



## **The Return of the HLED: Better Late Than Never, But No Time to Waste**

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### **Introduction**

This week the United States and Mexico will revive the High Level Economic Dialogue (HLED or the Dialogue) with a day of meetings on September 9 in Washington, DC. Initiated during the Obama administration in 2013 but suspended by President Trump, the HLED offers a unique opportunity for a strategic rethinking of bilateral economic and strategic relations that can position North America to better compete in the world economy and take advantage of global economic opportunities. This newsletter will take stock of the current status of U.S.-Mexico relations and of opportunities offered by the global economy, highlight the importance of the HLED reboot in this context, and offer policy guidance for the Dialogue and its participants.

### **Taking Stock of the Current State of U.S.-Mexico Relations**

The revival of the U.S.-Mexico High Level Economic Dialogue, first announced by the U.S. and Mexican presidents several months ago, will take place three years into the administration of Mexican President Andrés Manuel López Obrador (AMLO), one year

into the United States-Mexico-Canada Agreement (USMCA), and almost eight months into President Joe Biden’s administration. This combination of timing in addition to COVID and broader global developments that we discuss below, has shaped the bilateral foundation for the Dialogue. The HLED must also confront the U.S. tendency to lose sight of the pivotal economic importance of Mexico to the United States and instead focus on other, more negative, aspects of the bilateral relationship.

The U.S.-Mexico relationship is arguably the most important bilateral economic relationship for the United States, including its central role in building U.S. global economic competitiveness. More than trade, this relationship is about building things together and exploiting the competitive advantages of each country to construct cross-border supply chains that make both economies (and North America as a whole) more competitive globally. But this process has occurred quietly, largely behind the headlines, inadvertently encouraging policymakers to pay more attention to immediate challenges such as security or migration. Moreover, the centrality of Mexico to U.S. global competitiveness is not well understood by the public at large. Most are shocked to learn of the sheer size, depth, and extent of our shared economic ties.

The HLED was created to mitigate these tendencies in bilateral relations – to call attention to the importance of U.S.-Mexico economic relations, to position the bilateral economic relationship firmly on center stage where it belongs, and to create a venue where policymakers can think more strategically about this relationship. It was designed to encourage contemplation about how both countries can take advantage of this relationship to enhance the long-term global competitiveness of the United States, Mexico and North America at large. More importantly, the HLED was created to establish a truly presidential and cabinet level platform for strategic dialogue not mired in the ongoing tensions of our shared border, the challenges of immigration and the drug trade, and the usual irritants that dominate the relationship. The goal, in short, was to raise our collective eyes towards the horizon to consider how our two nations can be more productive, competitive, and better strategic allies in international fora with respect to promoting the values and policies that are important to North America and, arguably, the world.

The revived HLED’s September 9 meeting, which will be chaired on the U.S. side by Vice President Kamala Harris (as her now boss and predecessor did in his day) and by Foreign Minister Marcelo Ebrard on the Mexican side, will be held in a peculiar bilateral context.

It will be influenced by new challenges and opportunities created by the USMCA and by the two governments currently managing bilateral relations. And it will be shaped by COVID, the status of the global economy, and the reality of a very different kind of administration now presiding over Mexico.

In broad brush strokes, the bilateral relationship is currently characterized by cooperation punctuated by important points of disagreement. Although headlines have pointed to a lukewarm relationship between the two administrations, this is not really evident in the day-to-day management of the relationship, especially with respect to the implementation of the labor provisions of the USMCA or in the areas of border security and migration. On each of these issues, the AMLO administration has cooperated closely with the Biden team to find common ground that advances shared objectives. Meanwhile, the Biden administration has sent millions of doses of COVID vaccines to Mexico and has worked hard not to antagonize AMLO or react to his increasingly strident nationalist rhetoric. The working relationship behind the scenes is constructive, and both sides have done a very good job of not “taking the bait” and allowing political posturing by friends and enemies alike to derail the strong cooperation both governments share. Both sides recognize the consequences of *not* working closely together on core vital interests would be disastrous.

And this says nothing of the fact that both administrations actually seem to have a lot in common. Mexican government efforts to promote higher wages and union democracy dovetail perfectly with the new labor provisions of the USMCA that the Biden administration is aggressively enforcing. Biden’s focus on the working class and the poor aligns well with AMLO’s stated priorities. And while Mexico has balked at accepting U.S.-bound asylum seekers under a court-ordered restart of the “Stay in Mexico” program, it has posted more National Guard troops on its southern border than during the Trump administration and agreed to help return economic migrants to Central America. Even Mexico’s decision to sue U.S. gun manufacturers for the damage they have caused in Mexico was not coupled with overt pressure on the U.S. government to act on this issue.

Alongside this cooperation, however, there are important bilateral frictions including significant disagreements over energy policy and the treatment of U.S. investors, while AMLO’s rhetoric and nationalist signaling often produce unnecessary bilateral tensions. Mexico launched the first step of the USMCA dispute resolution mechanism, a request for formal consultation with the U.S. government, regarding how the 75% domestic

content provision in the auto sector should be interpreted. The United States has kept its border with Mexico closed to non-essential Mexican travelers as a pandemic measure despite repeated Mexican requests that it be reopened coupled with a massive vaccination effort in border communities. But the real bone of contention is Mexican energy policy.

Mexican policy is designed to revive the fortunes of two state-owned energy companies, the Federal Electricity Commission (CFE) and Pemex. This has translated into a decision to double-down on petroleum production and refining despite global efforts, and Biden administration policy, to cut the carbon emissions contributing to climate change. This policy has also led to preferential treatment for both firms. The CFE has benefited from rules that require it to use its own electricity production before buying cheaper electricity produced by U.S. investors operating in the sector. This sort of favoritism is explicitly prohibited by the USMCA, although Mexico insists that this provision is obviated by another that guarantees it sovereignty in the energy sector. Pemex, meanwhile, has benefited from a different sort of favoritism – a disputed decision by the Energy Regulatory Commission (CRE) concluding that Pemex owns the majority of an oil field discovered by a U.S.-based company and granting Pemex the right to develop the field. And both benefited when the Energy Ministry and the Mexican tax authority cancelled the fuel import permits for 82 companies.

Thus far the Biden administration has expressed its concerns about Mexican energy policy quietly and mostly behind closed doors. But a bi-partisan group of 20 U.S. Senators were less discreet when they sent an open letter to President Biden complaining about Mexican treatment of U.S.-based energy companies. This issue is thus like a ticking time-bomb in the relationship, one that could explode at any moment, but also one that both sides hope to resolve more quietly.

A final irritant in the bilateral relationship emanates from AMLO himself, and his tendency to use nationalist, anti-capitalist rhetoric and symbolic acts. In part this is due to political calculation, but it also reflects who AMLO is at his core – protective of Mexican sovereignty, mistrustful of the United States, and disillusioned by the economic outcomes produced by capitalism in Mexico. While AMLO understands that Mexican national interests depend on his building a good relationship with the United States and with private business, he will never be completely comfortable with this reality. He is heavily

influenced by his core belief that much of the private sector has benefited from corrupt, sweetheart deals in Mexico cut with prior governments and his view (probably correct) that the business community is largely mobilized against him and his vision of a “Fourth Transformation” of Mexico. AMLO will thus continue to criticize the private sector, both Mexican and foreign, and to complain about U.S. imperialism, he will continue to support the Cuban government, and we expect that he will persist in his recent call for the elimination of the Organization of American States.

The HLED will thus take place at a time when the multifaceted interdependence between the United States and Mexico has taken on a peculiar hue under the AMLO and Biden administrations, making its objectives both more important and more complex. But it also takes place in the midst of significant changes in the global economic setting.

By far the biggest and most important of these is the emergent conflict between the United States and China. Tensions between East and West reached near boiling points under the Trump administration, which pursued a brass knuckled, protectionist approach to Beijing. Some at least expected things to settle down under Biden, but whether due to his own convictions or domestic political pressure, he has continued many of Trump’s aggressive tactics, framing the conflict as a near existential economic competition. Given China’s economic ascendance and competitiveness, it would seem natural that the U.S. and Mexico would lock arms, together with Canada, to double down on a strategic investment in North America, recognizing that only as an integrated bloc can the region affectively compete for the long-term. Yet, surprisingly, we have seen faint evidence of such a strategy. One can only hope the revived HLED will be, as the name suggests, the beginning of a higher level of coordination and planning.

## **Global Economic Opportunities**

More than ever, effective management of global supply chains is central to national competitiveness in the 21st century global economy. As the COVID-19 crisis laid bare, control over supply chains is also a key national security and public health imperative. The coronavirus pandemic showed, brutally, the downside risk of having manufacturing in key sectors – most notably personal protective equipment, pharmaceuticals, food supply, and, now, computer chips – overly concentrated in regions far afield from our own

consumer base. COVID-19 has thus ushered in a revival of serious thinking around strategic industrial policy that would have been unfathomable just a few years ago.

At the same time, trade disputes between the U.S. and China, coupled with the negative impact of COVID-19 on global supply chains, have interrupted a system that was designed without any consideration of potential political or environmental disruptions. Resulting efforts by global business to adapt to the new operating context translated into firms rethinking their supply chain strategy to reduce their exposure to risk.

Since neither political nor environmental disruptions seem temporary, this new approach to risk reduction is apt to characterize global trade for the foreseeable future. Thus far, it has largely consisted of some firms relocating their production facilities outside of China, some aiming to shrink their supply chain's geographic reach, and some doing both simultaneously. This process of supply chain restructuring creates a real opportunity for the United States and Mexico. To the extent that they can show the competitive prowess of the North American manufacturing platform, the region can attract the reshoring of production facilities currently located in Asia, which would further deepen North American global competitiveness.

After decades of deepening bilateral economic integration thanks in part to the opportunities afforded by NAFTA, the U.S.-Mexico economic relationship finds itself in the midst of a worsening U.S.-China trade relationship punctuated by a pandemic that has brought to light the vulnerabilities of global supply chains. The resulting opportunity for supply chain reshoring obliges the United States and Mexico to focus on attracting this capital to North America by strengthening regional competitiveness and the resilience of the regional supply chains at its heart.

At the same time, North America, like the rest of the world, faces a host of challenges old and new that can no longer be ignored: climate change and its impact on economic competitiveness; the dizzying rise of the new digital and cloud economy and the new technologies that drive it; and the transformation of the work force through gig-work and other disruptive trends, not to mention the demographic challenges underpinning it all. In short, the North American agenda cries for leadership and attention that transcends traditional politics, and the question remains whether Mexican and U.S. leaders can rise to the occasion.

## HLED's Window of Opportunity

In this bilateral and global context, the HLED creates an exceptional opportunity to not merely deal with current challenges in the bilateral economic relationship but to go beyond them and think strategically about where this relationship can take North America in the years and decades ahead.

Created in July 2013, early in the second term of the Obama administration, the HLED was designed to promote precisely this kind of strategic thinking about U.S.-Mexico economic relations. In its early years, the machinery of the HLED slowly took root, delivering some early important wins (like pushing across the finish line the first new cross-border rail crossing since the Mexican revolution, leveraging its political heft to clear the brush in the U.S. and Mexican interagencies). But the HLED never had time to achieve its full potential, and Trump's cancellation of the effort wasted valuable time. Now there is the opportunity to relaunch it and for it to become what it was intended to be: a mechanism that allows the two countries to design an approach to strategic bilateral economic collaboration that can take them into the future.

This will be particularly important now, during the first years of the USMCA. There is an immediate need to ensure that implementation of the new labor and environmental chapters, and of the changes to how North American content is measured for automobiles, will make the agreement more sustainable politically and environmentally without undercutting the efficiency gains essential to North American competitiveness. But there is also a risk that the current political context – the need not to “rock the boat” too much – will limit the platform's aspiration and ambition. And it is not clear, at least to us, where the political leadership on both sides required to drive this agenda will come from.

## A Proposed HLED Agenda

Little is publicly known about the specifics of the agenda, and what has been announced officially is almost certain to change. As a general matter, the overarching goal for the first meeting is likely to be quite modest: to simply get the dialogue going again and to rediscover the muscle memory of convening at a high level to take aim at issues of joint concern. Our sources advise that the agenda will broadly focus on four themes: supply

chains, promoting economic development in Southern Mexico and Central America; securing new tools for future prosperity (with a heavy focus on electric mobility); and investing in people and human capital, with an emphasis on education. The agenda has clearly been designed to meet the interests of both governments in what might appear as a lowest common denominator approach. The challenge both governments face is structuring a dialogue that will allow for constructive engagement without devolving into the weeds concerning ongoing irritants. And in that respect, a modest agenda for the first meeting is understandable.

But there is little time to waste, and we hope our leaders won't squander the opportunities before them. To encourage big thinking, we suggest the following agenda.

***First, and perhaps most important, both nations need to decide if they are serious about setting an agenda commensurate with the times. And in this respect, the first and most important topic for the HLED should be a commitment to position North America as the global leader for trade and to showcase how deeply integrated and interconnected regions can compete. But the times require a new framing for this commitment, and both AMLO and Biden are especially well positioned to offer it.***

There is no question that the public at large is skeptical of free trade, but this doesn't mean that the perception is correct. And the essence of political leadership is to help bring the public along to understand and embrace policy that is clearly in its own self-interest. In this sense, our nations' leaders should help the people of both countries understand, in real and practical terms, how an integrated, cooperative, and competitive North America can lift wages, create opportunities, and promote our national security, ensuring that the United States and Mexico are far better off working together than we possibly could be going at it alone.

In other words, the HLED agenda should start by making a bold, visionary commitment to the idea and concept of a robust North America in its fullest sense. And this, in the end, requires political leadership and political courage. In the U.S., the logical candidate for this leadership is the Vice President, who would be backed, we believe, by the President himself. But to date, at least, it appears that both Vice President Harris and those who advise her have been reluctant to embrace her role in this context, obviously driven by the perception that the border is a ticking time bomb that will explode on her watch. This

view is deeply flawed and misses an important opportunity for political leadership that could position the Vice President and the administration well with a variety of critical constituencies. By failing to embrace her role in this context, Vice President Harris misses the broader agenda and the opportunities associated with it.

What might such a commitment look like in practical terms? For starters, it would mean thinking critically about what North America's competitive advantages are and what measures need to be taken to ensure those advantages are maintained for the long-term. To our knowledge, neither government has ever evaluated, independently, much less together, what critical industries are vital to the long-term success of the region, and what measures need to be undertaken to ensure those industries can compete. Conversely, both nations should evaluate what industries are most vulnerable to global competition, and what steps can be taken, together and apart, to preserve and defend their competitive position. In short, we need critical thinking about enlightened industrial policy for the region at large. Such thinking and its attendant measures can be done entirely within the framework of accepted trading norms and international frameworks (like the WTO) and can and must be driven by the best thinking both the private sector (and, yes, labor too) can offer. The government can and should leverage its power to convene to drive this agenda aggressively forward.

A second aspect of the agenda would necessarily follow the first, which would be a careful evaluation of how existing supply chains in and throughout North America are actually working. As noted, the pandemic has shown the critical importance of a cross-border regional approach to supply chain management to keep critical, essential industries operating smoothly on both sides of the border. Closer coordination on supply chain management, including the development of new supply chains needed to ensure public health and national security, should be a central part of any HLED agenda. In this respect, it is long overdue for North America to articulate and pursue a North American strategy to bring back key industries that have since left for Asia and other parts of the world in search of cheaper labor and more favorable business climates. It is well within North America's power and ability to bring at least some of those industries back home, but any approach to doing so would require a careful consideration of tax, labor, and investment policy that must be coordinated given the integrated nature of manufacturing in North America.

A related but distinct agenda item should be a bold commitment to investing in the almost 2,000-miles long shared border. A commitment to the border begins with infrastructure, and a recognition that North America cannot compete globally if it takes hours to cross our shared border. President Biden's commitment to investing substantially in a renewed American infrastructure should include the U.S.-Mexico border, including projects like the Otay Mesa East Port of Entry, a state-of-the-art facility that is shovel ready and can be a model not only for bilateral cooperation but for strengthening the foundation of a truly innovative border. But a commitment must and should go beyond ports of entry and challenge governments and communities to think critically about our border region as a place of dynamism and opportunity. Communities like the Cali-Baja region, as well as others like Borderplex connecting Southern New Mexico, El Paso, and Juarez, regularly show what regional economic development can and should look like. But their efforts could and would be amplified if we had enlightened federal policy that was invested in showcasing the border for what it is and could yet be: a place of tremendous economic growth, manufacturing prowess, and productivity. We have often noted that, when it comes to the border, we have a 21st Century Economy built on 20th Century Vision and 19th Century Infrastructure. It's time to embrace and update our vision and commitment to the border with bold political leadership from both countries.

In the U.S., at least, this could pay smart political dividends for the Biden administration, which received lackluster support from some important parts of the border region and from the Latino community as a whole. The pandemic has, for better or worse, forced the administration to exercise its public health police power harshly, often without what appears, at least, to take adequate stock of the impact such measures are having on the border communities who depend on cross-border trade and people flows. An articulation of a robust vision for the economic development of the border region would show that the administration can walk and chew gum at the same time: making key long-term investments while it takes the perhaps necessary public health measures it feels are required in the short-term.

Our sense, however, is that there is reticence within the U.S. government to embrace, much less discuss, the border in a robust way for fear of opening the door to more contentious issues with Mexico about the current shutdown imposed due to public health concerns. This is, in our judgment, extremely short sighted.

Finally, no meaningful discussion about the future competitiveness of North America can or should take place without giving adequate consideration to the economy of the future, especially the fintech and other forces that are upending most traditional industries. Although innovation is most often (and appropriately) driven by the private, not public, sector, there is no question good public policy can foster and promote innovation in the private sector. And in this regard, Mexico and the U.S. would do well to think strategically *together* about how they can best coordinate on shared practices, coordinated policy, and the elimination of regulatory barriers that impede the development of new technologies in order to drive the growth, productivity, and competitiveness of tomorrow. Like their American counterparts, the youth of Mexico are technologically savvy and entrepreneurial. Both nations would benefit tremendously from sustained and focused efforts to foster greater entrepreneurship and promote a regulatory ecosystem that supports cross-border industries and encourages greater linkages between U.S. technology clusters and their emerging counterparts in Mexico.

## Concluding Thoughts

U.S. foreign policy has for decades largely neglected to treat North America, as it has the Western Hemisphere, as a paramount concern, certainly in practice if not also rhetorically. Crises around the world have repeatedly sucked the proverbial policy oxygen out of the room when it comes to deep thinking about Mexico and Latin America. And the absence of a well organized and politically influential domestic constituency has made it all the easier to neglect. But time is running short, and if the U.S. wants to maintain its global leadership on matters of economic policy at least, much less re-establish its claim to moral and economic leadership in the Americas at large, it better start tending meaningfully to relationships in its immediate orbit, and that begins with Mexico and North America. Conversely, there is no question that Mexico's economic fate, AMLO's rhetoric aside, is inexorably bound up with the United States. Neither nation can or will successfully compete with China without working together. The HLED was created to provide a strategic platform for precisely this kind of thinking and work. The AMLO and Biden administrations should be applauded for restoring the HLED for sure, but we hope the two sides will muster the vision and political leadership required to enable the mechanism to fulfill its potential. We will be watching closely this week and rooting from the sidelines.

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*Editor's note: In his role as U.S. Assistant Secretary of Commerce in the Obama administration, Monarch President & CEO Michael Camuñez was one of the principal architects of the original vision and adoption of the HLED, having shepherded it through the U.S. interagency, worked closely with the then-new Peña Nieto administration, and traveled with President Obama to launch it in Mexico in 2013.*

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