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Strategic Context

Upgrading North America Bet 1.0

The United States–Mexico–Canada Agreement (USMCA) entered into force on July 1, 2020, following months of intensive renegotiations of the North American Free Trade Agreement (NAFTA) (August 2017–September 2018) and its subsequent ratification by all three countries. This working paper refers to the NAFTA era (1994–2020) as "North America Bet 1.0" to characterize the first major experiment in regional economic integration. Unlike its initial phase, which operated for over two decades without a renewal mechanism, the USMCA introduced a largely unprecedented review and term extension provision ("sunset clause") — the first of its kind in any U.S. free trade agreement — requiring a mandatory joint review every six years, with the first scheduled for July 2026.

Since replacing NAFTA, the USMCA has sustained a robust trilateral trade ecosystem, accounting in 2024 for 13.5% of global exports ($3.09 trillion) and 18.4% of global imports ($4.22 trillion). Meanwhile, intra-regional trade reached approximately $1.93 trillion in goods and services, representing 48.2% of total USMCA commerce and underscoring the density of cross-border production linkages. The United States anchors the system as both the leading exporter ($1.9 trillion) and importer ($3.12 trillion). At the same time, continued reliance on extra-regional partners — most notably China as the leading external source of imports ($620 billion) — highlights the strategic importance of the 2026 review for supply chain resilience, industrial upgrading, and North America's geopolitical positioning, despite recent restrictive trade initiatives by the second Trump administration (2025–29).

The USMCA review thus arrives at a defining moment for North American economic integration. It coincides with a period of heightened geopolitical complexity, alongside a rapid wave of artificial intelligence (AI) deployment and a process automation that is reshaping industries, particularly manufacturing, with significant implications for regional trade, investment, and employment in all three countries.

AI, Automation, and the Transformation of Manufacturing

Although the modern concept of AI can be traced back to mid-20th-century theory, its real-world impact has materialized in combination with robotics and complementary digital technologies, shaping the industry 4.0 and fourth Industrial Revolution landscape. Three waves of technology-driven automation and digitalization of production and work can be identified. The first wave of rule-based systems and robotics automated routine, repetitive tasks, including industrial robots on assembly lines. In manufacturing, robots have long been used to weld, paint, and lift, and Mexico has been a rapid adopter. The second wave of digital platforms and data opened new avenues for on-demand services while beginning to affect lower-skilled jobs. Now, a third wave of advanced AI, machine learning, and generative models is unfolding. The public launch of ChatGPT in late 2022 sparked a global debate on AI and work, accelerating awareness that automation is no longer confined to physical tasks but increasingly embedded in design, logistics, quality control, predictive maintenance, and workflow management. This is not unique to North America. China is also developing its own AI strategy, surprising the world with the unveiling of its Deep Seek app in January 2025. This demonstrates that the context for North American cooperation in trade and economics is even more complex, providing additional incentives for a renewed agreement in 2026.

For the McKinsey Global Institute, "[w]ork in the future will be a partnership between people, agents, and robots—all powered by AI." According to U.N. Trade and Development, AI can transform a wide range of cognitive tasks once reserved for highly skilled workers, with potential exposure affecting around 40% of global employment. However, international evidence suggests a mixed employment impact. The Organisation for Economic Co-operation and Development (OECD) points that AI has so far helped high-skilled workers perform their jobs rather than displacing them. At the same time, occupations with high automation risk remain concentrated in lower-skilled and younger worker cohorts. Nevertheless, actual job displacement will depend on the speed of adoption, economic incentives, and the capacity for worker retraining. Historically, automation has reshaped job structures without causing sustained mass unemployment, largely because new tasks, sectors, and investment patterns emerged.

In parallel, OECD research suggests that robotization in advanced economies has been associated with slower offshoring growth since 2010, especially in labor-intensive sectors, altering the calculus of value-chain integration strategies. Yet, robot diffusion remains uneven across regions. In 2024, average global robot density stood at 177 units per 10,000 employees, with the Americas' rate being 131 units, below Asia's 204 units. In 2024, Mexico installed 5,594 industrial robots, six times fewer than the United States (34,164) and roughly fifty-three times fewer than China (295,045), though about 1.48 times higher than Canada (3,787). This robotization gap reflects differing levels of manufacturing automation across North America, with implications for the region's collective competitiveness.

Against this backdrop, recent evidence of an export-employment decoupling pattern in Mexico's manufacturing sector can be consistent with automation signals. These patterns invite analysis rather than inference. The OECD notes that nearshoring is pushing up private machinery investment and supporting an upgrade from low-cost assembly toward higher value-added tasks. At the same time, output growth can concentrate in export-integrated "frontier" plants while the bulk of firms, particularly small and medium business enterprises (SMEs), remain low-productivity and largely non-exporting. Together, these dynamics can shape a dual manufacturing structure that helps explain the observed output-employment decoupling. This aligns with regional evidence showing that Latin America's persistent productivity gap reflects the concentration of technological upgrading among a narrow base of firms, underscoring the financing and coordination constraints that prevent production transformation from diffusing beyond lead exporters.

According to a 2024 National Institute of Statistics and Geography (INEGI) survey, only 2.1% of companies that reported using some digital technology employ AI, and in manufacturing industries, this figure is 1.9%. Mexican enterprises use AI primarily for cybersecurity threat detection, large-scale data analytics, and NLP-driven process automation in customer service and internal operations, while manufacturers deploy it for supply-chain optimization, process control, predictive maintenance, and R&D and product design. But adoption is strongly associated with firm size: nearly one in five large enterprises (18.7%), including 18% of large manufacturing firms that already leverage digital technologies, have integrated AI into their operations. This highlights a fragmented and highly uneven adoption landscape, with AI use mostly concentrated among larger, digitally mature firms that already possess the necessary financial access, skills, and data availability, while SMEs lack these critical enablers.

These technological shifts intersect with structural features of Mexico's labor market. Approximately 65% of total Mexican employment is classified as high automation risk; within the formal sector, vulnerability is particularly acute in manufacturing (73%) and in agriculture, forestry, fishing, and hunting (78%). In the informal sector, 69% of jobs are also in high-risk occupations. Notably, 54.6% of employment in Mexico is informal. As manufacturing pivots toward more capital and technology intensive models, Mexico's traditional comparative advantage based on low-cost labor may erode. This creates a fundamental tension for the Mexican government's Plan México development strategy, which aims to generate 1.5 million new specialized manufacturing jobs in a global environment increasingly shaped by task displacement and cognitive automation. Preliminary data reveals, however, that the Plan México is not yet attracting the private or public investment required to achieve this objective, which is likely to affect future scenarios in the deployment and use of AI in manufacturing.

The USMCA Policy Momentum

The geopolitical dimension has elevated the 2026 review from a procedural assessment into a high-stakes negotiation. Trade access is increasingly leveraged against non-trade

issues such as migration, fentanyl trafficking, and continental defense. The Trump administration has employed tariffs as negotiating instruments, imposing International Emergency Economic Powers Act (IEEPA)-based duties of up to 25%, justified by national emergency claims, alongside Section 232 measures grounded in national security determinations affecting strategic industrial inputs. China introduces a second geopolitical axis, as the USMCA review increasingly functions as a perimeter-building exercise to prevent Chinese goods, capital, and sensitive technologies from using North America as an indirect entry route. As a result, market access for Mexico and Canada has become increasingly contingent on demonstrable alignment with U.S. enforcement priorities.

The USMCA's joint review mechanism itself introduces an additional layer of policy uncertainty. Article 34.7 requires a joint review on the sixth anniversary of entry into force, with parties permitted to submit recommendations at least one month before the meeting. However, uncertainties persist regarding the mechanism's reach. The Free Trade Commission under Chapter 30 serves as the institutional vehicle through which the review is conducted, shaping the practical interpretation of its scope. Unpredictability around enforcement, potential reinterpretations, and interactions with IEEPA and Section 232 tariffs shapes the current policy environment.

The current tariff environment adds another layer of ambiguity by turning the USMCA review into a tariff-relief bargaining channel, rather than a bounded implementation check. In February 2026, the U.S. Supreme Court ruled that the IEEPA does not authorize broad tariffs, leading the White House to terminate the IEEPA-based levies and shortly thereafter impose a temporary 10% global tariff under Section 122 of the Trade Act of 1974. This dynamic amplifies uncertainty, because market-access conditions can shift outside the USMCA's normal disciplines, weakening the predictability that underpins North American integration. And even if the agreement is ratified, uncertainty is expected to remain throughout Donald Trump's presidency, given his consistently changing trade policy, which sometimes contradicts U.S. agreements with its commercial partners. The six-year deadline is proximate, and is likely to pass, as renegotiations continue into the fall. This will introduce further uncertainty in sectors that require greater rule clarity to make major, longer-term investments.

Because nearshoring involves large sunk costs and long planning horizons, policy reliability is central for firms and investors. In this setting, the 2026 USMCA review becomes more than a procedural milestone: It is a focal point around which expectations about market access, enforcement, and tariff risk are formed. The interaction between geopolitical conditionality, the review mechanism, and the evolving tariff environment will shape investment behavior across North America. These dynamics, in turn, frame a set of plausible paths for Mexico's manufacturing integration, ranging from coordinated upgrading to a more segmented, two-speed structure.

Scenario Analysis: Mexico's Manufacturing Futures Under AI Acceleration

Mexico's manufacturing export-led model has long depended on deep integration with North American value chains. However, the strategic environment surrounding that model is shifting in ways that make linear forecasting largely unreliable. Technological acceleration, geopolitical recalibration, labor-market transformation, and institutional uncertainty are intricately shaping the policy arena. Under such conditions, scenario analysis serves not as prediction but as disciplined strategic foresight.

The central question is not whether AI and other automatization technologies adoption will expand, but how it will diffuse across sectors and firm sizes, whether it will be deployed in labor-complementary or labor-replacing ways, and how the 2026 USMCA review will shape expectations about integration stability. The evolution of Mexico's manufacturing integration can plausibly follow three distinct trajectories depending on the interaction between automation intensity, workforce transition capacity, SMEs diffusion, and the geopolitical framing of the USMCA review.

The Three Scenarios

Table 1 — North American Trade's Key Variables and Possible Future Scenarios

Dimension	Strategic Realignment	Path Continuation	Structural Divergence
Automation	Broad adoption with sectoral and regional diffusion	Concentrated in large exporters; SME gap widens	Rapid in enclaves; diffusion and transitions fail
Labor Market	Job recomposition toward technical and supervisory roles	Muted, uneven employment outcomes	Deepening export-employment decoupling
U.S. Perception	Trusted strategic partner	Critical partner with persistent concerns	Displacement risk; institutional weakness
USMCA Review	Renewal under a shared competitiveness narrative; review used to formalize cooperation on supply chains, labor transitions, and standards	High-friction extension, with heightened enforcement and recurring uncertainty	No renewal agreement, leading to annual review cycles, persistent uncertainty, potential drift toward bilateralization, and rising exit pressures

Source: Authors' analysis.
Note: SME refers to small and medium enterprises.

The following scenarios are internally coherent futures that differ primarily along three axes: the breadth of automation diffusion, the scaling of workforce transition and supplier upgrading, and the political interpretation of Mexico's modernization efforts in

Washington during the 2026 review. Scenario plausibility and internal coherence were subsequently validated through semi-structured expert consultations (Table 1).

Strategic Realignment: Coordinated Upgrading

In the first scenario, Mexico successfully reorients its manufacturing model away from one anchored primarily in low labor costs toward a capabilities-based framework grounded in reliability, quality, technological depth, and standards compliance. Automation diffuses not only among large export platforms but also across regions and supplier tiers. Crucially, this diffusion is accompanied by scaled workforce transition systems and supplier upgrading programs that prevent productivity gains from translating into systemic labor displacement.

Employment outcomes in this scenario are characterized less by expansion than by recomposition. Work becomes increasingly distributed across human-machine collaboration, with growing demand for technical supervision, maintenance, systems integration, and hybrid workflow management roles. Rather than producing visible social dislocation, automation reshapes occupational structures in ways that remain politically manageable.

What distinguishes this scenario is institutional credibility. Mexico demonstrates the capacity to govern automation responsibly, align industrial policy with North American competitiveness goals, and reinforce labor compliance in a predictable manner. In this context, the 2026 USMCA review functions as a consolidating moment. As cooperation around workforce development, digital governance, and supply-chain security is formalized, investor confidence strengthens, and the agreement's renewal becomes embedded in a shared competitiveness narrative.

Path Continuation: Uneven Transition

The second scenario reflects a more incremental trajectory. Mexico continues to benefit from nearshoring dynamics and strong export demand, yet automation adoption remains concentrated in large export-oriented firms. SMEs and domestic suppliers struggle to modernize at comparable speed, widening productivity gaps across the manufacturing base.

In this environment, export performance remains robust, but employment outcomes are uneven and regionally concentrated. The export-employment decoupling pattern becomes more visible, though not yet destabilizing. Workforce transition initiatives exist, but they remain fragmented and unevenly implemented, limiting their capacity to absorb occupational shifts at scale.

From a U.S. perspective, Mexico remains indispensable to regional supply chain feasibility but is viewed with persistent concern regarding labor enforcement consistency, supplier diffusion gaps, and exposure to third-country influence in sensitive

sectors. The USMCA review results in extension, yet through heightened enforcement and recurring uncertainty rather than strategic consolidation. Integration persists, but its political foundation remains narrower and more fragile.

Structural Divergence: The Two-Speed Trap

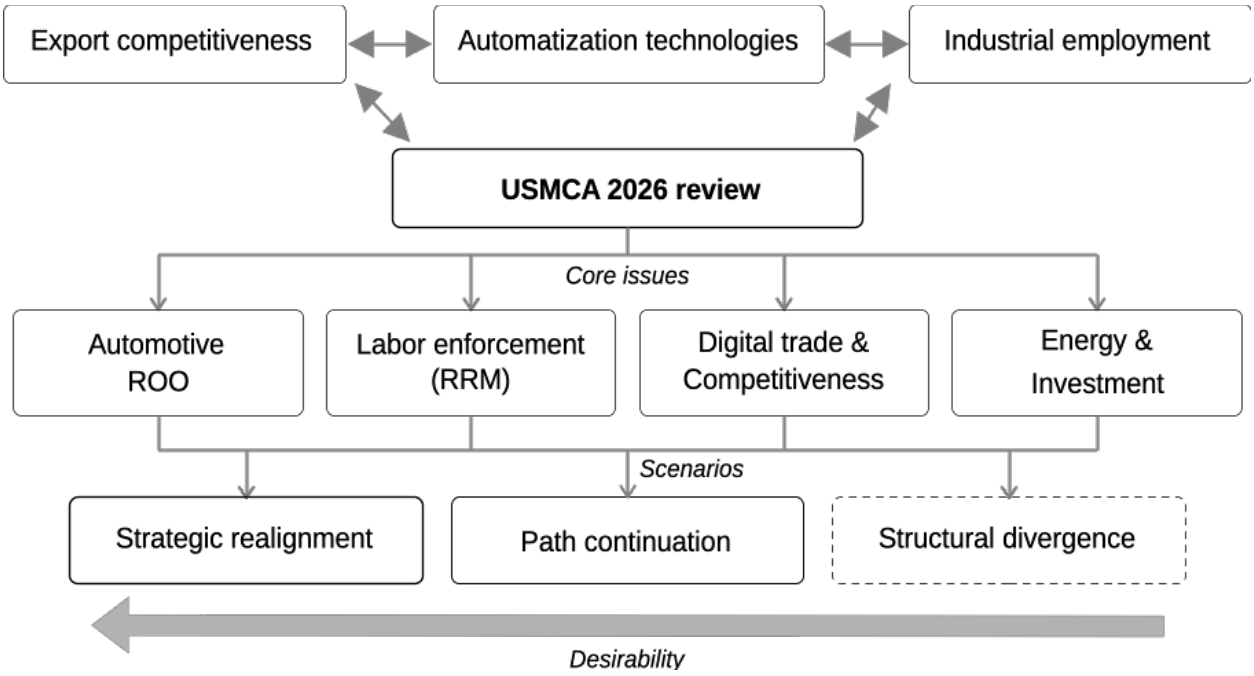
In the third scenario, automation accelerates, but diffusion and transition fail. Advanced production systems expand rapidly within large export enclaves, particularly multinational platforms serving the U.S. market, while workforce transition capacity and SMEs upgrading lag significantly. The result is a two-speed manufacturing structure. Globally competitive export platforms coexist with a broad base of firms and workers unable to adapt to technological change. Without a deliberate policy intervention, the default outcome for Mexico is a deepening regional divide. In this scenario, the North and Central regions, already integrated into global value chains, leverage their capital to pull ahead, while the Southeast remains hindered by educational barriers that prevent workers from acquiring the digital skills necessary for modern manufacturing. Export growth continues, yet employment declines become visible and politically salient. The deepened export-employment decoupling pattern amplifies inequality and regional divergence. This amplifies concerns about labor displacement, compliance, and governance capacity.

This scenario is marked by eroding institutional confidence. Labor enforcement disputes intensify, and investment governance concerns grow. Under these conditions, rather than serving as a stabilizing anchor, the review shifts from stabilization to risk management. In that context, additional uncertainty pressures arise: If non-renewal dynamics gain traction, with a shift to annual review cycles, a potential drift toward bilateralization, and mounting early exit pressures, this could undermine long-horizon investment and regional integration. In that context, Mexico's North America bet begins to unravel, with the potential loss of a comprehensive free trade agreement, weakening both domestic legitimacy and bilateral trust.

Core Issues for the 2026 USMCA Review

Mexico's manufacturing-led export performance has strengthened markedly since 2010, yet recent data point to an emerging decoupling between manufacturing exports and employment. While automation and AI are reshaping production globally, the policy question facing Mexico ahead of the July 2026 USMCA review is more immediate: whether advanced manufacturing investment can continue to raise exports and strengthen value-chain resilience without weakening employment within the export platform. In this context, the 2026 USMCA review represents a strategic inflection point for Mexico. Preserving its role as North America's scalable export platform will depend on capturing productivity gains from automation while sustaining employment linkages across the value chain.

Figure 1 — USMCA 2026 Review's Core Issues and Potential Scenarios Pathways



Source: Authors' analysis.

Within this institutional context, several chapter areas will shape the strategic landscape of the review.

Automotive Rules of Origin

Automotive rules of origin (ROO) are one of the most central variables in the USMCA 2026 review's core issues because they sit at the intersection of industrial policy, tariff leverage, and supply-chain feasibility. The USMCA tightened regional value content to 75% and introduced labor value content requirements (40–45% at $16/hour) alongside steel and aluminum sourcing requirements. These provisions were intended to anchor production in North America. However, as automation deepens, higher compliance thresholds can incentivize consolidation and capital deepening rather than employment expansion.

The 2026 review is likely to see pressure for stricter enforcement or recalibration, if not higher regional content in every unit brought into the United States from Mexico (or Canada). Mexico's competitiveness will depend on lowering compliance friction and preserving scalable duty-free market access for integrated automotive production. More than reopening thresholds, strategies should focus on supporting Tier-2 and Tier-3 supplier upgrading, and targeted facilitation for technology-intensive components that now define vehicle competitiveness.

Labor Enforcement and the Rapid Response Mechanism

Labor governance will remain central to U.S. priorities. The Rapid Response Mechanism (RRM) has already been used to address labor-rights noncompliance at facility level, and its presence shapes investment risk calculations. In an era of capital-intensive, automated production, enforcement design matters. Trade remedies in highly automated facilities may affect workers differently than in labor-intensive plants. Greater clarity in remediation timelines, transparency in enforcement procedures, and predictable compliance pathways will reduce uncertainty-driven investment hesitation. The challenge is not weakening enforcement but aligning labor governance with evolving production structures.

Digital Trade and Competitiveness

Chapter 19 and Chapter 26 provide underutilized institutional space. As AI and industrial data systems become embedded in manufacturing, cross-border data flows, cybersecurity standards, and industrial Internet of Things (IoT) governance move from peripheral to central competitiveness issues. Therefore, these chapters can be used to define a trilateral industrial AI cooperation agenda without renegotiating market access. Consequently, establishing an interoperable regional data framework would accelerate services trade and provide institutional infrastructure to capture knowledge-economy gains, spilling over into manufacturing competitiveness, including the automation of cognitive tasks.

Energy, Critical Minerals, and Investment Governance

Energy policy and critical minerals will likely shape the geopolitical framing of the review. Disputes regarding nondiscriminatory access and state-owned enterprises in Mexico intersect with broader industrial strategy concerns, particularly as AI infrastructure and advanced manufacturing increase demand for secure critical inputs. Investment governance is also emerging as a strategic variable. The absence of a national-security screening framework in Mexico, relative to U.S. and Canadian practice, heightens sensitivity around capital flows tied to advanced technologies. China-related considerations appear implicitly across these debates, especially regarding critical minerals, sensitive technologies, and automation-enabling investment.

Taken together, these core issues define the terrain on which Mexico's modernization narrative will be evaluated.

Scenario Likelihood: Cross-Impact Analysis

Cross-impact analysis (CIA) is a specialized futures research method designed to explore the behavior of a system by methodically describing the interrelationships and potential modes of interaction between a given set of variables. Rather than projecting

events in isolation, CIA uses a matrix to assess the strength of these interactions, identifying key variables that are both highly influential and highly dependent within the system. This approach provides a strategic foresight framework to evaluate how technological acceleration, driven mainly by AI and manufacturing automation, intersects with the geopolitical volatility of U.S. trade policy and the institutional stability at stake in the 2026 USMCA review. By analyzing these variables as a dynamic system, this working paper's examination can move beyond linear forecasting to identify which trajectory is most consistent with current structural data.

To ensure analytical rigor, the application of this methodology accounts for specific structural limitations. While the matrix relies on expert positioning — a common characteristic of strategic foresight tools — this is balanced by anchoring the variables in current data to minimize subjective bias. Furthermore, while standard cross-impact frameworks treat interactions as immediate, this analysis remains mindful of time lags (the temporal delay between a variable's shift and its visible impact).

Scenario Likelihoods Matrix

Table 2 — Scenario Likelihoods Matrix

Variable	Manufacturing Automation	Labor Market	U.S. Perception	USMCA Review
Manufacturing Automation		**High:** Rapid enclave adoption drives export-employment decoupling	**Moderate:** Robotization gaps affect regional competitiveness narratives	**High**: Automation reshapes ROO compliance and supplier upgrading
Labor Market	**Moderate:** Skills shortages in SMEs limit broader technology diffusion		**High:** Employment declines or rights disputes trigger U.S. concerns and RRM	**High:** Labor enforcement and RRM remain central
U.S. Perception	**High:** Unstable trade policy and tariffs cause investment hesitation in automation	**High:** U.S. concerns pressure Mexico's labor strategy		**High:** National security claims shape review instruments
USMCA Review	**High:** Uncertainty regarding the sunset clause discourages long-horizon SMEs modernization	**High:** Review shapes labor enforcement and RRM risk	**High:** Mexico's institutional credibility during the review shapes U.S. trust	

Source: Authors' analysis.
Note: ROO refers to rules of origin, and RRM refers to the Rapid Response Mechanism.

The cross-impact analysis reveals that U.S. perception and the USMCA review are the system's primary determinant variables, while manufacturing automation and labor-market adjustment operate as transmission channels (Table 2). Their current pattern of

unpredictability, enforcement friction, and review uncertainty reinforces feedback loops toward Structural Divergence. The path ahead will depend on whether policy choices can break these negative interactions during the review and negotiation period.

Analysis of Scenario Likelihoods

The Structural Divergence scenario is categorized as the high-likelihood path. This categorization reflects its status as the default outcome for Mexico in the absence of deliberate policy intervention. Current empirical data reinforces this trajectory: Mexico faces a significant robotization gap; export-employment decoupling suggests that productivity gains are not translating into broad job creation; and the Plan México has not yet attracted the investment required to achieve its goal of 1.5 million specialized manufacturing jobs. The matrix further strengthens this likelihood because U.S. perception and USMCA review uncertainty operate as high-impact variables, reinforcing shorter investment horizons, weaker supplier upgrading incentives, and greater pressure on Mexico's labor and industrial governance.

The Path Continuation scenario is assigned a moderate but increasingly fragile likelihood. It remains plausible because North American integration persists and the USMCA can remain in force even without immediate renewal. However, the matrix indicates that this path is weakened by high-impact pressures from U.S. perception, review uncertainty, labor enforcement, and stricter automotive ROO demands. As a result, path continuation would likely take the form of ongoing integration under recurring uncertainty rather than stable extension.

The Strategic Realignment scenario is assigned a low likelihood rating. This scenario requires broad supplier upgrading, scaled workforce transition systems, stronger institutional credibility, and a shared North American competitiveness narrative. The matrix shows that the strongest current interactions do not yet support that trajectory: USMCA uncertainty discourages long-horizon SMEs modernization; U.S. perception remains shaped by trade deficits, labor concerns, and economic-security claims; and manufacturing automation remains unevenly diffused. Strategic Realignment remains possible, but it would require deliberate policy coordination strong enough to reverse these feedback loops.

Strategic Priorities: Preventing Structural Divergence and Anchoring Coordinated Upgrading

The scenario analysis and likelihood assessment makes clear that Mexico's strategic challenge is not whether automation will advance, but whether its diffusion will reinforce or fragment the country's manufacturing model. The odds point toward a Structural Divergence scenario: a two-speed production system in which export platforms modernize while employment linkages weaken and political support for integration erodes. Mitigating that outcome requires a coordinated policy response that

treats automation not as a discrete technological issue, but as a structural transformation of production, labor markets, and institutional reliability. Thus far, there is little evidence of the traction required to reverse the current drift toward structural divergence. But time and space for improvement remain.

I. Treat Workforce Transition as Core Economic Infrastructure

Automation reshapes tasks faster than labor markets can adjust. International evidence suggests that AI is more likely to reconfigure work than eliminate it outright, but only when transition systems scale with technological change. The OECD has emphasized that effective AI deployment requires coordinated investments in workforce upskilling and reskilling aligned with industry needs.

For Mexico, this means institutionalizing sector-level skills partnerships in advanced manufacturing, robotics maintenance, industrial AI integration, and hybrid human-machine systems. Workforce transition should not be treated as a compensatory policy for displaced workers, but as economic infrastructure essential to sustaining competitiveness. The OECD Economic Survey of Mexico 2024 underscores that productivity growth and labor-market inclusiveness hinge on strengthening human capital systems and improving the quality of technical education. Without scaled transition capacity, automation risks reinforcing informality and regional divergence rather than enabling occupational recomposition.

II. Prevent a Two-Speed Manufacturing Structure

Supplier diffusion is the hinge between export dynamism and broad-based employment gains. Mexico's manufacturing success has been concentrated in frontier export plants, while only a small share of SMEs participates directly in foreign trade. OECD research on nearshoring in Mexico highlights that boosting SMEs productivity is critical to capturing spillovers from export growth and integrating domestic firms into higher-value segments of supply chains.

Policy should therefore move beyond generic SMEs support toward value-chain-anchored upgrading. Lead firms benefiting from nearshoring should participate in structured supplier development programs, with public financing tied to measurable improvements in technological capability, quality standards, and digital integration.

The World Bank's analysis of productivity dynamics in Mexico has long emphasized that productivity gains should diffuse beyond large firms to sustain inclusive growth. In the context of AI acceleration, diffusion is not automatic; it requires coordinated institutional support. Preventing concentration is essential to sustaining domestic value added and political legitimacy for integration.

Ultimately, preventing a two-speed structure should be framed as a major national effort that transcends isolated policy interventions. This strategy requires a systemic

coordination framework involving the private sector, the public sector, the academia, and civil society organizations to ensure that technological gains are broadly distributed rather than sequestered in export enclaves. However, gravitating toward the optimal Strategic Realignment scenario calls for a fundamental shift in the current political environment to prioritize a shared, long-term vision of modernization. Without this internal political recalibration to foster high-level multi-stakeholder alignment, Mexico lacks the necessary traction to overcome the structural inertia that currently leads toward divergence.

III. Use the 2026 USMCA Review as a Modernization Platform

The USMCA review should be approached not as a defensive negotiation over market access, but as a platform to formalize modernization. Some critical areas could specially benefit from this propositive approach.

In automotive ROO, the strategic focus should be on implementation clarity and enhanced transparency, aiming for supplier upgrading rather than threshold renegotiation. As capital intensity rises, compliance costs and technological requirements may disproportionately burden smaller suppliers. Reducing administrative friction while maintaining regional content integrity strengthens competitiveness without destabilizing production networks.

In labor governance, predictability is essential. The RRM has become a defining feature of North American trade enforcement. Ensuring transparent remediation timelines and predictable compliance pathways reduces uncertainty for capital-intensive facilities while preserving rights protections. The Brookings Institution has noted that stable enforcement frameworks are central to sustaining investor confidence in integrated production systems.

Digital trade chapters offer perhaps the greatest underutilized opportunity. AI-enabled manufacturing depends on secure cross-border data flows, cybersecurity standards, and industrial IoT governance. The Center for Strategic and International Studies (CSIS) has argued that digital integration is increasingly central to North American competitiveness and supply-chain resilience. Formalizing cooperation around industrial data governance would anchor modernization within existing USMCA rules and commitments.

IV. Strengthen Institutional Reliability Before the Review

Policy coherence entering 2026 will influence long-cycle investment decisions more than any single rule change. Firms investing in automation-heavy sectors evaluate regulatory predictability, enforcement transparency, and geopolitical risk alongside labor costs.

Monitoring export-employment dynamics, automation diffusion, supplier upgrading participation, and regional labor outcomes should be institutionalized and publicly reported. Transparency reduces perception-based risk and shifts Mexico's positioning from displacement risk to modernization partner.

McKinsey Global Institute's analysis of generative AI highlights that adoption trajectories depend not only on technological feasibility but also on institutional readiness and policy clarity. In an environment where automation and geopolitics intersect, institutional reliability becomes a competitive asset.

Conclusion: Automation, Integration, and the Strategic Choice Ahead

The July 2026 USMCA review unfolds at a moment of structural transition. AI and advanced automation are reshaping manufacturing systems globally, altering task composition, capital intensity, and the distribution of value across supply chains. At the same time, geopolitical competition, trade enforcement tools, and domestic political pressures are redefining how economic integration is evaluated. For Mexico, these forces converge on a central question: How will automation interact with its export-led manufacturing model under the institutional framework of the revised USMCA?

The analysis in this working paper suggests that multiple plausible trajectories exist. Automation can diffuse broadly, accompanied by workforce transition and supplier upgrading that reinforce integration. It can remain concentrated among frontier exporters, sustaining output growth but leaving structural gaps unresolved. It can also accelerate without adequate diffusion and institutional coordination, deepening export-employment decoupling and amplifying political and economic tensions. Even though the current development of the USCMA review points toward a certain scenario, none of these futures is predetermined. Each is shaped by how technological adoption unfolds, how effectively transition systems scale, how supplier upgrading is managed, and how the 2026 review frames expectations about the durability of North American integration.

The structural tension identified throughout this paper — between export dynamism and employment performance — will remain central. If automation-driven productivity gains are accompanied by scaled workforce transition, supplier diffusion, and regulatory predictability, integration may deepen even as production systems modernize. If diffusion remains uneven and policy coordination weak, modernization could coexist with narrowing employment linkages and rising institutional friction.

The 2026 review does not determine which outcome prevails, but it will influence the direction of expectations. In an era where automation and geopolitics increasingly intersect, reliability and institutional coherence become integral components of competitiveness. The central question is how Mexico's manufacturing base modernization will be governed, distributed, and interpreted within North America's economic architecture. The scenarios outlined here clarify the stakes. The path that

emerges will depend less on technological inevitability than on the interaction among policy choices, institutional capacity, and the direction of regional integration under the next phase of USMCA.

Authors' Note

This manuscript was developed between January and May 2026 as a prospective analysis ahead of the USMCA joint review. Subsequent developments have reinforced the relevance of its central argument: Automation is reshaping Mexico's manufacturing model at the same time that USMCA review uncertainty, labor enforcement, rules of origin, and investment conditions are redefining the terms of North American integration. A logical next step is to develop more specific public policy recommendations based on these findings.

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Glossary of Key Terms

Artificial intelligence (AI) refers to a machine-based system that, for explicit or implicit objectives, infers from the input it receives how to generate outputs, such as predictions, content, recommendations, or decisions, that can influence physical or virtual environments, with varying levels of autonomy and adaptiveness after deployment on each AI system. Source: OECDE.AI.

Automation refers to the application of technology to work activities. It encompasses a suite of technological options — including software, programs, robotics, and processes — that can perform tasks traditionally carried out by employees, thereby allowing workers to focus on more complex activities. In this sense, automation enables outcomes to be achieved with minimal, and in some cases no, human input. Source: PwC.

Cognitive automation includes AI and machine learning and is often used to augment or replace human capability in non-routine, complex tasks. Source: WEF.

Robotization refers to the introduction of robots into productive processes to perform tasks previously carried out by workers. Source: Cambridge Dictionary. The International Federation of Robotics (IFR), following ISO 8373:2021, defines an industrial robot as an "automatically controlled, reprogrammable multipurpose *manipulator*, programmable in three or more axes, which can be either fixed in place or fixed to a *mobile platform* for use in automation applications in an industrial environment."

Rules of origin (ROO) are the legal criteria used to determine a product's national origin and, therefore, whether it qualifies for preferential tariff treatment under a trade agreement. Source: Congressional Research Service. **USMCA automotive-specific ROO** are the product-specific origin requirements for automotive goods set out in the Appendix to Annex 4-B of the USMCA, and they determine whether a covered vehicle or listed auto part, component, or material is treated as originating for purposes of preferential treatment under the agreement.

Rapid Response Mechanism (RRM) is a USMCA's facility-specific, expedited labor enforcement mechanism between the United States and Mexico that addresses alleged denials of workers' freedom of association and collective bargaining rights at covered facilities. In practical terms, the RRM allows a government to request a review of whether a covered facility is experiencing a denial of rights, and, if non-compliance is confirmed and not remediated, it can lead to the suspension of USMCA tariff benefits or other penalties, including denial of entry for repeat offenders.

The Internet of Things (IoT) refers to a network of physical devices and objects embedded with sensors, software, and connectivity that enables them to collect, exchange, and act on data. Operationally, IoT links the physical and digital worlds by allowing connected devices to interact with each other, with information systems, and,

in many cases, with the physical environment through sensing and actuation. Sources: IBM and NIST CSRC Glossary.

Advanced manufacturing refers to the use of innovative technologies to improve existing products and create new ones, often through production systems that rely on information, automation, computation, software, sensing, and networking. Put simply, advanced manufacturing is best understood as technology-enabled manufacturing that raises flexibility, precision, productivity, and resilience beyond traditional production methods. Sources: Manufacturing.gov and NIST.

Generative AI refers to a class of AI models designed to generate synthetic content — such as text, images, audio, video, and other digital outputs — by emulating the structure and characteristics of input data. Also called gen AI, it is AI that can create original content such as text, images, video, audio, or software code in response to a user's prompt or request. Sources: NIST CSRC Glossary and IBM.