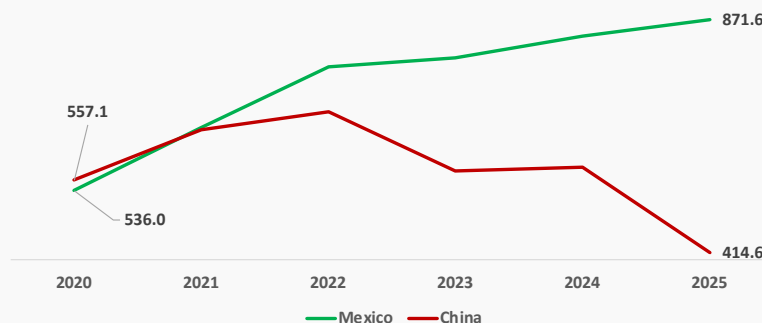


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Mexico's Trade Lead Widens The Reconfiguration of U.S. Trade

Geopolitics, North American Production, and Arizona's Strategic Position

Figure 1. The Widening U.S. Trade Gap: Mexico and China, 2020–2025
Total U.S. bilateral goods trade, US\$ billions

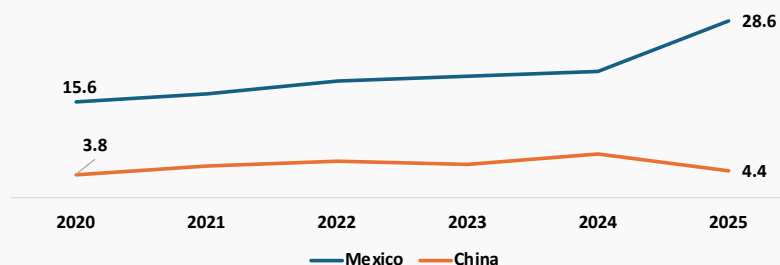


Source: U.S. Census Bureau, Foreign Trade; U.S. Trade Representative country profiles.

Note: Total bilateral goods trade equals U.S. goods exports plus U.S. goods imports.

At the state level, the contrast is even more pronounced. Arizona's goods trade with Mexico increased from \$15.6 billion in 2020 to \$28.6 billion in 2025, while trade with China stood at \$4.4 billion in 2025. By 2025, Arizona–Mexico goods trade was approximately 6.5 times larger than Arizona–China goods trade.

Figure 2. Arizona Goods Trade with Mexico and China, 2020–2025
Total bilateral goods trade, US\$ billions



Less than a decade ago, China was the United States' largest goods trading partner. Today, U.S.-Mexico trade is more than twice the size of U.S.-China trade. In July 2026, bilateral goods trade with Mexico reached \$94.8 billion, compared with \$36.8 billion with China. The reversal is one of the clearest indicators of a broader reconfiguration underway in the international political economy.

The transformation has developed over several years. U.S.-China tariffs changed sourcing incentives beginning in 2018; the USMCA reinforced the institutional framework for North American production in 2020; supply-chain disruptions increased the value of resilience and proximity; and industrial policy, technology controls, and economic-security concerns have increasingly connected trade decisions to geopolitical priorities. Mexico became the United States' largest goods trading partner for the full year in 2023, and the gap with China has since widened substantially.

What is changing is therefore not simply the geography of trade, but its underlying logic. Cost and efficiency remain important, but they increasingly coexist with resilience, security, political alignment, regional content, and strategic control over technology and critical supply chains. The result is a more regionalized and geopolitically conditioned international economy.

Mexico occupies a distinctive position within this reconfiguration. It combines geographic proximity with USMCA access, deeply integrated manufacturing networks, and growing relevance in technology-intensive trade. For Arizona, this transformation is particularly consequential because semiconductors, electronics, mining, advanced manufacturing, and logistics place the state directly at the intersection of North American economic integration and global geopolitical competition.

Executive Takeaway

- **Mexico's lead reflects a structural economic shift: U.S.-Mexico goods trade is now more than twice U.S.-China trade, revealing a deeper reorganization of U.S. commercial and production relationships.**
- **Geopolitics is increasingly shaping trade: Industrial policy, economic security, rules of origin, technology controls, and efforts to limit non-market inputs are making strategic alignment more important to supply-chain decisions.**
- **Arizona is positioned inside the reconfiguration: The state's semiconductor, electronics, mining, advanced-manufacturing, and logistics capabilities connect it directly to the emerging North American production system.**

Top Developments

1. Mexico's trade lead over China has reached a new scale

The latest figures show a trade relationship operating at a fundamentally different scale. In July 2026, U.S.-Mexico goods trade reached \$94.8 billion, compared with \$36.8 billion with China. From January through July, U.S.-Mexico goods trade totaled \$588.5 billion, versus \$221.6 billion with China - a ratio of about 2.7 to 1. July imports from Mexico also reached a record \$60.5 billion.

The contrast is sharper when viewed historically. China was the United States' largest goods trading partner in 2018. Mexico moved into first place in 2019, China returned to the top during the exceptional pandemic year of 2020, and Mexico became the annual leader in 2023. The widening 2026 gap indicates that this is no longer simply a change in rankings.

Why this matters: Mexico's lead is an empirical signal of a deeper restructuring in U.S. international economic relations. Trade is becoming more concentrated within North America at the same time that U.S. exposure to China is being reassessed in strategically important sectors.

Further reading: Census: Trade with Mexico; Census: Trade with China; Census/BEA: July 2026 Trade Release

2. The shift is moving beyond trade volume into production

The transformation is not simply a substitution of Mexican imports for Chinese imports. Mexico's position rests on production networks that connect factories, suppliers, logistics systems, and final markets across the U.S.-Mexico border. USTR identifies automotive, electronics, medical devices, and other industrial sectors as areas of deep North American integration, while the 2026 USMCA negotiations have focused directly on rules of origin for key industrial goods.

Intermediate goods and components can cross the border multiple times before final assembly, making Mexico part of the production process rather than only a source of finished imports. The current policy agenda seeks to deepen that regional content while limiting non-market inputs and free-riding by non-parties.

Why this matters: The structural change is from trade as exchange toward trade embedded in regional production. That makes North American manufacturing capacity, supplier networks, and rules of origin increasingly important measures of competitiveness.

Further reading: USTR: Bilateral Discussions, March 2026; USTR: First Bilateral Round, May 2026; USTR: Second Round, June 2026

3. Technology is becoming a defining part of Mexico's advantage

Technology-intensive trade provides one of the clearest signs of the reconfiguration. In information-and-communications advanced technology products, U.S. imports from Mexico rose from \$57.3 billion in January-July 2025 to \$104.9 billion in the same period of 2026. Comparable imports from China fell from \$32.1 billion to \$20.4 billion.

The divergence should not be interpreted as a direct one-for-one relocation of production from China to Mexico. Chinese firms and inputs remain important across global technology supply chains. But the scale and direction of the change show that Mexico is becoming substantially more important to U.S. technology-related sourcing and production at the same time that China's position is contracting in this category.

Why this matters: The shift now reaches sectors central to digital infrastructure and advanced manufacturing. That moves the U.S.-Mexico relationship beyond traditional automotive integration and directly into industries shaping the next phase of international economic competition.

Further reading: Census: Advanced Technology Products - Information & Communications; USTR: Mexico Country Profile

4. Economic security is reshaping the meaning of proximity

Mexico's advantage is increasingly about more than distance or labor costs. U.S. policy is connecting trade preferences to economic security, rules of origin, regulatory compatibility, and control over sensitive technologies and non-market inputs. In March 2026, U.S. and Mexican negotiators were instructed to identify ways to increase bilateral production while limiting non-market inputs in North American supply chains.

The process became more explicit during the 2026 USMCA negotiations. The two governments discussed economic security alongside automobiles, steel and aluminum, and industrial rules of origin. In July, USTR reported that Mexico had updated its regulation of dual-use exports to align more closely with U.S. controls. The United States and Mexico also emphasized growing North American manufacturing, strengthening regional supply chains, and addressing free-riding by non-parties.

Why this matters: Proximity now has a geopolitical dimension. In strategic industries, Mexico can offer not only geographic access to the U.S. market but also an institutional framework for traceability, policy coordination, and regional economic-security cooperation that is fundamentally different from the U.S.-China relationship.

Further reading: USTR: Economic Security Discussions, March 2026; USTR: Third Bilateral Round, July 2026; USTR: Greer-Ebrard Joint Statement, July 2026

5. Arizona sits inside the emerging North American economic structure

Arizona is unusually involved in this transformation because its industrial profile overlaps with the sectors being reorganized. Mexico is the state's top trading partner: Arizona exported \$14.6 billion to Mexico and imported \$14.0 billion in 2025. Arizona also ranked among the leading U.S. states in computer equipment, semiconductor and electronic-component, metal-ore, and aerospace exports.

The connection is increasingly technological. Arizona exported \$5.8 billion in computer equipment, \$2.1 billion in metal ores, and \$780 million in semiconductor and other electronic components to Mexico in 2025. Imports from Mexico included \$3.7 billion in computer equipment and \$879 million in electrical equipment and components. These flows place Arizona directly within the production networks linking U.S. technology investment to Mexican manufacturing.

Why this matters: Arizona's strategic opportunity is not simply to trade more with Mexico. It is to strengthen its position as a high-value node in a North American production system increasingly shaped by technology, economic security, and geopolitical competition.

Further reading: Arizona Commerce Authority: 2025 International Trade; Arizona Commerce Authority: Arizona-Mexico Trade; Global Chamber: U.S.-Mexico Semiconductor Collaboration Forum

HERE'S THE CHALLENGE

Turning Global Economic Reconfiguration into an Arizona Strategy

Mexico's widening trade lead is one manifestation of a larger transformation in the international political economy. For Arizona, the opportunity is to identify where regionalization, technology investment, economic-security policy, and changes in U.S. sourcing create commercially viable advantages. A credible strategy requires product-level evidence, qualified counterparts, USMCA eligibility, infrastructure capacity, and measurable outcomes.

The key question is: Where can Arizona capture additional value as North American production becomes more integrated and the international economy becomes more geopolitically structured?

Mistakes to avoid

- Treating Mexico's trade lead as proof that China is no longer economically important
- Assuming that regionalization means Chinese inputs have disappeared from North American supply chains

- Using broad nearshoring narratives instead of identifying products, suppliers, rules of origin, security requirements, and infrastructure constraints

Where Arizona organizations can act

- Map Arizona-Mexico value chains in semiconductors, electronics, advanced manufacturing, mining, and logistics
- Identify product categories where changing U.S. sourcing and economic-security policy create concrete Arizona-Mexico opportunities
- Build an Arizona strategy for the USMCA era focused on regional content, strategic technology, border infrastructure, and supply-chain resilience

How the Arizona Institute for the Americas Can Help

The Arizona Institute for the Americas translates international economic and geopolitical change into Arizona-specific strategic intelligence, sector mapping, counterpart selection, policy analysis, and executive engagement strategy.

About the Arizona Institute for the Americas

The Arizona Institute for the Americas is an independent strategic intelligence institute analyzing developments across the Americas that shape Arizona's economy and regional position. We turn policy and market change into business intelligence, partnerships, and sustained initiatives.

Contact

Contact us to build a focused Arizona strategy for North American economic integration and global competition.

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