world commercial scenario. Smaller countries, like Chile and Peru, have a more diversified trade structure than Mexico, regardless of their lower industrial development. Therefore, it might not be urgent, but it is prudent, to diversify the trade structure of goods, as well as origin and destination markets.

Another point that reinforces difficulty in trade integration, of partners with a different degree of development and industrialization, is the evidence of non-convergence in per capita income or their growth rates, which were not verified in NAFTA or the European Union. On the other hand, instead of closing distances, there was an increase in divergence of the Canadian, Mexican and US economies (Puyana, 2020). Convergence, or the reduction of the per capita GDP standard deviation of all three countries, took place between 1954 and 1982 with the explosion of the debt crisis that year and, with the instauration of the liberal model, the opposite process took place, but with a faster dispersion, as of the signing of NAFTA until now. So, the question arises: will T-MEC help narrow distances for regional integration? (Puyana, 2021).

The regional economic capacity covered by T-MEC cannot be denied, especially in terms of GDP, GDP per capita, manufacturing value added or trade exchange (Table 1). Nonetheless, that potential may be thwarted given different interests and development strategies in each country, as well as gaps reinforcing the need of establishing to what degree US interests, expressed in Biden administration strategies, coincide with Mexican interests.

For instance, weighing the degree at which Mexican national interests antagonize or reduce their political and economic relations with China and Russia, in order to support US strategies. This is due to evidence on the effects of asymmetric integration of the Mexican and US economies, an increasingly growing imbalance since the instauration of NAFTA.

**Table 1**

**2020 North American and Chinese Potential**

| | | | | EU es… veces mas grande que… | | China es… veces mas grande que… | |
|---|---|---|---|---|---|---|---|
| **Serie** | **País** | **1990** | **2019** | **1990** | **2019** | **1990** | **2019** |
| Población total (millones) | Canadá | 27.7 | 37.6 | 9.0 | 8.7 | 41.0 | 37.2 |
| | México | 83.9 | 127.6 | 3.0 | 2.6 | 13.5 | 11.0 |
| | Estados Unidos | 249.6 | 328.2 | N/A | N/A | 4.5 | 4.3 |
| | Total TMEC | 361.3 | 493.4 | 0.7 | 0.7 | 3.1 | 2.8 |
| | China | 1,135.2 | 1,397.7 | 0.2 | 0.2 | 1.00 | 1.00 |
| PIB (miles de millones) | Canadá | 976.8 | 1,615.4 | 10.0 | 12.3 | 0.6 | 8.2 |
| | México | 429.7 | 1,180.4 | 22.8 | 16.9 | 1.4 | 11.3 |
| | Estados Unidos | 9,807.2 | 19,939.0 | N/A | N/A | 0.06 | 0.7 |
| | Total TMEC | 11,213.7 | 22,734.8 | 0.9 | 0.9 | 0.05 | 0.6 |
| | China | 593.5 | 13,284.4 | 16.5 | 1.5 | 1.00 | 1.00 |
| PIB per cápita (miles) | Canadá | 35.3 | 43.0 | 1.1 | 1.4 | 0.01 | 0.2 |
| | México | 5.1 | 9.3 | 7.7 | 6.6 | 0.1 | 1.0 |
| | Estados Unidos | 39.3 | 60.7 | 1.00 | 1.00 | 0.01 | 0.2 |
| | Total TMEC | 79.7 | 113.0 | 0.5 | 0.5 | 0.01 | 0.1 |
| | China | 0.5 | 9.5 | 75.1 | 6.4 | 1.00 | 1.00 |
| Exportaciones (millones) | Canadá | 245,811 | 511,176 | 3.7 | 4.6 | 0.3 | 4.8 |
| | México | 80,367 | 458,382 | 11.3 | 5.1 | 1.0 | 5.4 |
| | Estados Unidos | 907,632 | 2,339,439 | 1.00 | 1.00 | 0.1 | 1.1 |
| | Total TMEC | 1,233,810 | 3,308,998 | 0.7 | 0.7 | 0.1 | 0.7 |
| | China | 80,801 | 2,457,141 | 11.2 | 1.0 | 1.00 | 1.00 |
| Importaciones (millones) | Canadá | 244,300 | 538,440 | 4.2 | 5.4 | 0.3 | 4.3 |
| | México | 85,140 | 461,341 | 12.2 | 6.3 | 0.7 | 5.0 |
| | Estados Unidos | 1,035,674 | 2,907,351 | 1.00 | 1.00 | 0.1 | 0.8 |
| | Total TMEC | 1,365,113 | 3,907,132 | 0.8 | 0.7 | 0.05 | 0.6 |
| | China | 63,256 | 2,303,657 | 16.4 | 1.3 | 1.00 | 1.00 |

Internal figures based on World Bank data. Trillions of dollars.

Because of the dimension and dynamic of the domestic Chinese market, 4 times bigger than the Mexican and Canadian markets together, and 11.3 times bigger than the Mexican one, it is not clear that incentives to invest in the United States will cancel out economies of scale offered by the Chinese market. The importance of China is even greater considering that it is 20% richer than all three North American countries, for it concentrates one fifth of total income, considering that the Chinese high income market amounts to 2.8 billion dollars, some five times higher than that of Canada and Mexico and only about 40% of the US. The weight of the Chinese economy throughout the world and in the North American region is even more relevant, since it was the only one without negative growth in 2020 and it is expected to expand considerably in 2021. In 2020, COVID-19 pandemic contracted the Mexican economy by 8.2% and its expected recovery in the following years depends on external and internal factors, as for instance, the speed of world and national vaccination campaigns, US growth dynamics and private investment growth (World Bank, 2021). It must be noted that country dynamics forecast a small total GDP and per capita convergence of Mexico with Canada and the United States, as well as a major increase of its trade with both countries. In contrast, formidable Chinese advance was made in all variables in Table 1, thus considerably narrowing gaps shown in that Table.

Nonetheless, beyond data and trends shown in Table 1, other factors highlight the economic, political and social importance of Mexico for the United States, as for example, migration, legal and illegal trade, investments and being a clear ally in international affairs and fora. For the US president, other priority areas of the bilateral agenda have to do with migration and security, economic and trade issues, as well as Mexico's compliance of commitments made under the T-MEC labor chapter (Puyana, 2020). These items are ratified in various executive acts, action plans and declarations made by members of the Biden cabinet, as later discussed.

In effect, one of the biggest concerns is that Mexico honors T-MEC labor provisions. That is why the US administration has exerted pressure through lawsuits for the alleged denial of the right to free association and collective bargaining in Tridonex, Matamoros and General Motors, Silao. Both require immediate response. On the other hand, evaluations on T-MEC progress are being demanded (and of all trade agreements), to measure impact on US workers well-being to meet the agreement´s impact on honoring the highest T-MEC labor standards, a fundamental pillar on the Biden administration´s worker centered trade policy (USTR, 2021), ratified as a National Security policy (The White House, 2021b), as seen in the visit Vice President Kamala Harris made to Mexico, with the announcement of 130 million dollar technical assistance for the implementation of the 2019 labor reform, as well as for the eradication of child labor, and improvement of labor conditions in industries of goods exported to the United States, as set forth in T-MEC (The White House, 2021h). Needless to say that the relevance of Mexico for the United States, and vice versa, is not static, because it grows –or weakens-, according to the political and economic cycle, the color of the political party in power and influence of the different states of the American Union. Therefore, this juncture requires reviewing and, if necessary, modifying the direction of that binational policy.

Since Mexico depends on the United States, its main trade partner and export destination, it is necessary to consider that the more urgent and faster economic reconstruction is, the greater the weight of the existing productive and exporting structure, as well as the increase in productivity and efficiency of the entire economy. This does not eliminate the need of simultaneously thinking about the productive structural change strategy and the adoption of selective industrial policies towards economic, social and environmental sustainable development.

Recognition of products where Mexico can benefit and take spaces in the US market that China now occupies, would allow taking advantage of spaces that would be opened in case there is a reduction of advantages for US investors, importers and exporters in China. This will later be discussed. It is a matter of incentivizing these sectors and products through a *Great Push* scheme, prioritizing those with greater capacity to compete in the US market, in the face of Chinese imports, thus building a strategy for Mexico to do well, whatever it is decided for it to do.

**IV After new opportunities**

The already mentioned economic initiatives, especially technological changes planned in important sectors, as for instance, health care, green technologies and the automotive sector, reinforce the need for Mexico to define its national interests, within its foreign relations policy, beyond just defending general principles, such as national sovereignty and non-interference in other countries´ affairs. This is important, for example, with an emphasis on technological change in productive processes, which have a direct impact on social domestic policies, as employment, salaries, income functional distribution, and social and environmental sustainability. These considerations are very important for economies as open as the Mexican one, the openness of which is focused on exchanges with the United States, as already explained.

The zero carbon economy highlighted by the Biden administration and radically opposed to his predecessor´s, demands deep technological and productive changes. It is not only a matter of replacing the automotive park or all existing capital goods, such as machines to produce machines, machines to produce intermediate or final durable or non-durable goods, etc. It is also a matter of providing household goods, electric appliances, as well as materials for infrastructure and housing construction. It is a matter of putting an end to the so called oil civilization, which is no trivial task. Therefore, it is not an easy endeavor to identify eventual opportunities for Mexico in the US market, for it depends on predictable and unpredictable factors, for example, how the authorities, workers, businessmen, and other sectors of society, face and respond to various situations.

First of all, we have in mind complex elements to appreciate and analyze, as for instance, intensity and scope of trade confrontations with China and Russia and, consequently, the degree at which the US private sector will respond. In this scenario, the question is whether Trump´s Chinese-US trade war will be repeated. Then, Mexico displaced China in many goods with little value added in which the Asian giant lost competitiveness because of tariff imposition (Townsend et al, 2019). Similarity of Mexican and Chinese exports to the United States was always considered as a disadvantage to increase Mexican sales, but in the clash launched by former President Trump, it became an opportunity, although limited and unstable, but real, worth considering under the light of new US administration policies. The Similarity Index of Mexican and Chinese sales in the United States is relatively high, but it fell from 05 to 02 between 2010 and 2021. An explanation is the accelerated change in Chinese exports towards goods with greater value added and more technological content, which explains US concerns. In goods in which both countries still compete, Mexico could explore convenient opportunities.

On the other hand, it is important to analyze changes in total US import dynamics between 2019 and 2020, which can be attributed to the pandemic, given the contrast between those two years. Seeing that trend allows to accordingly gauge national strategies. Table 2 shows that decline at different paces, where lower growth and higher decline are evident in oil, and in some manufactured goods of great interest to Mexico, as the automotive sector, where that clear trend is seen, perhaps suggesting technological changes concentrating production again on technology generating hubs, a process through which imports are reduced and their structures and supply markets are altered, even in intensive intra-industry trade activities, that is, import and export flows of similar products, for example, automobiles distinguished by their quality or technological characteristics and content (Puyana et al, 2003).

**Table 2**

**Total US imports. 2015-2020 annual growth**

| | Valor. Millardos de dólares | | | Cambio porcentual anual | | |
|---|---|---|---|---|---|---|
| | 2015 | 2019 | 2020 | 2015-2019 | 2019-2020 | 2015-2020 |
| Alimentos y Bebidas | 127.8 | 150.5 | 154.4 | 17.8 | 2.6 | 20.8 |
| Suministros Industriales | 486.0 | 521.5 | 479.2 | 7.3 | -8.1 | -1.4 |
| Bienes de capital | 602.5 | 677.8 | 646.5 | 12.5 | -4.6 | 7.3 |
| Vehículos automotores | 349.2 | 375.9 | 310.7 | 7.6 | -17.3 | -11.0 |
| Bienes de consumo | 594.2 | 653.6 | 639.3 | 10.0 | -2.2 | 7.6 |
| Otros bienes | 89.3 | 118.2 | 106.4 | 32.4 | -10.0 | 19.1 |
| Petróleo | 182.0 | 193.8 | 116.4 | 6.5 | -39.9 | -36.0 |
| Manufactura | 1,946.8 | 2,158.7 | 2,069.1 | 10.9 | -4.2 | 6.3 |
| Agricultura | 113.8 | 131.2 | 135.9 | 15.3 | 3.6 | 19.4 |
| **Total importaciones de bienes** | **4,491.6** | **4,981.2** | **4,657.9** | **10.9** | **-6.5** | **10.9** |
| Servicios | 768.4 | 875.8 | 697.1 | 14.0 | -20.4 | -9.3 |
| Servicios de mantenimiento y reparación | 19.8 | 27.9 | 15.1 | 40.9 | -45.9 | -23.7 |
| Transporte | 84.4 | 91.1 | 56.4 | 7.9 | -38.1 | -33.2 |
| Viaje | 192.6 | 193.3 | 76.1 | 0.4 | -60.6 | -60.5 |
| Construcción | 2.8 | 3.2 | 2.3 | 14.3 | -28.1 | -17.9 |
| Servicios de seguros | 15.5 | 16.2 | 14.7 | 4.5 | -9.3 | -5.2 |
| Servicios financieros | 115.0 | 135.7 | 135.8 | 18.0 | 0.1 | 18.1 |
| Cargos por el uso de propiedad intelectual | 111.2 | 117.4 | 115.3 | 5.6 | -1.8 | 3.7 |
| Servicios de telecomunicaciones, informática e información | 41.4 | 55.7 | 54.3 | 34.5 | -2.5 | 31.2 |
| Otros servicios empresariales | 141.4 | 189.4 | 185.7 | 33.9 | -2.0 | 31.3 |
| Servicios personales, culturales y recreativos | 24.2 | 23.4 | 18.2 | -3.3 | -22.2 | -24.8 |
| Bienes y servicios gubernamentales | 20.1 | 22.6 | 23.1 | 12.4 | 2.2 | 14.9 |
| **Total importaciones de servicios** | **1,536.8** | **1,751.7** | **1,394.1** | **14.0** | **-20.4** | **-9.3** |

**Source**: Internal figures based on USTR, *2021 Trade Policy Agenda and 2020 Annual Report*.

These modifications in total US import dynamics are complemented identifying those in which Mexico has potential. Seven tariff categories were identified, three of which have a six digit disaggregation in the machine, electrical appliance, semiconductor and aircraft launching parts sectors, as well as four divisions with four digit aggregation, in the automotive, medicine, metals and minerals sectors. Mexico has an action margin to move forward in the four dynamic sectors, where it successfully competes, to increase efforts in Code 8708, in which the country has ceded market share and, on the other hand, it can also leave non-dynamic sectors, where imports are decreasing because of less market demand (Table 4).

**Table 4**

**2010-2019 Mexican export competitiveness to US market**

| SECTOR | CODIGO | Producto | COMPETITIVIDAD* |
|---|---|---|---|
| Semiconductores | 848620 | Máquinas y aparatos de manufactura con semiconductores o electrónicos | Producto competitivo, mercado dinámico |
| | 848690 | Máquinas y aparatos para manufactura de semiconductores y electrónicos | Producto competitivo, mercado dinámico |
| Industria aeroespacial | 880390 | Partes de aeronaves espaciales y de lanzamiento y suborbitales n.c.o.p. | Producto competitivo, mercado estancado |
| Industria automotriz | 8703 | Automóviles de turismo de menos de 10 personas | Producto competitivo, mercado dinámico |
| | 8704 | Vehículos para transporte de mercancías, chasis con motor y cabinas | Producto competitivo, mercado dinámico |
| | 8708 | Partes de tractores, automóviles de personas, turismo y mercancías... | Producto no competitivo, mercado dinámico |
| Productos farmaceúticos | 3004 | Medicamentos mezclados o sin mezclar,terapéuticos dosificados. | Producto competitivo, mercado estancado |
| | 3005 | Apósitos esparadrapos quirúrgicas al detal | Producto competitivo, mercado estancado |
| Minerales raras | 2805 | Metales alcalinos o alcalinotérreos de escandio e itrio, mezclados | Producto competitivo, mercado estancado |
| | 2846 | Compuestos inorgánicos u orgánicos de itrio del escandio o sus mezclas. | Producto competitivo, mercado estancado |

*Producto cuya participación de mercado (competitividad exportadora) aumentó, pero su demanda disminuyó en el mercado estadounidense en 2010 y 2020

**Source**: Internal figures based on ECLAC MAGIC. *= millions of dollars

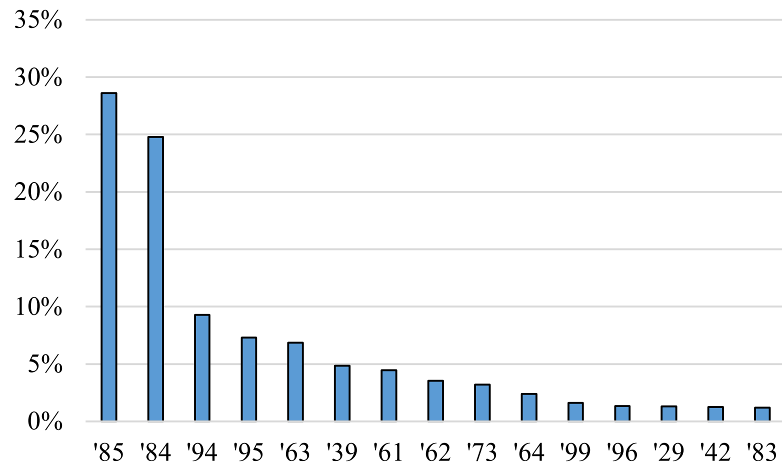
Total US import products were identified. In the 50 product lines, among the 99 two-digit categories during the 2010 and 2021 period, there are 34 in which China and Mexico are among the first 10 suppliers. On the other hand, in 11 of the 34, Mexico´s market share is higher than China´s and in 11 it is the same, while China is higher in 12 items. To be more specific on the most important export products, there are those in which there were more important market share increases for Mexico and, on the other, those with less of a sales fall for Mexican products. These suggestions are just a bird´s eye view impression, suggesting more detailed analysis of the US market and Mexican production. It is not worth doubling selling efforts for a product with falling demand in the USA. Mexico is not interested in promoting said products, because of national or business economic logic and rationale.

According to the US international trade dynamic and structure, as well as to products where Mexico has shown capacity to compete in that market and has displaced Chinese imports, here are some aspects of US exchange with China that may allow to identify products or lines of products, where Mexico can replace China, as an actor affecting intra-regional exchange, since a bigger regional marketplace is a key reference for the United States. In that peculiar triangular scheme, there are two main trade imbalances: while Mexico has an important trade surplus with the United States, it has an important trade deficit with China, and the reverse of the equation is also true: the United States has a trade deficit with

China. The US can reduce its Chinese imports, importing from other countries (Mexico, for instance) or substituting imports with domestic production. Here are some of the trade imbalances among China, USA and Mexico, through economic activity segments, similarity and compared relative advantage rates in that tripartite trade exchange.

In 2020, the United States had a 316,580 billion dollar trade deficit with China. In 65 of the most important 99 tariff fractions (Harmonized System digits), it had an accumulated 360,285 billion dollar deficit. (Graph 3), whereas only 32 had a surplus, with an aggregated surplus of 43,705 billion dollars (Graph 2). Figures in these two graphs clearly show that the USA imports manufactured goods from China and that China imports food, fuels, medicines and raw materials from the United States. This trade balance shows dependence of the US economy on Chinese manufactures and regression in the US manufacturing sector. There is a North-South trade in which, according to the famous Leontief Paradox: Although the United States has the highest per capita GDP and is rich in technology and capital, it is the South that exports natural resource intensive products and China, the less developed nation with a lower per capita GDP, imports more technology intense manufactured goods. This trade relation is the effect of productive processes fragmentation and the creation of global value chains, aimed at increasing capital gains, placing production in countries with lower labor costs and relative high productivity. Therefore, China was the preferred location, due to the two above mentioned conditions and also to its immense domestic market, which guaranteed high economies of scale.

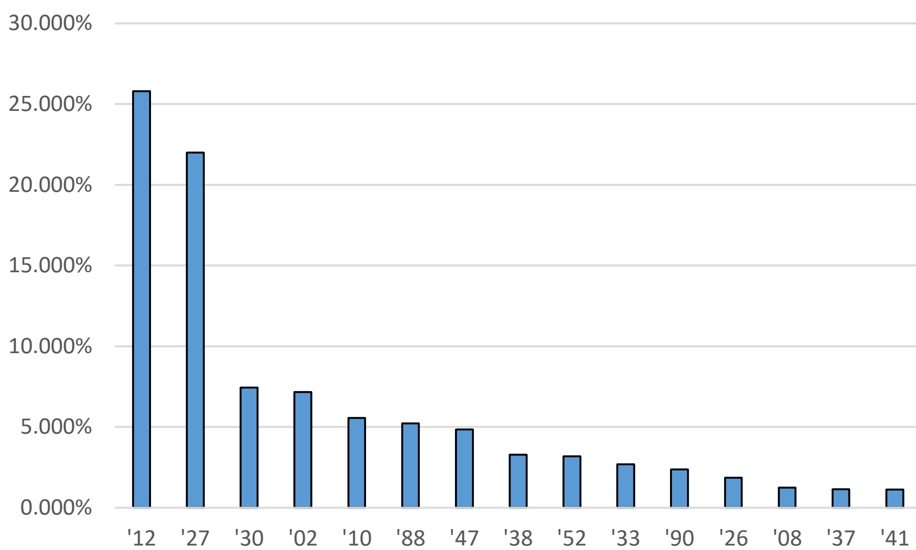
**Graph 2**
**Sectors with a 2020 US-China trade deficit**
**Total sector percentage**




**Source**: International Trade Center, Trade Map, https://www.trademap.org/, consulted 07/06/2021

Graph 2 shows the 15 main surplus sectors with China. Together, they constitute 95% of all surplus sectors with China.

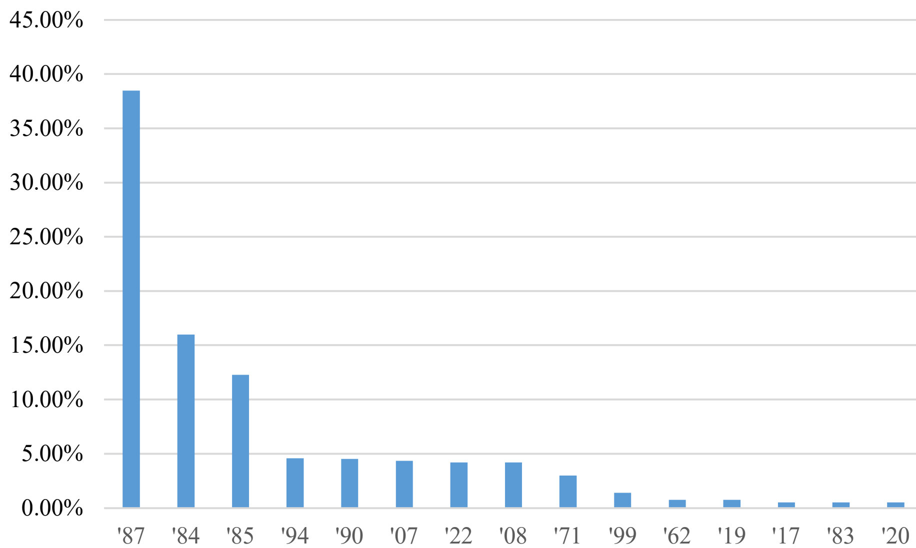
**Graph 3**
**US Sectors with 2020 trade surplus with China**
**Percentage of all surplus sectors**



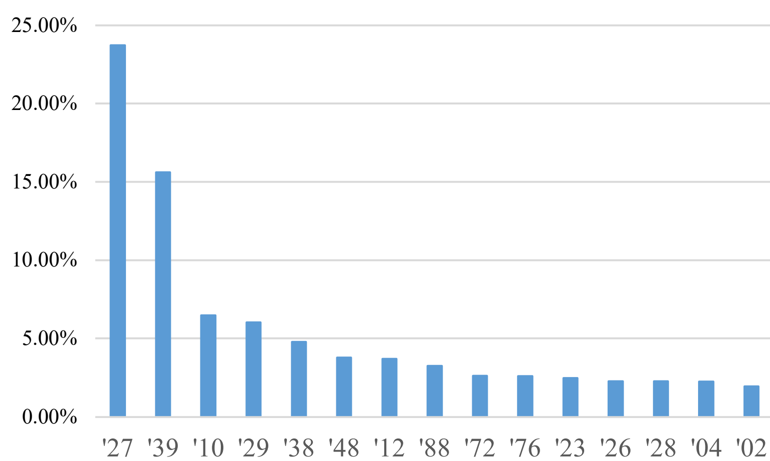

**Source**: International Trade Center, Trade Map, https://www.trademap.org/, consulted 07/06/2021

There is an outstanding parallel in trade exchange between Mexico and the United States, which served as a pretext for Trump´s attacks against Mexico during his presidential campaign, as well as to impose a NAFTA review and the 2018 passing of T-MEC. While in 2020, the US had a 116.2 billion dollar trade deficit in 99 tariff fractions (Harmonized System digits), in 45 it had a 175.2 billion accumulated deficit (Graph 4), and in 51, a surplus, with a 59,031,271 dollar aggregated surplus (Graph 5).

**Graph 4**
**US deficit sectors with Mexico**
**Percentage of all deficit sectors**




**Graph 5**
**US surplus sectors with Mexico**
**Percentage of all surplus sectors**




Therefore, it is clear that the US imports manufactured goods from Mexico, such as fuels, food, steel and elaborated raw material. If that were the only information available, it could be concluded that Mexico, just like China, exports technology intensive goods and imports primary goods, and that would characterize Mexico as an industrial power. However, the truth of the matter is that Mexican manufacturing exports have a high imported content, especially in high technological content inputs or components. On the other hand, Mexican manufacturing production and exports are largely controlled by foreign companies, mainly from the US, whereas manufacturing input imports come from Asia, to then be re-exported to the United States, after adding some value in Mexico (Romero, 2020).

For more details on how Mexico may better compete in the US market, an estimate is made of the Export Similarity Index of both trade rivals.

**IV Chinese and Mexican similarities on exports to the United States**

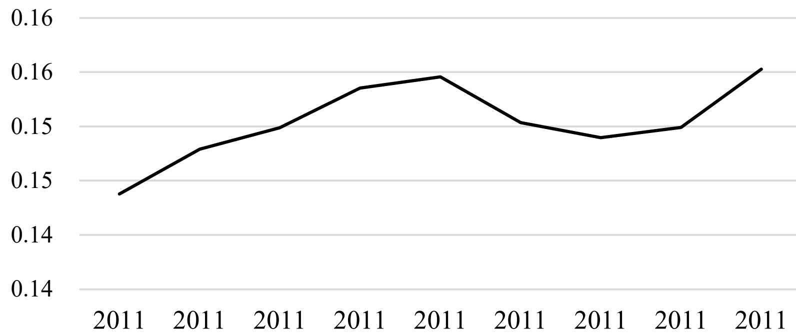
Similarity Indexes are generally used to measure trade competition between two economies in a specific market: if their export structures look alike, they will more likely compete in a more direct manner. Indexes used: Finger-Kreinin Export Similarity Index (FK) (Finger and Kreinin, 1979) and Conformity Coefficient (CC) (Fels and Horn, 1972).

$$FK = \sum_{n=1}^{N} Min\left[s_{it}^{n}, s_{jt}^{n}\right]$$

$$CC = \frac{\sum_{n=1}^{N} s_{it}^{n} s_{jt}^{n}}{\sqrt{\sum_{n=1}^{N} (s_{it}^{n})^2 \sum_{n=1}^{N} \left(s_{jt}^{n}\right)^2}}$$

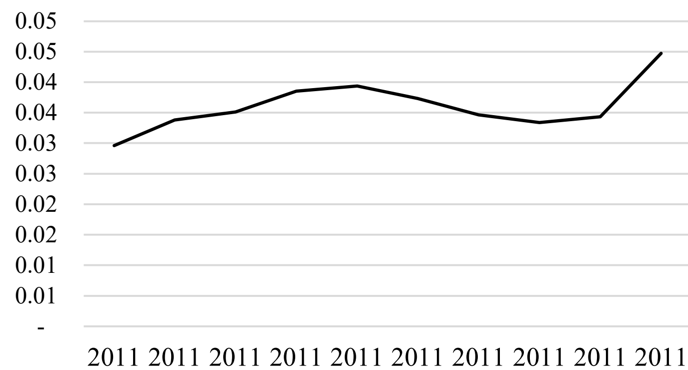
Where $s_{it}^{n}$ represents market share of product *n* in total exports of country *i* to the market of a third country in period *t*; $s_{jt}^{n}$ represents market share of product *n* in total exports of country *j* to the third country in period *t*. Both indexes are between zero and one: as the index increases, there will be more potential trade competition between *i* y *j* in the import market of the third country.

**Graph 6**
**Finger-Kreinin Similarity Index (FK) Mexico and China Exports for 1225 tariff fractions (4 digit Harmonized System)**




**Source:** Internal figures with information from International Trade Center, Trade Map, https://www.trademap.org/, consulted 06/07/2021

**Graph 7**
**Conformity Coefficient (CC)**
**Mexico and China to US for 1225 tariff fractions (4 digit Harmonized System)**




**Source:** Internal figures with information from International Trade Center, Trade Map, https://www.trademap.org/, consulted 06/07/2021

Both indexes show a growing trend in potential competition between Mexico and China in the US market in 1,225 tariff fractions of the harmonized system. That is, US and foreign companies use China and Mexico to supply the North American market with manufactured products. So, both are competing countries in the US market. This opens the door for Mexico to export more to the USA, in case it wants to become independent from Chinese imports.

## V. Conclusions

On the first T-MEC anniversary, the North American political scenario is characterized by a clear progressive orientation, with unprecedented distributive policies and an also clear return to nationalism, different from Trump´s alleged nationalism, although he was the main promotor of NAFTA reforms, which culminated in the adoption of T-MEC.

After examining President Biden´s political initiatives and bills, the most relevant conclusion of this study is that for presidents López Obrador and Biden, as well as for Prime Minister Trudeau, defending national interest, in the political domestic and international arenas, and rescuing the populist ideology of the Democratic Party, is of the utmost importance and priority. This interest is explicitly shown in all presidential and government pronouncements.

In sum, under the Biden administration, the United States is going through multi-faceted changes to respond to the political crisis, created by Trump, and to repair economic, political and social damage derived from the COVID-19 pandemic and, in the midst of these impacts, there is growing inequality and poverty in US society.

Biden advances progressive economic actions, with an evident determination to strengthen the presence of the State in the conduction of anti-crisis and redistributive policies, which in international diplomacy imply returning to interventionism that has historically characterized the United States. It is legitimate to argue that both, internal and external strategies, obey the need to recover hegemony, fighting COVID-19 impact, weakening *trumpism* –considering midterm elections and a second Democrat term. However, it seems that for Biden all that revolves around confronting China and weakening ties between both countries' economies.

Expectations, that a political and economic shift in the United States, would open news opportunities for economic development and growth in Mexico, a geographical neighbor and closely linked to the US economy, especially through NAFTA and T-MEC, should be weighed considering economic and political asymmetries, because they have made it difficult and continue making it difficult, now and in the future, to turn the North American region into a European Union type of arrangement, which is an impossible vision, given the US reluctance to conceding even an iota of its sovereignty.

Paradoxically, in this new era, opportunities for Mexico are linked to the process of the US confrontation with China, as well as to trade reductions between both economies. If both of those avenues unite, Mexico may expand its sales to the United States, in an interesting universe of goods identified as of strategic interest for Biden in his *Buy American* policy. Besides, Mexico is already exporting many of those products. Another group of products are those in which Mexico has shown exporting capacity and has displaced China and other competing countries, from the US market. However, all this is subject to the US detaching from China, as well as to US businessmen response. Mexico´s increasing exports and intensifying productive integration will depend on its compliance with T-MEC agreements, especially with regards to labor reform enforcement. What has to be considered, even if all labor protection measures are accepted, is if the speed and direction of that compliance should be ruled only by instances created by T-MEC or by other more relevant principles.

Known bilateral relation issues are still in effect, although it is to be expected that they will be treated differently: on one hand, migration, where Biden´s and Harris´ non harsh faces, are a good omen and promise of mutual cooperation.

In the current convoluted international order and with ascending power poles, first of all, it is timely to explicitly define Mexican national interest and, second, to question to what degree and measure Mexico is benefited by the US confrontation with China and Russia, as well as by supporting Biden in his antagonism with those two countries or other nations. On the other hand, the Mexican vaccination campaign is a positive example of benefits of cooperating with all nations. Mexico signed agreements with various countries and vaccine producing companies, including China and Russia. Defending national interest is the first element in any government´s foreign policy. It is a principle that might pay off even in trade terms, although it is not the main purpose of that position.

Mexican exports could considerably increase, in amounts and relevant activities, through the materialization of opportunities identified in this study, regarding the US importing structure, competitiveness rates and similarity indexes in Chinese and Mexican sales to that market, as well as priorities in infrastructure and automotive industry modernization programs, to reduce dependence on Chinese imports of final goods, inputs and components. Effects on production and jobs would be important, provided this substitution process is properly implemented, that is, for this import substitution in Mexican territory to take place with majority participation of national capitals, in new exporting companies or expanding participation of national capital in existing ones. These joint ventures are more conducive to proprietary technological knowledge development and the accumulation of necessary skills, for the consolidation of autonomous innovation systems (Romero, J. 2020).

If this path is not consolidated, import substitution would be limited to consolidating and expanding the *maquila* or in bond regime, as well as Mexico´s insertion at the lowest echelons of the international value chain in the last 40 years, with poor effects on economic growth and social progress.

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