

# **The Case and Path of Development for Ally-Shoring: Mexico.**

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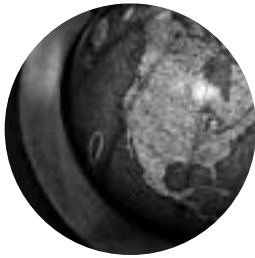
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# Executive Summary

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The US and Mexico have a unique opportunity to both strengthen and deepen joint manufacturing, R&D, trade, facilitation, security and governance ties through the adoption of an ally-shoring strategy. Ally-shoring describes the process by which countries rework critical supply chains and source essential materials, goods, and services among and between trusted democratic partners and allies, with a focus on investing in the short and long-term relationships that protect and enhance joint economic and national security.

The COVID-19 pandemic laid bare the challenge of over-reliance on any one country for critical materials and products needed to protect citizens. Shortages of essential PPE and other goods needed to respond to the COVID-19 crisis set in motion new ideas for mitigating supply chain dependencies- the kind that leave countries overly reliant on any one source to ensure citizens are safe and healthy and economies continue through global shocks.

An ally-shoring strategy offers a unique framework through which the US and Mexico can build on more than thirty years of tightly woven co-production and trade, but with an eye towards the future. The two nations can expand their collaboration, enhancing bi-national efforts to create and manufacture transformational exports that support advanced manufacturing, R&D, smart borders, and the joint development of US and Mexican work force skills to meet the evolving markets of the 21st century. An ally-shoring framework further supports and enhances the goals of the USMCA.

Through an ally-shoring strategy, all boats will rise, and more good paying jobs will be created in both countries. The paper outlines specific steps that can be taken around four specific areas of cooperation, rooted in binational public-private engagement and partnerships:

- COVID-19 pandemic containment and treatment
- Critical supply chain rework, with a focus on transformational export and emerging sectors
- Smart border infrastructure, trade facilitation, and data driven supply chain management and security systems
- Rule of Law Enhancement: US-Mexico institution building and trust strengthening

These mutually beneficial collaborations will help both the US and Mexico to grow their economies, enhance national security, strengthen democracy, and provide renewed leadership for the open, transparent, rules-based trade and economic relations that undergird strong polities and economies here, and around the world.

# Chapter 1



# 01 The Context for Ally-shoring with Mexico.

As the US looks to retool and refocus foreign policy efforts under the new Biden Administration, a clear opportunity is emerging with respect to engaging with democratically-minded allies to achieve common political and economic security objectives. In its emerging "grand strategy" the Biden Administration has made clear that a summit of the world's democracies will bring [renewed attention](#) from the US, including towards neighboring countries in the Western Hemisphere, where continued political and economic turmoil has contributed to a worrying [erosion of democratic institutions](#) and governance. If the US is to preserve its national economic security, it must reforge its international engagement in a way that both recognizes the interdependent nature of the global economy while protecting essential supply chains, investing in domestic jobs, and advancing US technology and innovation.

Within this context, the concept of "ally-shoring" holds tremendous promise. Ally-shoring describes [a program](#) of sourcing essential materials, goods, and services among partners and allies, reducing dependence on any particular country, particularly those that may not share the same values and long-term interests. Perhaps there is no better example of the potential for ally-shoring than the US-Mexico relationship.

The US and Mexico have long-term, shared interests in enhancing cross-border economic development, job growth, and integrated supply chains. The US and Mexico have been primary trading partners since the rise of the industrial era, enjoying relatively open borders and deep economic integration. The relationship has deepened and expanded since NAFTA, providing in many ways a model example of cross-border trade integration,

and highly sophisticated, intertwined supply chains. The recently completed United States – Mexico – Canada Agreement (USMCA) provides a stronger trading framework, adding direction to guide enhanced economic collaboration and strengthening labor provisions. The USMCA includes a number of important topics, from increased North American "domestic" content (value added), enhanced IP protection, and improved US patents enforcement in Mexico. It seeks progress on harmonizing rules, regulations, and standards, enhancing anti-corruption efforts, more environment- and worker-friendly business practices, among a number of other important goals. As such the USMCA provides a practical guide to engage decision makers and firms on both sides of the border in enhancing partnerships and collaboration for a more integrated region. COVID-19 laid bare the importance of common frameworks among the USMCA partners for a range of supply chain matters, namely travel, and the definition of essential and critical businesses and workers.

As the US and its North American trade and production partners continue to seek economic development, job growth, and supply chain integration, made more urgent by the economic impact of COVID-19, the US-Mexico relationship takes on even greater meaning when it comes to building economic resilience. The COVID-19 pandemic exposed the tenuous nature of many US critical supply chains, particularly over-reliance on China. We have directly observed what can happen when a critical component is suddenly unavailable, buried in an opaque supply chain of a 2nd or 3rd tier supplier – seizing up all production of a finished product. Whole swaths of needed commodities, from food, to processed paper

goods, to much-needed medical equipment, came to be in short supply. Facing this crisis, the US naturally [turned to Mexico to fill the gap in areas such as medical equipment](#) and Mexico, similarly, was supported by the US. Other existing changes in supply chain patterns were accelerated by the COVID-19 disruption. Pre-pandemic, speed to market had been the driving factor for locating supply chains regionally, with production driving consumption. Increasingly, however, consumer expectations have been driving supply chain dynamics, speeding production further and customizing products to specific customer needs and desires. The pandemic only accelerated this trend. For example, there has been an e-commerce uptick in both US and Mexico; as early as last August, Walmart de Mexico reported [on-line purchases were up 217%, and Amazon's 2020 second-quarter North American revenues increased 43%](#) from the year-ago quarter. With the COVID-19 supply chain disruptions we are now seeing the need to move from “just in time” to “just in case,” in which distance becomes a bigger challenge to supply chains.

The pandemic-induced supply chain disruptions also exposed the US vulnerability of being over-reliant on any single country. The pandemic also caused massive job loss, disruption, and hardship for workers in many sectors; fanning growing concerns over the availability of good paying jobs.

In response to these concerns and dynamics there have been calls in the US, Europe, and among other Western allies to focus on domestic job creation, and to on-shore, or near-shore scattered global supply chains. The goal being to bring jobs home and rebuild domestic economies, as well as make supply chains more resilient.

The incoming Biden Administration is clearly committed to rebuilding economic and political partnerships with allies around the world. The US had already begun to identify its own critical supply chains and how to reorient them, as well as transformational technology sectors it wanted to make the focus of its own development and export orientation. These shifts open up the possibility for enhanced cross-border innovation, research and development, and IP creation, as envisioned under the USMCA.

With support from the US-Mexico Foundation, a community of American and Mexican business stakeholders with investments on both sides of the

border are eager to support and help further US-Mexico economic collaboration. The COVID-19 recovery and reorientation of critical supply chains presents a unique opportunity to accelerate progress on the agendas outlined in the USMCA, and to reap mutual economic and political benefits by recentering and then expanding a significant share of production and economic activity in North America.

Closer US-Mexico collaboration at this moment will not only serve to strengthen both countries' economies, but also help to build trust and strengthen institutions that protect the rule of law in Mexico – an ongoing opportunity to enhance investment, business development, border security, and economic activity. Foreign Direct Investment in Mexico, an OECD member nation, will be bolstered by a commitment to strong political and economic institutions combined with consistent trade and investment policies that promote and underpin transparent rules of the game. Trade transparency across North America is a strategic political and economic “asset” that should be further supported and enhanced.

The bi-national business and civic leadership community is encouraging the Biden Administration to develop a comprehensive ally-shoring program, in which Mexico can be an important partner.

# Chapter 2



# 02

## The Case for Ally-Shoring with Mexico.

The US and Mexico already have tightly wound co-production and supply chains in many sectors, supported by deep business-to-business relationships, business-to-government, and public-private partnerships. A robust ally-shoring program with Mexico can deliver a number of benefits consistent with mutual economic, national security, and foreign policy goals:

- Facilitate rapid containment, treatment, PPE production, access to vaccines, and therapeutics delivery to ensure full public health and economic recovery from the COVID-19 crisis.
- Decrease reliance outside of the region for critical supplies and make critical supply chains more reliable and resilient, while making them less susceptible to geopolitical vulnerabilities.
- Enhance institutions, reduce corruption, and strengthen rule of law in Mexico to promote greater FDI and US-Mexico economic integration.
- Enhance job and business growth while speeding recovery from the pandemic-induced recession on both sides of the border, developing and expanding what is already a tightly wound “co-production” system in North America in key sectors, from autos to agriculture.
- Facilitate job and business growth in emerging and transformational economic sectors including transformational export industries by co-developing, prototyping, manufacturing, and deploying a range of new products, services, and developing technologies—from water security and management systems, new automated mobility and delivery devices; clean and sustainable industrial production models, agricultural control systems, to new medical treatments and technologies.

- Drive more integrated national industrial policies and approaches that build critical infrastructure, enhance essential business operations, and enable critical supply chains. Ally-shoring can also facilitate leveraging big data from both governments regarding investment and local capabilities for a deep analysis to attract investment in both countries.

- Support the economic and political health of the US and Mexican democracies, and democracies around the world. Many countries, Mexico among them, are eager to do business, and welcome direct investment from a range of governments and private sector partners – but may prefer US business engagements due to their transparency, and certainty about rules-based financial and business practices that support a level and fair playing field.

It is in the interests of both countries to purposefully plan together and collaborate on supply chain redesign and enhanced North American sourcing and production. In addition to meeting the US's strategic political, economic and security goals, ally-shoring yields additional benefits to US businesses and governments including:

**Predictability:** Mexico can provide a reliable source and partner in many supplies deemed critical to the US – from advanced manufacturing, electronics to medical and food supplies. With greater economic collaboration, Mexico can strengthen its geographical position as a predictable and reliable supply chain partner to the US.

**Transparency:** Ally-shoring with Mexico increases both countries ability to transparently monitor and secure the whole supply chain. Supply chains developed with Mexico can be more easily traced and monitored than with many other countries.

**Cost:** Mexico still has a cost-structure for production in many sectors much closer to that of other low-cost

producers, while offering all the advantages of proximity, reduced transportation costs, transparency, and reliability discussed above. Mexico's competitiveness can be strengthened even more with additional reforms, in water utilities and power generation and protections for the environment and workers.

**ROI:** Production enhancement with Mexico (and Canada) is a good economic return on investment. The USMCA provides for increased [North American content requirements, and 40% plus share of product labor value in auto-related production required to pay over \\$16 US dollar equivalent](#). With these provisions for the US, US businesses, and other foreign direct investors, there can be confidence that subsequent production will deliver a high return in the form of "domestic" North American ancillary job and business growth.

**Achieve ESG goals:** Supply-chain reworking can be purposefully organized to meet a variety of [environmental, social and governance goals \(ESG\)](#). For example, by ally-shoring—working together to develop new sustainable, clean, green technologies and systems—the US can help realize its own renewed climate change commitments. Ally-shoring can help Mexico advance further towards transforming the environmental impacts of its business and industry—a key goal of businesses in both countries, as well as the incoming Biden Administration.

**Worker/Labor Rights and Conditions:** Similarly, ally-shoring can enhance the development of worker's working conditions, pay, training, and other conditions of employment—another key shared US-Mexico goal. Strengthening and growing the employment base and labor market in the US and Mexico directly improves both the bargaining power, working conditions and wages of labor in both countries.

**Economic stability:** Mexico has a relatively stable economy and currency that has remained strong during the pandemic. Mexico is a predictable business environment for investors, not subject to the wild swings of inflation, or other financial crisis that make investing in other Western Hemisphere countries sometimes unpredictable and problematic.

**US Security :** A stronger Mexican economy, providing more good-paying jobs, with low overall unemployment, is in the US's long-term national security

interest; easing both pressures and concerns about migration and immigration; defusing border issues; and related concerns about US safety and security. In addition, as manufacturing relies on IT platforms, it is in the region's security interests to develop strong IT development partnerships with USMCA countries like Mexico, where it now lags. Further, the US can use its influence, if it supports the development of IT platforms and partnerships with Mexico to both insist and assist Mexico to improve its cybersecurity protocols, a source of ongoing concern for US government and businesses.

**Market-Responsiveness:** Consumer demands are increasingly moving towards customization, a quickening of the time from order to delivery, giving ally-shored neighbors a business advantage. Mexico already possesses advantages producing low volume, high-mix products quickly, which (with accelerating demands for product customization and speed to customer) will be an increasingly important business necessity.

**Economic Profile:** Mexico is an emerging economy, with financial, transaction, and production dynamics more akin to developing nations (e.g. numerous unbanked workers; reliance on electronic transactions, concentrated financial institutions). As such, Mexico provides a good partner and market test bed for financial technology products and other innovations, right in the US backyard. These products, services, and technologies can be co-developed and then ramped up to serve global markets.

**Intellectual Property:** As current key sectors evolve, the need to create new products and services aligned with technological advances and market trends is another opportunity for US-Mexico collaboration. Companies would likely welcome US encouragement and assistance to near-shore and ally-shore such critical production arenas with Mexico developing trusted technologies and taking advantage of new agreements to register in record time US patents that can be protected and enforced.

**Innovation Infrastructure:** Mexico, particularly near the US border, 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, in certain quarters, one of the most skilled and technologically capable talent bases, a growing tech sector that can be tapped to be a 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 US talent pipeline.

**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.

**Shared Culture:** At US-Mexico border regions, and elsewhere, US & Mexican businesses and employees enjoy a well-developed shared culture, a shared history of collaboration, and a comfortable and familiar living and working environment for US firms and their employees.

**21st Century Border Facilitation:** While border crossing and facilitation of traffic and trade speeds varies across the border, ally-shoring provides an opportunity to enhance smart border infrastructure and logistics, and border and supply chain management systems towards developing one of the world's smartest, most efficient border and supply chain systems. Modernizing and building data driven "smart border" infrastructure will speed the movement of goods at the border. Deploying these new technologies will also contribute significantly to lowering carbon emissions.

**Opportunity for Re-engagement in Broader Trade and FDI relationships:** Ally-shoring with Mexico can serve as a platform for enhancing the US economic and political relationship with hemispheric partners. Leveraging the USMCA's strong trade framework, enables American and Mexican businesses to invest in both sides of the border and beyond.

# Chapter 3



# 03

## The Paths and Process for More Ally-Shoring.

There are a number of important and powerful avenues of development that an enhanced ally-shoring program with Mexico could focus on, from the immediate and obvious – COVID-19 induced containment, treatment, and supply chain re-wirings – to growing new, good-paying jobs and businesses on both sides of the border through enhanced co-production of critical supplies and high-value emerging sectors, to accelerating goals embodied in the USMCA such as harmonizing regulations, standards, and enhancing environmental and labor protections.

The following represent the key ally-shoring pathways and the steps needed to further develop them:

### **COVID-19 Pandemic containment and treatment:**

The COVID-19 crisis laid bare critical US dependencies on global supply chains for certain types of PPE and medical equipment needed for the pandemic response. As countries around the world sought to ensure enough domestic medical supplies, health-related supply chains that provided materials for PPE, component parts for ventilators, finished medical goods, and medicines were immediately impacted, resulting in key shortages in the US and most other countries.

At the same time, the scramble to meet urgent health care demands inspired some creative responses, and in a few cases, US companies with operations in Mexico were able to respond by pivoting both domestic and some foreign manufacturing towards meeting COVID-19 related demand. For example, General Motors converted some of its operations in Toluca, Mexico to the production of facemasks; and Philadelphia-based food services company Aramark [announced](#) in Spring 2020 its intention to produce a range of protective gear from its uniform manufacturing plants in Mexico to support the healthcare industry. In other words, the deep

connectivity between the US and Mexico offered some opportunity to address the gap, but the response was nonetheless piecemeal.

Some attempts to meet surging demand were thwarted early on for a number of reasons, including the lack of coordination between US and Mexico in the designation of essential businesses which resulted in a mismatch of cross-border supply and demand for both components and finished goods. In one [case](#), medical devices destined for the US market were permitted to be manufactured under Mexico's rules governing essential services, but the cardboard boxes required to ship them were deemed non-essential. In addition, legitimate concerns about exporting essential equipment needed in Mexico further limited the ability of producers to quickly ramp up more exportable goods. The governor of Baja California closed a factory belonging to US medical manufacturer [Smiths Medical](#) Inc., where ventilator components were produced, because the products were identified as exports, rather than serving the local populations. While many products that serve the US healthcare industry originate in Mexico, the country continues to incur its own shortage of essential equipment.

Under an ally-shoring framework, the US, Mexico (and ideally Canada), could build on the existing but incomplete pandemic coordination efforts for North America by securing more permanent capacity to meet the combined needs of its populations.

## What can be done?

- Establish a bilateral working group of US and Mexican government key decision makers with American and Mexican manufacturers with capacity in medical equipment, pharmaceuticals, electronics and related manufacturing to identify any additional near-term pilots, surge capacity, or other measures that could be taken to fill remaining gaps in COVID-19 or future global health recovery efforts, especially where known supply chains gaps still exist. Rather than considering a temporary pivot of medical supply chains from other jurisdictions, we should focus on building long-term, integrated solutions.
- Identify new investment opportunities for Mexico's medical device industry (\$17 billion) which produces a wide range of products essential to COVID-19 recovery, and much of which is already destined for the US. More Mexico-based investment in worker training, production, R&D, and infrastructure would expand these critical supply chains to include more products and expanded capacity for the benefit of both countries. Where appropriate, these investments could also leverage financing from the US Export-Import Bank (EXIM) and equity investment from the US International Development Finance Corporation (USIDFC); and could incentivize additional private investment in the medical and health sectors where cooperating countries agree to produce for their aggregated demand.
- Expand Mexico's clinical trial capacity to improve time to market for new vaccines and their availability in North America, as well as new opportunities for generic drug manufacturing.
- Strengthen the policy coordination that supports the integrated, high-capacity manufacturing connectivity that NAFTA and now the USMCA envisioned. Pivoting manufacturing to meet demand in times of crisis requires not only the ability to convert manufacturing capacity to other products, but also a greater level of governmental coordination around the rules, regulations, and policies that allow goods to continue to flow. Of critical importance to ensuring economic security is a harmonized approach to designating essential services and identification of critical infrastructure that supports the supply chains

that deliver the essential products needed in times of crisis.

## Critical supply chain rework, with a focus on transformational export and emerging sectors:

Mexico is the third largest [trading partner](#) of the US, just after China and Canada. In 2019, when the US threatened to close off the border in 2019 and impose a variety of tariffs on Mexican exports, the more than [\\$17 billion in daily trade](#) between the countries was put at risk. From export of autos and computers to the largest source of agricultural products coming into the U.S, Mexico provides a diverse range of vital commodities and products. The unique trade partnership reflects more than thirty years of supply chain integration, technology transfer, and cross-border value-add. Notwithstanding recent challenges, the US-Mexico commercial relationship has been generally defined by a level of political and economic predictability that is fundamental to a strong trade relationship and encouraging of long term private investment.

With this foundation, ally-shoring offers a unique opportunity for a US-Mexico partnership that drives even greater supply chain integration, both building on existing competencies and supporting more sourcing of components and finished goods in areas of advanced and transformational technologies. In particular, technologies already identified as critical to US economic security are ripe for ally-shoring approaches, where distances between production sites and destination markets can be more tightly controlled; where governance and supply chain integrity can be ensured; and where intellectual property can be protected. The good news is that the manufacturing environment in Mexico is already fertile. For example, as of 2016, Mexico was exporting more than [\\$70 billion in technology](#) products to the United States a rate that was only eclipsed by China.

Mexico can pursue greater competencies in a number of the US-identified critical supply chains such as autonomous mobility, software, IT technologies, defense, communications equipment for high-speed internet, water treatment and sanitation, biotechnology, electronics and quantum computing; as well as the application of advanced manufacturing capabilities such

as 3D printing, digitization and materials development.

Pivots into these emerging area of technology offer a way forward when it comes to building 21st manufacturing capability and “value added” in the region. For example, Mexico is the largest assembler of flat panel TVs and other electronic equipment. However, the North America value added on these products is extremely low, meaning that Mexico is primarily assembling kits coming from abroad. An ally-shoring strategy with shared technology will increase regional R&D and manufacturing, leveraging existing capabilities. Moreover, ally-shoring investments in electronics, in particular, will help to replace soon-to-be-obsolete industries. For example, North America has a large manufacturing base for internal combustion automobiles, producing component parts such as injectors, engines, and gearboxes. However, the fast-evolving “mobility” industry is increasingly reliant on next-generation batteries and electronics. Soon, automobiles will be the equivalent of computers with wheels, shifting the value from the traditional vehicle hardware to mobility-related data generated through smart sensors and systems.

Some existing critical supply chain sectors overlap with emerging industries and technologies that both countries view as targets for high value job and business growth, and enhanced export opportunities, including 11 high-priority export areas identified by the US Export-Import Bank (EXIM) in its [Program on China and Transformational Exports](#). EXIM recently changed its content policy to allow up to 51% non-US content for the financing of products that fall within its list of transformational exports. Mexico can help fill this gap, offering components at competitive rates, and ensuring US exporters are competitive in the marketplace with North American content, rather than being left out of the market altogether. Absent US capacity to source transformational products, an ally-shoring strategy offers the next best option to helping exporters improve their competitiveness in emerging technologies, while building capacity and know-how to grow US exports as well as Mexico’s advanced manufacturing sectors.

## What can be done?

- Under the Biden Administration, collaborate with the government of Mexico, Ministry of Foreign Affairs and Economy, and the US-Mexico manufacturing community to map the size, scope and competencies

of businesses in Mexico in current or convertible to sectors of opportunity for more “domestic” development and co-production and sourcing across transformational sectors.

- Mexico can review its fiscal and tax policies to promote export-led economic growth, especially within the USMCA region.
- Leverage the export and investment authorities of the US Export-Import Bank (EXIM), the US International Development Finance Corporation (USIDFC), and other relevant US agencies to create a specific set of policy objectives to support ally-shoring in US critical manufacturing sectors; and open up specific public-private partnership opportunities that make available financing, equity investment and serve as a magnet for increased private sector investment in emerging areas. Designate one or two initial USIDFC-backed projects as pilots of the ally-shoring concept, such as opportunities for developing and financing communications infrastructure, including critical high-speed networks essential in a post-pandemic economy.

## Smart border infrastructure, trade facilitation and data driven supply chain management and security systems:

Under an ally-shoring framework, a highly secure and efficient US-Mexico border infrastructure is not a “nice to have” but a necessity. Ally-shoring is rooted in democratic alliances that support strong, collective economic security. An optimally functioning border takes on even greater meaning when we seek to forge these alliances within our own backyard, and for the long-term. Placing greater reliance on US-Mexico supply chains for critical, sensitive, and advanced technology imports helps the US pivot from far-flung suppliers, while helping to develop emerging capacity and expertise in Mexican-based operations. But this shift won’t happen as effectively without a strong government commitment to the border as an engine of growth and innovation, and a secure channel for both goods and people. In other words, the flip side of the economic security dividend offered through ally-shoring is a joint commitment to a deeper level of secure and efficient border integration

with our neighbors. Ally-shoring demands a “smart” border infrastructure that protects critical and sensitive goods, and one that aims to be seamless.

While the current physical infrastructure, technology, staffing and other resources are adequate at the US-Mexico border, the system is nonetheless fragile and inconsistent in places. Border conditions vary by location along the southern border, with many ports of entry simply not resourced to support consistently efficient movement of trade. COVID-19 induced border delays and on-going port of entry closures to all but essential personnel at US-Mexico land borders have been a stark reminder that the border infrastructure becomes fragile when sudden shifts threaten to delay people, critical supplies, and inventories. Legacy risks such as drug trade, smuggling, trade-based money laundering, corruption and other threats to the integrity of cross-border operations need to be cleaned up for an ally-shoring concept to truly thrive.

The events of 9/11 ushered in the introduction of trusted traveler programs like SENTRI and Global Entry; and cargo facilitation programs such as C-TPAT, all of which have improved supply chain efficiencies by allowing for expedited processing for lower-risk people and cargo. Building on this foundation, stronger integration through data sharing, increased trade transparency, improved targeting, intelligence sharing and use of fintech – to name a few – can help drive a US-Mexico border environment that is best in class and entirely consistent with the deeper integration supported through ally-shoring. But it requires resources, commitment, and a long-term strategy.

## What can be done?

- The US can lead on a new model and collaboration with Mexico on the development of modern secure and efficient border trade, logistics, data, risk management, and security mechanisms. The US-Mexico Foundation proposes to reanimate the High-Level Economic Dialogue work proactively with both governments to identify near-term actions where manufacturers can contribute to process improvements and support additional funding for a holistic “smart border” plan to guide investment in a state-of-the-art smart border infrastructure.
- Technology continues to play a critical role in

transforming how our supply chains function. New smart systems for management (e.g. AI-driven, component traceability, transparency and flexibility in facing disruptions in order to move goods for maximum efficiency); “smart” economic sanctions enforcement systems for supply chains (boxing out particular foreign firm participation). Based on the “smart border” plan described above, the binational working group could help pilot aspects of a technology deployment program to introduce best in class technologies linked to advanced manufacturing and other critical supply chains.

- While securing shipments is a primary consideration, pandemic recovery offers a unique opportunity to implement post-COVID-19 Healthy Trusted Traveler verification systems for crossing the border, which, ideally, could be tied into the broader immigration security processes that are under review. Efforts to develop a vaccine “passport” are already underway, linked into existing travel facilitation programs and [initiatives](#). The US-Mexico cross-border workers and travelers could help speed up piloting and adoption with a “trusted traveler” framework.

## Rule of Law Enhancement: US-Mexico institution building and trust strengthening:

Strong economic security is driven by the laws, regulations, and norms that ensure fairness, promote a level playing field, encourage domestic and foreign investment, and sustain both short and long-term policy commitments to advancing people, processes, technology, and manufacturing. Closer economic integration will enhance and strengthen the public institutions and reinforce 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 our collective security and support democracy in the Western Hemisphere. Normalizing the business environment where needed – for the benefit of both US and Mexican manufacturers – reinforces transparency across business operations and cross-border supply chains (such as enhanced trusted trader programs, data sharing for trade transparency and common anti-corruption and other financial crime compliance standards).

When the rule of law is both prioritized and promoted, foreign direct investment, especially in Mexico, benefits manufacturers and investors who can price and manage risk more effectively. More inclusive systems and growth will naturally follow from strengthening the institutional frameworks by: addressing inconsistent standards that affect the ease of doing business, reinforcing labor standards, and looking toward the implementation of a broader ESG-agenda.

## What can be done?

- Identify the key institutions and barriers to promoting a level, transparent playing field to benefit both US and Mexican businesses.
- Collaborate on the adoption of additional measures to ensure transparent, rules-driven systems that benefit legitimate actors in the system.

### Building a Stronger Partnership

This enhanced ally-shoring agenda reflects the direction and process by which the two countries, their government, business, and civic leadership can respond to the altered political, economic, and health landscape of a post-pandemic world. A US-Mexico ally-shoring strategy offers a new path forward, and the potential to set a compelling example of trust, trade, and innovation that delivers more value to the most important constituency of all – our citizens.

**This paper is presented with the aid of  
ally-shoring task force, a community of  
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The U.S. Mexico Foundation is a non-profit organization dedicated to fostering cooperation and bilateral understanding between the United States and Mexico. The organization executes its mission in two ways: operating programs and promoting constructive dialogue on issues of binational interest.

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