




**NORTH
AMERICA WAS
SUPPOSED TO
BE BACK ON
TRACK. IS IT?**

2023 LATIN AMERICA INSIGHTS REPORT

Insights from the U.S., Mexico, Brazil & Colombia

CHAPTER II-A VIEW FROM MEXICO



The conclusion of the United States-Mexico-Canada Agreement (USMCA) negotiations paved the way for the renewal of a rules-based approach that had been successful in promoting growth since the North American Free Trade Agreement (NAFTA) came into force in 1994. At least that's how the story was supposed to go.

A mere two years after USMCA was enacted, politics have driven North America back to a crossroads.

An era of economic regionalism

With some observers going as far as declaring globalism and globalization dead, the need for a sound regional business approach has come into focus.¹ Competition between the U.S. and China, Russia's aggression against Ukraine and logistics risks exposed by the COVID-19 pandemic have revealed the fragility of global value chains, leading companies to nearshore production, often accompanied by their major suppliers.

For a region that encompasses economies that rank first, eighth and fifteenth in terms of GDP², and all among³ the 30-largest consumer markets in the world, this is a historic opportunity. Nearshoring is driving investments into the U.S.⁴ and Mexico⁵, with Canada⁶ performing similarly well. This is expected to continue as innovation and climate action are pursued through industrial policy⁷ of a scale with no recent precedent.

But, as usual, politics are muddling the picture.



The North American Leaders' Summit that took place in Mexico City in January allowed for displays of unity that matter in a turbulent global environment, more so given the U.S.' shifting trade and investment relationship with China. Regional goodwill, however, is yet to be tested as thorny trade issues were neither resolved nor forgotten. Prime Minister Justin Trudeau publicly aired Canada's concerns over Mexican policies on energy⁸, mining⁹ and biotech corn¹⁰, leading President López Obrador to propose the well-worn path¹¹ of meeting individual companies rather than discussing systemic solutions. Rather than make them a public point of contention at the summit, the U.S. chose to address trade issues through technical channels. Yet, on various occasions, National Security Advisor Jake Sullivan confirmed¹² that energy consultations could soon escalate into panels, Secretary of Agriculture Tom Vilsack promised swift and uncompromising¹³ action against Mexico's proposed ban on biotech corn and the Office of the U.S. Trade Representative stated¹⁴ that it will review a "disappointing USMCA panel interpretation" on auto parts.



A time of political individualism

Seeking exclusive benefits for some of their constituents, all three countries have taken substantive actions that either impair regional trade or undermine investor rights. The first country to lose a panel under the USMCA was Canada¹⁵, over dairy products, followed by the U.S.¹⁶, over automotive rules of origin. In both cases, it could be argued that the policies of the losing countries hurt North American competitiveness in specific sectors.

Though Mexico has not yet been declared to have violated the USMCA by any panel, its actions are having a broader, deeper impact on regional trade and investment. There are several sector-specific disagreements brewing, including around agriculture¹⁷, fuels¹⁸ and the use of natural gas pipelines.¹⁹ Perhaps more importantly, a systemic dispute has emerged over President Andrés Manuel López Obrador's policies on electricity²⁰, with implications far beyond power generation.

By explicitly favoring the state-owned Federal Electricity Commission's ("CFE") fossil fuel plants over private renewable energy, the government has made it much more difficult for all companies in Mexico, and those with supply chains stretching into the country, to cut carbon emissions and meet net-zero targets. Mexico's shortcomings in supplying reliable, clean energy increasingly undermine North American competitiveness.

The future is green, but Mexico is holding the region back.



The 2024 elections come to the fore

The centrality of state-owned energy companies to the Mexican President's politics suggests that these dynamics are unlikely to change during the remainder of his term. Moreover, the electoral roadmap on both sides of the border will likely reinforce politically-expedient government positions as opposed to technically sound alternatives. Every 12 years, the presidential election cycles of Mexico and the U.S. overlap, as will be the case in 2024. Both countries are already barreling toward highly competitive contests, if not outright contentious ones.

In Mexico, the government is working to weaken²¹ independent electoral bodies. Key local elections will be held in June 2023, and President López Obrador hopes to have an agreement within his party shortly thereafter on who will seek to succeed him.²² In the U.S., potential candidates are already being encouraged²³ to test the waters and are preparing to fundraise²⁴ with an eye on the months-long primary process that is only a year away.

Should one or more of the current disputes under the USMCA lead to the establishment of a panel — as is increasingly expected — campaigns will be underway in all but name by the time an arbitral decision is delivered. Elections on both sides of the border are bound to be perceived as choices between continuity and change, making sitting governments more likely to double down on challenged policies than to quickly retreat from them, even if their positions are unlikely to prevail in international arbitration.

If this comes to pass, the private sector will have to keep working hard to identify and expand business opportunities. Companies have succeeded in doing so — projects continue to be announced. For all the talk of doomsday scenarios, President López Obrador continues to speak²⁵ of strengthening ties with the U.S., even while missing opportunities to do so. As for participants in troubled sectors, such as energy, they will require robust value defense strategies that are likely to include further legal action.



June's gubernatorial elections in Coahuila and the State of Mexico — the latter being home to 12.5 million voters, the country's largest registry — will be a political test of strength on the road to 2024. President López Obrador's MORENA party leads in opinion polls. A revived opposition coalition, *Va Por México*, comprised of longtime rival parties PRI, PAN and PRD, have closed ranks and pledged to run together at the state and federal level. As MORENA's geographical footprint expands, it has also proven to be an uneasy alliance of forces. In Coahuila, a leading internal candidate renounced his federal government post and party card and has been nominated by a third party. Meanwhile, President López Obrador has pushed a controversial electoral reform through Congress that curtails the autonomous National Electoral Institute ("INE"). Most legal experts believe many of its components to be unconstitutional and Mexico's Supreme Court is expected to decide the issue.²⁶

The future can still be bright for North America

A new Mexican administration will be sworn in on October 1, 2024, followed by a new or incumbent president in the U.S. on January 20, 2025. The countdown to the first review of the USMCA in 2026, where members will decide on the continuity of the agreement, will be well underway.²⁷

The two administrations will be under pressure to produce positive economic results. They will be inclined to plan for the medium-term while also considering how to best capitalize on global trends in pursuit of national goals. Even the current government of Mexico, while refusing to change course, implicitly recognized this to be the case when announcing new climate goals.²⁸

Aligning regional action with international trends would be a big step forward for North America. History tells us this is possible. At other critical moments for the region, most notably the ratification processes of NAFTA²⁹ and the USMCA³⁰, broad, cross-border, business-led coalitions put ideas on the table and advocated for their adoption. To fulfill the promise of the region, they must do so again.

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