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# Friend-Shoring Is Already Reshaping Global Trade

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*A box with the label "Made in Mexico" is displayed in a shop in the border town of Tijuana, Mexico, June 5, 2019 (DPA photo Omar Martínez via AP Images).*



Earlier this year, the global economy experienced an important milestone that went largely unnoticed. But in the future, scholars may look back on it as a marker of the beginning of a new era,

with not only economic but also strategic and geopolitical significance: For the first four months of this year, Mexico surpassed China as the top trade partner of the United States.

The era of fast-expanding global trade, turbocharged by China's entry into the World Trade Organization in 2001, has been losing impetus and is now entering a new phase. The fact that Mexico dethroned China as the principal partner of the world's largest economy confirmed that near-shoring and friend-shoring are more than fashionable labels. Instead, they are trends that are reshaping the way countries deal with each other.

Until now, states had been focusing exclusively on maximizing trade volumes and minimizing costs, without much attention to the strategic and political aspects of bilateral trade. But near-shoring and friend-shoring take into consideration other factors whose importance became most palpable and most politically sensitive during the COVID-19 pandemic.

From the moment China joined the WTO and saw tariffs for its products removed across the globe, its share of global manufacturing started growing at a quickening pace. Over the years, that process sparked worries and complaints, occurring as it did in parallel with the rapid dismantling of manufacturing industries in the West and, with it, the plummeting of employment in what used to be well-paying factory jobs. That was particularly the case in the U.S., where many found it impossible to compete with China's low production costs and wages.

China's rise was inversely related to U.S. employment, with higher unemployment in the industries and regions most exposed to Chinese competition, according to Luis Torres, the senior economist with the Federal Reserve Bank of Dallas who cast the spotlight on Mexico surpassing China as the top U.S. trade partner.

For decades, despite complaints from workers and emerging concerns from other sectors, the benefits of rising trade with China for consumers, who suddenly found a vast array of products more affordable than ever, and for business owners, who expanded profit margins by relocating production to low-cost China, meant that the reigning mantra of free trade lifting all boats won the day.

In 2014, China overtook Canada as the United States' top trading partner and held onto the spot until this year. Over time, China also became the top trading partner for most of the world.

That trend started to change in 2018, when the administration of then-President Donald Trump began imposing tariffs on Chinese products. But the series of events that propelled the shift came with the pandemic. First, political tensions with China worsened when, after the novel coronavirus first emerged, Beijing initially tried to conceal the growing crisis and later erected barriers to scientific investigators seeking information on the pandemic's origins. It even tried to claim that the U.S. Army was to blame for it.

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As the pandemic took hold, a new awareness emerged of just how dependent on China the U.S., Europe and the world had become—and how perilous that was. Around the globe, demand for facemasks and other urgently needed items could not be met because most of the supplies came from China, which hoarded them for its own needs.

Then came the supply chain chaos that created massive shortages of all manner of products. China's draconian pandemic lockdowns until late last year and Russia's all-out invasion of Ukraine in February 2022 combined to create disruptions that touched the lives of consumers everywhere.

Suddenly, the notion that access to cheap products through unfettered globalization was worth the cost came into question. That marked a political tipping point. Despite deep polarization, Democrats and Republicans in the U.S. agreed that countering China and reducing dependence on its manufacturing were important goals.

The need to de-risk Western economies from exposure to China's, if not to decouple them entirely, was embraced almost unanimously in Washington and many other Western capitals. The push was on to boost trade with friendlier countries, preferably those in geographical proximity.

It was a moment made for Mexico.

When U.S. President Joe Biden took office in 2021, he kept Trump's tariffs in place. At the same time, Beijing's dealings with China's private sector, including the disappearances of prominent figures, added to concerns among investors, who looked for alternatives.

China continued to offer advantages, including a strong infrastructure and cheap labor, and U.S. trade with China continued to grow, but not as fast as it did with Mexico. And importantly, trade with Mexico grew on both sides of the ledger. U.S. imports from China in 2022 totaled \$537 billion, with China buying just \$154 billion worth of U.S. goods, or \$3.48 in imports for every dollar of exports. With Mexico, trade is much more balanced, with \$1.40 in imports for every dollar of exports.

Whatever we call this new era—de-risking, near-shoring, friend-shoring or regionalized globalization—there is every reason to expect it will continue.

Whether or not Mexico will continue to be one of its main beneficiaries is not guaranteed. It faces stiff competition from other countries vying to replace China, including Vietnam, one of the front-runners.

Mexico suffers from deficient infrastructure, and its business sector must contend with a populist president who at time appears determined to publicly antagonize them, which is generally a popular stratagem. President Andres Manuel Lopez Obrador, known as AMLO, has moved to nationalize private firms and block foreign investors in some industries. His term ends next year.

Much will depend on how the winner of next year's election—AMLO's heir-apparent Claudia Sheinbaum or opposition candidate Xochitl Galvez—deal with this extraordinary moment in history, when geopolitical realities have created a unique opportunity to accelerate employment and economic growth in a country so long plagued with poverty.

If globalization didn't turn out to be the win-win that its proponents claimed, the rise of Mexico would, in fact, benefit everyone—except perhaps China. Prosperity in Mexico would radiate across Central America, a troubled region; it would ease the pressures of migration with all the fodder it gives to dangerous demagogues; and it would make the U.S. more secure, with supply lines closer to home and in the hands of a democratic country.

If the trend continues, which seems likely, the moment when China stopped being the United States' top trading partner will take its place in the history of global economics and politics as a turning point between eras.

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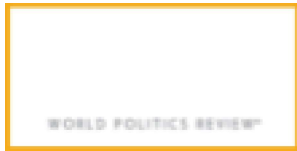
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