U.S.-MEXICO FORUM 2025

TRADE, ECONOMY, AND WORK

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

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

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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.

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

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.

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

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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.

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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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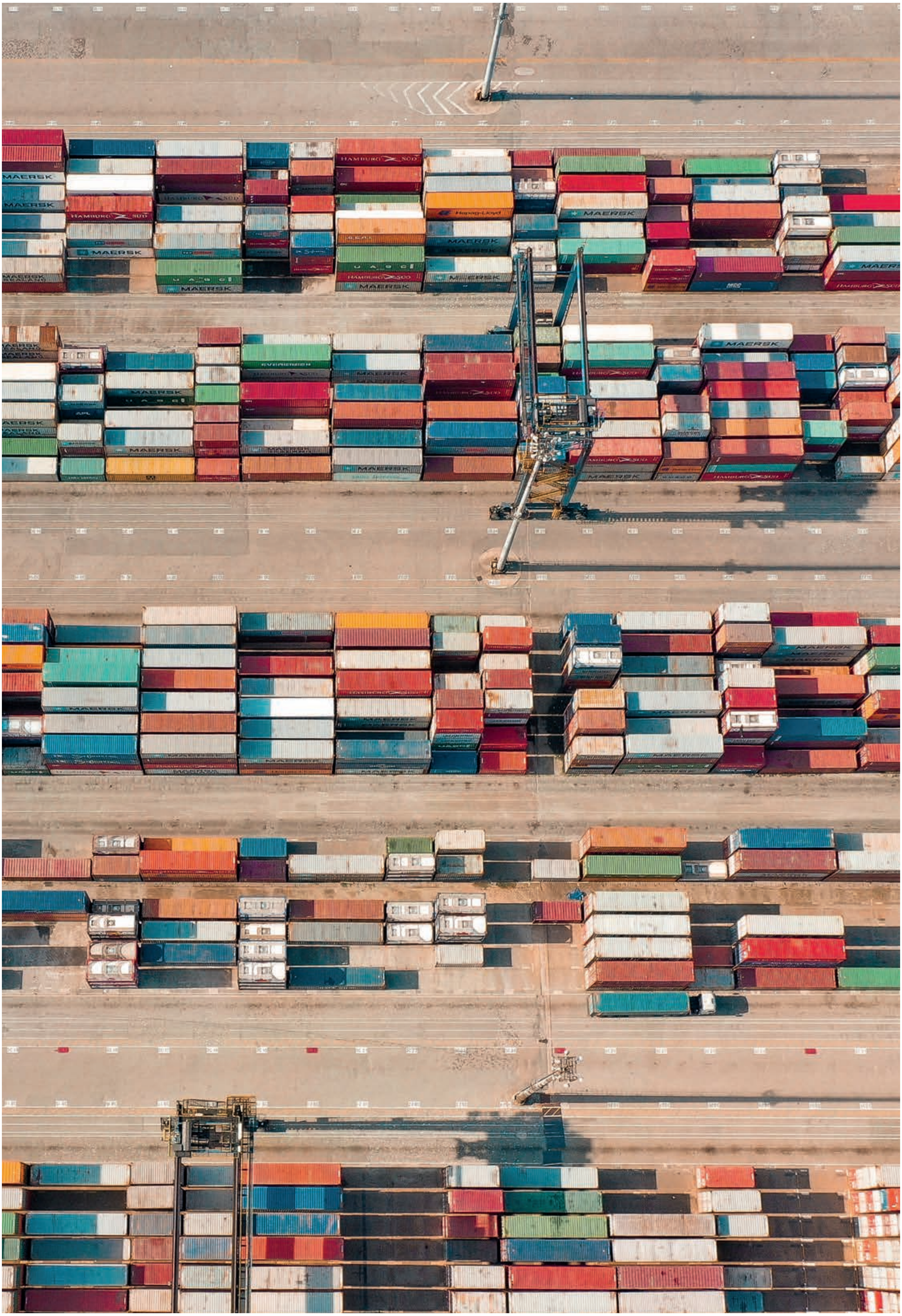
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