ALLY-SHORING:
A POWERFUL STRATEGY FOR NEAR-SHORING

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U.S. - MEXICO FOUNDATION

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INTRODUCTION

Building on a body of work over the past three years to advance the concept and practice of ally-shoring as an effective strategy for reworking global supply chains, this paper seeks to enhance the understanding of ally-shoring by proposing further key concepts and strategies to strengthen economic security and prosperity between the U.S. and Mexico. Given the shifting geopolitical landscape, ally-shoring offers a unique opportunity for the U.S. and Mexico to build stronger, more resilient, democratically-driven economies in both countries. This opportunity requires a framework and strategy to best leverage U.S. and Mexican competencies in emerging industries that could most benefit from economic cooperation. By targeting economic engagement and integration while simultaneously strengthening democratic rules, norms, and values, both countries -and the region at large- have the potential to see substantial and sustained long-term growth.

Prior work from the U.S.-Mexico Foundation has detailed the tremendous mutual benefits to the U.S. and its allies including Mexico of "ally-shoring" critical supply chains and co-producing a variety of products and services, particularly in high-value emerging sectors. As companies strive to create cost-efficient, resilient partners with reduced exposure to geopolitical risks from non-democratic nations, they are turning to near-shoring production and supply. This presents a promising opportunity to advance economic, political, and foreign policy benefits by embracing the momentum of near-shoring and adopting an ally-shoring approach.

This convergence of interests in near-shoring and countering the political coercion and dependency building of China and other countries outside the region highlights a unique moment for Mexico and the U.S. to work closely with other allies to build their integrated ally-shoring strategy. This paper outlines specific areas and elements of an ally-shoring framework to strengthen economic cooperation and economic security between Mexico and the U.S.

FROM NEAR-SHORING TO ALLY-SHORING

One of the many unprecedented changes driven by the COVID-19 pandemic was the disruption and realignment of global supply chains. In 2020, amidst the highest point of the pandemic, U.S. manufacturers like 3M, General Motors, and Aramark increased their production of certain goods in Mexico to offset supply chain shortages and counter Beijing's explicit refusal to allow Personal Protective Equipment (PPE) shipments to leave the country. It was among the first indications that moving critical manufacturing closer to home and out of the hands of non-democratic governments would become an important feature of risk mitigation and business resilience to counter future global shocks. In 2023, the trend continues, Mexico is the recipient of growing foreign direct investment (FDI), and companies continue to look at Mexico—moving production and jobs, technology, and innovation closer to the U.S. and its huge domestic market.

The rise in near-shoring reflects these changing dynamics and how companies assess business risks in a new era. Near-shoring offers some obvious advantages, principally decreased costs, fewer transportation and logistics bottlenecks, lower climate impact, and potentially reduced exposure to any one country for critical products and materials. According to a recent report from McKinsey, "approximately 40 percent of companies are reviewing their supplier bases to be closer to their main markets, which in many cases lie in North America." Nonetheless, the near-shoring model does not explicitly reference the broader interplay between the free market economic system (capitalism) and the open, rule-based system of government (democracy) that underpins it.

Ally-shoring, on the other hand, is a more robust strategy by which countries rework critical supply chains and expand a co-production economic system among countries that may offer the benefit of geographic proximity but also support a transparent, fair, and rule-based trading system defined by democratic rules and norms can contribute to stronger and more resilient global markets.

Ally-shoring adds important security, economic, and political advantages to the benefits afforded by near-shoring. For instance, more co-production in key sectors allows collective economies to grow because they are not simply "trading" with allies, but co-producing high-value goods and services in tightly wound global supply chains. This is especially true for the U.S. and Mexico and their manufacturing intensive regions like the North of Mexico, the U.S. Midwest, as well as among many regions within allied nations in Europe and beyond. As detailed by Brookings, nearly 50% of the U.S. industrial Midwest's "trade" with Canada, 30% with Mexico, and 37% of with allies in the EU is in intermediate goods—meaning parts of a finished product. This co-production model exemplifies the benefits that can be derived across trading partners.

However, not every component or supply benefits from being "on-shored" or "near-shored," and unwinding these highly efficient global supply chains is both impractical and very costly. A thorough analysis of the supply chain is to avoid driving-up costs which could diminish business' competitiveness.

By broadening the understanding and execution of near-shoring via ally-shoring, the level of collaboration on important shared challenges and opportunities is increased. It transitions from a purely business-to-business transactional relationship into a more comprehensive integration that brings additional economic, political, security, health, labor, and environmental benefits that improve societal well-being.

To create a thriving, open, and integrated North American marketplace that attracts increased FDI, it is essential to enhance collaboration on anti-corruption efforts as a component of economic cooperation. This reinforcement of a system based on the rule of law, security, and transparency will facilitate ally-shoring, trade, and the overall growth of the region. Additionally, implementing immigration reform, developing smart border infrastructures, and collaborating on new clean energy technologies will further contribute to collective economic growth, job creation, and climate change mitigation in both the United States and Mexico. Furthermore, by addressing organized crime issues together, both countries can overcome social, health, economic, and security challenges that hinder economic integration.

Rethinking the region's trade and economic security objectives through ally-shoring is a powerful new lens to help guide foreign policy and strengthen alliances with partners committed to an open, rule-based system. In doing this, the U.S. and Mexico allow capital to achieve its highest and more efficient function in a stable economic environment. While growing tensions with autocratic regimes highlight the importance of near-term solutions and responses to protect economic interests, ally-shoring recognizes that economic and political objectives are always intertwined. When democracy is at risk, economic security is also at risk. Ally-shoring is a strategy that reinforces the need for long-term relationships and commitments that support economic security in North America while decreasing dependency on single suppliers that can weaponize these dependencies.

LEVERAGING PUBLIC AND PRIVATE ENGAGEMENT FOR AN ALLY-SHORING ECOSYSTEM

It makes economic and political sense for the U.S. and Mexico to take advantage of the present near-shoring momentum to create conditions, infrastructures, benefits, and partnerships with an integrated set of other countries that share similar values. In part because it is in both countries' interests to capitalize on the supply chain resilience objectives of near-shoring in a way that does not exclude or create negative externalities to other geographically distant partners.

The U.S., Canada, and Mexico can rewire critical supply chains while bringing closer allies such as Japan, France, Germany, Australia, Great Britain, Israel, India, and Brazil—and in doing so enhancing Mexico's role as a target market of these allies' FDI.

This has the potential to be Mexico's ally-shoring moment, the country is well-positioned to take the lead on a strategy for the relocation of supply chains in the region. As outlined in the first U.S.-Mexico Ally-shoring paper, Mexico offers businesses and their governments from allied nations important advantages, particularly as they seek to "near shore" production for a growing U.S. domestic market—a market that will only grow faster in key industry sectors with unprecedented U.S. federal investment in industrial heartland region infrastructure, innovation, and manufacturing under the American Rescue Plan Act (ARP), Infrastructure Investment and Jobs Act (IIJA), CHIPS and Science Act, and most recent Inflation Reduction Act.

Among Mexico's advantages are:

- **Proximity**: Mexican-made parts and products cost less to ship and are predictable in their supply.
- **Transparency**: Ally-shoring with Mexico increases countries' ability to monitor and secure supply chains more transparently.
- **Cost Profile**: Mexico offers a comparable cost profile in many sectors to countries in Asia and the developing world. With inflation still a major factor, particularly in Europe and other regions hardest hit by Russia's war on Ukraine, Mexico is attractive for global companies as an alternative low to medium cost producer.
- **Speed & Customization**: Having co-produced items for the U.S. market for decades, Mexico has developed competencies in the low-volume, high-mix products with quick turnaround and customization now demanded by consumers and global business customers.
- **Emerging Sector Competencies**: Mexico maintains competencies in several of the U.S.-identified critical supply chains where many countries are seeking greater security and reliability -from food systems to advanced manufacturing- as well as emerging industries and technologies that both countries view as targets for high-value job and business growth and enhanced export opportunities.
- **Available Energy Supply**: Recent U.S. legislation seeking to expand domestic and North American production of semiconductors, clean energy vehicles, and other products and technologies is already spurring investment in new facilities on both sides of the border.
- **Innovation infrastructure**: Mexico provides a sophisticated infrastructure of technological talent and globally engaged firms committed to forward-leaning innovation along with business-led economic development and trade organizations committed to becoming a world-class region of innovation and production. Mexico also has a skilled and technologically capable talent base, a growing tech sector that can be tapped to partner in today's increasing IT-dependent manufacturing environment; as well as a young and growing population that, if trained, is available to help meet strategic gaps and shortages in the talent pipeline—especially important to many European and Asian allied countries like Japan that are facing an aging population.

- **Business Intermediaries**: Mexico has a well-developed network of shelter organizations, business-led economic development, and trade organizations that can be a direct bridge for quickly developing co-production relationships and suppliers.

Under the USMCA, and now with the U.S. Inflation Reduction Act, there is a working template on how to extend the concept of ally-shoring and treat several important topics, from defining "domestic" content more broadly to include allied countries, applying stronger IP protection, harmonizing rules, regulations, and standards, enhancing anti-corruption efforts, and encouraging more environment and worker-friendly business practices. These elements are of interest to allies in Europe and beyond, particularly as they also seek to reduce dependence on China and other sources.

Ally-shoring with Mexico is already happening. General Motors announced a 2,700[1] new job opening at its plant in northern Mexico with an investment of over $1 billion USD, additionally, U.S. companies are expected to invest $40 billion USD in Mexico between now and 2024. Similarly, Tesla announced its first investment in Mexico, a 6,000 person mega-factory in Mexico's Northern State of Nuevo Leon. Mexico's exports increased by more than 20 percent in 2021, according to U.S. Census data. Since 2019, American imports of Mexican goods have also swelled by more than one-fourth. This momentum can only be enhanced by articulating and promoting a broader ally-shoring strategy.

And as the U.S. looks to solidify an alliance of democratic nations and offer an ally-shoring option with leaders globally, Mexico can line up with these efforts, presenting its own set of incentives and opportunities with the added benefit of proximity to the U.S. and other North and South American markets. Considering its geopolitical positioning as a developing nation with strong economic and political ties to Latin America, it has the opportunity to forge stronger links with countries concerned that America's foreign investment strategies will leave out the Global South.

1. New Data given by General Motors. (previous announcement was 5,000 new jobs)

WHAT MEXICO CAN DO

To take advantage of this opportunity for relocation, Mexico should consider taking certain actions to establish the necessary infrastructure for development. To enhance its capabilities in important supply chains identified by the U.S., Mexico would benefit from prioritizing the enhancement of education and training. These supply chains encompass autonomous mobility, software, IT technologies, defense, communication equipment for high-speed internet, water treatment and sanitation, biotechnology, electronics, and quantum computing. Additionally, it would be advantageous for Mexico to embrace advanced manufacturing capabilities such as 3D printing, digitization, and materials development. Pivots in these emerging areas offer a way forward when it comes to building 21st manufacturing capabilities and value added in the region.

The concept of value added is particularly important in this situation. For instance, given that Mexico is the largest assembler of flat panel TVs and other electronic equipment. The Mexican value added to these products is extremely low, meaning that the country is primarily assembling kits coming from abroad, reaping a small economic benefit. An ally-shoring strategy coupled with Mexico (and outside investors and companies) ramping up skill-building for Mexicans will fully capitalize on the extant opportunities and leverage existing capabilities -like a ready workforce- for greater economic impact.

In order to fully take advantage of near-shoring and enhance ally-shoring, it would be beneficial for Mexico's Federal Administration to consider enhancing their messaging, policies, and engagement with the private sector. One potential strategy could involve restructuring and providing support and staffing for government functions within trade and investment agencies. This approach would enable Mexico to capitalize on the increased interest in the country and showcase their commitment to fostering business and collaboration between public and private sectors.

Finally, to foster a stable and secure business environment, it is crucial to enhance the rule of law, providing reassurance to foreign investors and producers. Assertive measures that prioritize safety, security, and anti-corruption efforts are pivotal in achieving this goal. By adhering consistently to established rules and norms, potential investors' concerns can be alleviated, ensuring a normalized business environment that benefits both American and Mexican manufacturers. This normalization reinforces transparency across business operations and cross-border supply chains through initiatives like enhanced trusted trader programs, data sharing for trade transparency, and common standards for anti-corruption and financial crime compliance. When the rule of law is both prioritized and promoted, FDI will necessarily follow, as manufacturers and investors are able to manage risk more effectively.

By strengthening internal governance, the country will benefit from even closer economic integration with the U.S. and its allies around the world, empowering public institutions and reinforcing their mandate to support economic growth. Building trust, transparency, rule of law, and common measures for dealing with crises reinforce the legitimacy of the institutions responsible for collective security and support democracy in the Western Hemisphere.

WHAT THE U.S. CAN DO

To date, the U.S. leadership has used the relocation trend as an opportunity to encourage global leaders to embrace greater ally-shoring without a clear policy framework or guidance on the policies needed to operationalize it. The U.S. needs to work with allies, particularly Mexico, to articulate a clear multi-nation plan for ally-shoring where the world's democracies can reassert their collective values by leaning in and leading a new alliance rooted in democratic capitalism.

A well-articulated ally-shoring framework that the U.S. offers to Mexico and Latin America should be broader than just commodities and focus on powerful economic inputs like talent, entrepreneurial ecosystem, infrastructure, and technological capacity. The right framework should reinforce critical rules and partnerships around traditional supply chains, while sharing intelligence on security, welcoming international students, building a reformed immigration system, protecting intellectual property, addressing drug violence, and preventing money laundering.

The U.S. should better articulate a clear ally-shoring framework that:

- Identifies priority sectors, products, business services, and value chains in which to develop ally-shoring.
- Provides tiered groupings of countries with which to foster ally-shoring relationships, starting with Mexico.
- Facilitates high-level business/government working groups to identify and develop practical ally-shoring framework needs in priority sectors.
- Negotiates ally-shoring agreements to clearly define the norms for ally-shoring explicitly naming mutual commitments and compacts involved. These would include agreements that ask participating nations to establish an international order that reinforces:
    - Transparent governance processes and procurements,
    - Respect for rule of law and intellectual property,
    - Commitment to the fair enforcement of laws and an independent judiciary,

- Business-friendly incentives and support for new and emerging industries,
- Supporting high-quality FDI in critical sectors,
- Nurturing local value-added,
- Supports basic human rights, labor safeguards, environmental protection, social justice, equity, and inclusion,
- Incentives for U.S. and foreign businesses and foreign governments' participation in ally-shoring (e.g. development finance and infrastructure investment assistance, access to tax credits, and other incentives).

In addition to fostering ally-shoring partnerships with Mexico and other allies, the U.S. should take affirmative steps to visibly demonstrate the mutually beneficial nature of these collaborations to both partners and private industry. One way to strengthen partnerships and ensure mutual economic security and prosperity is by making long-term commitments. Co-investing in critical areas such as manufacturing, innovation, technology, and future workforces will foster this goal. It is crucial to reinforce the notion that the benefits of ally-shoring should reach a broader population, ensuring that economic advantages are shared among citizens. By implementing a visible and tangible ally-shoring program, more countries can be inspired to embrace the democratic alternative and promote prosperity on a wider scale.

ALLY-SHORING STRATEGIES

1. Acknowledge Mexico as the premier ally-shoring production partner for North America

Mexico's opportunity for an ally-shoring moment is fueled by a combination of factors, including the U.S. government's designation of China as a strategic competitor; the exposure of U.S. critical supply chains in China; the search for lower-risk production locations closer to the country; Mexico's competitive labor rates and skilled labor force; and Mexico's deep trade ties with both the U.S. and Canada combined with an extensive network of transport and logistics operations that facilitate North American trade lanes.

Mexico has a chance to benefit greatly from this combination of different factors. However, to truly take advantage of this momentum, the Mexican government must show strong political will and strategic involvement. On the other hand, the U.S. government should clearly articulate an ally-shoring strategy that puts Mexican production capacity at the heart of an economic transformation and political reinvigoration. Demonstrating high-level political will sends an important signal not only to North American partners but also to other friends and allies around the world.

An ally-shoring strategy for North America should not exclude or create negative externalities to other geographically distant partners. As noted earlier, it is of the utmost importance for the U.S., Canada, and Mexico to re-shore critical supply chains while bringing together closer alliances between supportive democratic nations, such as Japan, France, Great Britain, Israel, Germany, South Korea, Australia, India, and Brazil. Mexico should also be considered a target market for these allies' FDI while avoiding increased participation of non-democratic states.

2. Reinforce core operating principles and public-private cooperation through the U.S.-Mexico-Canada (USMCA) Free Trade Agreement

Ally-shoring is strengthened by a strong commitment to the USMCA and can have an even greater impact through effective execution and increased collaboration between the public and private sectors. The USMCA benefits from an ally-shoring framework by fostering stronger relationships among North American trading partners and ensuring that the 2026 review process reflects consistent political and social support, as well as ongoing commitment to its core principles. The creation of private sector working groups established in the USMCA play a crucial role in aligning their interests and concerns, attracting more FDI to the region and building economic resilience through ally-shoring. It is essential for governments to prioritize the establishment of these working groups and empower their private sector members to explore innovative approaches to leverage digitization's value, entrepreneurship, enhance industry competitiveness, and others.

3. Leverage ally-shoring to speed the adoption of modern technologies that create a secure, seamless border environment across North America

The United States and Mexico, sharing a highly strategic land border that facilitates trade across North America and the continent must be at the forefront of digital transformation to seize the ally-shoring moment. As previously written, a secure and efficient border is an essential part of an ally-shoring strategy. For example, the adoption of enhanced Trusted Shipper programs, joint inspections, and cross-border facilitation processes with applications such as DID (Decentralized Identifier), Verifiable Credentials (VC), and a single customs data window offer a huge opportunity to modernize and make efficient the infrastructure and processes required for cost-efficient trade across borders. Sharing best practices to make this implementation efficient across the U.S., Mexico, and Canada is essential to speed up bilateral and regional trade. The widespread implementation of technology to enhance tax collection, streamline and ensure accurate trade data will enhance efficiency and contribute to achieving national security goals. This includes deterring and eliminating activities such as smuggling, trafficking, trade-based money laundering, and other practices that undermine security.

One key to modernization is supporting a standard electronic data format approved by all governments that will allow customs brokers, carriers, companies, and trade-related stakeholders to increase their exchanges while simultaneously improving both governments' ability to enforce tariff and security regulations efficiently. Additionally, Mexican business entities should be encouraged to apply for certifications such as the U.S. Customs-Trade Partnership Against Terrorism (C-TPAT) and Mexico's Authorized Economic Operator (AEO/OEA) to improve supply chain visibility and security. Finally, the Mexican government should consider testing digitally verifiable IMMEX Certificates to streamline trusted trader facilitation benefits management.

Improved law enforcement cooperation and collaboration will benefit from technology, data, and supply chain intelligence that enhances enforcement capacity and effective targeting of illicit actors and entities.

4. Align the investment and engagement agenda with international development institutions to lift underdeveloped regions and communities in Mexico

A North American ally-shoring strategy can help lead Mexico towards greater economic prosperity. By aligning this approach with the activities of international development institutions and including historically underdeveloped parts of Mexico in the overall agenda, ally-shoring can lead to a more comprehensive economic development. Attracting new industries to these regions will depend on many factors, including adequate FDI flows, sufficient industrial capacity, and infrastructure, as well as the right mix of workforce availability and skills.

This availability and skills of the workforce are particularly important for advanced and emerging manufacturing opportunities. Improved public and private capital flow should allow for a wider variety of economic development opportunities across regions and sectors, balancing historic investment in northern states with new opportunities elsewhere. Where opportunities are substantial, but risks are still high, government agencies could step in to mitigate some portion of that risk through equity investments that will encourage the influx of more private sector capital. For example, establishing refineries for critical minerals as part of North American clean energy value chains might benefit from a development agency equity investment to jump-start the infrastructure needs. Efforts such as the *Corredor Interoceánico del Istmo de Tehuantepec* that will run from Oaxaca to Veracruz are valuable in that with the necessary support they can attract more investment in the region.

As part of an ally-shoring strategy, Mexico could engage development institutions, such as the U.S. Agency for International Development (USAID), the Millennium Challenge Corporation, the U.S. International Development Finance Corporation (DFC), and the Export-Import (EXIM) Bank to invest in capacity building, infrastructure, and industrial development for North America with Mexico playing a central production role in new value chains. The Inter-American Development Bank (IDB) and The World Bank could also support a more coordinated strategy. Finally, the private sector must be seen as the implementation partner and facilitator of private capital flows. The private sector leadership must have sustained engagement from the outset.

5. Capture the opportunity to develop clean energy supply chains and green energy production

More than 2 trillion USD were invested globally in clean energy in 2022. Investments in renewables, grids, and storage now comprise more than eighty percent of total investments in the energy sector. The clean energy transition is well underway and will fundamentally transform how countries develop and sustain their economies and societies. Mexico can expand its industrial base to accommodate green energy technology, targeting solar components, wind farm technologies, electric batteries, and more.

Tesla's recent decision to build a manufacturing plant in Mexico could be the start of a regional green technology supply infrastructure that goes all the way from the mine to the final assembly line. Now is the time to develop a long-range plan for Mexico's central role in meeting the Western Hemisphere's clean technologies and green energy needs. Mexico should seize the moment by supporting more investment in clean technologies and clean energy production, working closely with regional partners and investors.

One pressing need for companies re-shoring their supply chains to North America –particularly to Mexico– is the availability of industrial parks, storage, and logistics infrastructure. Offering incentives for constructing clean and green warehousing and logistics infrastructure would catalyze investment flows in Mexico while sending a clear message that Mexico is committed to sustainable practices.

As both countries seek to collaborate on new clean energy production there is the need for new electricity transmission infrastructure and for expanded use of transitional energy sources like natural gas, which is readily available in the region, and renewable energy, which could be robustly expanded. The Mexican government should actively consider partnering with private companies to explore opportunities in the clean energy sector, in order to meet the industry's requirements and drive sustainable growth.

Additionally, Mexico should actively promote the opportunity for international investors and companies to participate in the supply, development, and production of the fast-growing electric vehicle and components market, which is boosted by the Inflation Reduction Act in North America.

6. Enhance energy infrastructure to service growing North American "domestic" production and reduce allies' energy dependencies

The concurrent trends of companies moving their production to Mexico for more dependable supply chains and the increased production of semiconductors, electric vehicles, and related components in both the U.S. and Mexico –fueled by U.S. government incentives and subsidies– are leading to a substantial rise in energy demand on both sides of the border.

This increased production means a need for significantly enhanced energy infrastructure, more energy production, improved energy storage, and upgrades for the transmission of electricity and natural gas. There is also increased interest and opportunity to expand energy exports from Mexico's West Coast, to reduce energy dependencies and offer cheaper alternatives to energy-consuming allies in Asia.

Energy producers in the U.S. and Mexico are eager to make the investments in building out the energy infrastructure and facilitating movement of energy sources. To meet the growing production and export demands in Northern Mexico and Mexico's western coast, the abundant natural gas from the U.S. Southwest holds great potential. It is crucial to establish agreements that allow for increased energy flows from the U.S. to Mexico, while also expediting the permitting and development processes for new energy infrastructure. Both governments should work together to streamline these processes and facilitate the necessary collaborations.

It is recommended that the two governments come together and agree to make energy infrastructure development a priority. One important step to push that forward would be an agreement to convene and support a working group of the large energy consumers and producers in the region to better identify the needs, opportunities, obstacles, and what each government must do to facilitate the needed energy infrastructure development.

7. Direct investments in re-skilling and up-skilling the North American workforce to make the most out of the complementary demographics

A tremendous opportunity exists to leverage demographics and workforce training to build skills in North America. By adopting an economic security perspective in workforce development, the focus can be redirected towards cultivating the necessary skills that are crucial for long-term competitiveness in North America. This shift in approach particularly emphasizes the value chains that will be instrumental in generating employment opportunities in the future.

Mexico’s population median age is 29 years, nine years below the U.S. and 11 years under Canada’s. The aging population in Canada and the U.S. poses considerable risks to North American economic capacity, social security systems, and labor shortages. Labor integration and consistent training are critical for the region’s prosperity. North American countries can invest in regional education and training certificates valid in all three countries. Pilot programs for North American certifications are a positive step towards harmonizing certain types of technical skills that increase mobility and portability, and smooth out demand for skill sets. But these efforts need a stronger base of public and private support to have real impact.

More and deeper coordination between both U.S. and Mexican industrial and educational sectors will help articulate what skills companies need to support new and emerging supply chains. Those needs can be translated into coursework at secondary and technical schools and universities, creating a stronger, more focused pipeline of talent.

Special emphasis on careers in manufacturing and building interest at the high school level would help reinforce manufacturing as an attractive career option, and employment if choice in Mexico. A more dynamic, free-flowing, and interchangeable workforce is the key to successfully implementing ally-shoring.

8. Create trilateral protocols for North American essential industries to prevent and minimize disruptions during crises

The 2020 pandemic showcased the importance of governments' coordination to have clear rules for operating during crises. The three countries should align the definition of essential industries and establish a common crisis protocol that allows essential goods and materials to continue to move during global shocks. The policy-making process should include consultations with the private sector, border communities, civil society, and academia.

The U.S., Canada, and Mexico recently met to discuss protocols for protecting value chains in the event of another global shock. The three countries also committed to develop a common definition of which sectors are considered critical or essential. A common framework would help guide businesses on which supply chains should continue to operate, reducing border frictions and the risk of halting critical goods, such as medicines, food, and healthcare technology.

Alignment of protocols and identification of critical goods and inputs can also help guide new foreign investment. Moving supply chains out of countries that are vulnerable to dependencies, like China, could help alleviate the risk of supply chain disruptions that might occur during a future global shock. Concerns among the U.S. and its allies about critical supply chain dependencies being used as a tool of political coercion by Russia, China, and other nations need to be clearly communicated and discussed with trade and production partners like Mexico.

It would be best if foreign companies seeking to operate in Mexico and produce products considered strategically critical to North America should be subject to requirements and standards—mutually agreed by Mexico, the U.S., and allies—that consider the shared security concerns of allies and partners in the region.

9. Develop and implement a broad-based ally-shoring stakeholder engagement strategy

Ally-shoring offers a unique opportunity to engage a range of civil society partners in creating strategies to engage more citizens. Civil Society Organizations (CSOs) play a critical role in advancing democracy, the rule of law, sound principles for investment, energy and climate issues, addressing regional inequalities, and advancing educational initiatives. CSOs can be very beneficial in underpinning the concepts for sound economic integration and serving as an additional "check" on public and private sector commitments to equity and inclusion. Allowing for healthy discussion and debate will strengthen outcomes and ensure checks and balances on government and private sector commitments.

10. Modernize the Mexican tax framework to foster more FDI

Mexico's corporate income tax rate is the second highest among OECD countries (30%), which is 26% higher than the world's average. Although Mexico maintains competitive labor rates in certain sectors, maintaining long-term competitiveness requires a hard look at federal tax policy and the incentive structures that may be required to capture more FDI and attract deeper investment in a broader range of industries. For example, Mexico's effective corporate tax rate rises above 50% for some investors, especially those using debt, due to the double limitation to deducting interests on debt. Mexico should publish new rules for consolidated EBITDA and review its fiscal structures to attract new regional investments, especially in underserved regions of the country. The OECD guidelines and approaches may further inform Mexican tax policy, helping it further align to global standards and norms. Finally, the U.S. could consider tax incentives that help bring business back to the region, such as offering incentives to U.S. firms that locate with free trade partners rather than authoritarian regimes.

CONLUSION

In conclusion, the concept of near-shoring is gaining momentum, and ally-shoring provides a promising avenue to leverage its benefits while advancing economic, political, and national security objectives that strengthen democracies. The existing USMCA framework serves as a valuable context to expand the offer of co-production, co-investment, and mutual incentives for supporting "domestic content" to more global partners and guide transactions through established trade frameworks. However, transitioning from near-shoring to a comprehensive ally-shoring model requires policymakers to consider a broader range of interconnected policy issues. To achieve economic security and increased opportunities for citizens, it is crucial to foster strong partnerships between government, industry, academia, and civil society, capitalizing on the inherent connectivity within a successful ally-shoring framework.

By recognizing Mexico as a premier ally-shoring partner, reinforcing cooperation through the USMCA, and harnessing modern technologies, both countries can strengthen their economic ties and enhance national security. Furthermore, aligning investment agendas with development institutions, establishing sustainable clean energy supply chains, and enhancing energy infrastructure contribute to long-term growth and reduced dependencies. These strategies also emphasize the importance of investing in workforce skills, establishing protocols for essential industries, and engaging stakeholders to ensure effective implementation.

Lastly, modernizing the tax framework plays a crucial role in attracting foreign direct investment and creating a favorable business environment. By implementing these strategies, ally-shoring fosters connectivity, economic security, and opportunities for citizens, making it a valuable approach for both nations to pursue. Through a comprehensive ally-shoring model, the United States and Mexico can strengthen their relationship, address key policy challenges, and build a mutually beneficial partnership that yields substantial benefits for their respective economies and societies.

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SPONSORS

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ABOUT

U.S.-MEXICO FOUNDATION

The U.S. Mexico Foundation (USMF) is a binational non-profit organization dedicated to fostering cooperation and bilateral understanding between the United States and Mexico. Rooted in the North America Free Trade Agreement and launched in 2009 with seed funds from the David & Lucile Packard Foundation, Carnegie Corporation, and the Business Foundation in Mexico (Fundemex).

The USMF is governed by a bi-national board consisting of business and civic leaders, with extensive networks in the U.S. and Mexico. The USMF embarked on a new chapter in 2018, with a compelling agenda that prioritizes policy and advocacy. The organization is focused on creating new strategic alliances, educating important stakeholders, and providing a voice on the most relevant issues concerning the U.S.-Mexico relationship.

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John Austin recently completed 16 years elected service on the Michigan State Board of Education, serving 6 years as President. Austin directs the Michigan Economic Center a center for ideas and network-building to advance Michigan's economic transformation.

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