U.S.-MEXICO FORUM 2025

UC San Diego
SCHOOL OF GLOBAL POLICY AND STRATEGY
Center for U.S.-Mexican Studies

Acknowledgments

The U.S.-Mexico Forum 2025 exemplifies the power of teamwork. It has been a grand experiment, and one that I hope will continue to grow in the coming years. I would like to thank all our participating members. Nearly a hundred individuals from all walks of life made up our five working groups. Everyone was incredibly generous in sharing not only their experience and knowledge, but also their time.

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Migration – Silvia Giorguli and Andrew Selee

Strategic Diplomacy – Rafael Fernández de Castro, Pamela Starr, Sergio Alcocer, Ana Covarrubias, and Jorge Schiavon

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This paper has been developed through a collaborative process and does not necessarily reflect the views of any individual participant or the institutions where they work.

Introduction

The election of Joseph Biden as President of the United States and the COVID-19 crisis created a prime opportunity to rethink and redesign the relationship between Mexico and the United States. It was with this objective that we created the U.S.-Mexico Forum 2025. A group of Mexican and U.S. scholars, practitioners, and experts undertook the task of proposing a course for the bilateral relationship for the four years (2021-2025) during which President Biden and Mexico's President Andrés Manuel López Obrador would govern their respective countries.

The Forum consists of five working groups: migration, security and public health, trade and economy, energy and sustainable development, and strategic diplomacy. Each group created a white paper that follows a similar approach: a discussion of the state of affairs in 2020, the aspirations for 2025, and a strategy for achieving those aspirations. The white papers were written by each working group's leaders and discussed extensively among the group.

The Forum's aim is to encourage cooperation between both countries and to avoid, as much as possible, the frictions that can emerge in a relationship as intense, complex, and asymmetric as the one between the United States and Mexico. The members of the forum are convinced that greater coordination among distinct actors on both sides of the border will benefit the citizens of both countries. We cannot leave the processes of bilateral integration to the whims of market forces or simple fate. Both federal governments should make a conscious and deliberate effort to deepen cooperation. The papers published here present a vision of how to improve the bilateral relationship over the next four years, and specific recommendations for doing so.

Three consensus conclusions emerged from the Forum's discussions:

1. Biden's arrival to the White House represents an important window of opportunity to deepen cooperation between the two countries. He is a leader who knows Mexico well, and he sees the bilateral relationship as one of enormous potential. As he said when he visited Mexico City in 2016, "This is about what we can do with Mexico. I mean that sincerely. We need you as much as I hope you think you need us."

2. López Obrador and his diplomatic team will nevertheless need to take the initiative and capitalize on the goodwill and knowledge of Biden's team, and ensure that their experience with Mexico serves to help resolve issues such as the partial closure of the border.

3. Lastly, the United States-Mexico-Canada Agreement (USMCA) is the central instrument for coordinating economic and commercial interactions between the countries. Respecting its clauses and prioritizing its implementation is essential to moving the bilateral relationship forward.

Trade, Economy, and Work

While the USMCA is essential for achieving bilateral cooperation on economic issues, it is not, on its own, a viable strategy for domestic growth. To achieve job creation and growth requires embracing the complementarities of our economies and building a 21st Century economy that works on both sides of the border. To expand our economies, Biden and López Obrador must address issues surrounding coordination in essential industries, labor law reforms, the lack of high-level dialogue, and the absence of clear mechanisms for local involvement in the binational economic relationship.

Recommendations

- Restore cabinet-level economic dialogue to institutionalize cooperation. This dialogue should be used to generate synergy between local, state, and federal actors.

- Jointly design an emergency plan concerning the impact of cross-border supply chains and logistic capacity to address the dislocations of the current COVID-19 pandemic.

- Put sustainable development and inclusive growth at the center of the bilateral agenda. To maintain public support for regional integration, theses shared challenges must be adequately represented.

Energy and Sustainability

Mexico and the United States must adapt their energy systems and economies to a world increasingly committed to zero emissions. To succeed, both countries need to enter a period of intense and accelerated legislative and regulatory activity. The rule of law and transparency are crucial to driving investment in hydrocarbons and energy transition, but the United States and Mexico may not agree on how the key legal commercial instrument between the two countries — the UMSCA — incorporates necessary energy sector reforms in Mexico. It is paramount that Mexico and the U.S. reach an understanding on this issue or it will drive away capital and investment.

Recommendations

- Establish a Bilateral Task Force on Energy between ministries/secretaries that engage the private sector to address fundamental issues as the interpretation of the USMCA and mobilize financial support for trade and investment.

- Establish a series of interrelated task forces to address the future of automobiles, energy innovation in the power sector with financial institutions, just energy transition, and a forum for researchers and oil and gas companies.

Security and Public Health

The COVID-19 pandemic has demonstrated that true cross-border security requires comprehensive bilateral approaches that address the shared nature of threats. Disease, drugs, and guns all cross borders, and to ensure the wellbeing of citizens in both countries, we must move beyond narrow definitions of security. It is paramount to think about security questions from a public health perspective that acknowledges the human cost of crime and violence in terms of life expectancy, mental health, physical harm, and the erosion of community ties. The arrest and release of General Salvador Cienfuegos underscores the need to reformulate the bilateral security framework, reemphasizing shared responsibility, leaving behind the kingpin focus policies, and enhancing inter-agency coordination and trust.

Recommendations

- Create a bilateral coordinating group to reformulate the Merida Initiative, reconciling priorities for both countries and establishing a taskforce on fentanyl disruption and bilateral units for monitoring piracy of medical supplies.

- Maintain or increase funding by USAID programs supporting grassroots citizens-led efforts in areas with chronical violence and expand this funding to NGOs on both sides of the border with the potential to detect and address health issues.

- Develop federal, state, and local programs on both sides of the border that address drivers of harm and incorporate gender perspectives in their design, and address root causes of violence including poverty and marginalization.

Migration

Migration and migrants are central to the health of our economies, especially during a period of recovery. U.S.-Mexico cooperation is key to managing regional migration flows, and such cooperation could foster a safe, orderly, and regular flow of migrants between the two countries, and help develop a regional approach that encompasses Central America. Renewed bilateral collaboration on enforcement, in tandem with efforts to open legal pathways for asylum and citizenship, could extend to efforts to regularize and integrate migrants in each country.

Recommendations

- Regularize and integrate migrants already living in the country through programs such as DACA and TPS. Mexico should enact policies that support the integration or reintegration of migrants into the Mexican society.

- Provide opportunities for labor migration through close collaboration between the U.S. and Central American governments and reform seasonal worker programs to encourage both Mexican and Central American participation.

- Ensure humanitarian protection mechanisms and professionalize binational border enforcement protocols to ensure safety, order, legality, and the minimum use of force.

Strategic Diplomacy

The Biden Administration has brought a new narrative to foreign policy, one that is inclusive of Mexico and understands the relationship as a positive and respectful partnership. Since the Biden Administration faces tremendous domestic and international challenges and will not necessarily place the bilateral relationship at the top of its agenda, Mexico must work to ensure it is a priority. Moreover, Mexican diplomacy must take the initiative and begin with small steps. There is also an urgent need for a well-designed binational public diplomacy to ensure that domestic publics understand the importance of our bilateral ties and appreciate the benefits of deeper cross-border collaboration.

Recommendations

- Build trust and partnership around areas of common interest such as Central American development or domestic job creation, and work to avoid an early crisis on migration, USMCA labor enforcement, and human rights.

- Strengthen the institutional basis of the U.S.-Mexico relationship and improve the narrative of Mexico in the U.S. and the U.S. in Mexico.

- Given the growing confrontation between Washington and Beijing, it is in Mexico's interest to cooperate with the U.S. in international arenas such as the U.N. Security Council.

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Trade, Economy, and Work
A Shared Agenda for a Stronger Economic Future

Álvaro Santos and Christopher Wilson

KEY RECOMMENDATIONS

Restore a cabinet-level economic dialogue to institutionalize cooperation and drive progress across the many facets of the bilateral economic agenda.

The USMCA creates pathways for both cooperation and disputes. Focus first on strengthening cooperation as both a way to address challenges and improve regional competitiveness.

Strengthen regional supply chain security by aligning essential industries and establishing protocols for emergency response.

Create a regional workforce development dialogue. Technology is quickly changing the future of work, and a coordinated response is required.

Put sustainable development and inclusive growth at the center of the bilateral economic agenda. To maintain public support for regional integration, these shared challenges must be adequately represented.

Support subnational leaders' involvement in the binational economic relationship.

The final section of this paper provides a more detailed and complete set of recommendations.

The economies of the United States and Mexico are deeply connected. The United States is, by far, Mexico's top trading partner, and Mexico is the United States' second largest partner.[1] While cross-border trade volumes are massive, it is the depth of manufacturing integration that makes the U.S.-Mexico economic partnership unique. A full half of bilateral trade is in inputs for production, parts and materials moving back and forth across the border as the two nations co-produce everything from automobiles to beer.[2] Economic and productive integration, which has been fostered by the North American Free Trade Agreement (NAFTA) and now the United States-Mexico-Canada Agreement (USMCA), has synced the U.S. and Mexican economies, which now tend to experience cycles of growth and recession together. Deeper still, our competitiveness is linked. Through manufacturing integration, the United States and Mexico can divide production in ways that take advantage of their competitive advantages, strengthening the region.

In this way, the economic interests of Mexico and the United States have become closely aligned. Productivity enhancements on one side of the border strengthen the competitiveness of the region as a whole, and despite the fact that there are cases in which an investment won on one side of the border means an investment lost on the other, research shows that it is more common for companies to simultaneously create jobs on both sides of the border as they expand their investment in the regional economy.[3] In the United States, some five million jobs depend on trade with Mexico, and a similarly large number of jobs in Mexico depend on trade with the United States.[4]

The ratification and implementation of the USMCA updated and restored certainty to the system of regional trade and production, and the conclusion of the renegotiation process opened space for the development of a new bilateral (and with Canada, a trilateral) agenda for economic cooperation. The USMCA was passed with broad support from representatives of every major political party in the U.S. and Mexico, providing a stable platform for the future of bilateral economic relations.

As the United States and Mexico each seek to stimulate recovery domestically and prepare for economic transformation, they need to keep in mind that the depth of North American integration makes job creation and export growth largely regional enterprises. This short paper will explore these challenges, examine the impact of changes to the regional economic framework through the USMCA, and propose a series of measures the United States and Mexico can take together in the coming years to strengthen the regional economy.

A Challenging and Quickly Evolving Economic Outlook

The U.S. and Mexican economies, like others around the world, face huge challenges as a result of the COVID-19 pandemic. The U.S. GDP for 2020 declined 4.3% and the IMF has forecast a much steeper 9% drop for Mexico. The pandemic induced recession will force millions into poverty

1. *https://www.census.gov/foreign-trade/statistics/highlights/top/top2008yr.html*
2. *https://www.wilsoncenter.org/publication/final-report-growing-together-economic-ties-between-the-united-states-and-mexico*
3. *Theodore H. Moran and Lindsay Oldenski, "How U.S. Investments in Mexico have increased investment and jobs at home" in NAFTA 20 Years Later, Washington, DC: Peterson Institute for International Economics, November 2014*
4. *https://www.wilsoncenter.org/publication/final-report-growing-together-economic-ties-between-the-united-states-and-mexico*

in each country, increase internal inequality, and, because of the difference in the magnitude of recession expected in each country, only serve to widen the development gap. Reactivating the regional economy and recovering from the recession will be the principal economic challenges facing both the United States and Mexico for the next several years.

Many possible options, such as fiscal stimulus and monetary policy, are essentially domestic in nature, but there are important matters of shared concern and even opportunity. Both governments ordered the temporary closure of activities not deemed "essential," but a lack of cross-border coordination, initially caused disruptions even to critical industries such as medical device manufacturing. In contrast, the U.S. and Mexican governments worked closely together and jointly announced restrictions on non-essential travel across the border. With border towns and cities suffering from the resulting economic slowdown, they will need to coordinate just as closely to find ways to safely reopen the border.

Finally, and perhaps most importantly, many companies are reevaluating their global production networks and prioritizing supply chain security and resilience as a result of U.S.-China trade tensions and the pandemic. This offers North America a tremendous opportunity to reshore investment to the region, but it is an opportunity that could be missed if the right policies and programs are not in place to attract and welcome that investment.

Though accelerated by the pandemic, digital transformation and automation have been roiling labor markets and rapidly changing demand for skills for many years. Many workers, especially in manufacturing and energy industries, but increasingly in office jobs, have been left behind as the economy evolves before them. The U.S. and Mexico must find ways to support major improvements to our workforce and skills development systems in order to maximize regional competitiveness and ensure that all workers have a place in the 21st Century North American economy.

Similarly, the demand for climate change action is more urgent than ever. The response to this challenge is especially important in the energy sector, and the U.S.-Mexico Forum has a working group that has put together a comprehensive strategy on sustainable development and energy systems. Economic development and environmental protection, including both climate change mitigation and adaptation, cannot be divorced.

In the border region, the importance of addressing issues of water scarcity became abundantly clear this year when social unrest erupted in Chihuahua at the Boquilla Dam as Mexico struggled to meet its water transfer obligations under the binational water treaty. Ultimately, cooperation prevailed but the challenges of resource scarcity will only grow. Border region leaders will need to work together to design and implement strategies that meet the economic and environmental needs of their communities.
There is a huge potential for this type of cooperative cross-border economic development in the border region. Well over a billion dollars in commerce crosses the border each day, and the GDP of the six Mexican and four U.S. border states is larger than the GDP of all but the three largest countries in the world. To take full advantage of this opportunity, the U.S. and Mexican governments need to facilitate and support greater cross-border cooperation among state and local officials in the region. Initiatives like the Border Governors Conference, which has not met for several years, and the Border Mayors Association need robust support.

Fueled by growing gaps in income inequality, populism, and economic nationalism have grown around the world in recent years making regional and global cooperation more difficult to pursue. In Mexico, this is evidenced by the significant productivity gap between globally connected manufacturing and the rest of the economy. Persistent underinvestment in the poorer south, limited development of homegrown startups, and an insufficient focus on expanding the domestic supplier base for manufacturing exporters have each contributed to the challenge. In the United States, the decline of manufacturing employment over the past several decades has contributed significantly to the rise of economic nationalism. Productivity enhancing technology and the globalization of production, in particular the insertion of China into global value chains, has increased the pressure on low- to middle-skilled manufacturing workers.[5] In both countries, domestic policy issues such as taxation, education and workforce development, and health are among the most important tools to address problems related to income distribution, and North American cooperation can play an important role in creating opportunities for and protecting workers across the region.

Despite the prominence of trade skepticism heard in both countries, the reality of the U.S.-Mexico economic relationship is that we are stronger together. The deep integration of the manufacturing and other productive networks across the U.S.-Mexico border binds our economic futures. Our region faces big challenges caused by the coronavirus pandemic as well as deeper structural shifts. In such challenging times it is easy to look inward and prioritize domestic issues, but to do so would be a mistake, for both countries. We must instead work together and embrace the complementarities of our economies in order to strengthen our global competitiveness and build a 21st Century economy that works for everyone in each of our countries.

> “ *... the reality of the U.S.-Mexico economic relationship is that we are stronger together.*

Trade, Supply Chains, and Work under the New USMCA

The United States-Mexico-Canada Agreement (USMCA), effective since July 1, 2020, ended the uncertainty triggered by the renegotiation of the North American Free Trade Agreement (NAFTA) and the threat of its elimination. The USMCA provides continuity with NAFTA on many fronts and provides governments and market actors in North America with a framework where they can operate with certainty.

5. David Autor, David Dorn, Gordon Hanson, "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," National Bureau of Economic Research Working Paper 18054, Cambridge, MA: NBER, May 2012, pp. 20-21, http:// www.nber.org/papers/w18054.

Estimates for USMCA's growth impact on the U.S. economy are very small. The U.S. International Trade Commission estimated them around GDP 0.35% or $68.2 billion in the first six years. Although the Mexican government has referred to it as an important element of its overall economic strategy, there haven't been similar estimates of the economic impact of USMCA. The low estimates reinforce the importance of holding realistic expectations about USMCA's potential in regard to economic growth. It also makes clear that USMCA will not on its own solve the issues of economic growth. Governments need to build on the structure already constructed under NAFTA and further enhance and "technologize" the private sector networks and the cross-border infrastructure and processing to stimulate growth.

USMCA came into an environment significantly different from the free trade optimism that ushered in NAFTA twenty-five years before. Concerns about the effects of trade, the deepening asymmetries between capital and labor, and increasing economic inequality have fueled much of the discontent against free trade agreements of the last three decades in both poor and rich countries alike.[6] The U.S. took an aggressive oppositional stance toward "globalist" trade policy, withdrawing from TPP, starting a tariff war with China, renegotiating NAFTA and several bilateral trade agreements, and using national security tariffs against trading partners. And while these changes were executed under the Trump Administration, both Hillary Clinton and Bernie Sanders vowed to withdraw from the Trans-Pacific Partnership (TPP) and renegotiate NAFTA if they had been elected. The trade and investment agenda of the Biden campaign — and of the incoming Biden administration — make clear that many changes in U.S. policy are here to stay. There will be continued attention to job creation in the U.S., to the well-being of American workers, to discouraging offshoring and investment abroad, and to encouraging onshoring and investment at home.

NAFTA achieved an unprecedented economic integration in North America, but its overall welfare effects fell far short of what was expected. While flows of trade and investment increased dramatically between the U.S. and Mexico, their effect on growth was disappointing. During 1994-2016, Mexico's GDP per capita grew only 1.2% on average per year, among the lowest in Latin America.[7] Mexico's wages lagged behind productivity, even in the successful, export-oriented manufacturing firms.[8] In fact, the apparent paradox between Mexico's liberalization program heralded by NAFTA and its underwhelming, domestic overall economic effects should serve as warning about the connection between trade and growth.[9] Instead of convergence with the U.S., Mexico has experienced further divergence where it matters most. Mexico's GDP per capita is no higher relative to the U.S. than it was in the years preceding NAFTA and labor productivity is farther behind relative to the United States' than in the pre-NAFTA years.[10] While not all of the Mexican economy's virtues or ills can be pinned on NAFTA, it is clear that NAFTA reshaped the Mexican economy and that subsequent Mexican governments were not able to advance policies that capitalized on the opportunities or tempered the resulting asymmetries.

The new USMCA and the changes in U.S. policy will no doubt bring challenges but also offer an opportunity to focus on the distributional consequences of trade and investment, which had been largely ignored, and on the overall effects for the economy. For Mexico, this will offer an opportunity to devise its own development strategy without expecting USMCA to deliver it. If NAFTA offers one clear lesson, it is that increasing (and now maintaining) trade and investment flows is not a growth strategy. USMCA will allow both countries to focus on domestic economic policy while maintaining the potential benefits of a high degree of regional integration. For now, changes in USMCA on rules of origin, investment and labor may portend a new direction in U.S. policy for future trade agreements. Even if, for now, USMCA preserved much of NAFTA, it may continue to change as a result of future review cycles, now embedded in the operation of USMCA by design. Below, we discuss the most relevant changes USMCA has introduced.

1. Rules of Origin (ROO)

It is important to note that rules of origin in most sectors, such as electronics and textiles, were maintained. This ensures the continuity of most regional value chains undisturbed. The most notable change came in the automobile industry. Here, three aspects are noteworthy:

- The regional value content (RVC) requirement increased from 62.5% to 75%, which means that the percentage of non-regional content allowed dropped by 33.3%.[11]

- A labor value content (LVC) requirement was that 40% of the value of the car is manufactured with wages of at least $16 dollars per hour.[12]

- Certain automobile parts and components must be wholly produced in the region and 70% of aluminum and steel content should originate in the region.[13]

The rules of origin for autos and auto parts agreed upon in USMCA stand in stark contrast with those that had been negotiated in TPP, which were considerably lower than in NAFTA. This provides some relief to Mexican car manufacturers in terms of the anticipated competition with other TPP countries in the U.S. market. However, the higher USMCA content requirement also presents important challenges, given that an important share of inputs in Mexican production come from outside North America.[14] An important question going forward is whether U.S. and Mexican auto makers will be able to meet the higher USMCA content requirement.

The new 75% regional value content aims to incentivize greater production in North America and away from

6. See, e.g., *WORLD TRADE AND INVESTMENT LAW REIMAGINED: A PROGRESSIVE AGENDA FOR AN INCLUSIVE GLOBALIZATION (Álvaro Santos, David Trubek and Chantal Thomas eds., Anthem Press 2019).*

7. *"Did NAFTA Help Mexico? An Update After 23 Years" Mark Weisbrot et al. Center for Economic and Policy Research (March 2017) https://www.cepr.net/images/stories/reports/nafta-mexico-update-2017-03.pdf?v=2*

8. *Robert A. Blecker, Juan Carlos Moreno-Brid and Isabel Salat, "La Renegociación del TLCAN: La Agenda Clave Que Quedó Pendiente" in La Reestructuración de Norteamérica a Través del Libre Comercio: Del TLCAN al TMEC (Oscar F. Contreras, Gustavo Vega Cánovas y Clemente Ruiz Durán eds. 2020).*

9. *See Dani Rodrik, "Mexico's Growth Problem", Project Syndicate, Nov. 13, 2014 https://www.project-syndicate.org/commentary/mexico-growth-problem-by-dani-rodrik-2014-11. See also See Nancy Birdsall, Dani Rodrik & Arvind Subramanian, How to Help Poor Countries, FOREIGN AFF., July/Aug. 2005, at 138.*

10. *Robert. A. Blecker, "Integration, Productivity, and Inclusion in Mexico: A Macro Perspective", in Innovation and Inclusion in Latin America: Strategies to Avoid the Middle Income Trap (Alejandro Foxley and Barbara Stallings eds. 2016) pp. 175- 204.*

11. *Office of the U.S. Trade Rep., Exec. Office of the President, Agreement between the United States of America, the United Mexican States, and Canada 05/30/19 Text (2018) [hereinafter USMCA]. Ch. 4, app. to annex 4-B, Product-Specific Rules of Origin for Automotive Goods, art. 3.*

12. *Id. art. 4-B.7.*

13. *Id. arts. 4-B.3.7. and 4-B.6.*

14. *Enrique Dussel Peters, Efectos del TPP en la Economía de México: Impacto General y en las Cadenas de Calor de Autopartes-Automotriz, Hilo-Textil-Confección y Calzado, Cuaderno de Investigación TPP-04, Senado de la República, 2017,p.24 https://dusselpeters.com/115.pdf*

other global value chains, notably from Asia. This may present an opportunity for Mexico, if Mexican auto parts suppliers expand the range of their production to include additional inputs currently imported from outside the region. Alternatively, global auto parts suppliers could move production to Mexico so that their parts could be counted as North American. Analysts estimate that 68% of production in Mexico already meets the new content requirements.[15] An open question is whether those firms who don't meet these requirements would adjust their production or opt out of USMCA and abide by the U.S. most-favored-nation (MFN) tariff, which for autos is 2.5%.

The new 40% labor value content seeks to ensure that the United States benefits from a significant part of the production increase. Of this 40%, 15% can relate to research and development, and information technology jobs, while 25% must relate to manufacturing costs. In Mexico, the average wage rate in auto assembly ranges between $5 and $7 per hour,[16] while engineering and research and development jobs already meet or are close to the $16 per hour requirement. This means that it will be practically impossible for auto companies in Mexico to meet the $16 wage requirement in 25% of their production content, which would have to come from the U.S. or Canada.

Analyses of the effects of the new ROO raise concerns about possible increase in car prices, as cheaper parts from other supply chains are substituted for more expensive North American ones. A rise in consumer prices could reduce demand and in turn lead to a production drop and potential job losses.[17]

2. Labor Rights and Labor Panels

The USMCA had three important features concerning labor rights. First, the labor chapter included new state obligations such as prevention of violence against workers, prohibition on gender discrimination, and protection of migrant workers. It also included an explicit recognition of the right to strike as a component of the right to freedom of association.

Second, the labor chapter's Annex includes a commitment by Mexico to reform its labor laws and institutions. Mexico adopted its new law on May 1, 2019 and is now in the implementation phase. The reform i) establishes a new dispute settlement system under the jurisdiction of Mexican courts and eliminates the administrative labor conciliation and arbitration boards, ii) creates an autonomous center for labor conciliation and registration, which will register unions and collective agreements, taking that function away from the government, and iii) entrusts that center with verifying that elections — deciding union leadership and majority support of collective agreements — are personal, free, direct and secret.

Finally, the Protocol of Amendment created a new expedited enforcement mechanism called the Rapid Response Panels. This mechanism allows for review and remediation of a denial of rights in a relatively short process (120 days). The panelists may verify whether a violation exists by visiting the facility in question. When a violation is confirmed and goes unredressed, the complainant country may impose sanctions on the goods produced in violation of the agreement, including higher tariffs, fines, or denying entry.

The changes introduced by USMCA will require important adjustments in Mexico. If the federal labor law is implemented effectively, workers would be able to associate, form independent unions and bargain collectively, in a way they have not been able to do for decades. It could mean the end of widespread simulation in the form of "protection contracts" between corrupt union leaders and firms, where workers didn't choose their union or even know they belong to one. It would also mean the end of government intervention in union governance, intimidation or outright violence in voting for crucial decisions, and a biased dispute settlement system. A striking feature in the Mexican economy is that wages declined not only in those firms that fell behind or in sectors that failed to integrate, but also in the most successful, export-oriented firms, which were highly integrated in the North American market, where wages fell behind productivity.[18] The labor reform could gradually result in better wages for Mexican workers. Higher wages could incentivize employers in various export sectors to rely less on cheap labor as their main competitive advantage and instead seek to add value in the production chain, innovating in their products, process of production or business strategies. Workers with greater incomes would also stimulate domestic demand. It is early to tell but signals so far seem to indicate that while at the federal level the reform is proceeding as planned, at the state level there may be more hurdles and less political will.

Statements from the United States Trade Representative (USTR) and the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) indicating that they expect to use the rapid response panels against Mexico suggest that the mechanism will be tested in the near future. As the experience of the World Trade Organization has made clear, an excessive focus on dispute settlement and strategic litigation could hamstring attempts to address systemic problems. Adjudication could solve specific cases, and it needs to be effective, but it is only one tool among others in making sure commitments are enforced on both sides.

Changes in USCMA labor rights was good news for U.S. workers for at least two reasons. First, because it incorporated the American labor movement concerns about

“ *Changes in USCMA labor rights was good news for U.S. workers …*

15. USMCA: Motor Vehicle Provisions and Issues, Congressional Research Service, Dec. 19, 2019. https://crsreports.congress.gov/product/pdf/IF/IF11387

16. "Only 269,000 Mexicans earn more than US $16 per hour, or 308 pesos" Mexico News Daily, Aug. 30, 2018. https://mexiconewsdaily.com/news/only-269000-mexicans-earn-more-than-16-per-hour

17. See e.g. USMCA: Motor Vehicle Provisions and Issues, Congressional Research Service, Dec. 19, 2019. https://crsreports.congress.gov/product/pdf/IF/IF11387

18. Graciela Bensusán, Empleos en México bajo presión: con o sin TLCAN, en LA REESTRUCTURACIÓN DE NORTEAMÉRICA A TRAVÉS DEL LIBRE COMERCIO: DEL TLCAN AL TMEC (Oscar F. Contreras, Gustavo Vega Cánovas y Clemente Ruiz Durán.

social dumping, and it lended legitimacy to their concerns about the distributional effects of trade. And second, because it showed that the concerns of American workers' organizations can be included, rather than excluded, in trade negotiations and policy.

3. Changed Investment Regime and Reduction of Investor Rights

USMCA introduced important changes in the investor-state dispute settlement system (ISDS). The scope of investors' rights was reduced to a "skinny" ISDS, which preserves protection from direct expropriation and discriminatory treatment but eliminates other rights under NAFTA. A new requirement was that local remedies be exhausted before investors can resort to arbitration. However, investors with a "covered government contract" in specific sectors including oil and natural gas, power generation, telecommunication, transportation, and infrastructure enjoy the full panoply of rights and can resort to arbitration without going first to national courts.

The reduction of rights responds to increasing concerns about the investor-State dispute settlement system (ISDS) in both developed and developing countries.[19] The USMCA may indicate a new direction in trade agreements regarding ISDS. The benefit for U.S. and Mexico is the avoidance of regulatory chill for fear of potential investor claims in areas of public interest such as health and the environment, and the prevention of costly liability and litigation costs for legitimate regulation.

4. Digital Trade

USMCA liberalized the cross-border movement of data, making the importation and exportation of digital products duty free. It recognized the importance of measures to protect consumers from fraudulent practices and protect individual personal data. Furthermore, it outlawed data localization requirements that made the establishment of physical computing facilities a condition of doing business in that country.

But there are two sources of tension. First, USMCA prevents parties from assigning liability to internet service providers for content placed on their platforms by third parties. Given mounting concerns about fake news and disinformation campaigns in social media platforms, we may see stricter regulation in the U.S and the need to revise the USMCA on this front. A second area of potential tension concerns mechanisms for taxation of digital sales, which are allowed under the USMCA as long as they are otherwise consistent with the agreement. An important question is whether there could be an evolving consensus on acceptable taxing practices for digital companies, or if these would be ad hoc understandings of different countries with the U.S., since most of the affected global digital companies are American. This may be a subject worth addressing in the context of the USMCA Trade Commission.

Digital trade may offer an opportunity for small and medium-size companies in Mexico to participate in regional trade as service providers, in areas like cloud storage, fintech, or software development.

5. Review Mechanism

While the U.S. original proposal for a five-year sunset clause did not make it to the final text, USMCA is effective for a renewable sixteen-year term (Article 34.7). On year six of the Agreement (2026), the Free Trade Commission will meet to conduct a "joint review" and the Parties may confirm they want to renew the Agreement for another sixteen-year term. If a party does not renew the Agreement on year six, the Commission will meet and conduct a review every year during the subsequent ten years, in which the parties may confirm at any point their desire to renew it for another sixteen-year term.

This term-specific feature of USMCA may create uncertainty about the long-term continuation of the Agreement and reduce incentives to invest in large-scale projects that require big, upfront expenditures with expected returns spanning many years. However, unlike NAFTA, this mechanism provides an opportunity to evaluate the operation and effects of the Agreement and to update or amend it accordingly. By institutionalizing the review process parties may be able to clarify interpretations when there is doubt and to correct course if something is not operating as expected.

How the U.S. and Mexico Can Work Together to Take Advantage of this New Framework

1. Work Together to Attract Auto Investment to the Region

The biggest challenge for the industry is the possibility of increasing production costs, which would result in higher car prices, reducing consumer demand in North America and competitiveness in export markets. Recently, the U.S. and Mexico adopted alternative staging regime transition periods to provide more flexibility for companies aiming to comply with the new rules. Both countries could use the information received in companies' applications to assess the rules' potential impact and fine-tune the strategy. This could help governments minimize the potential negative effects of the requirements, and consider longer transition periods and possible exceptions. Evaluating the impact of these rules of origin should be a priority in the review process six years in.

2. A Coordinated China Strategy—Attracting Investment, Managing Risks, Expanding Exports

The Transformation of Global Value Chains: We can expect to see the continuation of a significant transformation in global value chains (GVC). The competitive race in the digital economy and its telecom infrastructure will continue to shape GVC and be a source of tension between the U.S. and China. At the same time, the general U.S.-China tensions, exemplified by the trade war, and the COVID-19 pandemic could make near-shoring increasingly relevant for the U.S. and North America.

Mexico in the Context of U.S.-China Tensions: In USMCA, Mexico committed to continue and to deepen its economic integration with North America. On the other hand, Mexico has an important trade relationship with China (its second trading partner after the U.S.). Ideally, Mexico should maintain both a deep and long-term relationship with the U.S. and independent space to engage with China. USMCA Article 32.10 provides that if a party enters into a free trade agreement with a non-market economy, namely China, the other parties may terminate the USMCA and replace it with a bilateral agreement between them. This is another example of how the growing U.S.-China tensions are influencing trade agreements. However, Mexico should be able to continue to develop its trade and investment relationship with China, without the need of a formal free trade agreement.

19. *See e.g. Robert Howse, International Investment Law and Arbitration: A Conceptual Framework in INTERNATIONAL LAW AND LITIGATION (H.R. Fabri ed., 2017). https://www.iilj.org/publications/international-investment-law-arbitration-conceptual-framework/*

> *There are ten sectors where Mexico could benefit, including electronics, auto parts, automobiles, footwear, and apparel ...*

Mexico has seen a temporary benefit in its trade relationship with the U.S., becoming the latter's first trading partner as a result of the tensions with China. Mexico's potential benefit from the current tariff war would depend on China's share in U.S. imports. There are ten sectors where Mexico could benefit, including electronics, auto parts, automobiles, footwear, and apparel, among others (Dussel). However, the trade gains for Mexico in terms of greater imports to the U.S. so far have been minimal and FDI from the U.S. (or China) has not increased. Taking advantage of this potential opportunity would require a deliberate strategy from the Mexican government and a coordinated strategy with the private sector not seen yet. If the U.S. tariffs continue, there's also the potential of Chinese investment in Mexico in some of these areas entering the U.S. market bypassing U.S. tariffs. Again, whether this investment materializes, in the auto sector or elsewhere, may depend not only on the incentives that the new U.S. tariffs create for Chinese companies, but on a deliberate strategy by the Mexican government.

Opportunities for Reshoring in North America and Greater Integration with the U.S.: It is possible, though not certain, that the Biden Administration will de-escalate the current tariff war with China, which has in fact increased the U.S. trade deficit. If the U.S. were to remove tariffs, it is unclear when this would happen and in what sectors. What is more certain is that the Biden Administration will launch a "Supply America" plan to on-shore critical supply chains to the U.S. and reduce dependence on China. This is part of a broader plan on manufacturing and innovation, including significant investments in research and development. The program seeks to strengthen domestic supply chains on medical goods and equipment but goes beyond health emergencies to include "energy and grid resilience technologies, semiconductors, key electronics and related technologies, telecommunications infrastructure, and key raw materials."[20] There will be a government-wide process, in collaboration with the private sector, to monitor and review vulnerabilities and address them as technology and markets evolve.

A shift away from manufacturing dependency on China, already visible in the auto sector in USMCA, can represent an opportunity for North American supply chains, and for Mexico specifically, to take on some of that production. Particularly if Mexico effectively implements its labor reform and its manufacturing exports can no longer be perceived as "social dumping", Mexico's proximity to the U.S., reliance on a robust supply-chain infrastructure, qualified workforce in manufacturing, and competitive labor costs could make it attractive as a second-best to on-shoring, when producing in the U.S. would make prices non-competitive.

3. Use Competitiveness Committee to Institutionalize Further Trilateral Cooperation

Established by USMCA Chapter 25, the North American Competitiveness Committee is composed by government representatives of the three Parties and is scheduled to meet annually. The committee's mandate is broad, aiming to "support a competitive environment" that promotes trade and investment, but also regional economic integration and development. It seeks to broaden the base of those who benefit from regional trade, assisting traders in each party to identify further opportunities but also increase the "participation of SMEs, and enterprises owned by under-represented groups including women, indigenous peoples, youth, and minorities." It also seeks to propose policies to develop a modern physical and digital trade and investment infrastructure, as well as to foster cooperation on technology and innovation.

As with any committee, it will be as good as the Parties make it out to be. This could be a useful institutional mechanism, which already foresees the engagement with "interested persons" who can provide input. The U.S., Mexico, and Canada could use this committee to provide a wide forum among the three nations, engaging the private sector, labor, and civil society to receive important feedback and ensure continued support for the Agreement. This will not happen on its own and there may be inertia or even resistance, so there will need to be a deliberate effort to advance it and make the committee a relevant forum for the governments and for civil society.

USMCA creates multiple committees, all under the purview of supervision of the Free Trade Commission (Ch. 30). While some of the committees pertain to specific trade areas (i.e. agriculture, intellectual property, financial services, etc.), others are more general and cut across sectors. For instance, in addition to the Competitiveness Committee, there's the Committee on SME Issues (Ch. 25), which is also comprised of government representatives and scheduled to meet annually. It foresees a trilateral dialogue on SMEs with non-governmental actors. These more general committees provide a space and a mechanism but don't have ready-made stakeholders. To ensure the effectiveness of the USMCA institutional architecture, it will be important to clarify the relationship between the different committees and use these mechanisms to foster trilateral cooperation on priorities.

4. Trade Facilitation and Cross-Border Infrastructure

There are 55 points of entry along the U.S.-Mexico border, which process more than 80% of bilateral trade. With over one million people and 447,000 vehicles crossing every day, it is the most frequently crossed border in the world. The U.S. and Mexico have an opportunity to streamline their trade, implementing the new obligations under the USMCA Customs Administration and Trade Facilitation chapter. In addition, they should invest in infrastructure, both physical and digital, to reduce wait times at the border that result in billions of dollars lost.[21] Upgrading the ports of entry to build a smart and efficient border that reflects the dynamic trade flows of the two countries could be a low-hanging fruit where investment would yield important returns for both countries.

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20. https://joebiden.com/supplychains/

21. See e.g. "Economic Impacts of Wait Times at the San Diego–Baja California Border," San Diego Association of Governments, California Department of Transportation, District 11, January 19, 2006.

Beyond USMCA: An Agenda for Economic Cooperation

As discussed above, the USMCA plays a critical role in guaranteeing the future of North American trade and manufacturing integration. It offers opportunities to attract investments to the region and to effectively manage conflict in sensitive sectors. Nonetheless, it is not on its own an economic growth strategy or a sufficient bilateral economic agenda. In fact, the intensity of the NAFTA renegotiations over the past several years took so much policymaker attention that other parts of the U.S.-Mexico economic agenda lost steam. The High Level Economic Dialogue (HLED), which coordinated this broader agenda, did not survive the transition to the Trump Administration in Washington, D.C., and the launching of the USMCA negotiations. Now, with the USMCA passed and implemented, it is time to **create a new mechanism to institutionalize and manage economic cooperation.** To be successful, however, this cannot simply be an exercise in recreating the past. We must build institutions that are capable of responding to the pressing economic challenges of today and the opportunities on the horizon.

The new economic dialogue could be bilateral or trilateral and North American in nature. In either configuration, three components are needed to ensure its success. First is leadership. The mechanism needs to be driven by cabinet-level leaders that have the vision and energy to push through bureaucratic bottlenecks and create meaningful results that improve the lives of people on both sides of the border. Second, a series of binational working groups and councils need to be created to help design and then drive progress on the agenda during the periods between cabinet-level meetings. These groups need representation from the wide range of agencies that must coordinate efforts. Third, and importantly, robust mechanisms need to be created to involve stakeholders and subnational governments in the dialogue. The USMXECO CEO Dialogue played an important role in generating ideas and helping support initiatives of the HLED. Strong private sector participation will again be very important, but outreach needs to be stronger with civil society, labor, border communities, and subnational governments both in the border region and beyond. The importance of involving border communities and subnational governments from across both countries in the development and implementation of U.S.-Mexico economic cooperation cannot be overemphasized.

The first task is to construct the agenda. It must be ambitious and respond to the economic needs of average people across the region. It needs to include elements that the presidents could talk about in the Rose Garden or National Palace. High profile issues such as job creation, reducing inequality, and the climate crisis should be the drivers of more specific and discrete tasks like improving trade infrastructure, aligning regulation, or expanding educational and research partnerships.

The first component of any updated U.S.-Mexico economic agenda must be to respond to the challenges (and opportunities) presented by the COVID-19 pandemic and related recession. The integration of cross-border supply chains has created a deep level of interdependence between the United States and Mexico; we supply one another with medical devices that keep us safe during this time, with vital food products, and with parts and materials that allow factories on the other side of the border to keep running. As such, the United States and Mexico must create mechanisms to ensure that any future emergency measures that impact production or logistics capacity be at a minimum communicated and ideally coordinated with officials on the other side of the border. To the extent that the governments of North America can align their definitions of essential industries, they can increase their likelihood of attracting investment from companies looking to strengthen their supply chain security and resilience. Already, as a result of pandemic-related supply chain disruptions and increasing trade tensions between the United States and China, companies are seeking to shorten and improve reliability along their supply chains. The United States remains the most attractive consumer market in the world, so these dynamics create a strong incentive for greater use of the North American production platform. To the extent that the governments of North America can ensure investors that they have developed systems to minimize disruption during future crises, they will position themselves to take full advantage of this trend.

NAFTA, just like economic globalization more generally, was often portrayed by its critics as good for business elites but not workers and impoverished communities. The reality may be more complicated, but without a doubt the perception left NAFTA vulnerable to attack and inherently unstable. The strengthening of labor and environmental components of NAFTA in the USMCA will help mitigate these attacks in the future, but the United States and Mexico need to develop a strategy of cooperation for inclusive growth. This includes doing more to support greater participation of small and medium sized businesses in regional trade. The proliferation of e-commerce and ease of express shipping make this more realistic than ever, but the prospect of finding customers abroad and dealing with the customs and logistics issues involved in international shipping is still a major barrier. Border communities, which have some of the highest rates of poverty in the United States, need the support of the U.S. and Mexican governments to develop and implement binational economic development strategies that see their position on the border, with their binational, bilingual, and bicultural populations, as an asset to be leveraged for their development. Binational programs to support women entrepreneurs, the development of innovation ecosystems, and cross-border internships should all be updated and revitalized.

The most important thing that can be done to promote inclusive growth in the regional economy is an overhaul of **worker training systems.** Rapid technological change, more than anything else, has changed the labor market

THE IMPORTANCE OF INSTITUTIONS IN U.S.-MEXICO RELATIONS

The United States and Mexico have an exceedingly complex and broad relationship, encompassing not only traditional issues of foreign policy but also domestic matters such as the construction of city roads to facilitate access to border crossings. Achieving progress often requires the coordination of actions from local, state, and federal actors from across numerous agencies in both countries. Driving coordination and overcoming bureaucratic obstacles requires leadership from the highest levels, but also working groups with the technical capacity to solve problems. Institutions like the High Level Economic Dialogue create synergy between these two levels, with leaders providing the impetus to break through bottlenecks and the working groups both identifying important projects and providing the follow through so that leaders feel their continued engagement is productive.

landscape, bringing new value to higher education and technical skills related to the management of new, productivity-enhancing technologies. At the same time, workers without those skills or education have seen their opportunities diminish. Trade Adjustment Assistance has played an important role in supporting workers who lost their jobs due to increased import competition, but a much larger, more comprehensive, and updated approach is needed to address the simultaneous pressure put on many workers from automation, robotics, and global competition. Certainly, at its core, education and workforce development is a domestic challenge for both the United States and Mexico, but there are important ways in which, given their economic integration, the two can also collaborate. Tony Wayne and Sergio Alcocer have put forth a series of recommendations for a regional workforce development dialogue at the bilateral or trilateral level. They include the following:[22]

- Expand Apprenticeships and Other Types of Work-Based Learning (WBL) and Technical Education, Including Internships, Mentorships, and Mid-Career Learning
- Address Key Issues Surrounding Credentials, Including Recognition and Portability, to Enhance Transparency
- Improve Labor Market Data Collection and Transparency, Including Moving Towards Accepted Norms for Employment, Education, and Skills-Related Data Collected and for Making that Data Widely Available
- Identify Best Practices to Approach/Prepare for "The Fourth Industrial Revolution," the Transformative Arrival of New Technologies and the Future of Work

We wholly endorse their recommendations and believe workforce development to be a particularly timely addition to the bilateral agenda for three reasons. First, the Andrés Manuel López Obrador Administration has already made the issue a priority, establishing a major youth internship program, Jóvenes Construyendo el Futuro (Youth Building the Future). Adding a binational component supporting young Mexicans and Americans taking internships across the border would be a natural fit and important way to build an interculturally competent North American workforce. Second, due to the decentralized nature of higher education in especially the United States but also Mexico, workforce development is a great topic for the type of state and local engagement in bilateral relations that we recommend. Finally, this topic puts the worker first, contributing to a more inclusive approach to bilateral economic relations. Of course, it also improves regional competitiveness, but in a way that stands in contrast to the perceptions of an elite-focused approach to globalization and regional integration.

For a very similar set of reasons to those outlined above, the United States and Mexico should focus on **expanding opportunities for binational research and educational partnerships.** In 2014, the U.S. and Mexico launched FOBESI, the U.S.-Mexico Bilateral Forum on Higher Education, Innovation and Research, which was designed to complement and focus existing U.S. and Mexican efforts to expand student and research exchange more broadly.[23] Supporters of the initiative in government and academic institutions found that short-term (a semester or less) exchange programs had the most promise to attract student and professor interest while also expanding the opportunities to traditionally underserved populations. Like workforce development, this item would benefit from its inclusion on the agenda for subnational forums for cooperation like the Border Governors Conference and North American Summit.[24]

Technological advance is driving huge changes in the way factories and offices around the world do business. Data analysis is improving efficiency in production and logistics; artificial intelligence systems (often hosted on the cloud) are now the first point of contact for many customer service and IT departments; and meetings are at least as likely to be virtual as they are in person. **Digital transformation** is here today and will continue driving a restructuring of work and the economy for years to come. Both the United States and Mexico are well positioned to take advantage of these trends, but both have major work to do to ensure their workforces, infrastructure, and systems of governance are ready for the economy of tomorrow. In particular, Mexico lags behind other similarly developed nations in the state of its digital economy.[25] The low proportion of its population with a bank account, weak broadband access, and unreliable post damper the growth of e-commerce and sales of digital services. North America is otherwise primed for major growth in regional e-commerce, so a concentrated effort to improve these foundations of the digital economy in Mexico could go a long way to create export opportunities

THE KEY ROLE OF STATE AND LOCAL LEADERS

Increasingly, there are opportunities for governors, mayors, and other subnational leaders to engage counterparts across the border in ways that produce tangible results for their constituencies. Over the years, and with some ups and downs, organizations like the Border Governors Conference, Border Mayors Association, the U.S. National Governors Association, and Mexico's National Governors Conference (Conago) have each participated in important cross-border initiatives. They have worked to sustainably manage water, reduce pollution, increase trade, coordinate infrastructure development, and share best practices on education and workforce development.

Because the United States and Mexico have federalist systems of government, state and local leaders have the power to impact key issues in bilateral relations. In fact, though foreign relations are clearly the domain of federal governments, state and local participation is vital when it comes to things like building interconnected road systems and growing student exchange (and should be supported by the foreign ministries). When managed successfully, state and local leadership can even help tackle issues that are too politically thorny for the federal governments, such as immigration and water management.

The importance of local participation in bilateral relations is especially apparent in border communities, where everything from fighting fires to economic development has binational components, but mayors from throughout both countries can find value in leading trade missions or developing university partnerships across the border.

22. *Cite forthcoming chapter.*
23. *https://mx.usembassy.gov/education-culture/education/the-u-s-mexico-bilateral-forum-on-higher-education-innovation-and-research/*
24. *https://www.nga.org/news/press-releases/subnational-leaders-gather-at-2018-north-american-summit/*
25. *https://www.mckinsey.com/business-functions/mckinsey-digital/our-insights/how-mexico-can-become-latin-americas-digital-government-powerhouse*

> *Migration and drug policy are traditionally discussed by security officials insofar as they form part of the bilateral agenda, yet each has important economic dimensions, and the inclusion of economic officials in the dialogue may open new areas for cooperation.*

for small business. Focus is also needed on financing opportunities for entrepreneurs in Mexico, which can in part be improved by strengthening links between U.S.-based venture capital and Mexican startups.
Since NAFTA eliminated tariffs for most goods across North America, non-tariff barriers, such as differences in standards and regulations ensuring product and food safety now act as some of the largest barriers to trade. Efforts to coordinate the creation of compatible regulation across North America will improve regional competitiveness by allowing companies to design and manufacture products for sale across the region. The United States has previously engaged both Canada (U.S.-Canada Regulatory Cooperation Council) and Mexico (U.S.-Mexico High Level Regulatory Cooperation Council) on a bilateral basis to **harmonize regulation.** These efforts should be revitalized and made trilateral. The effort should first prioritize building cooperation to write new rules before turning to the more difficult task of adjusting existing regulations to improve compatibility.

The Biden Administration has an ambitious plan to address climate change, and there are significant opportunities for cross-border collaboration in this area. The U.S.-Mexico Forum has a separate group that has developed a series of valuable recommendations on issues of energy and **sustainable development.** Here we will just add that efforts on sustainable development and energy must be fully integrated into the U.S.-Mexico economic dialogue. The U.S.-Mexico border region should be prioritized and developed as an example for the world of what is possible in terms of international cooperation for sustainable development. A council led by high level officials from the economic and environmental agencies in both countries should be formed with a mandate to create a comprehensive sustainable development strategy for the border region, integrating approaches to water management, economic development, energy, and mobility.

Migration and drug policy are traditionally discussed by security officials insofar as they form part of the bilateral agenda, yet each has important economic dimensions, and the inclusion of economic officials in the dialogue may open new areas for cooperation. In the case of migration, the link is apparent, as the majority of migrants in the region are at least in part seeking better work opportunities. U.S.-Mexico and North American cooperation to support economic development in Central America could go a long way toward addressing the root causes of emigration from the Northern Triangle, and a regional dialogue on the temporary movement of workers may open up spaces for the consideration of legislative action on the issue within the United States. Marijuana has historically been bought and sold in the black market, outside of the purview of economic regulators, but that dynamic is changing across North America. Canada has legalized recreational marijuana; Mexico is in the process of doing so, and despite federal restrictions, several U.S. states have also created legal marijuana markets. While the creation of a North American marijuana market will not be possible until U.S. federal law changes, there may be opportunities to begin a dialogue to share best practices on regulatory frameworks and a future in which this market includes international trade in the region.

Conclusion and Summary Recommendations

The United States and Mexico face an economic outlook that is at once challenging and promising. With the USMCA in place and the COVID-19 vaccination rollout underway, two of the largest sources of uncertainty hovering over the regional economy are clearing, offering hope that pent up consumption and investment may be on the horizon. Still, COVID-19 has left a trail of destruction in its wake — businesses shuttered, evictions pending, and elevated levels of poverty. Political forces in both countries make an inward, domestic-first posture quite appealing right now, but to do so at the expense of regional cooperation across North America would be a mistake. Only together can North America rise to the challenge of growing international competition. Policies to address structural issues in each economy can and should be complementary to regional economic collaboration. In so many ways, the United States and Mexico already share a regional economy, and in the wake of crisis, they must work together to rebuild an even stronger, more inclusive and more competitive region.

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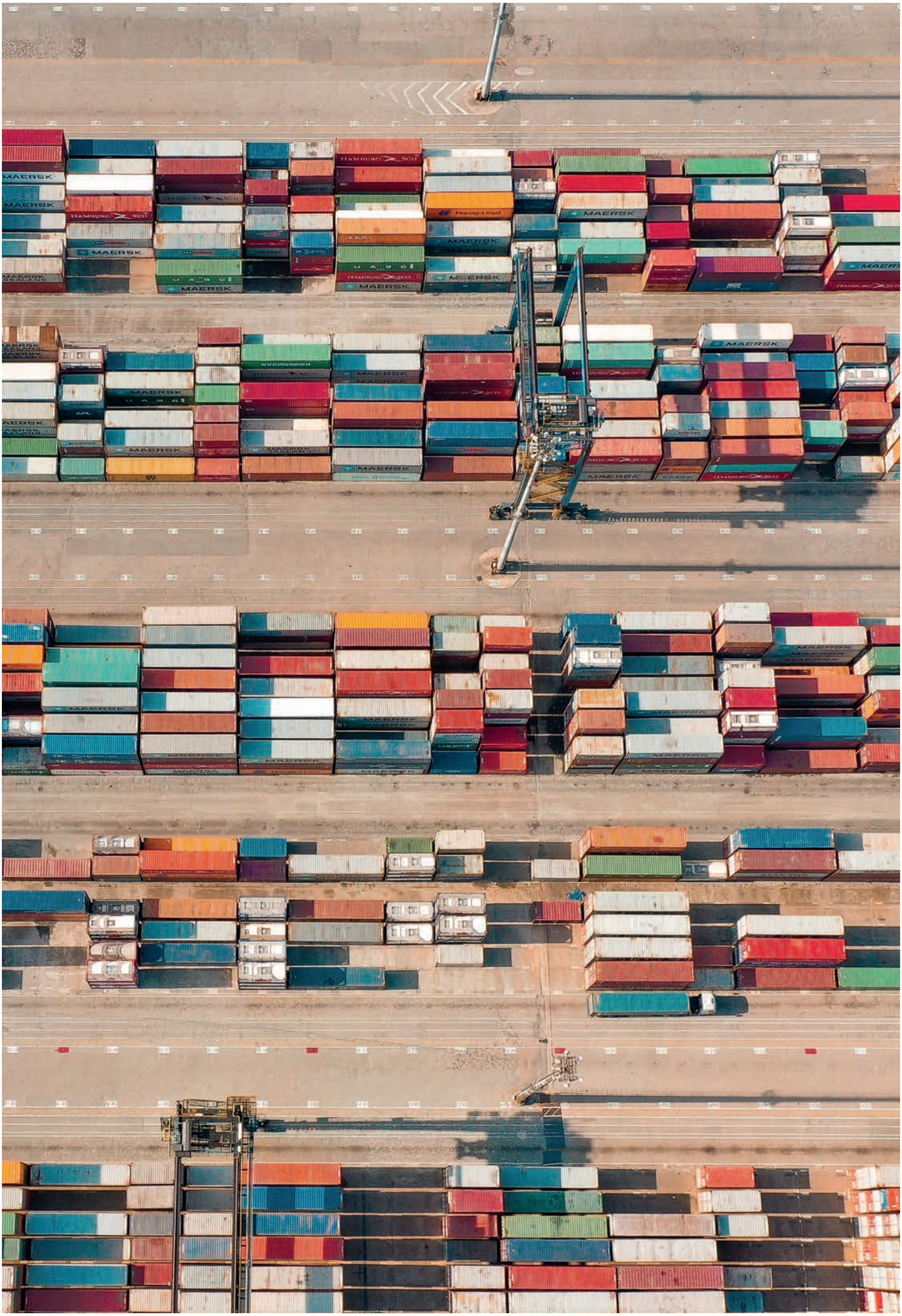
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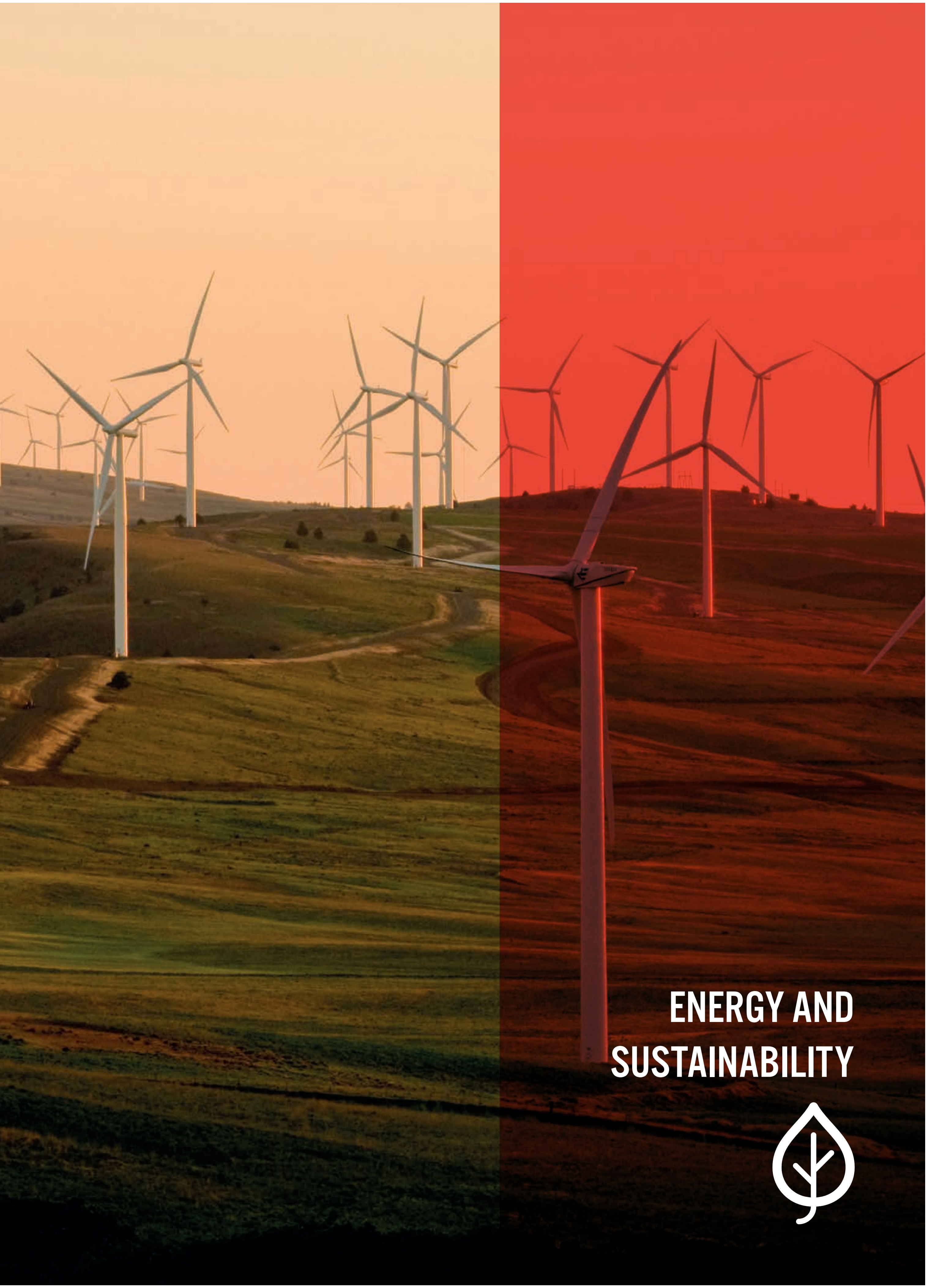

ENERGY AND SUSTAINABILITY

U.S.-MEXICO FORUM 2025

Energy and Sustainability

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KEY RECOMMENDATIONS

Sustainability

- Accelerate the harmonization of energy efficiency standards.
- Reduce methane emissions in the oil and gas sector.
- Electric vehicles are an opportunity for job creation and regulatory harmonization.
- Create policy incentives for CCUS and green hydrogen.
- Better coordinate carbon pricing policies across the two countries.
- An Equitable Energy Transition

Hydrocarbons

- Collaborate on technological development and human capital to lower carbon and costs.
- Align health, environment, and safety regulations and standards in the oil and gas sector.
- Build and operate energy infrastructure with a focus on integrated markets.
- Oil companies themselves should cooperate directly to improve sustainability indicators.

Power, Gas, Renewables

- Develop clean energy, and resilient and sustainable infrastructure.
- Integrate new models for renewable power generation.
- Exchange lessons and tools on transmission planning.
- Leverage new models to finance transmission and distribution.
- Modernize the power grid.
- Fill gaps in gas pipeline networks and develop a secondary market for underutilized gas transmission capacity.
- Reinvent dynamic subnational cooperation in grid integration.

The world is in a transition to net-zero greenhouse gas emissions by 2050 that will change the way we use and produce energy and shape the sustainability of our planet. This paper addresses how Mexico and the United States can use their energy resources to deliver jobs, economic prosperity, and social justice at this transformational juncture in history. We examine three areas fundamental to the U.S.-Mexico energy relationship: sustainability; hydrocarbons; and gas, power, and renewables. Each section, for consistency, is organized around these themes: our interconnected and interdependent energy economies, the challenges and opportunities before us, and recommendations for action.

The focus on energy and sustainability reinforces a geographic reality: Mexico and the United States are inescapably interconnected. The economies of both nations are stronger together to meet national demands and to compete in international markets. Our potential is stronger when energy resources and technological capacity are aligned with infrastructure and investments that drive industrial competitiveness. In a world now dominated by a global energy transition, Mexico and the United States have the opportunity to use their linked energy ecosystem to redefine and underpin the foundations for their sustained prosperity.

A Global Transformation Reaches Mexico and the United States

The year 2020 was a pivot point for the global energy system. For decades, fossil fuels met about 80 percent of the world's primary energy demand. The global impact of COVID-19 – on economic growth, collapsing oil demand, lost lives, and the way we live and work – has forced countries around the world to assess how they will invest perhaps 15-25% of their GDP to rebuild their economies. The phrase "build back better" – a foundational premise for President Joseph Biden's Administration – encompasses the necessity to embrace change, confront the climate crisis, and build the infrastructure and economic incentives to create jobs while ensuring resilience and sustainability. In 2020, oil demand declined 10%, world energy demand fell 6%, but the world consumed 9% more wind and solar power.[1] The share of fossil fuels in the energy mix has begun an historic downward shift.

Globally, the path to net-zero will be filled with uncertainty, but the momentum has shifted and will touch most aspects of how every nation produces and consumes energy. Underpinning this shift have been commitments from about 125 nations around the world to net-zero emissions by 2050 (and 2060 for China). With the Biden Administration's pledge to net-zero by 2050 and carbon-free power sector by 2035, the share of global emissions in countries with net-zero pledges will be 66%.[2] In other words, two-thirds of the world's emissions will be in countries committed to reduce them to a net annual balance of 0. Yet, few of these countries have policies, laws, and regulations in place that will allow them to achieve this goal.

To succeed, countries across the world will enter a period of intense and accelerated legislative and regulatory activity, to create the frameworks that

1. *Wind and solar also includes geothermal and ocean power. Biomass includes biofuels and modern and traditional biomass. 2020 figures are preliminary estimates. IHS Markit The Energy Transition Moves Beyond Slow Motion: Implications for Oil- December 2020.*
2. *IHS Markit Post COVID-19 Scenarios and Net Zero Goals – November 2019.*

drive investment and innovation in order to make net-zero a reality. That period of action will jump into high gear in 2021, as nations prepare for COP-26, the 26th session of the UN Framework Convention on Climate Change, where countries will establish new commitments under the Paris Accord.

To be sure, climate change will be a central issue in the U.S.-Mexico relationship under the Biden Administration. President Biden has made climate change one of four priorities for his administration, the first U.S. president to do so. At home, Biden pledged to assess how climate penetrates all domestic investments, committing to ensure that all cities over 100,000 people have public transit systems, creating national infrastructure for electric vehicles, and banning new licenses for oil and gas production on public lands and waters. Mexico, as the largest U.S. trade partner and neighbor, could potentially benefit more from increased coordination with the United States to grasp the benefits of this transition than any other country in the world.

This paper explores areas for research and technology collaboration that could reduce emissions, and in the case of carbon capture and storage, also potentially extend the competitive lifespans of untapped hydrocarbon reserves in both countries. However, the converse of this dynamic is also a risk: both Mexico and the United States should expect that many countries, perhaps starting with Europe and extending to China with the world's largest carbon market, will impose cross-border tariffs on the goods of exporting nations that do not share their climate ambitions. At stake for Mexico and the United States is this challenge: can they adapt their energy systems to make them competitive, sustain growth, and create jobs in a global economy committed to eliminate net greenhouse gas emissions?

The answer depends on whether Mexico and the United States open the door for cooperation on energy transition. Much will depend on how the rule of law prevails in the energy relationship between the two countries. There have been disputes over private investment in renewables in Mexico and the rights of U.S. investors in the trade of refined products. Still, the United States-Mexico-Canada Agreement (USMCA) is now in force and provides a path forward to create transparent and predictable commercial relationships. No Party to the Agreement can modify its domestic legal framework or adopt measures in violation of its commitments under the USMCA without potentially facing claims under the general state to state or investor-state dispute settlement mechanisms. In addition, the reservations or exemptions to the energy obligations that each Party established in the Agreement, can only be modified in the future if they further liberalize; thus they cannot be made more restrictive. The administration of President Lopez Obrador may not accept this interpretation of the USMCA, and that could become an issue for both governments to address with urgency.

Mexico and the United States, with two of the most integrated manufacturing economies in the world, will remain inextricably intertwined as the global energy transition unfolds. And in turn, energy policies that foster cross-border integration of fossil fuels and renewable energy capacity can propel the global industrial competitiveness of both the United States and Mexico.

The transformation potential cuts across the energy spectrum. Not only have solar and wind costs dropped precipitously in the past decade – 80% for solar PV and 50% for onshore wind[3] – Mexico and the United States have geographic characteristics that make them first-in-class producers of renewable power. Even with the onset of peak oil demand, the decline rate of oil reservoirs combined with population growth and transportation demands in emerging economies suggest that the world will need by 2050 on the order of a new 45 MMb/d of oil.[4] Mexico and the United States have complementary fuel types and refining capabilities, and the potential for sharing technical innovation. These factors could facilitate greater integration of Mexican and U.S. energy systems, from upstream to refining, to achieve lower costs and higher productivity.

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Objectives that Guide Us

This paper takes a five-year perspective on the policies, regulations, investments, and goals that would allow the United States and Mexico to manage their joint interests in energy and sustainability. Choices made in the near term may affect projects and infrastructure that have 20-30 year lifespans. Hence the objectives that guide us must find a balance between near-term outcomes consistent with a course that will extend far beyond the scope of this paper. We highlight three goals:

Enhance the Energy Security of the United States and Mexico: This means that energy must be available, accessible, and affordable. Deepening the physical and market interconnections between Mexico and the United States will support energy markets that are more abundant, with lower costs.

Make the Production and Use of Energy Sustainable: This begins with the goal of reducing emissions but extends into business and political decision-making that will touch on every aspect of politics, commerce, and quality of life in both countries. Sustainability is fundamental to the "new competitiveness" in global markets, and to creating jobs that can thrive in this changing global context. Mexico and the United States should align their paths to achieve the Paris Agreement goals.

Create Jobs: The COVID-19 pandemic has touched every country in the world, causing a massive economic contraction that has left tens of millions out of work in Mexico and the United States. The energy sector must deliver jobs to support this recovery. In part, these jobs can come from investments in energy production and infrastructure. But cleaner energy produced at lower cost is necessary to consolidate an increasingly automated and digital industrial base that depends on electric power.

3. *Since 2012 for solar and 2010 for wind. Prices for more than 1,000 tracked projects selected or short-listed in competitive auctions or tenders. IHS Markit Global Power and Renewables – October 2019.*

4. *Includes crude and condensate. IHS Markit Global Crude Oil Supply Analytics – 2nd Quarter 2020.*

The Tools to Get Us There

Success on this course of integration will hinge on four factors:

Investment: The International Energy Agency (IEA) estimates that through 2050, the world must invest on the order of $3.5 trillion per year to transform its energy systems.[5] No energy producer today, not even the richest petrostate, can chart a successful future without private capital. For Mexico and the United States, the scale of investments needed in oil and gas production, connecting infrastructure, storage systems, and power generation require private capital.

Aligning U.S.-Mexico Energy Policy and Regulatory Goals: Regulatory quality will influence whether investments prove commercially sound, competitive, responsive to consumers and environmentally sustainable. These issues are especially acute for cross-border power trade, which is virtually non-existent. For two countries seeking to diversify supply chains away from China, the competitiveness of the U.S.-Mexican energy resource base is a natural foundation on which to build.

Research and Technology: The changing pace of technology is unprecedented, from the declining cost of renewables, to innovations in carbon capture and storage, to emerging battery technologies, to the commercial potential for hydrogen. As digitalization accelerates technology adoption, efficiency gains will reshape the competitiveness of fuels, oil fields, and generation plants.

Rule of Law and Legal Transparency: The USMCA introduced new rules of the game for Mexican and international private investors in the oil, gas, electricity, and renewable sectors. The U.S. and Mexican governments need to reach an understanding on how the USMCA incorporates Mexico's 2013-2014 Energy Reform. Disputes on this issue, including the independence of regulatory bodies, will deter both foreign and domestic energy investment.

Section I: Sustainability: Underpinning the Future of Energy

In terms of raw capacity, the United States and Mexico are a sustainable energy powerhouse. In 2019, the United States and Mexico got 60% more power per unit of capacity from its wind farms than China.[6] For solar photovoltaic, the United States and Mexico averaged about 50% greater efficiency turning their solar panels into power generation.[7] To be sure, China invests more in renewable energy – about $80 billion a year – than any country in the world. But even as China aspires to be the world's renewable energy powerhouse, Mexico and the United States have the capacity to convert the wind and sun more efficiently into electricity than even China.

The movement towards clean energy and reduction of emissions is not just about the environment, but also about industrial competitiveness, job creation, and social welfare. In the coming five years, the United States and Mexico have the opportunity to create a cleaner shared energy ecosystem, with ever cheaper technologies.

With the world transitioning to a new net-zero emissions reality, Mexico and the United States have a fundamental self-interest to align policies, laws, and regulations on energy and climate to reinforce the competitiveness of their massively integrated economies, and to bring affordable energy access to those outside that economic mainstream. Failure to shift profoundly the structure of energy and industry to a net-zero world will leave U.S.-Mexico supply chains from automobiles to electronics simply uncompetitive.

Interconnected and Interdependent

Since the Paris Agreement was adopted in 2015, there is a growing universal consensus around the goal of limiting global temperature rise to less than 2° C. By the end of 2021 and an expected new wave of climate action pledges at COP-26, nations will launch into a period of legislative and regulatory action to translate their climate aspirations into emissions reductions. Of the 1,900 pieces of climate legislation enacted globally in the last decade, carbon pricing mechanisms — carbon taxes or cap-and-trade systems — are among most popular. Over 40 countries worldwide have some form of price on carbon.[8] China will launch the world's biggest carbon pricing system in 2021.

Technological disruption toward renewable and low carbon energy is gaining momentum globally, as entrepreneurs seek to seize the $1.2 trillion opportunity that the International Energy Agency associates with meeting the Paris Agreement goals.[9] Innovation is driving the electrification of transport and increased investment in carbon capture, utilization, and storage (CCUS). Innovation is also accelerating the adoption of clean power, including batteries and hydrogen, smart grids, and other digital technologies to address solar and wind intermittency and improve energy efficiency.

Economic stimulus packages created in response to the COVID-19 pandemic are also accelerating policies to reduce CO_2 emissions. Since the beginning of the pandemic, governments in G20 countries have committed

> *In terms of raw capacity, the United States and Mexico are a sustainable energy powerhouse. In 2019, the United States and Mexico got 60% more power per unit of capacity from its wind farms than China.*

5. IEA/B20 joint statement on energy transitions. Press release – September 2020. https://www.b20saudiarabia.org.sa/wp-content/uploads/2020/09/B20-IEA-Jt-Stmt-on-Energy-Transitions-180920202.pdf

6. For 2019, IHS Markit estimates that the average capacity factor – the share of time that an onshore wind plant generates power – for the United States and Mexico was about 42.5%. For China it was 26%. (IHS Markit Global LCOE Dashboard, October 2020).

7. For 2019, IHS Markit estimates that the average capacity factor – the share of time that a solar photovoltaic plant generates power – for the United States and Mexico was about 27%. For China it was 18%. (IHS Markit Global LCOE Dashboard, October 2020).

8. World Bank, State and Trends of Carbon Pricing 2020- May 2020. https://openknowledge.worldbank.org/bitstream/handle/10986/33809/9781464815867.pdf?sequence=4&isAllowed=y

9. Bloomberg Green, 3 Years and $3 Trillion Could Shift the Climate Change Narrative- June 2020. https://www.bloomberg.com/news/articles/2020-06-18/3-years-and-3-trillion-could-shift-the-climate-change-narrative

$448 billion to supporting different energy types through new or amended policies, including $167 billion for clean energy policies.[10] The European Union has enacted a green recovery strategy that will reduce by 2030 CO_2 emissions 55% below those registered in 1990. A third of its $880 billion recovery plan is earmarked for climate measures. By contrast, stimulus policies in Mexico and the U.S. are primarily aimed at fossil fuels.

Opportunities and Challenges

Mexico and the U.S. are endowed with rich energy resources, both fossil and renewable. Due to the interdependent nature of their energy systems and of critical industrial sectors of their economies, such as transport and manufacturing, they face common interests in seizing the opportunities that the new global energy context presents to secure their competitiveness.

The Movement Toward Clean Energy: The transition to clean energy will entail challenges that Mexico and the United States can undertake together. Renewable power requires financing arrangements for high upfront capital costs. There are challenges arising from the need to manage the intermittency of solar and wind projects, issues of grid integration, and inadequate transmission grids. Tools already exist to manage intermittency and grid integration, including energy storage, grid management tools, smart grids, and ancillary services, but further work is needed to improve the related technologies and reduce costs. Improvement of existing transmission grids requires substantial new investment, obtaining rights of way, and management of community input and cost-sharing. These issues are discussed further in Section III below on power, gas, and renewables.

Oil and Gas "Peak Demand": Oil production is important to both countries, but rising global oil demand is no longer a certainty in light of the deep economic recession and declining oil demand brought on by the COVID-19 pandemic. Underlying this "peak demand" is a younger generation of consumers and institutional investors demanding low-carbon products, divestiture from fossil fuels, and disclosure of climate change risk.

Electrification of Transport: Mexico and the U.S. will face significant disruptions in critical industries, especially the automotive industry, given existing pressures to reduce emissions and transition towards electrification. BP, Ford, Exelon, National Grid, and Shell Oil Company launched the Coalition for a Better Business Environment to support the multi-state Transportation and Climate Initiative (TCI), aimed at cutting emissions in the transportation sector in the Northeast and Mid-Atlantic States. California Governor Gavin Newsom recently signed an executive order to ban sales of new cars with internal combustion engines in the state by 2035.

The U.S. and Mexico are behind China and Europe in the sales of electric vehicles (EVs). The global auto electrification trend could pose significant disruptions for Mexico and the U.S., in light of the intricate linkages in the North American supply chain. The motor and drivetrain in an EV are simpler and have fewer components than gasoline cars, meaning that vehicle electrification will make obsolete many vehicle parts and potentially the jobs associated with their production.

Mexico would be more affected by these changes than the U.S., due to the higher relevance of the auto industry in its economy and its dependence on access to the vast U.S. market. The industry is the largest contributor (25%) to Mexico's manufacturing GDP and contributes a third of total exports, while representing 12.5% of the U.S. manufacturing sector's gross output.

Carbon Capture, Utilization, and Storage (CCUS): CCUS will be a key technology for meeting net-zero emissions goals. It is the only technology to achieve deep emissions reductions from cement production and is the most cost-effective approach to reduce emissions in iron and steel and chemicals manufacturing. CCUS is also a critical tool to achieve deep decarbonization of the power sector, the highest emitting industrial sector.[11] The primary use for captured CO_2 today is in the oil industry, injected into underground reservoirs to increase oil production. Both Mexico and the United States could benefit in the medium term from the deployment of CCUS technology in order to offset the impacts of existing emissions-heavy activities such as iron, steel and chemicals manufacturing, and the demands of international climate goals.

Access to Capital and Carbon Markets: Public pressure and increasing physical and legal risks from climate change are driving investments in sustainable energy systems. Sustainability will become increasingly central to Mexico's ability to attract investment in its energy sector. Many U.S. states, including California, Washington, and ten Eastern states that participate in the Regional Greenhouse Gas Initiative (RGGI), have successfully developed carbon pricing instruments for several industries. Similarly, Baja California, Tamaulipas, and Zacatecas, in Mexico, have adopted carbon taxes. The Mexican federal government has a carbon tax in place, and a nationwide Emissions Trading System is planned for 2023.

Nature-Based Solutions: Nature-based solutions, such as conservation or restoration of forests and mangroves, are becoming a popular option, particularly in the oil and airline industries, to reduce the cost of emissions mitigation. According to Forest Trends, in 2018, $296 million was spent buying the equivalent of 98 million tons of CO_2 forest offsets in voluntary carbon markets, twice as much as in the previous year.[12] The key challenges are to ensure that only real, measurable and additional emission reductions are counted, and that the reductions are permanent.[13] Measuring the impacts of reforestation or forest conservation is difficult, given the long time required to ensure that CO_2 emissions are absorbed.

A Just Energy Transition: Although a transition away from oil and other fossil fuels will be clearly beneficial to both countries on the whole, it will produce winners and losers. The United States and Mexico are both significant oil producers and although clean energy industries provide more jobs than fossil fuel industries, these jobs are likely not located in the same geographic areas. Additionally, energy makes up a higher portion of spending for lower income households and such households are likely to live in less energy-efficient homes. Furthermore, although the U.S. oil industry is larger, Mexico's industry plays a larger part in its economy, providing as much as 10% of government revenues in recent years, which is essential to funding social programs.

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10. IISD, Institute for Global Environmental Strategies, Oil Change International, ODI, Stockholm Environment Institute, Center on Global Energy Strategy – Columbia University. Data as of December 16, 2020. www.energypolicytracker.org

11. Dr. Julio Friedmann, Emeka Ochu and Jeffrey D. Brown, CGEP, Columbia University- April 28, 2020. IEA 2018.

12. The Economist, Cheap Cheats- September 17, 2020. https://www.economist.com/special-report/2020/09/17/cheap-cheats

13. Institute for Applied Ecology, How Additional is the Clean Development Mechanism - March 2016. https://ec.europa.eu/clima/sites/clima/files/ets/docs/clean_dev_mechanism_en.pdf

Key Recommendations

The energy transition will require policy to encourage deployment of existing technologies and further research and development on technical challenges we have yet to solve. Building on their strong history of cooperation on energy matters,[14] Mexico and the U.S. should create a Bilateral Task Force on Energy to address the full spectrum of energy issues from hydrocarbons to renewables to battery technology to the governing rules under the USMCA. The Task Force should offer in-depth analysis of the recommendations presented through this paper.

1. Accelerate the harmonization of energy efficiency standards

Increasing the ambition of previous collaborations would be a good start to a joint energy sustainability policy. For example, strengthening previous efforts to harmonize energy efficiency regulation, including standards for appliances and transport as well as building codes, would make compliance easier for companies that work on both sides of the border.

2. Reduce methane emissions in the oil and gas sector

Significant advances have been made in recent years in methane leak detection through the use of satellite technology, advanced mathematics, and geospatial data analysis. Many oil and gas operators employ a number of technologies to reduce methane emissions during well drilling, completion, and operation. Further, a group of private companies, NGOs, and academics have also entered into a rich debate around the merits of these new technologies and analytical methodologies for leak detection and monitoring. Mexico and the U.S. could evaluate these technologies and analytical methodologies with the goal of developing and implementing an effective, low-cost strategy to reduce methane emissions in oil and gas production and existing natural gas infrastructure.

3. Electric vehicles are an opportunity for job creation and regulatory harmonization

The shift toward EVs could offer significant opportunities for innovation, increased investments, and job creation. Mexico, for instance, possesses the world's largest reserves of lithium, which could become the basis for a new national industry focused on the production of EV batteries. By 2025, the global market for batteries could reach $300 billion annually.[15] The electrification of transport will require large-scale investments in infrastructure, such as converting gas stations into electric charge stations and grid fortification. The two countries should also harmonize vehicle standards, supporting the integrity of integrated North American supply chains.

4. Create policy incentives for CCUS and green hydrogen

Given the prevalence of fossil fuel-based power generation and heavy industries such as steel and cement that presently rely on fossil fuels, joint work to encourage CCUS, accelerate implementation and lower costs could help both countries reduce their emissions.

Green hydrogen, produced from the hydrolysis of water using renewable electricity, is another area for cooperation. Mexico and the U.S. both have potential for development of solar energy near existing industries, like refineries, with significant demand for hydrogen.

5. Better coordinate carbon pricing policies across the two countries

Carbon pricing is a critical tool to create transparency about the impact of carbon, send clear signals to industry and government on the scale and importance of mitigation strategies, and incentivize investment that captures or reduces CO_2 emissions. Still, pricing carbon has been difficult to advance politically since it increases costs in high-carbon-intensity industries like, steel, cement, glass, paper, and mining. In the United States, these industries coincide with battleground states that highly influence the outcome of presidential elections. Mexico would be particularly impacted in auto manufacturing and refining. Still, with carbon markets in the EU and China, the world is on a trajectory toward market-based prices on carbon.

Mexico and the United States are each country's leading trade partner, in part because of their integrated supply chains. The integration of the U.S. and Mexican industrial economies creates an imperative for both countries to improve their coordination on carbon pricing policies, from considering a joint approach to relevant border adjustment tariffs, to expanding carbon offsets, to national strategies on pricing carbon.

With the Biden Administration's commitment to net-zero emissions and a carbon-free power sector, combined with financial institutions increasingly focused on ESG (Environmental, Social, and Governance) investing, recognition in the U.S. of allowances and carbon credits in Mexico could allow for offset purchases that reduce corporate emissions profiles in the United States and channel capital back to Mexico that could be invested in innovation or to address social welfare needs in communities providing the offsets. Mexico could become an offset supplier from mangroves, REDD+ (Reducing Emissions from Deforestation and forest Degradation and related programs), land use, and agriculture for state/federal cap-and-trade programs.

6. An Equitable Energy Transition

The Unites States and Mexico should jointly develop programs, such as assistance with energy bills and in purchasing more energy efficient technology, to ease social dislocation that will inevitably come with the energy transition. Potential increases in electricity costs would be disproportionately harmful for lower income households and people who live in less energy-efficient homes. An equitable energy transition must also consider how to replace government revenues derived from fossil fuels, particularly in Mexico. Both countries can collaborate and share experiences in the development of job training programs and on redevelopment plans for fossil fuel-dependent areas on both sides of the border.

Section II: Hydrocarbons: Optimizing Competitiveness and Energy Security

The United States and Mexico are both major oil and gas producers with significant untapped potential. Global projections for a decline in oil demand present a massive challenge for both countries to remain competitive, secure investment, replace jobs fleeing from oil and gas, and compensate for revenue shortfalls from revenues and taxes. Oil producers today face a highly competitive global environment. Oil supply is abundant, with historic inventories having accumulated as demand collapsed during the

14. U.S Department of Energy. https://www.energy.gov/ia/international-affairs-initiatives/north-american-energy-cooperation

15. Corporation Knights, The EV Revolution will take batteries but are they ethical- January 2020. https://www.corporateknights.com/channels/transportation/ev-revolution-needs-batteries-ethical-15795118/

COVID-19 pandemic. Meanwhile, the likely enactment of policy measures to fight climate change and invest in a greener economic recovery in many countries dampens the oil demand outlook. Most forecasts foresee demand declining gradually with the world still consuming tens of millions of barrels per day for decades to come. However, in a scenario where the ambitious goals of the Paris Agreement are reached, oil demand would have already peaked, and gas would do so by 2025, according to the International Energy Agency. In this scenario, by 2040 oil demand would drop by 45%. Meanwhile, natural gas, which is expected to replace higher emissions coal in the near and medium term, would see demand drop by only 3% by 2040.[16]

Under any demand scenario, competition will increase brutally for capital to develop the oil and gas resources that the world continues to need. ESG pressures and investors fears of commodity price volatility are driving energy investment to renewables or to other sectors like technology and pharmaceuticals. Mexico and the United States need to prepare for this reality: companies with the cheapest oil and the lowest emissions content will sell the marginal barrel of oil.

Interdependent and Interconnected

A Kansas City Southern train recently arrived at a warehouse in San Luis Potosi, loaded with fuels for Mexican consumers. The off-taker was a major international energy firm active in the Mexican market since 2015. Shortly thereafter, the product that had begun as oil in the U.S., converted and refined into fuel and shipped by rail hundreds of miles across the U.S.-Mexico border, would be pumped by Mexican consumers into their automobile tanks. It should be celebrated that we have come a long way towards a more integrated and truly interdependent energy market. Yet, as important as these cross-border connections have become for energy security and market stability, U.S.-Mexico energy integration needs to evolve along with changing global market conditions.

The United States and Mexico have highly integrated energy systems, among the most integrated of any two countries in the world. And the flow of oil, natural gas, and refined products between the two countries is growing. This trade has been facilitated by the build out of infrastructure, including oil and gas pipelines, rail lines, and storage facilities. Cross-border trade and investment have flourished in part thanks to government regulations and bilateral cooperation.

U.S. and Mexican oil production and refining complement each other because each country produces crude grades suited to the other county's refineries. Sour heavy crude, which accounts for 55% of Mexican production, is an ideal feedstock for some of the high conversion refineries in the U.S. Gulf Coast (USGC).[17] The light crude surplus in the U.S. would fit well with Mexican lack of deep conversion refineries. Despite declining gasoline demand in the U.S., USGC refineries have been able to maintain a high utilization rate by exporting gasoline to Mexico. And Mexico benefits from low cost and cleaner fuels from some of the world's most competitive refineries. These synergies create business opportunities, new investment flows, and job creation on both sides.

U.S. shale producers have also benefited from the ability to monetize gas by selling into the Mexican market. Mexican imports of natural gas from the U.S. by gas pipeline reached 5.1 billion cubic feet per day in 2019, compared to 4.8 bcfd in 2017 and 4.9 bcfd in 2018.[18] For Mexico, access to the cheapest gas in the world should improve competitiveness of Mexican manufacturers highly integrated with U.S. production chains.

Many companies have recently started to invest in Mexico's hydrocarbons sector, responding to the cross-border integrated business opportunities. American companies such as ExxonMobil, Chevron, Talos, Fieldwood, Murphy, Valero, Avant, Bulkmatic, among others, have E&P contracts and are importing, distributing, and commercializing refined products, and building terminals. Not only U.S. companies but also non-U.S. companies with business interests and operations in the U.S. are expanding into Mexico.

Challenges and Opportunities

In order to compete for a shrinking share of capital investment and market share, oil producers must look to cut costs, improve efficiencies, and reduce their direct and indirect emissions. The COVID-19 pandemic has sped up some of the changes expected from this energy transition. Oil demand — and prices — plummeted in March and April as lockdown measures were imposed around the world to contain the coronavirus outbreak. In early 2021, global demand and prices have still not recovered to pre-COVID levels, and the prospect of longer-term changes in consumer patterns, such as a permanent increase in teleworking, raise the possibility of softening oil demand in the long term. US Benchmark WTI dropped from $50/barrel in early February 2020 to below $20/barrel in April, and hovering in the range of $50/barrel in January 2021 after an extraordinary supply cut of 1 MMb/d by Saudi Arabia.[19] The International Energy Agency forecasts a gradual increase in demand as lockdown measures are eased, projecting that global oil demand will be 8.1 mb/d lower in 2020 and 5.7 million b/d lower in 2021 compared to 2019.[20]

Over the last decade, the United States has emerged as one of the world's largest oil and natural gas producers and indeed one of the main forces behind the increasing competition among global suppliers. U.S. crude oil production more than doubled from 5.5 million b/d in 2010 to 12.7 million b/d in February 2020,[21] with over 60% of crude output coming from shale last year.[22] Likewise, natural gas production rose by 62% over the past decade,[23] and by 2019 shale accounted for 75% of total U.S. dry gas production.[24]

However, U.S. shale output is highly sensitive to oil price fluctuations due in large part to its shorter production cycles. While conventional oil projects require large upfront

16. IEA, The Oil and Gas Industry in Energy Transitions. Insights from IEA analysis. https://webstore.iea.org/download/direct/2935. 2020 edition of BP Energy Outlook 2050, http://www.bp.com/energyoutlook

17. Deer Park is an outstanding example of integration, this refinery is a 50-50 partnership between Shell and Pemex, 40-50% of its crude slate is Mexican heavy sour.

18. U.S. Natural Gas Exports by Country- August 31, 2020. https://www.eia.gov/dnav/ng/ng_move_expc_s1_a.htm

19. Statista, Weekly Brent, OPEC Baskett, and Crude Oil Prices from December 30, 2019 to December 28, 2020. https://www.statista.com/statistics/326017/weekly-crude-oil-prices/

20. Oil Price, Will Oil Ever Recover to Pre-COVID Levels?- July 2020. https://oilprice.com/Energy/Crude-Oil/Will-Oil-Ever-Recover-To-Pre-COVID-Levels.html

21. U.S Energy Information Administration, December 2020. https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MCRFPUS2&f=M and https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pet&s=mcrfpus2&f=a

22. U.S energy Information Administration, Frequently Asked Questions- September 2020. https://www.eia.gov/tools/faqs/faq.php?id=847&t=6

23. U.S Energy Information Administration, Natural Gas Gross Withdrawals and Production- December 2020. https://www.eia.gov/dnav/ng/NG_PROD_SUM_A_EPG0_VGM_MMCF_A.htm

24. U.S energy Information Administration, Frequently Asked Questions- September 2020. https://www.eia.gov/tools/faqs/faq.php?id=907&t=8#:~:text=The%20U.S.%20Energy%20Information%20Administration,natural%20gas%20production%20in%202019

capital investments and then ramp up output over several years — making it uneconomical to shut in production in response to short term price fluctuations — shale wells reach peak output in a matter of months and can be quickly closed down or restarted without major losses. As a result, many shale wells have been shut in since the oil price collapse early in 2020. The U.S. shale sector is also highly dependent on low interest financing, and dozens of companies that were highly leveraged have already declared bankruptcy in recent months. Continued investor appetite for financing the shale boom despite the sector's low returns is uncertain, putting ever greater pressure on operators to improve efficiency gains. The shale gas sector faces the additional challenge of inadequate infrastructure and insufficient demand. Huge volumes of natural gas, often associated gas from shale oil wells, are flared due to lack of markets. As a result, the export of piped gas to Mexico has become a critical outlet for U.S. shale gas.

In Mexico, more than 70 years of closing the hydrocarbons sector to private investment and competition limited its development to the financial, technical, and operating capabilities of its state company Pemex. Mexico undertook a comprehensive energy reform in December 2013, and investment quickly responded.[25] In 2018, the Mexican government shifted its energy policy to reinforce state control over the sector.

Mexico holds significant resources that could more than triple its current reserves but lacks financial, technical, and operating capacities to explore and develop them. Oil and gas production are declining and more complex resources, deepwater, and unconventional, have not been monetized. As a result, the Mexican state, as the owner of those resources, has not been able to reap the benefits even though Mexico remains highly dependent on the oil sector's contribution to the public budget to support economic growth. And as oil production has declined, so has the production of associated gas.

Mexican refining capacity, all owned by Pemex, falls short of demand due to a lack of residuum upgrading capacity to produce the yield of products consumed in Mexico (dominated by gasoline). In addition, refineries run at low utilization rates owing to lack of maintenance and funding and high operating costs. The current Mexican administration is building a new refinery (340,000 bd of processing capacity), which constrains maintenance, repairs, and upgrades in existing refineries given the limited resources of Pemex and the Mexican government. Mexico lacks sufficient and reliable refined products pipelines and storage facilities for reliable fuel markets. Fuel inventories in Mexico are less than five days of demand in some regions. By comparison, the United States and most European markets have fuel inventories on the order of one month of demand.

Key Recommendations

The market trends described above create business opportunities on both sides of the border. But while market forces will continue to be the main driver of energy integration, governments need to create a favorable environment for trade and investment. Going forward, if the United States and Mexico are to remain competitive in global oil markets and access affordable, clean and reliable energy, their governments should place more emphasis on modernizing energy infrastructure and instituting practices to make them more efficient, cost effective, and sustainable.

1. Collaborate on technological development and human capital to lower carbon and costs

As discussed earlier, improvements in technologies such as carbon capture and storage will be key to achieving zero carbon energy systems. The oil industry is continually expanding the deployment of advanced technologies, with digitalization and artificial intelligence widely used for many processes in exploration and production to improve efficiency and reduce costs. New technologies should be accompanied by constant training of personnel to effectively incorporate them. Both the United States and Mexico would benefit from partnerships among universities, government research institutions like the U.S. national labs and the Mexican Petroleum Institute (IMP), and regulatory agencies to advance technological innovation and professional growth of energy workforces. Both governments could also create rules for regional content and/or fiscal incentives which incentivize permanent training alliances among technology providers and companies.

2. Align health, environment, and safety regulations and standards in the oil and gas sector

Policymakers and regulators in both the U.S. and Mexico could learn from their counterparts through technical exchanges between organizations like Mexico's ASEA and the U.S. Bureau of Safety and Environmental Enforcement on reducing greenhouse gas emissions in the hydrocarbons sector. Mexico could improve air quality by adopting higher U.S. fuel quality standards. The two countries share a maritime border with oil projects on both sides of the Gulf of Mexico and should align safety and environmental management standards and share information on offshore regulation. In addition, both the United States and Mexico hold substantial unconventional oil and gas reserves but face concerns about environmental regulation of fracking, including related to methane leaks and water management. Thus, Mexico and the United States could increase collaboration on fracking regulation at the federal and/or state levels. Such cooperation has occurred under previous governments but needs to be reactivated and expanded.

3. Build and operate energy infrastructure with a focus on integrated markets

Mexican deepwater potential in the northern Gulf of Mexico could be developed more efficiently by leveraging the decades of experience on the U.S. deepwater side and building infrastructure to tie Mexican developments to existing U.S. infrastructure. Drilling equipment, support vessels and other equipment could be optimized if shared for the development of different assets. Infrastructure could be connected to existing pipelines flowing to refineries in the U.S. and gas pipelines to the Mexican market could be expanded. With companies and personnel working across the border, developing cross-border integrated businesses in a highly competitive environment will drive economic growth and efficiency gains in both countries. Improving conditions for refined products trade, for example by allowing long term import permits in Mexico, and improving customs processes on both sides of the border, will create capacity to move and store refined products, relieving fuel security concerns and lowering fuel logistics costs.

4. Oil companies themselves should cooperate directly to improve sustainability indicators

Oil companies are facing increasing pressure from investors and civil society to improve their sustainability indicators,

25. Today, there are 73 companies from around the world participating in exploration and production contracts, including 8 US companies. Mexican Government, Rondas Mexico- April 2019. https://rondasmexico.gob.mx/esp/cifras-relevantes/
With those contracts Mexico has widened significantly its financial, technical, and operational capacities to explore, appraise and develop hydrocarbon resources while risk has been diversified among many investors. Although it is still too early to see the full benefits of companies participating in the sector, private oil firms could contribute to 12% of total production by 2025. IHS Markit- December 2020.

providing an impetus for further action. U.S. investors are increasingly concerned about the risk of oil companies investing in stranded assets, and companies are under pressure to develop long-term strategies to embrace the transition away from fossil fuels. The direct emissions of Pemex alone are equivalent to some 5% of Mexico's total emissions. The state company lacks a strategy for diversifying its portfolio to include low emissions energy sources and mitigating the risk of stranded assets. U.S. oil companies and Pemex can collaborate through international initiatives such as the Oil and Gas Climate Initiative, of which Chevron, ExxonMobil, and Occidental are all members (Pemex recently withdrew but should rejoin).[26]

Section III: Power, Gas, Renewables: Cleaner and Cheaper Energy

The U.S. and Mexico have an enormous energy resource base to fuel industry and provide clean and reliable power to households. Abundant U.S. natural gas combined with substantial prospective resources south of the border in Mexico can be combined to consolidate a regional gas market to supply the world. In addition, high solar insolation as well as best-in-class wind resources in both the U.S. and Mexico, permit high capacity factor wind generation projects.

Mexico suffers from high electricity prices compared to the U.S. In addition, Mexico's industrial sector still relies on expensive and more polluting sources of energy. In the interconnected U.S-Mexico supply chains, these differentials undermine the competitiveness of our integrated industries.

Interconnected and Interdependent

Mexico is the largest importer of U.S. natural gas. The Mexican gas pipeline network supporting these imports, both cross-border and domestic, has grown enormously in the last few years. The CFE has been the main anchor shipper for new pipelines, which were planned to provide sources of gas for new power generation facilities and to open new markets, previously isolated, for natural gas access.

Currently, the utilization of Mexico's pipeline capacity is low, but this presents a unique opportunity to enhance the competitiveness of Mexican industry and strengthen the ties of U.S.-Mexican gas industries. Increased access to natural gas from the U.S. – sold at very low prices compared to gas prices in Europe or Asia – could benefit Mexican industries that use natural gas as a heat source, as well as businesses and consumers that buy gas-fired electricity. The USMCA could also help the U.S. and Mexico compete more effectively in export markets and provide low-cost products to Mexican consumers.

Further, the U.S. and Mexico could jointly build a natural gas export platform whereby natural gas is imported from the U.S. into Mexico through existing pipeline networks, liquefied at Mexican Pacific Coast facilities then exported to the growth economies of Asia.

The U.S. and Mexico also have a joint interest in taking advantage of new energy technologies related to renewable energy and grid management. The cost of electricity derived from solar and wind has dropped precipitously over the last decade to the point that electricity from utility-scale renewable sources is now cheaper in many cases than electricity from gas-fired generation. With energy storage and improved grid management, renewable energy can be reliable as well as low cost. As a result, generating capacity from wind and solar is now growing faster in the U.S. than from any other technology. Renewable energy will also be a cornerstone to the energy transition over the medium to long term as the electrification of our energy systems becomes more prevalent (internal combustion engine vehicles will likely be phased out in favor of electric vehicles — see the example of California mentioned above, new fuels can be produced with renewable energy — see hydrogen example above, and heating can be switched to power, as well).

Going forward, robust capacity for cross-border power trade will enhance U.S. and Mexican competitiveness in an increasingly electrified global economy. To realize that potential, both sides must contend with politics and policy to bring about increased integration between the U.S. and Mexican grids. U.S. regulators, state-level policymakers, federal authorities, and Mexico's state-owned enterprises all have important political constituencies that will need to participate in the discussion. To date, the amount of electricity traded between the two countries is minimal.

Challenges and Opportunities

Retiring Legacy Infrastructure: Mexico's legacy generation fleet is aging and inefficient, resulting in high electricity prices. According to the EIA, the average end-consumer tariff for industrial consumer in the U.S. was $6.8 US cents/KWh in 2019 with rates as low as $5.5 US cents/KWh in states like Texas.[27] In contrast, Mexican mid- and large-size industrials paid $12 US cents/KWh and $8.4 US cents/KWh respectively in 2019 according to Mexico's Energy Regulatory Commission, CRE.[28] Most Mexican households pay a subsidized price for electricity rather than full price, with the subsidies costing the Mexican government $3.9 billion in 2019.[29]

Even though Mexico has made significant strides in phasing out oil and coal generation, these fuels in 2019 still supplied 17% of total power.[30] According to the CRE, coal and fuel-oil generation costs in 2019 were $75/MWh and $104/MWh, respectively.[31] By contrast, between 2015 and 2018, Mexico carried out three clean energy auctions to contract new renewable (wind and solar) power and the related clean energy certificates (CELs), with the final auction producing bids averaging$20/MWh. The three auctions combined resulted in nearly 7 GW of wind and solar combined and commitments for nearly $9 billion in private investments.[32] The clean energy auctions, however, have now been indefinitely suspended.

Clean Energy and its Challenges: Although the clean energy auctions produced extremely low bid prices, Mexico has grave concerns regarding the variability of solar

26. *The Dialogue, Latin American State Oil companies and Climate Change: Decarbonization Strategies and Role in the Energy Transition- June 2020. https://www.thedialogue.org/analysis/latin-american-state-oil-companies-and-climate-change-decarbonization-strategies-and-role-in-the-energy-transition/*

27. *Energy Information Administration. Average Price of Electricity to Ultimate Customers. https://www.eia.gov/electricity/monthly/epm_table_grapher.php?t=epmt_5_03*

28. *Final Basic Supply Rates 2019, CRE. Estimated National Average Rate. Mid-size industrial is the average of GDMTO and GDMTH and large-size industrial is the average of DIST and DIT. Exchange rate 19.26 MX$/US$. https://datos.gob.mx/busca/dataset/memorias-de-calculo-de-tarifas-de-suministro-basico/resource/b9d8d215-a9e1-43d5-89e3-00616a051b5a*

29. *Expenditure Budget of the Federation 2019. Subsidy for electricity rates. https://www.pef.hacienda.gob.mx/es/PEF2019/home*

30. *National Center for Energy Control. Energy Generated by Technology. https://www.cenace.gob.mx/Paginas/SIM/Reportes/EnergiaGeneradaTipoTec.aspx*

31. *CRE, Final Basic Supply Rates 2019, Estimated energy and generation costs 2019. https://datos.gob.mx/busca/dataset/memorias-de-calculo-de-tarifas-de-suministro-basico/resource/b9d8d215-a9e1-43d5-89e3-00616a051b5a*

32. *Estimated from results of the long-term power auctions carried out by Centro Nacional de Control de Energia (CENACE) between 2015 and 2017.*

and wind projects, as well as issues of grid integration. California's experience also shows that there can be too much energy from solar projects during the afternoon hours, when production may exceed demand. Accordingly, the grid must have the capacity to absorb renewable power when it is available, or there must be alternatives to store it. Backup sources of generation need to be available in the case of variable generation shortfalls. It is also essential to integrate clean energy into transmission and distribution systems so as to ensure available capacity, reliability, and proper regulation of frequency and voltage. Given the goal of reaching net zero carbon emissions by 2050, these challenges can also be considered opportunities or trade-offs that governments such as those of Mexico and the United States should evaluate when considering how to manage potential renewable energy oversupplies. These options can include building out the grid to bring the supply to other loads, use the power to decarbonize non-power sector applications (e.g., transportation or industry), use the power to produce and sell zero carbon products like ammonia, hydrogen, other synthetic fuels, or use the excess power to operate CO2 removal equipment.[33]

Power Transmission Gaps: An extensive transmission grid can improve system reliability by making available generation resources from a wide geographical area and also reduce costs, since a system operator will be able to acquire electricity from the lowest cost provider for a specified time period over a large area. Transmission can also provide access to renewable resources that are geographically constrained, e.g. areas of steady high winds or undeveloped areas of intense insolation, and help to manage the intermittency of renewables. In both the United States and Mexico, extending and modernizing transmission infrastructure has been challenged on issues ranging from rights of way, social unrest and conflicts over cost-sharing. This issue in particular is one that represents a potential opportunity for close cooperation between the two countries given the significant challenge involved in expanding transmission lines.

Limited Cross-Border Electricity Trade: California and Baja California – where the U.S. and Mexican grids are interconnected and synchronized — demonstrate the sub-sovereign possibilities for collaboration and enhanced market development. But the example of Texas and northern Mexican — where the grids are not interconnected and are not synchronized — reminds us of the complexity that politics, policies, and state and federal regulations pose to the meshing of two distinct electric markets. However, assuming that those challenges could be overcome and greater integration attained, companies on both sides of the border could take advantage of the current infrastructure, diversity of load patterns between regions, and constantly changing prices to optimize their operations.

Gaps in Gas Pipeline Integration and Networks: Despite progress in the integration of the natural gas industries in Mexico and the U.S., local opposition, challenges to rights of way, and complicated regulatory processes have delayed the construction of gas pipelines in the United States and Mexico. In the U.S., gaps and delays in pipeline construction have contributed to significant increases in flaring and methane emissions which must be tackled in order to not offset the benefits of using gas to displace other pollutants fuels such as coal or oil. Delays in major gas pipelines in Mexico add to the gas production bottlenecks in the Permian Basin, mostly in West Texas. Such cross-border bottlenecks and more widespread delays in Mexico curtail or raise the costs of access to gas within Mexico.

Fuel Costs and Industrial Competitiveness: In Mexico, a transition towards a more open and integrated gas market with the U.S. will boost competitiveness of energy-intensive industries as well as promote economic development in states where there is limited or no access to natural gas. Historically, Mexico's industrial regions have had access to ample cheap energy; states like Guerrero, Oaxaca, and Chiapas have significant constraints in accessing cheap fuels and are reliant on such fuels as LPG, fuel oil (*combustoleo*), and diesel. In 2019, the average cost of natural gas in Mexico was below $3/mmbtu versus nearly $8/mmbtu for fuel oil and around $25/mmbtu for diesel.[34]

Key Recommendations

1. Develop clean energy, and resilient and sustainable infrastructure

The Biden Plan for a Clean Energy Revolution pledges "investments in clean energy and resilient and sustainable infrastructure [that] will drive an innovation boom that helps us achieve the vision of a hemisphere that is secure, middle class, and democratic from Canada to Chile."[35] The Mexican and U.S. governments should engage immediately on structuring this initiative for Mexico and potential ties to Central America. For Mexico, such a program can target gaps in transmission, grid development, and energy access and open opportunities for collaborative research. For Central America, access to power will be key to job creation and tackling deep-rooted issues on migration. Even if the U.S. provides only limited government funding, U.S. government engagement under the Biden plan could reduce investor risk and leverage investment from international development banks and private sources.

2. Integrate new models for renewable power generation

If Mexico can put in place a significant portfolio of renewable energy projects that provide low-cost, reliable electricity, it would be able to retire older power plants using fuel oil or diesel that generate electricity at high prices and create substantial pollution. The private sector has shown itself willing, through its response to the clean energy auctions, to invest in renewable energy projects based on long-term contracts. CFE has canceled the auctions because they left intermittency and grid integration to be managed by CFE, without compensation. One way to foster renewable energy would be to redesign the auction model in order to address these issues.

This would mean an auction process where the bid must include energy storage and other tools for managing intermittency and grid integration, to be provided or paid for by the bidder rather than CFE. Other tools may be necessary, including advanced wind and solar technologies that include regulation capability (frequency and voltage regulation), improved forecasting, fast-ramp conventional generation to meet shortfalls, and other ancillary services. Mexico may want to consult with the Public Service Company of Colorado, which conducted such an auction in 2017.

Another way to foster renewables would be to develop financing options that maintain CFE ownership of power

33. Dr. Julio Friedmann, Melissa Lott CGEP, Colombia University- October 2020. https://www.energypolicy.columbia.edu/sites/default/files/file-uploads/ElectricityOversupply_CGEP_Commentary_FINALr1.pdf

34. CRE, Final Basic Supply Rates 2019. Estimated and observed 2019 fuel prices. https://datos.gob.mx/busca/dataset/memorias-de-calculo-de-tarifas-de-suministro-basico/resource/b9d8d215-a9e1-43d5-89e3-00616a051b5a

35. The Biden Plan for a Clean Energy Revolution and Environmental Justice, https://joebiden.com/climate-plan/, Section III, Rally the Rest of the World to Address the Grave Climate Threat.

generation. Renewable energy requires large upfront capital expenses, and CFE may not have the capability to self-fund on the scale necessary. Yet, it may be possible to structure private "finance lease" structures for generation assets where CFE is the owner of selected new energy assets, meeting the state's requirement for energy sovereignty, while private sources provide the necessary funding, without ownership, and still obtain their required return.

3. Exchange lessons and tools on transmission planning

A reliable North American electric grid will help achieve significant efficiencies, cost savings, and security for the public and regulated entities which could ensure cheaper energy and boost competitiveness as well. Transmission planners on both sides of the border should compare planning strategies and tools, their decision processes, how they manage public input, their strategies for financing new transmission, and cost allocation strategies. On the U.S. side, regional transmission operators and independent system operators such as the Electric Reliability Council of Texas (ERCOT), the Southwest Power Pool (SPP), the Midcontinent Independent System Operator (MISO)), and the California Independent System Operator (CAISO) have experience with large-scale transmission projects, which have produced multiple benefits that together far exceed their costs. The U.S. Federal Energy Regulatory Commission (FERC) has regulatory expertise in "Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities," as reflected in its Order 1000.[36] On the Mexican side, CFE and CENACE have built and managed Mexico's transmission grid. A dialogue among these U.S. and Mexican parties on transmission issues could be fruitful for both sides.

4. Leverage new models to finance transmission and distribution

Economics and financing, market uncertainties, regulatory limits on cost recovery, and environmental and siting issues are key transmission fundamentals driving investment decisions in both cross-border and non-cross-border projects alike. The Mexican constitution requires the Mexican state to retain ownership of its transmission and distribution networks. However, subject to retention of ownership, the Mexican state, directly or through state-owned entities, may form associations or enter into contracts with private parties for the financing, installation, maintenance, management, operation, and expansion of infrastructure for the state to provide transmission and distribution services. Investor/operators in the U.S. may find opportunities in Mexican transmission and distribution infrastructure attractive, even if the Mexican state is the owner of that infrastructure, so long as there is a clear, firmly committed source of repayment for the infrastructure provided.

5. Modernize the power grid

As electrical systems become more complex with the addition of renewable energy and other distributed energy resources – energy efficiency, demand response, distributed renewable and clean generation, energy storage, and electric vehicles – grids need more capabilities. So-called "smart grids" permit two-way power flow and two-way information flow to improve the reliability, efficiency, and economics of system operations. Among other things, a smart grid will accommodate all generation and storage options; provide good power quality (through frequency and voltage regulation); optimize asset utilization; anticipate and respond to system disturbances (self-heal); and operate resiliently against attack and natural disaster.

6. Fill gaps in gas pipeline networks and develop a secondary market for underutilized gas transmission capacity

The foundation of a U.S.-Mexico open gas market has been laid, but the last mile is still pending. The first step is a coordinated strategy to connect gas supply with Mexican demand. The second is developing a secondary market where currently underutilized capacity is made available to other users with a potential two-fold effect: (1) it would allow CFE, the main offtaker of gas transportation contracts, to monetize the unused capacity and reduce its financial burden from the contracts; (2) it could foster new business models by allowing third parties access to gas through the purchase of capacity. This might include the joint LNG export platform from the Mexican Pacific coast, the displacement of more expensive and dirty fossil fuels in industry, and the opening of new markets in regions where access to cheap energy is limited. In each of these business areas, CFE would continue to have an important role.

7. Reinvent dynamic subnational cooperation in grid integration

For Baja California, there have been a series of recommendations on both sides of the border for CENACE to pursue participation in the WECC Energy Imbalance Market, subject to satisfying technical and operational requirements. Baja California would get grid access to the 15-minute and real-time market in the western interconnection.[37] This provides a tangible opportunity to address Baja California capacity shortfalls by taking advantage of cross-border trade with California where renewable energy has exceeded demand and been curtailed as a consequence.

With respect to northern Mexico and south of Texas, the lack of interconnection and synchronization between the ERCOT grid and the Mexican grid presents complex political and regulatory problems. The U.S. and Mexico could analyze these problems and potential solutions by means of a joint study group, including CFE and Mexican regulators on the Mexican side, and transmission operators and state and federal regulators on the U.S. side, perhaps with assistance from transmission specialists from academia and national laboratories or think tanks.

Conclusions

The integration of the U.S. and Mexican economies was crafted at a time when energy was a politically untouchable theme of cooperation. Clean energy was still a commercial aspiration. That world has changed, and the nature of the U.S.-Mexico economic and energy relationship needs to change with it to sustain industrial competitiveness, create jobs, and deliver affordable goods and services to U.S. and Mexican citizens.

As argued earlier, the imbalance between net-zero commitments and the lack of action plans by most countries to get there will lead to a period of intense legislation and regulation to correct the course. How Mexico and the United States collaborate on energy and climate policies and regulations in the next five years could shape their economic potential for decades.

36. Order No. 1000 - Transmission Planning and Cost Allocation. Federal Energy Regulatory Commission- April 2015. https://www.ferc.gov/industries-data/electric/electric-transmission/order-no-1000-transmission-planning-and-cost

37. Baja California Energy Outlook 2020-2025, Institute of the Americas, January 2020. https://www.iamericas.org/wp-content/uploads/2020/02/Baja_Energy_Outlook_2020_2025.pdf

The energy transition before Mexico and the United States, and for that matter, the rest of the world, will have profound challenges. Ignoring these challenges will undermine economic competitiveness and most profoundly disadvantage the poor who have little resilience for economic dislocation. Seizing those challenges together, between Mexico and the United States, will create opportunities for both countries. Here are some of the most profound:

Jobs: The regulatory push toward an electric vehicle world is upon us. Mexico and the U.S. together need to restructure their supply chains and set the incentives now for investments to prepare for the future. Millions of jobs will depend on it. Renewable power should be part of that equation.

Justice and Equity: Renewable energies can help solve some of the logistical conundrums of fuel and infrastructure to bring electricity to Mexican communities without access. Consistent, sustainable power can spark entrepreneurship. It would revolutionize health care and access to medical care. It would expand educational prospects through lighting and the internet.

Carbon Markets and the Poor: Manufacturers, energy producers, and financial institutions all need to reduce emissions. Mexico has the forests and agricultural lands that can absorb carbon or reduce emissions from deforestation. Carbon markets can link the two, with sales of the offsets addressing social welfare for the poor. Even though much needs to be done to close gaps on monitoring and verification, the foundational connections exist.

Technology and Hydrocarbons: Mexico and the United States are major producers of hydrocarbons. They have a common stake in developing and sharing commercially viable technologies that would capture carbon, reduce emissions, and extend the lifespan of their oil and gas resources. This change alone would ease major dislocations of an energy transition.

Energy Efficiency and Consumers: Buildings account for 39% of global emissions,[38] with weather and power inefficiencies wasting fuel and increasing costs to households. Among the most exposed are the urban poor. Both Mexico and the U.S. can target scalable efficiency programs, led by cities, focused on household efficiency solutions for the urban poor.

Unlocking Investment: The world cannot function without power and energy. The infrastructure and energy base in both countries needs to be expanded and renewed, from grids to transmissions lines to retiring obsolete generation plants. This is the moment for compatible policies and regulations that unleash private investment seeking predictable returns and 0-emission assets.

The incoming Biden Administration and the Lopez Obrador Administration perhaps bring different perspectives on energy, but they share common objectives to create jobs and seek social justice for their citizens. Collaboration on a sustainable energy future can open surprising opportunities that will leave both countries stronger and more resilient — with the chance of fulfilling a promise to preserve our planet for future generations.

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This paper has been developed through a collaborative process and does not necessarily reflect the views of any individual participant or the institutions where they work.

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38. IEA Global Status Report for Business and Construction 2019. Technology Report- December 2019. https://www.iea.org/reports/global-status-report-for-buildings-and-construction-2019

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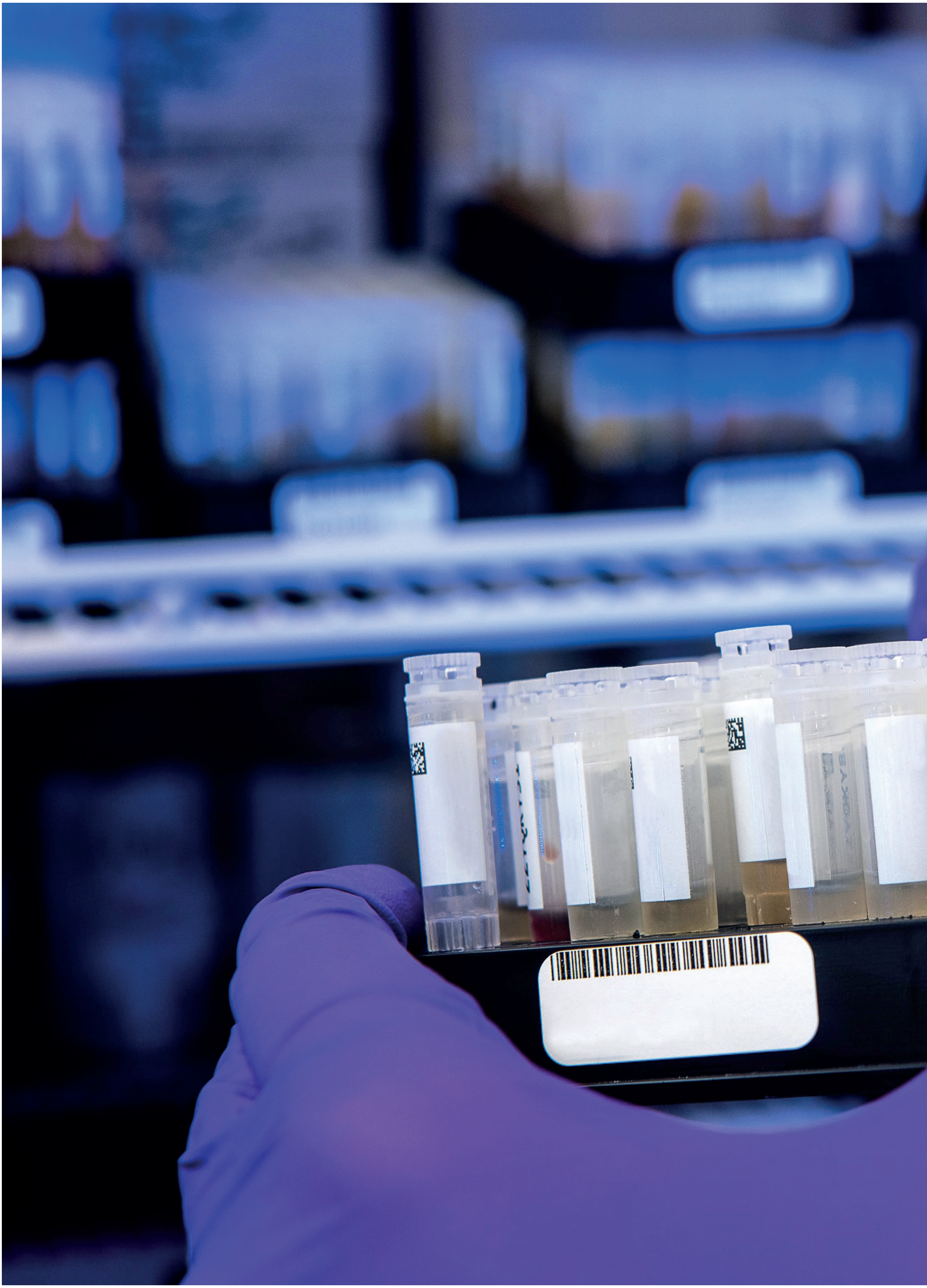

SECURITY AND PUBLIC HEALTH

U.S.-MEXICO FORUM 2025

Security and Public Health

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KEY RECOMMENDATIONS 1/2

Create a bilateral coordinating group to reconcile priorities for both nations with a joint U.S.-Mexico taskforce on fentanyl disruption and bilateral units for monitoring piracy of medical supplies as high priorities.

Maintain or increase funding for USAID programs supporting grassroots citizen-led efforts in areas affected by chronic violence.

Incorporate evidence-based and life-saving public health interventions as solutions to some public safety problems. Use WHO guidelines for addressing homicides as a health crisis.

Improve health data collection and sharing capabilities in Mexico, developing recordkeeping systems similar to those used by the CDC including police reports, medical examiner files, and hospital charts that support standardized data exchange with appropriate privacy protections.

Develop federal, state, and local programs on both sides of the border that address structural and social drivers of harm, while incorporating a gender-sensitive perspective into their design.

Strengthen public health systems along the U.S. border using best practices of transnational coordination learned from the Merida Initiative.

Update the regulatory framework for the cross-border use of health services in the U.S.-Mexico border. A new regulatory framework is needed to improve coordination between U.S. and Mexican providers and ensure the quality of care received by international travelers in Mexico.

Nearly all threats to the security and physical integrity of North America's citizens are transnational. Environmental disasters, infectious diseases, illicit drugs, and guns cross borders. The porosity of borders, economic integration, and interdependence, as well as human mobility, all make it necessary to move beyond initiatives based on containment and defense of borders, which have never succeeded, and work instead towards bilateral and multilateral efforts that acknowledge these threats' transnational character. For the U.S.-Mexico bilateral relationship, the framework of cooperation needs to assume shared responsibility and the need for collective action. The COVID-19 pandemic has also offered an opportunity for a reconfiguration of the binational collaborative approach incorporating public security and public health perspectives.

Working together, the Biden and López Obrador administrations will have a unique opportunity to reconfigure bilateral security understandings and move beyond an enforcement-first focus on drug trafficking. The current pandemic has demonstrated that unilateral approaches and narrow understandings of security fall short of securing the wellbeing of citizens. As both presidents implement strategies to protect society's most vulnerable, resetting harmful security paradigms represents an area of shared interest.

Approaches combining insights from public health and security are not entirely new. In the Western Hemisphere, the attacks of September 11 against the United States renewed the focus on biological and chemical warfare.[1] However, while the policy recommendations of the early 21st century focused on how to protect nations against the threats of chem- and bio-terrorism, we propose an approach that recognizes the social and economic costs that crime and violence have for societies, the disproportionate negative effects on vulnerable populations, and a joint approach that acknowledges pandemics as a security threat while prioritizing health outcomes and life expectancy.

This approach should be implemented nationwide with particular attention to the border region, promoting effective communication, coordination, and the strong involvement of federal, state, and local government and civil society. Producing security as a public good at the regional and global levels would mean that the main criteria for cooperation is working towards violence and harm reduction initiatives that can create the conditions for human development. This necessitates robust states — not defined by their military-police apparatus, but by their capacity to provide health care education and access to basic services.

In proposing that public health problems and solutions be integrated into a public security strategy, we highlight the challenges caused by excess mortality (COVID-19, homicides, and drug overdoses) and areas addressed by the Mérida Initiative (rule of law and communities) that align with domestic and foreign policy priorities of both governments. The conceptual framework cannot, however, provide comprehensive analysis of every possible security or public health issue, and topics such as gun violence in the U.S. or food security in Mexico are not discussed here.

Dynamics of the U.S.-Mexico Context

Despite its importance to addressing shared challenges, bilateral security cooperation has an uneven history and an uncertain future. In 2020, Mexico and the United States faced excess mortality from COVID-19 deaths in

1. https://www.ncbi.nlm.nih.gov/pmc/articles/PMC1200679/

KEY RECOMMENDATIONS 2/2

Create a system to prepare deportees to access health care and other public services in Mexico after removal from the U.S.

Monitoring and regulation of wildlife trade and the harmonization of safety measures in factories that are part of Mexico-U.S. integrated supply chains should be incorporated into a bilateral agenda.

addition to homicides in Mexico and drug overdoses in the United States. Preliminary evidence shows excess mortality will continue to be a significant, but not insurmountable, challenge for the neighbors in the near future.
Prior to 2020, the central component of U.S.-Mexico cooperation was the Mérida Initiative. Launched in 2007, it remains the most important and ambitious bilateral effort to promote and institutionalize U.S.-Mexico security cooperation. Proposed initially by the Mexican government and supported next by the United States, the initiative is considered unique both in terms of the level of cooperation and trust fostered by both countries (particularly under Calderón's administration) as well as in terms of the alignment in the security priorities and strategies identified by both partners. Saliently, both countries agreed to treat security as a "shared responsibility," with the United States acknowledging its responsibility in terms of the illicit trafficking of firearms and domestic drug demand and Mexico recognizing the challenges that corruption and institutional weakness posed to an effective security policy. Although both Mexico and the U.S. have stopped short in their attempts to address their responsibilities, the initiative continues to be seen as a positive and promising experience within a long history of bilateral security cooperation characterized by distrust, misalignments, and unilateralism (on behalf of the United States).

The Mérida Initiative began with an emphasis on traditional anti-narcotics strategies, including the provision of equipment, technical assistance, intelligence sharing, and specialized training, all with the aim of disrupting the impact and operational capacities of organized crime.[2] The objective of disrupting criminal organizations was mainly fostered through the use of the so-called "kingpin strategy," which focused on the arrest and extradition of the top leaders of drug trafficking organizations. Such strategy, together with the emphasis on offensive and militarized operations, led to a significant increase in levels of lethal violence in the country as well as to a surge on human rights violations perpetrated by federal forces and the military. With internal competition, fragmentation, and violent takeovers as background, violence between some criminal organizations became more overt and predatory. Furthermore, communities' exposure to violence increased as some criminal organizations turned to extortions, kidnappings, and other strategies of intimidation, with journalists, civil society activists, public officials, and even priests becoming targets of violence.

In 2011, the Mérida Initiative was reformulated, reflecting the need to promote a more integral approach that went beyond the aim of dismantling criminal organizations and managed to address the structural and institutional drivers of violent crime in Mexico. The four pillars upon which the imitative was reformulated were: "1) Combating transnational criminal organizations through intelligence sharing and

2. *Congressional Research Service, "Mexico: Evolution of the Mérida Initiative, 2007-2020," https://fas.org/sgp/crs/row/IF10578.pdf*

U.S.-MEXICO RELATIONS AND COVID-19

While there is still much to learn about the current COVID-19 epidemic, there are certain elements that can be drawn as a case study between both public health emergencies. The H1N1 influenza pandemic was first identified in Mexico in March 2009. The timely identification of the pathogen was possible through a highly effective network of public health officials. There was evidence that the cases had a higher mortality rate than the typical influenza season. Shortly after, by mid-April California confirmed cases as well. In April, the World Health Organization declared a public health emergency of international concern and the 2005 International Health Regulations were set in motion allowing for early warning and surveillance procedures for all countries.

Mexico's response was a swift, coordinated, and effective response where transparency and risk communication to the public was carried out and led by President Felipe Calderón.[1] Immediate school shutdowns, bans on public gatherings, and mobilization of the health sector and the military allowed, at a huge economic cost, the containment of the crisis.

There are also some differences in the impact of both pandemics that can be attributed to public policy responses by the local governments. Almost a decade after the H1N1 outbreak in North America, the emergence of COVID-19 created, once again, a common public health problem for Mexico and the United States. Early studies have identified three moments where the new COVID-19 response was delayed, compared to H1N1: hospital reporting of first case, pathogen identification, and initial emergency public health response.[2] The delay in the introduction of public health measures to contain the spread of COVID-19 could help explain part of the impact of the disease in our countries, however, the lack of a common cross-border strategy should also be taken into account.

During H1N1, both governments introduced parallel measures to prevent the spread of the disease. With the current COVID-19 epidemic, lack of coordination and cooperation have had negative consequences, including the difficulty to access testing in Mexico. Both governments considered that a lockdown of the border areas was a more effective response than setting common testing sites across the port of entries. While the travel restrictions are meant to stop circulation of people among both countries, they fail to take into account the interdependency of cross-border communities, with people of both nationalities working on both sides of the U.S.-Mexico border. It is for this reason that mayors in border cities have asked their federal governments to ease these restrictions, hoping to reignite their local economies and efficiently address risks posed by COVID-19.

1. *https://www.brookings.edu/blog/order-from-chaos/2020/03/30/lessons-learned-from-felipe-calderons-swift-response-to-h1n1-in-2009/)*

2. *Wang Q, Zhang T, Zhu H, Wang Y, Liu X, Bai G, Dai R, Zhou P, Luo L. Characteristics of and Public Health Emergency Responses to COVID-19 and H1N1 Outbreaks: A Case-Comparison Study. International Journal of Environmental Research and Public Health. 2020 Jan;17(12):4409.*

law enforcement operations; 2) Institutionalizing the rule of law while protecting human rights through justice sector reform, forensic equipment and training, and federal-and state-level police and corrections reform; 3) Creating a 21st-century U.S.-Mexican border while improving immigration enforcement in Mexico and security along Mexico's southern borders; and, 4) Building strong and resilient communities by piloting approaches to address root causes of violence and supporting efforts to reduce drug demand and build a 'culture of lawfulness' through education programs" (Congressional Research Service, 2020).

The status of Mexico-U.S. cooperation today is suboptimal. Mexico has continued with the kingpin strategy and a greater role of armed forces in public security while the U.S. has engaged in unilateral actions for combating transnational organized crime. President Biden seems likely to resume Obama-era approaches to security cooperation, though it remains to be seen how this will play out given current legal changes in Mexico that restrict cooperation between U.S. and Mexican agents.

The López Obrador and Biden administrations can redirect bilateral security cooperation to strengthen some of the more integral aspects of the Mérida Initiative that are priorities in their respective domestic and foreign policy agendas. For example, President López Obrador's interest in a victim-centered approach to violence aligns with two pillars of the Mérida Initiative: institutionalizing the rule of law and building strong and resilient communities. These pillars are also compatible with thinking about security questions from a public health perspective which acknowledges the human costs of crime and violence in terms of life expectancy, mental health, physical harm, and the erosion of community ties.

Diagnosis

Citizens who occupy a more marginal position within our societies are more susceptible to suffer the consequences of security threats, and therefore, responses need to be differentiated and designed in a way that addresses the underlying economic and social conditions that make these populations more vulnerable. It also demonstrates connections between different dimensions of human security — in this case — economic insecurity, health security, and physical security.

While there is a long history of security cooperation, it has failed to deliver physical security. Many regions of Mexico continue to experience cycles of violence and insecurity, exacerbating impunity and corruption. Opioids continue to lead to excess mortality in the U.S. Reformulating security cooperation around a public health axis, with an emphasis on social determinants of health, will help address these challenges.

Vulnerabilities Faced by Women

Women have been particularly impacted by the pandemic given their greater economic vulnerability,[3] their role as primary caregivers (both paid and unpaid),[4] as well as the dynamics of exclusion and discrimination they face both at home and in the public sphere. Females have been more affected by unemployment during the COVID-19 pandemic since women were more likely to work in the hospitality and service industry. In addition, early evidence suggests that females assumed increased responsibilities for children's remote education during school closures. Femicide, intra-family violence, and rape against children, increased during the second and third trimesters of the year 2020.[5]

This contrasts with recent trends in high-impact crimes, including kidnapping and extortions, which have decreased in the context of the pandemic. As pointed out by several experts, confinement translates into women and children's greater exposure to violence at home as it limits access to support networks. This, next to the economic insecurity and stress brought about by the pandemic, generates situations in which domestic abuse can become more prevalent.[6] In addition to femicide and intra-family violence, maternal mortality rate increased 46% in Mexico in 2020 in comparison to the numbers reported during the first nine months of 2019. A plausible explanation for this is the fact that the number of prenatal appointments decreased almost by half during the first half of the year 2020.[7]

Vulnerabilities at the U.S.-Mexico Border

The border between Mexico and the Unites States is not only an area of drug and human trafficking but also of increased consumption of injection drug use. There is a cross-border drug use population[8] that requires harm reduction strategies to reduce the negative consequences of substance use, such as increased infections of HIV, Hepatitis C (HCV), and fatal overdoses. These negative consequences can be exacerbated by the lack of public policy responses by the governments of Mexico and the United States. For example, needle exchange programs cannot be financed by federal funds in the United States, and in Mexico, the current federal government has cut all funding as well. These actions increase the risk for blood borne infections and can be exemplified by the public health crisis created in the State of Indiana with the emergence of a new epidemic of injection drug use in North America.[9]

Institutional Challenges

In recent months, many flaws in the traditional security cooperation model have been revealed. Distrust around vetting and intelligence sharing and the arrest, repatriation, and subsequent exoneration of General Cienfuegos have become sticking points in the relationship. Compounding these negative effects, justice system reforms that are integral for the rule of law and reducing the high levels of impunity have not been fully institutionalized. Police reform has been hampered by a lack of funding, frequent changes in institutional structures, and tensions between centralized and decentralized oversight. Lack of data and systematization of information have also prevented successful scalability of USAID/NGO violence reduction programs Firearms trafficking remains a major, unaddressed bilateral issue. Gun violence in Mexico is fueled in large part by guns, ammunitions, and firearms parts purchased legally in the U.S. and smuggled into or assembled in Mexico. An increasing percentage of lethal violence in Mexico is gun violence; and violence against women is increasingly perpetrated with guns. Cooperation on this issue is extremely limited, with U.S. policy failing to address the sale

3. International Labour Organization, Women and Men in the Informal Economy: A Statistical Picture (April 2018).

4. OECD, The Pursuit of Gender Equality: An Uphill Battle: How Does Mexico Compare? (2017).

5. https://www.proceso.com.mx/nacional/2020/10/22/por-covid-19-bajan-secuestros-pero-sube-violencia-domestica-251378.html

6. Amaranta Manrique De Lara and Maria De Jesús Medina Arellano, "The COVID-19 Pandemic and Ethics in Mexico Through a Gender Lens," J Bioeth Inq. 2020 Aug 25 : 1–5, doi: 10.1007/s11673-020-10029-4

7. https://mujeres-covid-mexico.animalpolitico.com/muerte-materna-aumenta-covid

8. Wagner KD, Moynihan MJ, Strathdee SA, Cuevas-Mota J, Clark M, Zúñiga ML, Volkmann TA, Teshale E, Garfein RS. The social and environmental context of cross-border drug use in Mexico: findings from a mixed methods study of young injection drug users living in San Diego, CA. Journal of ethnicity in substance abuse. 2012 Oct 1;11(4):362-78.

9. Strathdee SA, Beyrer C. Threading the needle—how to stop the HIV outbreak in rural Indiana. New England Journal of Medicine. 2015 Jul 30;373(5):397-9.

of military-grade weaponry and Mexican border security failing to install mechanisms to detect smuggled weapons.

In addressing public health and public security issues one of the challenges is that the decision making relies on different federal institutions. In Mexico, the main federal government offices with authority regarding health and security — the Secretaría de Salud (Secretariat of Health) and the Secretaría de Gobernación (Secretariat of the Interior) as well as the Secretaría de Seguridad Pública y Protección Ciudadana (Secretariat of Public Safety and Civilian Protection) — lack clear systems for communicating. In dealing with zoonotic diseases, the Secretaria de Agricultura y Desarrollo Rural (Secretary of Agriculture and Rural Development) and Senasica (Servicio Nacional de Sanidad, Calidad e Inocuidad, National Service of Sanitation, Quality and Innocuity) need to be incorporated in the dialogue as key actors.

While the decentralization of health services allows for more authority and responsibility at the state and local level, the national guidelines to address emergencies are set at the federal level. This creates a challenge at the border, where local efforts often show greater flexibility in responding to challenges but are subordinated to federal guidelines.

Subnational level and civil society

There is a longstanding history of NGO work at the border that has developed a fruitful relationship with all key stakeholders and that works effectively in addressing binational health issues along the U.S.-Mexico border. They have a support network integrated by academic institutions, public and private sectors, and diverse agencies specialized in health. Sonora and Arizona are a model of excellence in effective daily communication and coordination, regardless of the turnover of authorities. For example, the ARSOBO[10] project helps to provide low-cost medical devices to disabled populations along their common border, such as wheelchairs, hearing devices, and prosthetics. It also brings together university students on both sides of the border to understand health disparities across the border. This project is financed by a diversity of both public and private organizations, serving as a model that could be replicated in other border areas. Similar projects have been replicated on a smaller scale in Tijuana, where medical students are able to volunteer with different NGOs in the area, like Prevencasa AC or the "wound clinic." However, due to current border travel restrictions many of these collaborations have been suspended.

The NGOs that work on both sides of the border have the capacity to leverage the goodwill and support of the communities they serve. They are closer to the problems and therefore have the potential to detect and address health issues in an effective and opportune manner. However, the current changes in federal funding in Mexico make it impossible for NGOs to access previously available grants to tackle common bi-national problems, such as HIV, tuberculosis, and substance use, or deportation and political asylum. The arrival of undocumented caravans of migrants to the Mexican side of the border represented a pivotal moment for a common civil society response. American NGOs like Border Kindness,[11] "Al Otro Lado"[12] or "Families Belong Together,"[13] set up local offices in the Mexican side and helped in the initial response of the humanitarian emergency.

These local networks must be made part of policy coordination led by local governments to deal with public health and security emergencies, particularly since many of them are providing services that should be delivered by government agencies. These NGOs provide basic medical health care, but more robust referral mechanisms for complex health problems that require hospitalizations need to be set up. Migrants who have been victims of human trafficking networks have found a safe place in many of the shelters provided by the NGOs, but the staff of these organizations are also at risk, not only from organized crime but also by state agents.

The challenge has been to have the same communication all along the border and not just between two states. That has been one of the challenges faced by the U.S.-Mexico Border Health Commission (USMBHC), a binational organization established in 2000 that works with civil society involved in improving the health of the population on both sides of the border. The USMBCH is comprised of the two Federal Departments of Health, state health services of the ten border states, and fourteen members of the community.

Drug Use and Drug Trafficking

The introduction of illicit manufactured fentanyl and other synthetic drugs in the American drug supply has created a new risk environment for people who use drugs, that is not only reflected in higher HIV infection risk, but also in a mortality crisis due to fatal overdoses.[14] The origin of this crisis can be traced to an initial abuse of prescription opioids, followed by a substitution of heroin and finally by the introduction of fentanyl in the local supply. Mexico is linked directly to this crisis on the supply side, but most recently, it has also documented the introduction of a tainted supply on the local drug consumption markets.[15] This dual epidemic of injection drug use and overdose mortality can be mitigated by the introduction of well established harm reduction strategies such as needle exchange and opioid substitution therapies. However, both countries still need to expand other emerging strategies like peer-to-peer naloxone distribution, as well as the introduction of safe consumption sites (SCS).

Naloxone is a medication used traditionally in hospital settings to block the effect of opioids. For more than a decade, drug user organizations in the United States, first unsanctioned, delivered this life saving medicine among members to prevent fatal overdoses. The evidence accumulated so far has shown the need to expand this strategy broadly among communities impacted by the overdose crisis.[16] Now, even some police departments and first respondent organizations have included this intervention within its operational protocols. In Mexico, unfortunately, naloxone is still considered a prescription substance that is regulated almost as an opiate. This makes it harder for drug user and harm reduction organizations to have access to it, since it is cost-prohibitive and could face legal consequences if administered unsanctioned. The bi-national cooperation should show the benefits of addressing this crisis as a public health problem by expanding free naloxone distribution across both countries.

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10. https://arsobo.org/

11. https://borderkindness.org/

12. https://alotrolado.org/

13. https://www.familiesbelongtogether.org/

14. Ciccarone D. Fentanyl in the US heroin supply: a rapidly changing risk environment. The International journal on drug policy. 2017 Aug;46:107.

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16. Bennett AS, Bell A, Doe-Simkins M, Elliott L, Pouget E, Davis C. From peers to lay bystanders: Findings from a decade of naloxone distribution in Pittsburgh, PA. Journal of psychoactive drugs. 2018 May 27;50(3):240-6.

Structural factors increasing health and security risks are exacerbated in border regions. The control of infectious diseases as well as emerging diseases at the U.S.-Mexico border region pose enormous challenges to the local health systems and the population, especially the marginalized. High incidence of TB, HIV/AIDS, and HCV as well as drug abuse, and mental disorders are prevalent in the border region. The current situation presents the opportunity to transform the way business has been carried, transforming the paradigm of how to address public health and public security issues jointly and how to keep in place procedures that work. Transborder partnerships are required to address the disparities present in border health issues.

Research studies among people living with HIV in the San Diego/Tijuana region,[17] the busiest land border crossing in the world, has showed that cross-border mobility is an important factor for understanding the barriers for access to treatment. The border region also has higher rates of tuberculosis than the national averages in both countries,[18] creating an increased pressure on the need for communication among local health systems and health departments.

The lack of a strong public health safety net in the United States, combined with lower health care costs in Mexico, has also resulted in a cross-border health industry, with American residents crossing the border to have access to cheaper dentistry, pharmacy, and other types of private medical services.[19] These cross-border interactions have become more salient with the travel restrictions due to COVID-19, as people who depend on regular crossing to seek health care must now seek other alternatives.

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BORDER

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MIGRATION

U.S.-MEXICO FORUM 2025

Rethinking U.S.-Mexico Cooperation on Migration

Silvia Giorguli and Andrew Selee

KEY RECOMMENDATIONS

Regularizing and Integrating Immigrants: The Biden Administration and the U.S. Congress should prioritize regularizing migrants already living in the country. Mexico should enact policies that support the integration or reintegration of migrants into Mexican society.

Providing Opportunities for Labor Migration: The U.S. needs to work closely with governments in Central America to reform the seasonal worker programs to encourage hiring workers in Mexico and Central America. Mexico should facilitate access to work-based visas for employers that want to recruit workers in Central America. Both countries should provide access to visas, which will create opportunities for more legal migration.

Ensuring Robust Humanitarian Protection Mechanisms: It is crucial for both countries to ensure a broad spectrum of international humanitarian protection mechanisms to those in need of such protection, including but not limited to asylum.

Developing Rules-Based Enforcement Strategies: Professionalize border enforcement protocols in both nations to ensure safety, order, legality, and the minimum use of force. Mexico should develop a strategy to institutionalize the National Immigration Institute's (INM) functioning. The U.S. National Guard should be professionalized in dealing with migrant issues if it continues to play a role in border control.

Investing in Development and Rule of Law: Jointly, Presidents Lopez Obrador and Biden should design a Development Plan for Central America. The two governments have a window of opportunity to lead an international campaign to ensure long-term changes in Central America.

Migration and migrants are central to the health of our economies, especially during a period of recovery. The change of administration in the United States opens opportunities for a new approach to managing regional migration that emphasizes cooperation between the Mexican and U.S. governments. This bilateral cooperation is key to managing regional migration flows and can foster a safe, orderly, and regular flow of migrants between the two countries and throughout the larger region that includes Central America. However, getting the balance right on how to cooperate on migration in ways that are more effective, humane, and consistent with the values that citizens of Mexico and the United States hold dear will require careful negotiation, calibration, and sequencing.

To date the U.S.-Mexico collaboration around migration has focused almost exclusively on more robust enforcement and reducing access to asylum in the United States, especially for Central Americans passing through Mexico. Although couched in collaborative terms, the policy decisions have been largely dictated by the U.S. government with the Mexican government largely following suit, though sometimes changing the terms of collaboration based on long-held policy principles.

Bilateral cooperation is the key to managing regional migration flows, not an extra ingredient. Both the U.S. and Mexican governments have an interest in ensuring that migration is managed carefully and with due consultation and coordination between the two countries and that long-term conditions that drive migration are addressed proactively.

A different approach to collaboration between the two governments could emphasize enforcement in tandem with efforts to open legal pathways for asylum and citizenship, ensure protection closer to Central America or Mexico, and invest in changing the conditions that spur undocumented migration. And this collaboration could be extended to domestic efforts in each country to promote the regularization and integration of migrants. Both the U.S. and Mexican governments have an interest in developing sustainable strategies for managing migration, ensuring migrants have a positive impact on their new homes, and addressing the long-term conditions that drive migration.

Photo credit: Victor Medina

FIVE PRINCIPLES

1. **Migration and migrants can be central to restarting our economies during a period of recovery.**
2. **Economic pressures in Central America and Mexico demand creative pathways for labor mobility.**
3. **Persistent violence in the region requires proactive humanitarian protection measures, but these should be close to where people live, when possible, and pay special attention to the needs of children and families.**
4. **Migration management, including enforcement and visa policy, needs to be professionalized in both countries.**
5. **Investing in development, public security, and rule of law is the only long-term solution to pressures for irregular migration.**

We suggest five sets of principles to striking such a balance and then lay out what may be doable in the short-term versus the longer term.

Migration and migrants can be central to restarting our economies during a period of recovery.
Migration is an asset for both societies, and it is a particularly important asset in the middle of an economic recovery process that requires leveraging all advantages that the two countries have. Regularizing the status of undocumented migrants in the United States and focusing on their integration into U.S. society would help stimulate the economy. In Mexico, finding ways to ensure legal status and access to public services, including education and healthcare, for foreign-born residents would also contribute to economic growth, as would more targeted efforts to leverage the financial and human capital resources that migrants bring back to Mexico when they return.

Economic pressures in Central America and Mexico demand creative pathways for labor mobility.
One of the reasons that irregular migration (defined by the International Organization for Migration as the movement of persons that takes place outside the laws, regulations, or international agreements governing the entry into or exit from the state of origin, transit or destination) from Mexico has dropped so dramatically is that over a quarter of a million Mexican workers have access to legal pathways for seasonal work in the United States, as well as to permanent residency for those who have family members legally present in the United States. For all but a few thousand Central Americans, there is no equivalent pathway, despite huge pressures to do so. Extending U.S. seasonal work programs to Central America is a huge opportunity for turning at least some irregular migration into regular migration that meets workforce needs in the United States. As Mexico emerges from the global recession, building pathways for work in sectors that have labor needs, such as export agriculture and service and construction jobs in the "Industrial Triangle," would be a powerful complement to this.

Persistent violence in the region requires proactive humanitarian protection measures, but these should be close to where people live, when possible, and pay special attention to the needs of children and families.
In the past few years as the U.S. government has narrowed access to the asylum system, sent asylum seekers to wait in Mexico for their U.S. hearings, and shipped others to third countries in Central America, Mexico has shouldered the burden for humanitarian protection. The new U.S. administration needs to reform the asylum system at the border to make it both more fair and more efficient, and then eliminate the restrictions currently in place that limit access to asylum. But asylum should be a last resort for protection, and the two governments should work closely with international organizations to develop a series of other measures that provide protection to those fleeing danger as close as possible to where they live. A special emphasis should be placed on children and families, who have become a larger percentage of recent migration flows. Finding ways of meeting the needs of minors, including less restrictive settings for detention and the provision of social services, remains a need in both countries and an opportunity for greater collaboration.

Migration management, including enforcement and visa policy, needs to be professionalized in both countries.
Mexico has never fully invested in its migration management system, while the prior U.S. administration allowed its immigration agencies to atrophy. The Mexican government needs to reform and strengthen the National Immigration Institute (INM) and strengthen the Commission on Aid to Refugees (Comar), including professionalizing its enforcement and visa functions, transforming existing detention infrastructure, and creating a robust internal oversight function. The new U.S. administration needs to reduce the use of detention in favor of case management, revamp existing detention facilities, and create a multi-agency task force at each border reception center to ensure optimal attention to children, families, and asylum seekers.

Investing in development, public security, and rule of law is the only long-term solution to pressures for irregular migration.
The two governments should define a set of clear priorities with partners in Central America—governments, international organizations, and civil society groups—for robust investments over the next four years. A focused, coordinated, and sustained effort led by the Mexican and U.S. governments together stands the best chance at succeeding in lowering pressures for irregular migration over time. These measures to invest in the region will have to be combined with efforts to empower local civil society to contest practices that sustain corruption and undermine governance.

An effort focused on these five principles would go much further than past ad hoc efforts to change the inertia of irregular migration, provide legal channels for mobility, and provide better opportunities for those who otherwise might migrate. After a brief discussion of recent patterns in U.S.-Mexico cooperation, we turn to the ways that the two governments could operationalize a new partnership around migration based on these five principles.

Recent Efforts to Control Migration

Recent efforts to control migration have overwhelmingly focused on preventing irregular migration through border control at the southern border of Mexico and the U.S.-Mexico border, as well as limiting access to asylum in the United States. There have been three key periods in this evolving strategy:

- During the first two years of the Trump Administration and the last two years of the Peña Nieto Administration, the two governments discussed possible strategies to coordinate migration policy without any concrete results.
- In the early days of the López Obrador Administration, in December 2018, the Trump Administration announced the

> *Fortunately, there is a better way forward for collaboration, and it can be built on a strong foundation of genuine cooperation rather than forced collaboration.*

Migrant Protection Protocol (MPP), a program that allowed the U.S. government to have Latin American migrants wait in Mexico for their U.S. immigration hearings. The Mexican government accepted the return of migrants to Mexican territory, but few services or protection were provided by either government to those returned.

- In May 2019, the Trump Administration threatened tariffs on Mexico over the dramatic rise in unauthorized migrants at the shared border. In June 2019, the two governments reached an agreement, which required the Mexican government to reinforce its southern border and prevent Central American migrants from transiting through Mexico to reach the U.S. southern border.

- Following the U.S.-Mexico migration agreement, the U.S. unilaterally implemented measures to make it almost impossible for non-Mexicans to seek asylum at the U.S.-Mexico border. The first of these, which was implemented before the U.S.-Mexico agreement, was metering, which limited the number of asylum applications at each port of entry. However, other measures followed the agreement, including successive rules which banned asylum applications from those who crossed between ports of entry and then all who crossed the border after passing through Mexican territory.

- Finally, in March 2020, the Trump Administration invoked Title 42 of the U.S. Code, under the authority of the Centers for Disease Control (CDC), which has allowed the U.S. government to expel anyone crossing the border through irregular channels into U.S. territory back to Mexico. The Mexican government agreed to accept back those who were nationals of Mexico, Guatemala, Honduras, and El Salvador.

Taken together, these measures, along with other national restrictions on mobility in Central America, have discouraged irregular migration and reduced monthly apprehensions significantly from the high point in June 2018. However, there are now signs that irregular migration is beginning to rise again, as the effects of the global economic crisis create new incentives for people to travel north and with the change in U.S. administrations. One unintended consequence of the prior efforts to expel migrants under Title 42 was to encourage recidivism, that is, multiple attempts to cross the border, since there are no consequences for multiple attempts at entry. This has led to a slight increase in Mexican unauthorized immigration, and it appears to be part of the reason that irregular migration from Central America may be increasing as well.

These signs suggest that enforcement-only approaches may not be sufficient to detain irregular migration, and that the two governments should explore other options. Moreover, the enforcement-only approaches have required the U.S. government to abandon its moral and international treaty convention obligations to provide access to asylum, which has brought the U.S. government into questionable legal terrain, and it has forced the Mexican government to dedicate a significant percentage of the elements in the new National Guard to border enforcement rather than addressing other public security concerns.

A Better Way Forward

Fortunately, there is a better way forward for collaboration, and it can be built on a strong foundation of genuine cooperation rather than forced collaboration.

The alternative approach requires addressing irregular migration from multiple angles, including creating new channels for labor migration and humanitarian protection, addressing some of the immediate drivers of migration, and creating an enforcement regime that reflects both countries' commitment to rule of law.

At the same time, the two governments have much to gain for their countries in addressing and reinforcing the contributions of migrants living in their countries. Each of these efforts require careful coordination between the two governments, often with civil society actors and international organizations, although some of the specific actions are primarily unilateral while others are explicitly bilateral.

Regularizing and Integrating Immigrants

The Biden Administration and the U.S. Congress could give early consideration to regularizing migrants already living in the United States who are making important contributions to the country. At a minimum, any regularization efforts could focus on those who are beneficiaries of Deferred Action for Childhood Arrivals (DACA), which comprise almost 90% of Mexican nationals, and those who hold Temporary Protected Status (TPS), overwhelmingly from El Salvador and Honduras, but there are opportunities to provide legal pathways to essential workers, those who are married to U.S. citizens and legal residents, and those who have lived in the United States for more than ten years continuously. Any of these approaches—and any combination of them—would go a long way towards integrating those migrants, roughly half of them Mexican, already living in the United States but without legal status, while helping them contribute further to the economic recovery.

Mexico too has increasingly become a destination for migrants who are settling in ever larger numbers in the country, some of them without legal status, while many Mexicans continue to return to Mexico after long periods of living in the United States. Policies to improve access to legal status, enhance financial inclusion, facilitate registration in schools, and otherwise support integration or reintegration not only assist the migrants themselves but also benefit the economy and society at large.

While regularization and integration policies in each country will need to be handled within each country's domestic political system, there are significant opportunities for the government of each country to provide support for the efforts in the other country that affects its co-nationals.

Providing Opportunities for Labor Migration

While over 260,000 Mexicans travel to the United States each year to take seasonal positions in agriculture, services, and manufacturing, there are fewer than 8,000 Central Americans who have access to the visas that allow for seasonal labor migration. And while tens of thousands of Central Americans have access to regional work visas that allow them to do seasonal work in the south of Mexico, there are relatively few who can access visas to work in the areas of Mexico that normally have significant labor shortages, especially the Industrial Triangle and the regions of export-agriculture. Absent these opportunities, most Central Americans can only hope to work in Mexico or the United States by using irregular channels to migrate.

The U.S. needs to work closely with governments in Central America to ensure transparent and trustworthy pipelines of workers who are eligible for existing visas and to encourage employers to look further south, especially for agricultural recruitment. It may be possible to reform the existing seasonal worker programs in the future to include a regional component that encourages hiring workers in Mexico and Central America, but in the short-term efforts need to be focused at creating incentives.

In Mexico, consideration could be given to ways of facilitating access to work-based visas for employers in the Industrial Triangle and in export agriculture that want to recruit workers in Central America, at least in the period after the COVID-19 pandemic subsides and the Mexican economy returns to a pattern of growth.

Access to visas that allow for work in seasonal occupations in the most dynamic regions of the United States and Mexico will not stop irregular migration, of course, but over time it will create opportunities for legal migration that can replace some of the irregular channels that are currently the only option available for most Central Americans.

Ensuring Robust Humanitarian Protection Mechanisms

As the U.S. government has limited access to its asylum system, Mexico has vastly expanded access to its asylum system, especially for migrants from Central America, Venezuela, Cuba, Haiti, and African countries. However, given the real protection that many migrants from these countries need, it is vitally important to think about how to ensure a broad spectrum of humanitarian protection mechanisms to those in need of international protection, including but not limited to asylum.

First, it remains vital to strengthen Mexico's asylum system further, given its growing role in protection for those fleeing persecution and state collapse in Latin America, and the U.S. government should play a role in supporting this. But the U.S. government also has a responsibility to reform and restart its asylum system at the border in a way that ensures timely and fair decision-making on asylum cases. To do this, the U.S. government will need to empower asylum officers to make final decisions on asylum cases, resource them sufficiently, and return to the asylum standards that were established by jurisprudence before the Trump Administration began to narrow the grounds for asylum. The two governments can also collaborate to identify those in need of protection closer to where they live, helping governments and civil society organizations in Central America to develop mechanisms for in-country protection, and working with UNHCR, the UN Refugee Agency, and the International Organization for Migration (IOM) to resettle those in imminent danger outside of their country of residence, by scaling up the Protection Transfer Agreement.

The U.S. government should also work to end the MPP and to allow those currently in the program to have their immigration hearings expedited and work towards modifying and eventually ending the use of Title 42 expulsions. Such improvements on both sides of the border will not only reduce uncertainty and improve fairness for migrants, but it will likely reduce costs for the governments on both sides of the border.

Developing Rules-Based Enforcement Strategies

Enforcement of existing laws, including restrictions on irregular crossings at or between ports of entry, will have to remain a central strategy for both governments as a means of ensuring safety, order, and legality at the borders. However, enforcement efforts should be professionalized and adjusted to ensure that they use the minimum of force necessary, follow both domestic and international law, and take added precautions in the treatment of minors.

> “ *Enforcement of existing laws, including restrictions on irregular crossings at or between ports of entry, will have to remain a central strategy for both governments as a means of ensuring safety, order, and legality at the borders.*

In the case of the United States, developing alternatives to detention and less restrictive settings to monitor migrants who have pending immigration cases is both more humane and more financially efficient. If asylum proceedings can be taken out of the immigration courts and streamlined, these less restrictive settings become even more workable.

In the case of Mexico, developing ways of continuing to institutionalize the functioning of the INM remains an important effort. If the National Guard will continue to play a supporting role in border control, thought should be given to whether it would make sense to have a dedicated unit of the National Guard that is trained in border enforcement, as is the case with the National Police in France, Spain, and Sweden.

Both governments can agree on practices that reduce or eliminate the use of detention for unaccompanied minors and families with minor children in favor of management by human service agencies or case management systems.

Investing in Development and Rule of Law

The Lopez Obrador Administration has long proposed an ambitious effort to invest in southern Mexico and Central America as a means to creating the conditions for growth and development over time that would obviate the need for people to migrate. These plans were laid out in a report by the United Nations Economic Commission for Latin America and the Caribbean, or CEPAL, at the start of the Lopez Obrador Administration. The incoming Biden Administration has similarly proposed a robust effort to invest in Central America to generate development and to build rule of law, including an ambitious campaign against corruption that empowers local civil society. The two governments have a unique window of opportunity to lead an international campaign to ensure long-term changes in Central America that help alter the calculations that people make about the need to migrate.

There are also major opportunities to develop local infrastructure in communities within Mexico that see frequent migration flows and often become places where migrants settle down when they decide that they cannot reach their intended destination. This is particularly true in the cities adjacent to the northern and southern borders of Mexico, as well as some cities along common migration routes.

Conclusions: Towards a More Sustainable and Effective Approach

As a new U.S. administration takes office, the two governments should find the earliest opportunity to cover the wide range of topics that are vital in the relationship, but especially to address the shared challenges presented by migration. One option would be to do so in a trilateral meeting that also includes Canada, which would have the advantage of making all three countries stakeholders in development efforts in the region as well as efforts to build humanitarian protection and opportunities for seasonal labor migration.

To date, collaboration around migration has focused almost exclusively on more robust enforcement and reducing access to asylum in the United States, but these efforts appear to be insufficient as well as costly and, in some cases, legally dubious. A different approach between the two governments could emphasize enforcement in tandem with efforts to open legal pathways, ensure protection closer to home, and invest in changing the conditions that spur irregular migration. And this collaboration could be extended to domestic efforts in each country to promote the regularization and integration of migrants.

The benefits of this alternative approach are clear: it would be far more effective at discouraging irregular migration over the long-term, it would provide protection to those who need it in accordance with the national values of both the United States and Mexico, and it would take advantage of the human capital and multiple contributions of those migrants already living in the two countries. These are goals that the Mexican and U.S. governments should aspire to—and can begin to build together.

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STRATEGIC DIPLOMACY

Strategic Diplomacy for a New Bilateral and Regional Horizon under Biden

Rafael Fernández de Castro, Pamela Starr, Sergio Alcocer, Ana Covarrubias, and Jorge Schiavon

KEY RECOMMENDATIONS

Build trust and partnership around areas of common interest such as Central American development or domestic job creation.

Work to avoid an early crisis on issues such as migration, USMCA labor enforcement, and human rights.

Strengthen the institutional basis of the U.S.-Mexico relationship to ensure it depends less on heads of state and more on multi-agency working groups such as the High-Level Economic Dialogue and the Border Governor's Conference.

Improve the narrative of Mexico in the U.S. and the U.S. in Mexico, as this will help create a binational partnership grounded in trust and an appreciation of the opportunities and possibilities of the relationship.

Given the growing confrontation between Washington and Beijing, it is in Mexico's interest to cooperate with the U.S. in international arenas such as the U.N. Security Council.

Enable sustainable management of the ecosystems and water resources shared between the two countries by acknowledging their natural boundaries.

I. The Window of Opportunity

"In other parts of the world, this relationship is looked at with some envy. And it's a partnership that has matured. … This is about what we can do with Mexico. I mean that sincerely. We need you as much as I hope you think you need us." —Vice President Joseph R. Biden, February 2016

On January 20, 2021, Joe Biden became the 46th president of the United States. His presidency offers the opportunity to deepen binational cooperation and ensure that the relationship between Mexico and the United States becomes an ongoing source of prosperity and security for citizens of both countries. To achieve this, both nations must imagine new approaches to the diplomatic relationship and improve those that already exist. History has shown that cooperation is the best way to improve the well-being of citizens of both countries.

The new U.S. administration will bring a new narrative to foreign policy, one that is inclusive of Mexico and understands the bilateral relationship as a positive and respectful partnership: as Biden signaled in 2016, the relationship is about what can be done with Mexico. In this, Biden will not have a learning curve. His visits to Mexico and Latin America provide him with an understanding of the challenges the United States faces in the region; he is also familiar with politicians and decision makers in the region. That Biden sees Mexico as important is clear: on his last visit to Mexico City in February 2016, he emphasized that "there's no more critical partner we have in the world than you."

Unlike the Trump Administration, which focused only on commerce and migration, Biden's administration understands the bilateral relationship in its "normal" essence: multi-actor, multi-issues, multi-level. It is a tremendously interdependent relationship in which some issues are regulated by agreements, facilitating normalized bilateral interactions. In other areas, such as USMCA implementation, migration, and security, the potential for conflict is much greater.

Although Mexico President Andrés Manuel López Obrador has stated that the best foreign policy is domestic policy, he has demonstrated two undisputed international priorities: the relationship with the United States, and the relationship with Central America. As an avid reader of Mexican history, he is convinced that a conflict with the United States is not in Mexico's interest. Moreover, he has demonstrated through his support of the USMCA negotiations and his visit to Washington, D.C., in July 2020, that he is both capable of and willing to strengthen the relationship.

Objectives and Outline

This white paper provides recommendations for managing the complicated and intense relationship between Mexico and the United States between 2021 and 2025. These four years, under the presidencies of López Obrador and Biden, offer a crucial opportunity to resolve conflicts and strengthen cooperation. The paper focuses on diplomacy, as it represents a singular mechanism for ensuring the bilateral relationship delivers on its promise. After explaining why the Biden presidency represents a window of opportunity, the second section explains the context of bilateral affairs at the time Biden was inaugurated. The third section provides guidance for implementing a sustainable, active, and multi-level diplomacy that will deepen cooperation between the two countries. A fourth section underscores the importance of improving the narrative of Mexico in the

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United States and offers a series of recommendations for public diplomacy activities. The fifth section discusses Mexico's relationship with its diaspora in the United States and suggests that this group is an asset for both countries. The fifth and final section examines how the global and regional context creates possibilities for Mexican diplomacy.

Steps for Strengthening the Bilateral Relationship

There are three key steps necessary to strengthen the bilateral relationship.

First, Mexican diplomacy must take the initiative and begin with small steps, gradually building into more complicated issues. Asymmetry in the relationship compels Mexico to be proactive in setting the agenda and, more importantly, in proposing solutions. The Biden Administration faces tremendous domestic and international challenges and will not necessarily place the bilateral relationship at the top of its agenda: Mexico must work to ensure it is a priority. No matter how many conflicting issues there are in the relationship, Mexico should not abandon the objective of working on a comprehensive bilateral agenda.

Second, both AMLO's and Biden's teams should work to avoid an early crisis. For example, a large migrant caravan arriving at the U.S.-Mexico border would distract from the ambitious goals of the incoming administration to pass immigration reform. Another potential conflict challenge could arise from USMCA labor enforcement actions, as U.S. unions are likely to file complaints early in Biden's term. Other areas of possible conflict could be democracy and human rights in Mexico. Taking into consideration the assault of the U.S. Capitol on January 6, 2021, the United States should not pass judgment on the state of democracy and human rights in Mexico. In other words, the United States should return for some time to the historically effective formula of "don't disturb the neighbor."

Lastly, there are numerous areas of common interest where both governments can build trust and partnership. Here we call attention to three: the Comprehensive Development Plan for Central America, corruption, and binational supply chains.

In the case of Central America, López Obrador has repeatedly expressed his commitment to creating an unprecedented program for development in the region, especially to address the roots causes of immigration—an objective shared by Biden. Biden has proposed sending substantial resources to northern Central America. The Mexican government needs to present ECLAC's Comprehensive Development Plan (CDP) to the Biden Administration to find common objectives and strategies. Mexico and the United States should not limit their collaboration to the CDP, but it is certainly a very good starting point. What is most important, however, is that Mexico, the United States, and the Northern Triangle countries act together; there should not be bilateral relationships and agreements, but regional policies, agreed by all. Central America, Mexico, and the United States' perspective should be that of a regional system.

AMLO has made anti-corruption efforts a pillar of his government, and in this he will find a solid partner in Washington. Biden has been vocal about the need to fight corruption, writing in *Foreign Affairs* magazine that "I will lead efforts internationally to bring transparency to the global financial system, go after illicit tax havens, seize stolen assets, and make it more difficult for leaders who steal from their people to hide behind anonymous front companies." This will allow bolder efforts, building on existing programs that trace money laundering, to create new initiatives like a program of zero tolerance for corruption in border enforcement and customs agencies.

Supply chains and reshoring offers another area where López Obrador and Biden share common interest. The COVID-19 pandemic revealed the need for Mexico and the United States to improve mechanisms for coordination in supply chains that both countries rely on. Privileging these binational economic connections offers advantages for both Mexico and the United States. The increase in tensions between Beijing and Washington underscores the strategic imperative to relocate production from China to Mexico, and the geographic advantages of such a shift would contribute to economic competitiveness, especially in the context of a post-pandemic economic recovery. Baja California is only 300 miles from Silicon Valley, and intellectual property rights are much more likely to be respected by Mexican manufacturers. The Mexican government needs to work hard to become a credible and reliable element in Biden's overall China strategy.

II. Context: From NAFTA to USMCA

The signing of the North American Free Trade Agreement in 1994 was a watershed in U.S.-Mexico relations, and the continent. Out of the Cold War, the United States decided to create an in-depth economic region with its neighbors to the south and north. Mexico left behind its historical economic nationalism and embraced the largest market in the world. During the first ten years of the agreement, cooperation between Mexico and the U.S. reached unprecedented levels.

NAFTA had important spillovers into other areas of the U.S.-Mexico relationship. There were agreements and working groups for environmental and labor issues, and security cooperation was greatly enhanced in the aftermath of 9/11. While immigration and drug-trafficking remained contentious issues, some optimists anticipated that over time, North America would become an integrated region similar to the European Union.

Designed primarily as a trade and investment accelerator, NAFTA ultimately lacked the mechanisms to create deeper and wider economic integration between the three countries, or indeed to institutionalize other areas of the relationship. By 2014, the 20th anniversary of the accord, North America remained a region divided into two very strong bilateral relationships — U.S.-Canada and U.S.-Mexico — and a lesser relationship between Mexico and Canada.

The election of Donald Trump in 2016 as president put Mexico on the defensive. Mexico's position was a firm defense of NAFTA, as the agreement had been an essential mechanism for keeping the U.S. market open to Mexico's dynamic exports. NAFTA's re-negotiation was well underway, but the landslide election of AMLO in July 2018 put it at a standstill. Nevertheless, López Obrador fully endorsed the process, which strengthened Mexico's position in the discussions. The U.S.-Mexico-Canada Agreement (USMCA) went into effect on July 1, 2020.

Yet the successful USMCA negotiations did not carry over to other dimensions of the bilateral relationship. Bilateral coordination surrounding the coming pandemic was almost nonexistent. Moreover, the pandemic caused a disruption of joint supply chains and production platforms. It took major efforts to improve bilateral coordination of strategic and essential sectors for production to resume.

III. A Renewed and Comprehensive Diplomacy to Achieve the 2025 Goals

Mexico and the United States have deployed in each other's territory their most extensive and sophisticated diplomatic delegations. Close to half of Mexico's foreign diplomats are deployed in the U.S., either in the embassy in Washington D.C., or in the consular network—which with fifty consulates, makes it the largest of its kind in the world. The largest and most complex U.S. embassy in the world is the one in Mexico City. Close to forty different agencies are represented there. In addition, there are nine highly active U.S. consulates through Mexico's territory, including its largest consulate anywhere in the world in Ciudad Juarez. In short, the diplomatic and consular presence of Mexico in the U.S. and of the U.S. in Mexico are strategically located and experienced. Thus, AMLO and Biden have to make the best of these diplomatic corps.

Binational diplomacy has effectively operated along four tracks. First, it succeeded in facilitating direct presidential interactions. Major bilateral policy decisions have originated from recurrent presidential summits. Moreover, from George H. W. Bush to Barack H. Obama, U.S. presidents developed close and personalized relations with their Mexican counterparts (from Carlos Salinas to Enrique Peña Nieto). Under Biden, this personal relationship can be renewed. AMLO must seize the opportunity.

Second, the Mexican and U.S. diplomatic presence in Washington D.C. and Mexico City were greatly enhanced in the wake of the NAFTA negotiation. The Mexican embassy was moved in the early 1990s and is now three blocks from the White House. This allowed various ministries to send attaches and even small teams to the embassy. The U.S. embassy in Mexico is the only place outside Washington D.C. where almost all major U.S. federal agencies are represented. That is, both diplomatic teams have the capacity to reach out to the major centers of power in Mexico City and Washington D.C., especially the Presidency, the cabinet, and Congress.

Third, during the 1990s and early 2000s, the bilateral mechanisms of consultation were strengthened and expanded. The Binational Commission was broadened to include close to 20 cabinet officials from both governments. Interparliamentary meetings took place every year and the ten border governors also met yearly at the Border Governors Conference. Also, direct contacts between the Mexican and U.S. Ministries have increased substantially in the last 30 years.

Fourth, as mentioned, Mexico and the United States have expanded and strengthened their consular networks. Moreover, the Mexican consulates' mandates were expanded: they have become local diplomatic agencies that promote economic and political cooperation, while continuing to provide documentation, protecting Mexicans' rights, and facilitating their integration to U.S. society. AMLO's diplomacy is ready to take advantage of the U.S. decentralized decision-making processes.

At the time Trump and López Obrador were elected, however, budget cuts had weakened binational mechanisms to manage the bilateral relationship. Moreover, the Trump and López Obrador administrations reduced their summitry diplomacy and slowed down personalized relationships between presidents. Indeed, both Presidents Peña Nieto and López Obrador met with Trump only once each.

Moving forward, Mexico and the United States need to strengthen their diplomatic and consular networks in the other country, reinforce their coordination mechanisms and become proactive. A strategic relationship between Mexico and the United States requires a consolidated diplomatic infrastructure to manage effectively and efficiently the complex bilateral relationship.

Working Towards the 2025 Aspirations and Goals: A Renewed Diplomatic Strategy

To achieve these goals, Mexico and the United States need to implement a comprehensive multilevel and multi-actor diplomacy. They also need to use every diplomatic tool available for advancing bilateral cooperation and handling binational disputes.

Institutionalization: Strengthen the institutionalization of the U.S.-Mexico relationship and that of North America. The bilateral relationship should depend less on the heads of state and rely more on government officials and multi-agency working groups on specific issues. Establishing solid institutional channels serves to strengthen Mexico's position. To achieve this, three bilateral mechanisms of consultation must be revamped:

- *The High-Level Economic Dialogue:* This will strengthen the implementation of the USMCA and will put economic and trade affairs at the center of binational cooperation.

- *Interparliamentary Meetings:* Senators must attend the yearly meetings again. Moreover, the Mexican Congress must be embraced as an independent branch for these interactions, a process will be eased by the new law that allows for reelection to one additional legislative term.

- *Border Governors Conferences:* The U.S.-Mexico Border Governors Association should be restored. This platform will allow the participation of the four U.S. governors and their teams in a meeting with their six Mexicans counterparts to attend to border issues.

Executive Diplomacy: Relations between the White House and Palacio Nacional must be boosted. With Biden in the White House, a personal diplomatic relationship is not only possible but desirable. López Obrador must make this a personal priority. Building a strong relationship between the two presidents, however, cannot be a substitute for enhancing U.S. engagement with and understanding of Mexico throughout the U.S. Executive Branch. It is, for example, imperative that the next U.S. Ambassador to Mexico combine a clear and close relationship with President Biden with a strong working relationship with the U.S. Congress, the political skills needed to engage the broad set of stakeholders in the relationship (in both countries), and the cultural and language competency to do the same. As the Biden Administration has clearly done with regard to China, it should also embed Mexico expertise across key national security leadership structures across the U.S. government. To that end, it should broaden the mandate of the U.S. border coordinator at the National

Security Council to that of a Coordinator for North America akin to the deputies-level coordinators that have been named for the Indo-Pacific and Middle East, underscoring the importance and complexity of the North American relationship that spans all aspects of national and homeland security.

Administrative Diplomacy: The cabinet members of both countries must build up the relationships between secretaries of homologous ministries on both sides of the border to attend to the everyday issues that arise in the different policy areas of the bilateral relationship. Ideally, the Binational Commission should be restored to facilitate cooperation and coordination between ministries within each country and with the other country to address the central issues of the bilateral relationship.

Parliamentary and Judicial Diplomacy: Now is the perfect time to relaunch the binational parliamentary meetings and incorporate Senators. Collaboration with the National Judges Association and with the states' attorneys association should also recommence.

Local Diplomacy: Mexico and the United States are federal countries. Therefore, both countries should take full advantage of their consular network to establish and strengthen relations with subnational authorities (both at the state and local levels along the border) and with relevant private, social, academic, religious, labor, and media actors at the local level, to generate alliances with those local actors which share an interest in promoting cooperation between both countries.

Sub-State Governments: If California and Texas were countries, they would be the second and third most important relationships for Mexico, ranking ahead of China, Canada, or Spain. The United States needs the support of Mexican state authorities to better administer the common border. A renewed effort should be made to encourage and facilitate the international activities of sub-state governments (state and local) to promote binational cooperation. Federalism affords significant economic and political autonomy for sub-State government in both countries; this decentralization is an advantage that both countries must leverage.

Minilateral and Multilateral Diplomacy: Mexico and the United States must take advantage of summits in which they both participate, such as the G20, Asia-Pacific Economic Cooperation (APEC), the Summit of the Americas, and the North American Leaders Summit, to strengthen their dialogue and coordination on global issues.

Interest Group Diplomacy: Besides reestablishing the High Level Economic Dialogue (HLED), the following initiatives should be revived: the U.S.-Mexico Bilateral Forum on Higher Education, Innovation, and Research (FOBESII) and the U.S.-Mexico CEO Dialogue, among others, to enhance communication, coordination, and cooperation between these relevant private and social actors in the binational relationship.

IV. A New Mexican Narrative in the United States: Deploying Public Diplomacy

When domestic publics fail to understand the importance of our bilateral ties and fail to appreciate the benefits deeper bilateral collaboration can create, it puts a brake on what politicians and diplomats can achieve. This challenge points to an urgent need for a well-designed binational public diplomacy strategy.

Geography has determined that Mexico and the United States are neighbors. But it is their choice to become closer and more trustworthy partners who aim to increase the joint prosperity and security of their societies. Mexicans and Americans should build on and acknowledge the vibrant symbiosis that we have developed. When an American family spends Saturday morning at a baseball game, eating hotdogs with guacamole and beer, they do not know that the bread, sausage, avocado, and beer are manufactured or produced in the United States and in Mexico, by Mexican multinationals (Bimbo, Sigma and Femsa) and Mexican farmers. On the other hand, when a Mexican family purchases their very first computer for their kids so that they can attend school via Zoom and can complete homework with word processors, they do not realize that the equipment and software were designed by U.S. multinationals. Americans love tacos as much as Mexicans enjoy hamburgers. Even more dramatic is when Americans and Mexicans drive their cars: very few know that the engine, chassis, and other parts are truly the result of binational integration: some vehicles are made and/or assembled in Mexico, others in the United States. North American integration is truly an example of "habits of the heart!"

And yet, while Americans generally like Mexico, many tend see it as a vacation spot beset by a series of problems, from drugs, crime, and violence to immigration, poverty, and corruption.[1] They don't understand the depth and scope of our shared history, or equate Mexico with the democracy, economic development, and growing middle class that have characterized the country for the past quarter century. Put differently, there is a huge disconnect between U.S. perceptions of Mexico and the reality on the ground in Mexico.

Using the Best Public Diplomacy Tools for Change

Changing these narratives to create a binational partnership grounded in trust and an appreciation of the opportunities and possibilities of the relationship requires a renewed public diplomacy strategy. As COVID-19 conditions permit, Mexico and the U.S. should take the following steps:

Education Exchange: More American university students should be encouraged to study abroad in Mexico, with a particular focus on students from the Mid-West and South who have limited contact with Mexico beyond Spring Break trips to Cancun. The López Obrador Administration should increase fellowships for study abroad as well.

Non-Traditional Education Exchange: University students are already predisposed to think positively about the bilateral relationship. More efforts, therefore, should focus on community college and high school students, especially those who may not be university-bound.

University Programming: Surprisingly few university programs in either country emphasize study of the bilateral relationship or the culture and politics of the other. Education diplomacy could also include efforts on both sides of the border to encourage such programs. This might include dissertation research grants or seed money for program development. One example of this kind of new education diplomacy is the Program for the Internationalization of Curricula U.S.-Mexico (PIC US-MX) which facilitates dialogue and exchange between academics and businesspeople with the goal of creating collaborative projects.

City-to-City Diplomacy: Focusing on localities that have

1. https://www.theatlantic.com/politics/archive/2012/11/poll-most-americans-view-mexico-negatively/438498/

little exposure to the other country needs to be emphasized to promote effective listening and understanding in the partner municipality. Professional and technical exchanges need to be emphasized more within this context. Sister city professional and technical exchanges that are tailored to benefit both partners will create the intense, iterated interactions that are key to socializing individuals and changing perceptions.

City-to-city diplomacy will improve the quality of each country's communication strategy. By working on a small scale, diplomats can tailor their message to the pre-existing beliefs of the target public, reducing the distance between these beliefs and the image of the other contained in their communications, another proven mechanism for shifting pre-established beliefs.

Visit Diplomacy: Politicians at all levels of government across the two countries should arrange visits for their counterparts. For Mexican representatives visiting the United States this would include meetings with other politicians but should also involve travels to parts of the country that they do not know and thus do not understand well. It might include visits to universities and businesses. Mexico should implement a similar strategy, as it did prior to the 1993 NAFTA vote in the U.S. Congress. It could also create a program for select young people of Mexican American heritage to experience Mexico, not unlike the Birthright program sponsored by the Israeli government. Given President Biden's interest in combating climate change, a visit of young Latino leaders in the field of clean energy to assess the great Mexican potential on renewables would have a very positive impact.

Cultural Exchange: This is possibly the most promising area for public diplomacy because it obviates the power differential that colors every other aspect of the bilateral relationship. Cultural exchange efforts should include a 2026 World Cup of Culture to coincide with the soccer World Cup to be held in North America. This effort should be jointly designed by U.S. and Mexican creative industries and focus on regions and cities with limited obvious exposure to the other country.

V. Mexico's Relationship with its Diaspora

The dynamics of both countries with their diasporas, including binational citizens, are key in improving the bilateral relationship. Social integration is a must. The promotion of Mexican Americans in the United States to top government positions should make it easier to foster policies that help Mexicans living and working in the United States.

The Mexican diaspora is both huge and heterogeneous; out of the 60 million Latinos living on American soil, 38.5 million are of Mexican origin. Of these, 28 million are American citizens with Mexican ancestry, almost half being second-generation Mexican Americans meaning their parents were born in Mexico. The remaining 11 million are Mexican citizens that migrated to the United States, half of which are undocumented.

Currently, there are 10.5 million Mexicans in the United States, a decrease of 1.6 million from the peak in 2007. Since the U.S. economic downturn in 2008, net migration has been reduced to zero or negative with the flow of returnees, both voluntary and forced (deportees), equaling or exceeding Mexican arrivals. While this has allowed the Mexican consular network to focus more of its efforts on promoting the integration of Mexicans into U.S. society, the Mexican community is still a vulnerable one in need of consular assistance.

Broadly speaking, Latinos experience preexisting conditions such as obesity and diabetes at higher rates, lack access to preventive medical care, and endure more housing and food insecurity. The lack of access to government programs, often due to immigration status fears, makes their situation even more complicated. The factors have also been exacerbated because too many in the Mexican community live in crowded settings and cannot remain quarantined because they are so-called essential workers or because they live day-to-day and are thus forced to work to eat. This has made them especially vulnerable to the current pandemic. By October 2020, the rate of hospitalization for COVID-19 among Latinos was four times greater than that of non-Latino Whites according to CDC data and this population experienced disproportionately high infection and mortality rates.

Recommendations Regarding the Mexican Diaspora 2021-2025

Promote the Integration of Mexicans in the United States: The Mexican government needs to find points of agreement with the Biden Administration to encourage policies that will foster the social inclusion of Mexicans. Mexico also needs to work closely with state governments and use whatever leverage it has to press governors to strengthen public services that can address structural vulnerabilities in health, education, and finance.

These efforts must include programs to foster future Mexican American leadership as well. Latinos represent a growing percentage of undergraduate and graduate students. Once they finish their studies, they will become part of the U.S. workforce. Consulates should take advantage of this human capital and encourage the introduction of Latino-oriented programs at local universities that identify as Hispanic Serving Institutions. The consular network should also work to identify diaspora leadership and foster closer ties. One specific step in the right direction could be to relaunch the system of jornadas or group visits to Mexico for key leaders.

Empower Grassroots Organizations: During the pandemic, various organizations made significant contributions to the wellbeing of the diaspora in the United States. Some lost faith when they did not receive support from the consulate due to budget cuts. It is crucial to revamp the consulates' mission by increasing their budgets and ensuring all spending is efficient and transparent.

Strengthen Relations with Natural Allies: The consular network should build partnerships and alliances both locally and nationally with advocacy and service-providing groups. These include the ACLU and local sections of the League of United Latin American Citizens, the Mexican American Legal Defense and Educational Fund, as well as UNIDOS US. Mexican diplomacy should also recognize the pan-ethnic reorientation of national organizations such as the National Council of La Raza, the organization which preceded UNIDOS US. Specifically, Mexican consular diplomacy should cultivate relationships with Latino labor leaders; Latino leaders on issues of sustainability, professionals, civil society, and academics; and newly elected Latino legislators from Texas, California, Delaware, Georgia, and Tennessee.

Implement Social Reintegration Return Policies: Mexico's state and federal governments should further develop policies and programs that facilitate the social reintegration of nationals who return to Mexico, whether as deportees or of their own accord.

VI. Global and Regional Recommendations

There is broad bipartisan agreement in Washington that China is a strategic rival to the United States and requires a comprehensive response across the full range of issues, including security, economy, and values. The new administration has signaled its intention to take a firm response to the challenge, by enhancing the United States' ability to compete successfully against China in each of those domains, while seeking to cooperate with China when possible on shared concerns, such as climate change.

The Biden Administration is likely to focus on building coalitions of "like-minded" states which share U.S. views about the international political and economic order, and to seek to embed these approaches in international institutions on issues ranging from health to technology regulation to trade. Although the Biden Administration is unlikely to pursue the more extreme forms of "de-coupling" advocated by some in the previous administration and Congress, the new administration will emphasize partnerships with countries that side with United States in key areas of dispute with China, particularly concerning trade and investment, technology, and political values.

In this environment, Mexico will be unable to insulate itself from Sino-U.S. competition and pursue close ties with both sides simultaneously. Especially on sensitive issues such as energy or telecommunications, Mexico's ability to build a stronger relationship with the United States will, to an important degree, depend on its willingness to cooperate with the United States in international institutions, and to be cautious in its bilateral dealings with China.

The growing confrontation between Washington and Beijing has important implications for the relationship between Mexico and the United States over the next four years. As it did during the cold war, Mexican diplomacy should navigate cautiously between the two great powers while acknowledging China's important role in international politics. Mexico might, for example, seek Chinese investment in transportation and port infrastructure, but not in telecommunications, an area where there is open conflict between China and the United States. López Obrador's administration could even play a constructive role, proposing a trilateral dialogue on fentanyl, an issue where all three countries share common interests.

Immigration was a key issue in U.S.-Mexico relations during Trump's presidency. Biden represents a new era on immigration affairs that opens a window of opportunity for binational collaboration. Mexico may restore its humanitarian narrative regarding immigration, but this cannot lead to another migrant crisis at the border. While Biden will change rhetoric surrounding immigration, and certain policies may change in ways that coincide with Mexico's interests, he is unlikely to relax border security strategies. As a result, Mexico has to make the most of Biden's new approach while protecting both the U.S. and its own security. The Mexican government needs to implement **domestic** policies that protect immigrants and borders in order to be considered a reliable partner by the United States. This is a huge first step that needs to take place sooner rather than later.

The López Obrador Administration's proposed Comprehensive Development Plan (CDP) for Central America has not yet received the resources necessary for success, nor has it received decisive support from Guatemala, El Salvador, and Honduras, who have instead engaged directly with the United States — by signing safe third country agreements, for example. The CDP however is a solid document that presents a diagnosis and public policy recommendations for the area. It is a long-term proposal for development, and recommends public policies including macroeconomic policies for development, trade facilitation, infrastructure, fiscal policy, energy, poverty reduction, protecting the environment, reducing inequalities, and protection for immigrants.

The Mexican government needs to convince the United States of the benefits of joint action based on the CDP. Agreement is not automatic and both sides will have to adjust their positions. The Mexican government, for example, should accept and abide by the recommendations from the Economic Commission for Latin America regarding the CDP and the promotion of Central American democracy as a condition for attaining stability in the region.

In brief, the diplomatic challenge surrounding immigration is ensuring that the three parties work toward a regional (multilateral) economic and political plan, thinking of themselves as a regional system, committing U.S., Mexican, and international resources, and a good dose of political will.

Beyond Central America, Mexico, and the United States face two major foreign policy challenges in the region: Venezuela and Cuba. During his candidacy, Biden put democracy at the center of his foreign policy proposal to restore U.S. leadership in the democratic world. The Biden administration is therefore likely to restore the Obama approach toward Cuba by reversing Trump's measures to reinforce the embargo, while still insisting on political change on the island. In the case of Venezuela, Biden's government might be willing to negotiate with Maduro and the opposition an acceptable solution to both, either in the context of the OAS or as part of an ad-hoc multilateral effort.

A potential obstacle to U.S.-Mexico regional collaboration is López Obrador's foreign policy based on principles of non-intervention and self-determination which sends an unambiguous message that Mexico will not interfere in other countries' domestic political issues. If the United States encourages Mexico to play a role in the region, however, the Mexican government might reconsider. Nonintervention need not mean abdicating a regional leadership role. Mexican diplomacy could facilitate the resolution of conflicts in Venezuela and elsewhere, just as its cooperation with the United States helped bring an end to civil war in El Salvador in the 1990s.

VII. WATER

Water and environmental issues may well be the poster child for bilateral cooperation between the United States and Mexico. For more than a century, they have successfully divided the waters of three transboundary watersheds. The legal and institutional foundations on which they have built the accomplishments are two bilateral treaties and the International Boundary and Water Commission (IBWC), a model institution spanning technical and diplomatic skill sets.
Several features inherent to the U.S.-Mexico border make the task of dividing the waters a greater challenge. It sits over a largely arid and semi-arid region, prone to drought and water scarcity, with a fast-growing population. Legal structures are also a factor, as water rights are viewed in stark contrast across the border. In Mexico, water is the property of the nation and within the purview of the federal government, whereas different water rights doctrines apply in each individual U.S. border state. These differences prevented the countries from reaching a formal agreement when it comes to handling transboundary aquifers.

Both federal governments have nevertheless begun to innovate and develop newer mechanisms of cooperation and drought contingency. The annual natural flow of the Colorado River is seeing unprecedented reductions as a result of hydrology and climate change. The structural deficit in the river's original allocation is threatening full delivery of the countries' annual supply of water. At the same time, uncertainties persist in the Texas agricultural community regarding the Rio Bravo's annual water deliveries from Mexico. The recent tensions across the border as well as internally in Mexico reflect the need to improve water governance in the watershed. Transboundary water pollution in Tijuana is a long-standing problem and has become a considerable irritant in the bilateral relation, with no clear pathway in sight for a lasting, sustainable solution.

The arrival of the new federal administration in the United States may be the best opportunity for both countries to buttress the collaborative achievements made in the past and preserve the issue of water as a positive factor in the bilateral agenda. The promise of reaping benefits through water conservation will imply accurate flow monitoring and control of all water users, agricultural and municipal. These and other measures are intended to prioritize the sustainability of the resource as an integral part of the binational water policy, and not as an afterthought.

Both federal governments need to acknowledge that dividing the waters of this arid region along the border, even with precise and respectful agreements, remains a zero-sum game. In the case of the Colorado River, the two countries have opted for innovation and resorted to adjusting annual deliveries, in accordance with water availability, creating a Binational Water Scarcity Contingency Plan, and engaging in joint water deliveries for delta restoration. The Rio Bravo basin could also benefit from actions that foster a more dynamic discussion on water efficiency measures and improve binational relations. In short, dealing with natural resources that straddle an international border may suggest that it will be wise to ponder the principles of sustainable ecosystem management, acknowledging natural boundaries rather than honoring a political line set arbitrarily.

Conclusion

Over the past quarter century, Mexico and the U.S. have learned to cooperate and conduct bilateral business in a pragmatic fashion. Each country has deployed a highly sophisticated diplomatic machinery in the other, which provides the tools to manage a relationship that is complex, intense, and asymmetric.

The Biden presidency represents both a return to a normalcy in the bilateral relationship and a window of opportunity. Yet it is important that both countries avoid any potential early crisis, whether the result of immigration, trade, or international affairs. More importantly, the paper suggests that the path forward involves identifying clearly shared interests, such as addressing root causes of migration or stimulating economic development.

Both sides must work to rebuild and strengthen bilateral mechanisms of consultation, such as the High Level Economic Dialogue, the Interparliamentary Meetings, and the Border Governors conferences. Institutionalizing the management of U.S.-Mexico bilateral affairs will provide a solid foundation for future cooperation and ensure that conflicts are managed smoothly. The new USMCA trade agreement, the successor to NAFTA, is a prime example of how a North American trade regime will be central for structuring a deeper economic integration between the two countries.

Finally, establishing both a positive narrative of Mexico in its northern neighbor and a better narrative of the U.S. in its neighbor to the south will help policymakers deepen cooperation. There is a need to explain to audiences in both countries how products and traditions from the other country have enriched their lives and culture. Both administrations should take full advantage of their diplomatic machineries to carry out a public diplomacy campaign to achieve this.

Prosperity, security, and promise are shared between neighbors. This basic understanding should guide the next four years in which the presidencies of López Obrador and Biden coincide.

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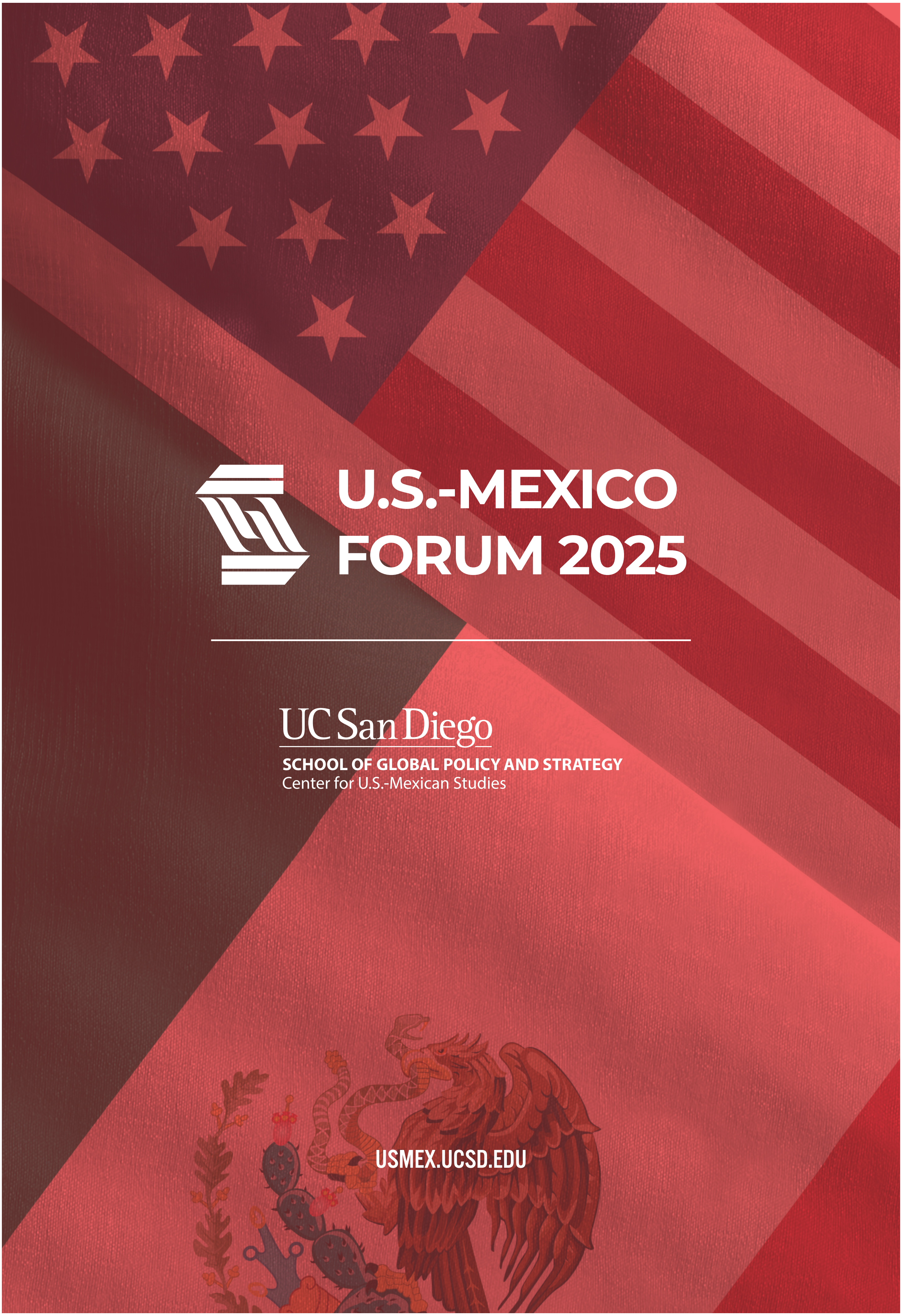
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