Strengthening North American Supply Chains and Trade Benefits the U.S. Economy

Recent global economic disruptions have underscored the need for resilient supply chains in the United States. "Nearshoring"—or bringing more production back to the U.S. or to its immediate neighbors Canada and Mexico—is one solution for addressing supply-chain vulnerabilities as proximity and integrated markets make these kinds of disruptions less likely. The United States' North American neighbors have a large role to play in improving supply-chain reliability, increasing trade and economic output, and advancing climate objectives.

Port investments support both the national economy and local communities through trade, jobs, supply-chain stability, national security, and climate resilience. By increasing federal investments in America's land ports of entry, the United States can make commercial trade more efficient and bring increased economic and climate benefits to border states and the broader U.S. economy.

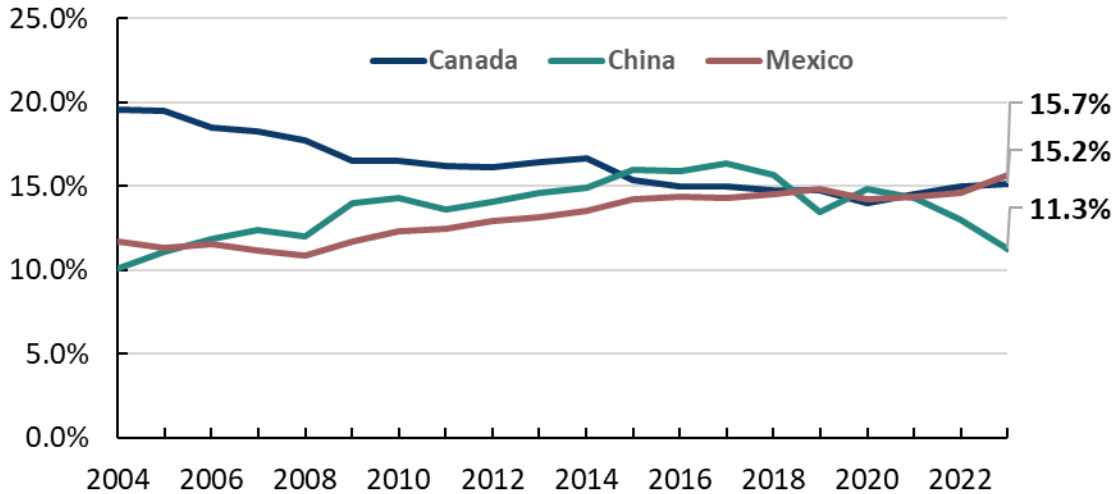
The United States has a strong trade relationship with its North American partners

With strong cultural and economic ties between the three countries, the United States, Mexico, and Canada are each other's strongest trading partners. Combined, Canada and Mexico account for nearly 31% of the United States' total trade volume. Canada and Mexico are the top markets for U.S. merchandise exports, while approximately 80% of Mexico's total exports and 78% of Canada's go to the United States. The U.S.-Mexico border region has become an important production site as manufacturers in both countries work together to assemble goods, engaging in production sharing. Many intermediate inputs are produced in the United States and exported to Mexico, and then the finished products are imported back into the United States. Everyday items from cars and auto parts to computers and electronics to household appliances are produced this way.

In early 2023, Mexico surpassed China to become the top U.S. trading partner. It was the first time in 20 years that the United States bought more goods from Mexico than China. This notable shift in global trade patterns partly reflects the strength of North American auto production, even though official U.S. trade data likely include an undercount of China's exports to the United States. Following Mexico, Canada was the United States' second highest trading partner in 2023, accounting for over 15% of the United States' total trade.

The Volume of Trade with Canada and Mexico Has Increased in Recent Years

Share of total U.S. trade (percent), 2004 to 2023



Source: USA Trade Online, Census Bureau, JEC Democratic staff calculations
Note: Total trade is the sum of exports and imports.

JEC

Nearshoring improves supply-chain reliability post-COVID-19 pandemic

The pandemic exposed the fragility of global trade by causing massive disruptions to global shipping and supply chains, including for critical inputs like semiconductors that are integral to consumer electronics, the energy grid, and many other parts of the economy. Other events around the globe such as Russia's invasion of Ukraine, Houthi rebel attacks on cargo ships in the Red Sea, and drought in the Panama Canal have caused recent shipping delays. Conflicts, climate change, and natural disasters will continue to cause shocks to the global market in the future.

Markets eventually adjust to these kinds of events, but it can take some time and the costs to producers and consumers can be high. Nearshoring production to Canada and Mexico, with whom the United States already enjoys a strong trade relationship, will provide some protection against future disruptions to shipping and global commerce. The partnership among the three countries is rooted in decades of economic cooperation and is governed by a free trade agreement. The preferential tariffs included in the United States-Mexico-Canada Agreement (USMCA) can make nearshoring an attractive option for many companies.

Key legislation passed by Congress and the Biden-Harris administration provides opportunities to integrate North American supply chains and bolster semiconductor manufacturing

Prior to the pandemic, most countries, including the United States, prioritized efficiency and low costs over resilience and domestic capacity in supply chains. As the supply-chain vulnerabilities mounted during and after the pandemic, Congress and the Biden-Harris administration passed the Bipartisan Infrastructure Law, the CHIPS and Science Act, and the Inflation Reduction Act to mitigate these issues. These bills have spurred domestic manufacturing, provided opportunities for further North American trade integration, and incentivized investment in industries like semiconductors. Several federal agencies also conducted reviews of critical supply chains to find ways to improve resilience and stability.

In addition to utilizing funding from the Inflation Reduction Act and the CHIPS and Science Act, the United States has established semiconductor cooperation with both Canada and Mexico. With Canada, the United States launched a "cross-border semiconductor packaging corridor" that provides incentives for public- and private-sector cooperation and expands semiconductor packaging and testing capabilities. The United States partnered with Mexico and formed a Supply Chain Working Group to expand cooperation on semiconductor and information and communications technology (ICT) supply chains. The United States and Mexico also previously relaunched the U.S.-Mexico High-Level Economic Dialogue (HLED) to advance strategic economic priorities, including coordinating on critical industries in the U.S.-Mexico supply chain to minimize disruptions and reduce vulnerabilities.

Key legislation also provides opportunities to advance climate objectives

The Bipartisan Infrastructure Law, the CHIPS and Science Act, and the Inflation Reduction Act have also provided opportunities to accelerate the clean-energy transition. As our largest energy trading partner, Canada shares a commitment to environmental standards and can play a key role in growing the clean-energy economy in North America. Together, the United States and Canada are working to achieve net-zero power grids by 2035. To promote electric vehicles, the United States devoted $7.5 billion in BIL funding while Canada committed roughly CAD $1.2 billion to build a network of fast chargers for EVs and public charging options on both sides of the U.S.-Canada border. The United States also provided $250 million in funding from the Defense Production Act for U.S. and Canadian companies to mine and process critical minerals for EV batteries.

Additionally, the United States and Canada are working to promote training and opportunities in clean energy and skilled trades, and collaborating with stakeholders across governments, businesses, organized labor, and educational institutions to grow the talent pool for critical supply chains. Canada and Mexico can help companies comply with the Inflation Reduction Act (IRA), which includes North American requirements for EV and battery manufacturing to qualify for its EV tax credit. Investments in both countries can help companies meet IRA requirements and improve supply-chain security in North America for this key input.

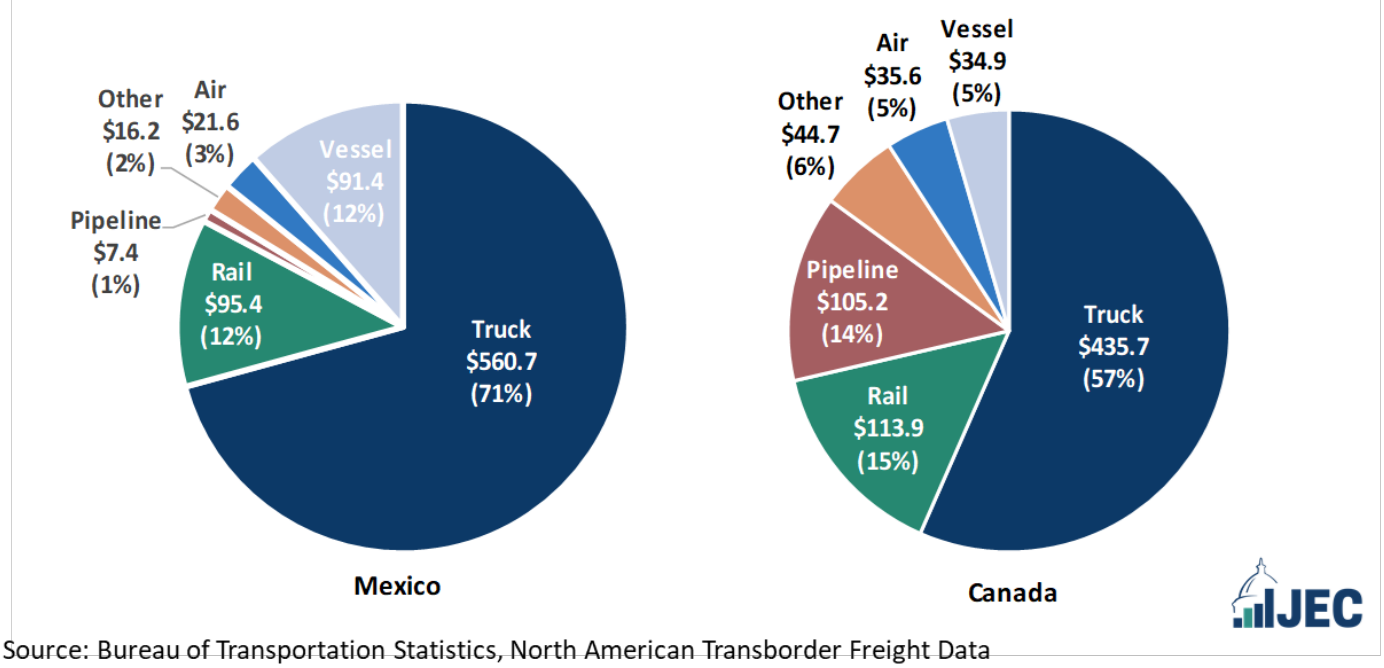
As North American integration has grown, the volume of trade flowing through LPOEs has increased in recent years

Land ports of entry (LPOEs) along the northern and southwest borders are critical for facilitating trade with Mexico and Canada and strengthening the North American supply chain. The United States has 110 LPOEs that consist of 167 separate land border crossings (an LPOE can include multiple crossings). Of these 167 land crossings, 120 are along the northern border and 47 are along the southern border. Some of these land border crossings were built more than 70 years ago, and the average age of all buildings and structures at these crossings is about 40 years.

At the same time, the volume of freight has increased significantly. In just the last 20 years, trade volume with Mexico has grown nearly 200%, while trade volume with Canada has grown 73%. Freight moves between the three countries through a mix of transportation modes including by truck, rail, pipeline, air, and vessel, but land transportation plays the largest role. In 2023, 71% of U.S. freight with Mexico and 57% with Canada was transported by trucks that must pass through LPOEs. Together, this creates a particular bottleneck at many LPOEs between the United States and Mexico because a much larger amount of trade is flowing through comparatively fewer crossings relative to Canada.

Most Trade Between the United States, Mexico, and Canada Travels by Truck

U.S. freight with Mexico and Canada by mode, billions of $ and % of total, 2023



Source: Bureau of Transportation Statistics, North American Transborder Freight Data
Note: Data excludes imports into Foreign Trade Zones and mail.

Investing in LPOEs will enable more efficient crossings for commercial trade, boosting the U.S., Canadian, and Mexican economies

Investments are needed at LPOEs along both the southern and northern borders to meet today's volume of personal and commercial crossings. U.S. Customs and Border Protection (CBP) has previously identified the need for additional infrastructure including more lanes for commercial vehicles to facilitate increased traffic. Infrastructure improvements and expanded capacity at LPOEs will reduce crossing times and expedite the flow of goods into the United States, generating significant economic benefits. Research by the Atlantic Council and others shows that a 10-minute reduction in wait times at LPOEs along the U.S.-Mexico border could lead to an additional $26 million in commercial cargo entering the United States each month, translating into more than $312 million in commerce from Mexico into the United States each year.

The Bipartisan Infrastructure Law included $3.4 billion for modernizing 26 LPOEs along the northern (20) and southwest borders (6), as well as 21 paving projects. These BIL investments are expected to create 6,000 jobs over eight years and generate an additional $4.5 billion in economic output. Most of this investment is directed towards the northern border though, and further investment is needed for the southern border as many of the most important ports are located there. In 2023, six of the top 10 LPOEs for truck container crossings were along the southwest border. As there are fewer land border crossings along the southern border (47 out of 167), each crossing is extremely important.

Expanded capacity at these crossings will allow for more efficient crossings, increasing the number of trucks that can cross and providing economic benefits to the United States. For example, expanding the capacity of the Santa Teresa LPOE in New Mexico would increase the flow of trade from Mexico, benefitting the New Mexico and U.S. economies. Between 1996 and 2023, the volume of truck containers crossing through the Santa Teresa LPOE has grown 22 times over. After JEC Chairman Martin Heinrich's advocacy, a feasibility study was conducted by U.S. CBP and the General Services Administration and showed that expanding the port would more than triple the capacity of the port and transform it into one of the largest commercial ports along the southwest border.

In addition to expanding the physical capacity of LPOEs, staffing capacity must increase to meet the increased volume of trade. A 2017 Joint Economic Committee report examined the economic impact of understaffing at ports and called for additional staffing. CBP previously estimated that staffing an additional one to three booths or lanes can reduce maximum wait times by up to 25 minutes at some of the busiest ports and that an additional 1,000 CBP officers at ports would increase economic activity by $2 billion and add 33,148 new U.S. jobs per year. CBP seeks to hire an additional 150 officers in fiscal year 2024.

Port modernization creates economic and clean energy gains that benefit border communities

Ports often become industrial and distribution hubs as businesses are incentivized to locate operations nearby, which can provide enormous economic opportunities for the surrounding communities. For example, before the Santa Teresa LPOE opened in 1993, there were just a handful of companies located in the area. Now there are over 70 businesses located on the American side of the port. More broadly, LPOE investments included in the Bipartisan Infrastructure Law and the Inflation Reduction Act are expected to support 11,500 jobs annually across the country.

Modernization projects at LPOEs will also improve climate resilience and benefit the surrounding communities. Investments from the Bipartisan Infrastructure Law and the Inflation Reduction Act will advance climate and energy goals at certain ports of entry, including by reducing operational emissions to the equivalent of removing 500,000 gasoline-powered passenger vehicles from the road for one year, constructing all-electric buildings, and achieving net-zero emissions. Though more needs to be done on the southern border, expanded capacity at LPOEs—including by adding commercial lanes—will allow trucks to move through crossings more efficiently, reducing idling times and pollution to nearby border communities.