10th Annual Building a Competitive US-Mexico Border

SUMMARY OF MAIN ISSUES

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June 27, 2024

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On June 27th, 2024, the Wilson Center's Mexico Institute and the Border Trade Alliance hosted the 10th Annual Building a Competitive US-Mexico Border Conference. The Wilson Center's President and CEO, Ambassador Mark Green, highlighted in his opening remarks that the two countries are more intertwined and interdependent than ever, with Mexico becoming the top US trading partner in 2023. For such reasons, finding ways to enhance the competitiveness of the border region is imperative for both countries. During the various panels and speeches of the day-long conference, several key themes of the US-Mexico border region emerged, such as customs and trade practices, AI governance, infrastructure, the 2026 USMCA review, Chinese investment in Mexico, and Mexico's new administration. Throughout the discussions, panelists from the public and the private sectors sought to develop constructive ways to advance public policies to address these challenges on both sides of the border.

PANEL 1—The Border from the Congressional Perspective

The aim of the panel, and ultimately the conference itself, was to highlight that **the US-Mexico border is not a dividing line, it unites us.** The US and Mexico are closer than ever and both economies are deeply intertwined and interdependent. Mexico became the US's top trading partner in 2023, it is the US's largest gasoline/natural gas export destination, and remittances from the US to Mexico exceeded 63 billion dollars in 2023.

Congressmen Henry Cuellar (D-TX), Greg Stanton (D-AZ), and Lou Correa (D-CA) agreed that facilitating the relationship between the US and Mexico is as important as protecting the border. Congressman Stanton emphasized that, "*right now is such an important moment in US-Mexico relations because of nearshoring opportunities. We need smart policies on the US and the Mexican side to take full advantage of the crucial nearshoring moment. It is about security and immigration, but also trade and economics*." **The three lawmakers agreed that both nations must develop innovative and cooperative policies to take full advantage of the fleeting nearshoring phenomenon.** Congressman Cuellar underscored the importance of trade between the two countries, and especially between local border communities, emphasizing the need for more alignment in construction, permitting processes, and environmental checks as it relates to cross-border infrastructure.

Congressman Correa stated that the influx of migrants at the border is a symptom of a bigger challenge. He expressed discontent with the fact that people are talking about the inefficient, short-term solution that is the border wall instead of developing solutions that address the root causes of migration, like the lack of economic opportunities, violence, political instability, **and climate change. Rep. Correa suggested that trade agreements and sustainable development policies can be used in countries with high levels of emigration.**

Congressman Stanton mentioned the "*diplomatic malpractice*" of the US by divesting from the Western hemisphere, an opportunity that China has seized to its advantage. Congressman Correa argued that the United States has been "asleep at the wheel" when it comes to certain developments in Latin America, citing Peru entering a trade deal with China as an example.

Regarding asylum, Congressman Cuellar noted that although the amount of Asylum seekers has declined 45% since President Biden signed an executive order, the reduction is largely due to "*Mexico starting to do its job.*" He emphasized that the way both countries are approaching arrivals and admissions at the border is "*backwards.*" Cuellar stated that, "*when 100 people come to the border, most will be let in. However, at the end of 4-6 years, an immigration judge is going to deny and reject 89% of them... Instead of allowing 80% of asylum seekers into the country, we should only allow 10-12%.*" Congressman Correa mentioned that he has spoken to businesses who state that if they comply with eVerify and forego hiring undocumented immigrants, they will go out of business.

Access to water and cross-border water management was a topic discussed by all three members of Congress. Long-term solutions centered around conservation technologies are needed, and Congressman Stanton expressed that all the basin states in the United States are making cuts and that Mexico must join in such a shared pain.

Regarding the new Sheinbaum administration, the lawmakers posed several questions: Is there going to be a change from the current policy against cartels? Will precursor chemicals from China arriving in Mexico and the flow of fentanyl into the United States be better confronted? Will Mexico's next government be serious about energy policy, water management, and climate change conservation? **Will Mexico establish the necessary conditions to provide the United States and US companies predictability and assurance that their investments will be secure?** American investors need reassurance, or else they will continually divest, and the growing issues and concerns will fuel the "*food fight*" at the 2026 USMCA review.

PANEL 2—What's Next for USMCA

Ambassador Earl Anthony Wayne, former US Ambassador to Mexico and Co-Chair of Mexico Institute's Advisory Board, opened the panel by explaining how the **trial by fire that the United States-Mexico-Canada Agreement (USMCA) endured under the Covid-19 pandemic exemplified the strengths of the Agreement.** Goods trade in North America increased by over 30%, US-Mexico trade has significantly increased, and highlighted the importance of regional trade and economic integration. Despite the positive results that the USMCA has shown, ongoing and potential future challenges could impact the review process in 2026. The incoming Sheinbaum administration in Mexico will need to address these issues especially to decide how to handle the issues where Mexico is being criticized and the potential negative effects on USMCA of several constitutional reforms now being considered in Mexico.

Juan Carlos Baker, former Undersecretary of Mexico's Ministry of Economy and CEO and Founding Partner of Ansley International Consultants, stated that both countries must reaffirm the commitments they adhered to when USMCA came into force in July 2020. **The US and Mexico must work hard to avoid politicizing the review process and keep it strictly technical.** If both countries politicize the review process, the three nations may face a scenario similar to what occurred in 2017-2018, when companies pulled out their investments for fear of NAFTA's impending end. If this happens, a huge opportunity to continue strengthening the North American region will be lost.

Bob Costello, Chief Economist & Senior Vice President for the American Trucking Association (ATA), highlighted several USMCA successes and actions needed in the future to strengthen the trucking industry. While total US truck freight decreased about 5% last year, trucks coming from Mexico to the US increased by 20% in that same period. Additionally, truck-transported trade from Mexico added 55,000 full-time equivalent truck jobs, with 37,000 being US-based truck driver jobs. **Also, truck counts in the last three years have increased at three times the pace of 1997-2019.** What concerns the trucking industry is the tightening of the border and increased inspections spurred by migrant flows. Costello emphasized that long lines of trucks at rest are dangerous and that more non-intrusive inspections, officers, lanes, and tech/infrastructure would ameliorate the situation.

Richard Kiy, President and CEO of the Institute of the Americas, focused on the environmental aspects (more specifically, violations) of USMCA. As a recurring theme, American investors want regulatory certainty, especially when it comes to energy. The USMCA has both an Environment and Labor chapter, but more importantly, there is a State-Owned Enterprises and Monopolies chapter. **Chapter 22 guarantees transparency in markets and assures that there not be discriminatory practices for foreign investors trying to enter markets.** This is precisely what is happening in Mexico regarding private sector investments related to energy, where the AMLO government has prevented US and Canadian investors from providing the cheapest and most reliable renewable energy. Amanda Blunt, Trade Counsel of General Motors, echoed the need for cheap, renewable energy in General Motors plants.

The Environment Chapter of USMCA has specific provisions against weakening or avoiding enforcement of environmental laws for trade advantage. However, under the AMLO administration, the Federal Attorney for Environmental Protection (PROFEPA), the Ministry of Environment and Natural Resources´ (SEMARNAT) enforcement agency, suffered a budget cut of 35%, 45% for enforcement/inspections, and a 74% drop in fines collected from environmental violations. Water scarcity is yet another concern that could come up in the USMCA review.

Regarding the incoming Sheinbaum administration, all panelists underscored the urgency of the new Mexican team to undertake a serious review of energy policy and practices. As it stands, Mexico's first female leader seems committed offer the private sector and foreign companies a 46% market share of electricity generation in Mexico, maintaining a 54% state majority control of the Federal Electricity Commission (CFE). Several panelists agreed that the decision for the state to control a majority share of the CFE is in violation of USMCA's non-discriminatory policies. **The panelists also argued that it will be necessary to closely monitor the transition period in Mexico, especially during the month of September, given that President Lopez-Obrador will attempt to approve several constitutional reforms with the new supermajority his political coalition secured in the lower house of Congress. Many of the constitutional reforms that may be approved could be in direct violation of the USMCA. Panelists argued that the US and Mexico should refrain from using the USMCA and their strong economic ties to advance political objectives and instead should focus on continuing to strengthen North American integration.**

PANEL 3—AI and Cybersecurity: New Technology and New Challenges for the Border

The US-Mexico border is vital for both countries, especially in terms of trade. Experts believe that using technology and AI can help make the border more secure and improve cross-border trade, especially for large-scale transactions. AI and emerging technologies can enhance trade by reducing delivery times, finding the best routes, predicting demand, automating customs declarations, and cutting administrative costs. The success of nearshoring hinges on the establishment of a robust technological environment to support the growth of new companies. Trade volumes, especially at crossings like Nuevo Laredo, Tamaulipas, account for approximately 40% of all cross-border trade, as highlighted by panelist Humberto Martinez Cantú, President of Index, additionally noting that during peak season, around 20,000 trucks cross the border daily.

Likewise, Carlos Martinez, Vice President of the Association of Customs Agents, also emphasized that emerging technologies are crucial for the further advancement of customs and related services. Mexico has invested in the necessary technological systems since the inception of NAFTA in 1994, and the increasing number of crossings reflects the collaborative efforts between the two countries. Some technological benefits include quicker inspection times for cargo and reducing delays. These issues can only be addressed through technology implementation and improved staff training.

The future of technology at the US-Mexico border should focus on trade facilitation, security, and tax collection. All the panelists underscored the importance of utilizing the USMCA 2026 review **as an opportunity to address the better utilization of technology and AI in facilitating trade**, such as in detecting fraudulent activities and suspicious financial transactions. Additionally, Chatbots should be further explored as a possibility for migrants and the private sector on both sides of the border to understand their legal obligations, rights, and rules of bilateral commerce. Furthermore, authorities on both sides of the border should leverage AI and technology to detect illegal activities.

International standards, such as those in the European Union, already guide the responsible use of AI, and Mexico could align its policies with these existing guidelines. Claudia del Pozo, Founder and Director of the Eon Institute, emphasized the challenges of using technology and AI responsibly. For example, she pointed out how some facial recognition systems still make errors based on skin color.

PANEL 4—China, Mexico, and Cross-Border Trade

There is a shared concern about China using Mexico as a "backdoor" or "trojan horse" to infiltrate the US market with Chinese vehicles and other products. Yet, Margaret Myers, Director of the Asia & Latin America Program at the Inter-American Dialogue, argued that China's presence in the region is not new. Diego Marroquin, Bersin-Foster Fellow at the Wilson Center, stressed the fact that there are a multitude of requirements and inspections that companies need to pass to be considered as North American; "if you want the key, you need to meet the requirements.**"**

Since 2017, Mexico invested in rail, solar, infrastructure, extraction of strategic materials (Lithium), and mostly (75%) high-level automotive manufacturing. In the past five years, Mexico became the third largest destination in Latin America for Chinese investment. Chinese companies seek access to Mexico's well-established industrial manufacturing base and diverse supply chains, as well as access to the North American market via USMCA provisions. Many of the Chinese state-owned enterprises entering Mexico have concentrated their investments in the automotive sector in Nuevo León and Coahuila.

Diego Marroquin called USMCA "*China-proof.*" **If foreign companies want to set up shop in Mexico to export to the US, they need to meet a series of conditions:** there must be local labor, local inputs, 40% of the vehicles need to be produced in high-wage factories, and 70% of the aluminum and steel used must be manufactured in North America. In other words, it is difficult to circumvent these standards, making it hard to claim that a product sold in \ in North America was actually made in China. **If the products do not meet the requirements, they will be treated as Chinese products and face the 27.5% tariff for regular vehicles or 100% tariff for electric vehicles.** It is very difficult for Chinese carmakers to simply ship to the US and not be subject to inspection, certification, and tariffs if the requirements are not met. However, there also appear to be several loopholes that are being used to bring Chinese steel and aluminum into Mexico and use the material to make goods shipped to the US. The US has raised these concerns with Mexico, and pressure for action is building in the country. These concerns will need to be addressed in the months ahead,

Chinese companies' investment in Mexico has accelerated since the beginning of the last two US administration's efforts to decouple from China. In fact, investment has accelerated so rapidly that it is difficult to monitor both where the investment is going and the size of the investment. Margaret Myers believes that China's general strategy is to tap adolescent markets as quickly as possible for the cheapest price. FDI data is very difficult to track due to conflicting reports from federal and state governments in Mexico. Also, Chinese companies often operate under Mexican "shelter" companies, rather than in their own names. Thus, **it is very likely that the amount of Chinese investment in Mexico is significantly higher than reported.** This is precisely why Jason Martínez, Executive Director of the Mexico National Committee for Pacific Economic Cooperation Council , stated that Mexico must be very cautious and cognizant of where Chinese investment is going and how much is being invested. There must be safeguards and regulations implemented to control Chinese investment.

PANEL 5—The New Administration of Mexico

The National Electoral Institute's (INE) experience and technical expertise enabled the institution to organize the largest and most complex electoral cycle in Mexico's history. However, Luis Carlos Ugalde, Director of Integralia, highlighted the recent election's unequal and violent traits given President Andres Manuel Lopez Obrador's (AMLO) active and effective participation during the campaign in favor of his preferred candidate, Claudia Sheinbaum. Likewise, the use of social programs for electoral purposes reached unprecedented levels. In previous elections, even though social programs have historically been illegally used for electoral purposes, these were not uniquely designed to win electoral campaigns. Cash transfers handed out as gifts from President Lopez Obrador are a new phenomenon.

Alma Caballero, Managing Director of the Northern Latin America Practice at McLarty Associates, noted that a high percentage of Mexican households benefited from cash transfers. A 111% increase in the real minimum wage and increases in remittances have translated into many Mexican citizens developing a positive opinion of AMLO's government.

Luis Rubio, chairman of the Center of Research for Development, noted how, despite the incumbent's party landslide victory, 40% of the population did not vote for Claudia Sheinbaum and claimed that the opposition still has an opportunity to reorganize and propose a new political alternative. Yet, the opposition will have to analyze the reasons behind their massive defeat. Particularly because, until now, opposition parties have mostly been interested in the number of seats they can acquire in Congress, which determines their percentage of public funding and leads to bad leadership decisions. Rubio noted that it is also important to note that Morena is a different political phenomenon from the PRI party, as it does not have the discipline or political structures that characterized past Mexican governments, and AMLO is still the only cohesive factor.

The incoming government will encounter significant financial limitations, compounded by a lack of institutional capabilities. Market apprehensions about the election results quickly emerged, leading to a 4% devaluation of the Mexican Peso, particularly considering the legislative outcomes and the implications that the proposed judicial reform could have for Mexico's legal and judicial system. Some of these concerns were addressed by appointing technical experts to the new cabinet, bridging the gap between the government and the private sector.

Panelists discussed that flexible exchange rates and the central bank's autonomy are crucial for increasing foreign direct investment (FDI) flows and taking advantage of nearshoring. Alma Caballero also expressed concerns about potential risks to good governance in the upcoming administration, such as authoritarian tendencies, further institutional collapse, and the consolidation of power in the executive branch. Additionally, the implications of security and impunity for the private sector have raised the cost of doing business in Mexico and are likely to continue posing challenges for companies during the next administration, mainly if the role of the armed forces keeps expanding into tasks previously performed by civilian forces.

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