The Heritage Foundation

BACKGROUNDER

No. 3494 | MAY 7, 2020

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A U.S.–Mexico–Canada (USMCA) Economic Partnership Recovery Plan

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KEY TAKEAWAYS

The United States, Mexico, and Canada have been hard hit by the coronavirus pandemic and must work together to mitigate economic damage.

Mexico and Canada are America's most important trading partners, and all three have transformed North America into a prosperous free trade region.

It is imperative that the partners accelerate planning for the region's post-pandemic economic comeback, using the USMCA as a foundation.

The three North American trade partners—the United States, Mexico, and Canada—have been hard hit by the novel coronavirus pandemic. At the time of this writing, the vast majority of North America's 1,320,937 confirmed cases of COVID-19 have been in the United States.[1] Cases continue to rise in Mexico and Canada, however, and the Mexican Ministry of Health "estimates as many as eight times more people have had the virus than is shown by the official data."[2] The data from Mexico are of particular concern because that country's medical infrastructure is not nearly as advanced as that of its northern neighbors.

In its April 2020 *World Economic Outlook*,[3] the International Monetary Fund (IMF) warned that the economies of the three North American countries will contract by –5.9 percent (U.S.), –6.2 percent (Canada), and –6.6 percent (Mexico) by the end of 2020.

Worldwide, the projected contraction of 3 percent will be the worst economic downturn since the Great Depression of the 1930s. Unemployment rates are skyrocketing in the U.S. and Canada. In Mexico, where as much as 60 percent of economic activity takes place in the informal sector,[4] the actual impact of the pandemic on employment is harder to measure. It is certain to be devastating, however, and will hit the poor the hardest. It may also foment greater violence in Mexico and spur more migration to the north.

This *Special Report* has identified several areas of potential North American community cooperation: promoting and adhering to the principles of economic freedom and implementing the U.S.–Mexico–Canada (USMCA) trade agreement as quickly as possible so that the private sectors of the three countries can lead the recovery and re-opening of the their economies, as well as assisting Mexico's public health response to the pandemic.

Better control of the infection rate will mitigate economic pressures that could lead to a potential upsurge in migration from Mexico to the north. It would also help to get Mexican factories back in operation quickly to supply raw materials and intermediate goods to the region's supply chain—especially in sectors that are key to America's national security and economic interests (such as energy, mining, and manufacturing of inputs for the aerospace industry).

To assist with North America's recovery efforts, this *Special Report* envisions a trilateral economic recovery commission tasked with the mandate of helping to coordinate government and private-sector recovery initiatives. The U.S., Mexico, and Canada must deepen emergency management activities to monitor and minimize risks of future pandemics. They must also commit to removing lingering trade and protectionist mechanisms to avoid dampening North America's economic comeback. Taken together, these measures should provide a realistic and meaningful contribution to the recovery and economic revitalization of post-pandemic North America.

The Importance of the U.S.–Mexico Partnership

Mexico and Canada are the most important relationships for the U.S. Americans benefit from living in a stable and prosperous region with democratic and like-minded neighbors. Within the region, there is no relationship that affects Americans more on a daily basis than the U.S.–Mexican partnership. Domestic and foreign policy are intertwined due to the geographic proximity, dynamic trade relationship, and shared security threats. Mexico is the U.S.'s second-largest export market and as of 2019, its largest trading partner, ahead of China and Canada.[5] Mexico is the top export market for every U.S. state along the 2,000-mile shared border. American companies sell more in goods and services to Mexico than to all of the four BRIC (Brazil, Russia, India, China) countries combined.[6]

The U.S., Mexico, and Canada have transformed North America into a successful free trade and economically prosperous region. The gross domestic product (GDP) of the three USMCA partners is greater than all 27 nations in the European Union. The massive volume of trade has fueled the region's economic growth over the past two decades. Both the U.S. and Mexico make, and trade in, automobiles, plastics, steel, agricultural products, intermediate manufactured goods for the U.S. aerospace sector, textiles, machinery, and other goods. On an average day, $1.7 billion in legal goods and services crosses the border.[7] Often lost in discussion about trade policies is the fact that six million American jobs are directly tied to trade from Mexican companies, highlighting its critical importance to the U.S. economy.[8]

The past decades of expanding economic cooperation and exchanges have broader implications beyond the diminishment of trade barriers. As Heritage Foundation visiting fellow David Shedd wrote, "While joint economic security has expanded, American cooperation with Mexican law enforcement to combat organized crime, identify counterterrorism opportunities, and address illegal immigration has reached unprecedented levels."[9] Free trade among North American partners has strengthened institutions in Mexico and created a much-needed framework for addressing transnational security matters. For these reasons and more, economic freedom is the bedrock of U.S. security interests in North America.

The U.S.–Canadian Relationship: Close Neighbors and Vital Allies

For decades, the United States and Canada, both free-market democracies, have stood together near the top of The Heritage Foundation's annual *Index of Economic Freedom* as "mostly free" economies, with their competitive economic freedom ratings well above the world average.[10] Economic freedom, which is the backbone of the free, transparent, and dynamic market systems that have underpinned the two allies' economically vital partnership, matters more than ever during the ongoing battle against the COVID-19 pandemic, and more critically to enable a sharp, timely economic rebound together.

Sharing the world's longest un-militarized border—5,525 miles—the people of the United States and Canada share a close bond. With millions of cross-border interactions daily by individuals and firms, it is natural that the two countries' governments also collaborate closely on critical economic and security issues. Relations with Canada are grounded in shared principles and interests, and both the U.S. and Canada are members of the Five Eyes intelligence alliance. Both NATO members continue cooperation on Arctic security and development to counter Russian and Chinese malevolence.

Indeed, the United States and Canada have a profound and multifaceted partnership and alliance, strengthened through shared values and interests. The bilateral cooperation between the two countries reflects their common history, ideals, and mutual commitment to addressing the most serious multilateral and global issues. In the current trying era of uncertainty, it is more important than ever to remember the shared values and to work together to overcome the challenges that face both countries. The U.S. and Canada long have benefited from the world's largest and most comprehensive bilateral economic engagement, which supports millions of jobs in each country, as well as dynamic entrepreneurial growth. The two countries enjoy a lucrative bilateral trade and investment relationship: two-way trade in goods and services totals more than $700 billion.[11]

Mexico's COVID-19 Outbreak and Impact on its Economy

Mexico confirmed its first COVID-19 case in late February, one month later than the U.S. (probably a result of Mexico's limited testing capacity). As of this writing, Mexico has 27,634 confirmed cases; yet, due to ongoing testing shortages and testing kits from China of questionable quality, the actual rate of infection is likely closer to eight times official estimates.[12] Mexico lacks the capacity to emerge from the pandemic with the same level of economic output pre-crisis. It has insufficient medical personnel, and insufficient quantities of testing kits, ventilators, and intensive-care beds.

Going into the pandemic, Mexico's Health Ministry reported just under 50,000 hospitals beds, 2,446 intensive care beds, and 5,523 ventilators in public hospitals to serve a population of 127 million people.[13] The U.S. has donated 1,000 ventilators and given Mexico the option to purchase more—at the publicly available price. While ventilators from certain Chinese suppliers are cheaper, their quality can also be lower. Mexican health officials project that 80 percent of the population will eventually contract the novel coronavirus. While the mortality rate of COVID-19 in Mexico is still unknown and dependent on a variety of factors, such as underlying health conditions, according to Johns Hopkins University, Mexico's rate of confirmed cases has been growing by at least 1,000 cases per day as of early May 2020.[14]

Inconsistencies in data collection and reporting, and limited testing, make an accurate picture difficult to obtain. The *Financial Times* reports that "Mexico City alone has reported more patients intubated for COVID-19 than the Mexican federal government says are intubated in the country overall."[15] Local press in Mexico report a growing number of hospitalizations for atypical pneumonia that are not counted in official statistics as suspected COVID-19 cases, despite the similarity in the symptoms. The health and demographic conditions are also ripe for a worsening of the outbreak. Mexico has densely populated cities. Over 10 percent of the population has diabetes,[16] while others struggle with a variety of other underlying conditions that weaken the immune system.

Two months into the pandemic, Mexico still has a severe shortage of testing kits and other necessary medical supplies. Mexico is largely reliant on questionable testing kits and personal protective equipment (PPE) from Beijing. Options for Mexico are scarce, as the majority of the world's PPE is produced in China. North American policymakers should be skeptical of China's intentions in donating and selling PPE. The Chinese Communist Party is trying to create a false, philanthropic narrative in Mexico's time of need. There is no public information on how many ventilators Mexico currently has after purchases and small donations from China.

Key indicators forecast a grim economic future for Mexico as well. Going into the crisis, Mexico was already in an economic recession with nearly 50 percent of the population living below the poverty line. In the months preceding the pandemic, the Mexican peso exchange rate with the U.S. dollar fell to historic lows. Economic growth rates were also weak in 2018, with only 2.1 percent growth that year.[17] The pandemic has accelerated these trends and could plunge Mexico into its worst recession in modern history. In mid-April, the IMF's *World Economic Outlook* projected an economic contraction of –6.6 percent in 2020 and 3.0 percent *growth* in 2021. That number seems optimistic, as the country's largest financial institution, BBVA Mexico, is forecasting a contraction of between –6 percent to –12 percent for 2020.[18]

The Mexican government's March 30 emergency health declaration could worsen the economic fall-out. Extensive shut-downs throughout North America's most productive industries, including intermediate manufactured goods, minerals, and metals that are inputs for supply chains for the aerospace and automotive technology, telecommunications, military weapons and other defense-sector products, food and beverage products, and other agricultural products have thrown production at companies in North America off schedule. U.S. government agencies, North American businesses, and the international pharmaceutical industry are already reporting shortages.[19]

Production closures in Mexico are affecting the U.S. industrial base, and the U.S. Department of Defense has requested that the Mexican government allow the companies to resume production. The Washington-based National Association of Manufacturers has sent multiple letters to Mexican President Andres Manuel López-Obrador stating that current Mexican health policy is impeding their "ability to deliver critical supplies and daily essentials to citizens in Mexico and across North America." The mining shutdown is contributing to an international shortage in asthma medication as well. Mexico is the world's second-largest producer of the mineral fluorite, only behind China.[20] This element is the key ingredient in Ventolin, an inhaler already in short supply.

Emerging from the pandemic will be serious struggle for Mexico, and a challenge for the United States. Canada's medical infrastructure and fiscal situation are on a par with the U.S., and both countries are much better positioned to manage COVID-19 than is Mexico. Therefore, facilitating Mexico's recovery should not be seen as a giveaway of taxpayer dollars, but a mutually beneficially investment that will accelerate the U.S. and North America's economic comeback. To address this challenge, the U.S. should:

- **Continue to allow Mexico to access the U.S.'s private PPE and mask market, and donate medications where financially feasible, as the U.S.'s health conditions improve.** Expediting Mexico's health recovery lessens the duration of its economic pause, which gets it on the road to a quicker recovery. Coordination can be done through existing bilateral, and where possible, trilateral (with Canada) public-health-cooperation mechanisms. The longer Mexico's health crisis continues, the greater the threat to the economic recovery in the United States.

- **Urge Mexico whenever feasible to purchase testing kits, PPE, masks, and other medical materials from reliable vendors.** Countries throughout Europe and Asia are reporting that many Chinese companies are selling faulty testing kits, defective PPE, and substandard medical equipment. Poor-quality materials are a public health hazard, hamper global anti-pandemic recovery efforts, and are costly to governments. While it is unreasonable to expect a complete procurement shift of medical products away from China, the U.S. should encourage allies and partners to find high-quality suppliers.

Mexico's Economic Recession Could Result in More Illegal Immigration Attempts

Another dilemma for U.S. policymakers is a likely shift in illegal immigration patterns from Latin America. Since 2014, the largest group of individuals apprehended at the U.S.'s southern border was from Central America's "northern triangle"—consisting of El Salvador, Guatemala, and Honduras. Yet that may change in the near future. Every severe economic downturn in Mexico's modern history has been followed by a period of increased illegal migration to the United States. Reports indicate that after the 1982 debt crisis, Mexican nationals were the leading cohort apprehended at the southern border. In fiscal year (FY) 1985, they were 97 percent of the 1.3 million arrests at the border. By FY 1986, the total number increased to 1.8 million.[21]

This trend continued and accelerated with the 1994 Mexican peso crisis. From 2014 to 2015, illegal immigration to the U.S. from Mexico increased by 40 percent.[22] Aside from a slight dip in 1997, apprehensions at the southern border of Mexican nationals steadily increased from 1994 until 2001.[23] Going into the pandemic, Mexico was already in a recession, and future projections point to a bleak outlook for economic growth. Analysts at a Mexican think tank indicate the pandemic could impoverish another 21 million Mexicans in the near future, though that number could be higher, as 60 percent of economic activity takes place in the hard-to-measure informal sector.[24]

U.S. policymakers should be prepared for a scenario in which attempted illegal immigration from both Mexico and the northern triangle increases. Emerging and developing countries will experience the brunt of the global recession. The Canadian economy is also expected to contract by 6.2 percent.[25] Therefore, the Administration should remain vigilant for a potential increase in attempts to immigrate illegally from the north. These new potential illegal immigrant flows should put pressure on Congress to make a serious effort to fix America's broken borders and its immigration system. Policymakers must address the loopholes within the asylum process and remove incentives for illegal immigration by focusing on a solutions-oriented agenda based on the rule of law.

For the U.S., an increase in illegal migration from the south would be a double-edged sword. It would undoubtedly throw into question the future of U.S.–Mexican cooperation on addressing the regional migration crisis. The administration of President López-Obrador has been an invaluable partner to the U.S. Over the past year and a half, bilateral security cooperation and information sharing to combat human smuggling and trafficking organizations has broadened. Two agreements in particular—the Migration

Protection Protocols and Mexico's deployment of its national guard to its southern border with Guatemala—have been fundamental in decreasing migrant flows to the U.S. Yet cooperation with Mexico on addressing Mexican migration has typically been a point of friction, and the U.S. should not expect that to change. In order to fix the U.S. immigration system and continue cooperation with Mexico on key issues, the U.S. should start with:

- **Implementing effective border security.** Congress must appropriate funding for cost-effective border-security measures paired with robust enforcement.[55] The U.S. must build a system that welds all of the nation's border assets into a single coherent security enterprise that deploys the right asset to the right place at the right time. This will require key investments in border infrastructure, organization, technology, and resources. These initiatives include such controversial but essential tools as additional border "wall," expanded detention space, and (as required) the temporary and efficacious use of support from the Department of Defense.[26]

- **Closing the loopholes.** Congress should reject the *Flores* settlement in order to allow children to remain with their parents while awaiting asylum adjudication or prosecution of violations of immigration law. Congress should reform the Trafficking in Victims Protection Reauthorization Act to allow unaccompanied children from countries that are non-contiguous with the U.S. to be quickly repatriated to their home countries.[27] Congress must also adjust the asylum claims process, as the backlog of meritless asylum claims creates serious backlogs in U.S. immigration courts.

- **Aligning U.S. assistance funding to Mexico with U.S. national security interests.** A safer and more prosperous Mexico will reduce the security threats to the U.S., alleviate the drivers of illegal immigration, and allow both countries to focus on productive matters in the bilateral relationship. Yet, U.S. assistance to Mexico in the form of the Merida Initiative has decreased from the all-time high of $639.2 million in FY 2010 to $150 million in FY 2020.[28]

- **Strengthening Central America's border security capacity.** Uncontrolled borders in the northern triangle are a long-standing problem. The insecurity in this region allows criminality to proliferate and mass movements of people across state lines. The U.S. and Mexican governments should work with their regional counterparts to improve their border security policies and programs.[29]

Economic Freedom Is the Key to Mexico's Post-Pandemic Future

Since taking office in December 2018, Mexican President López-Obrador has reverted to a default setting of the economic nationalism that dominated his early political career in the 1970s. He has reversed many of his predecessor's wide-ranging reforms—reforms that could have continued to contribute to greater economic freedom in Mexico.

If Mexico remains on this policy course in the midst of post-pandemic recovery, the Mexican economy is likely to be further constrained by problems identified in the 2020 *Index of Economic Freedom*, including: weak investor confidence amid the policy uncertainty of the López-Obrador administration, unstable finances at state-owned Pemex oil company, and "low productivity, weak rule of law, corruption, and the costly inefficiency that always accompanies a large informal sector—which remains stubbornly large in Mexico."[30]

Dedicated though he might be to fighting corruption, President López Obrador's economic track record is riddled with proven policy failures. Since taking office, he has already implemented numerous regressive measures that will weaken economic freedom in Mexico. For example, as *The Economist*[31] reports, he rolled back (by means of an extra-constitutional executive decree) a major reform of Mexico's inefficient education system that had been enacted by his predecessor. It would have modernized the schools and loosened the grip of the massive and corrupt teachers union.

In addition to labor freedom, the scores that Mexico received for rule-of-law indicators were its lowest among the 12 indicators in the 2020 *Index*. Scores for government integrity and judicial effectiveness were well below the global averages for all 180 countries measured. Despite his electoral anti-corruption promises, López-Obrador's actions to concentrate more power in the public sector will create new opportunities for corruption and cronyism.

The USMCA Will Catalyze North America's Post-Pandemic Economic Recovery

While the U.S., Mexico, and Canada are on different timetables for their public health recoveries, it is imperative that they not wait to begin planning for the region's economic comeback. One of the first steps in the re-opening of North America's economies will be the implementation of the USMCA trade agreement, currently scheduled to take effect on July 1, 2020. The USMCA will provide needed certainty and confidence so that the private sectors of the three countries can lead their economic recoveries. The USMCA, supported by a revived trilateral U.S.–Mexico–Canada governmental economic commission, will be the foundational business and institutional government-to-government framework on which post-pandemic North American economic partnerships can be constructed.

As the U.S. Chamber of Commerce has noted, as many as 12 million American jobs depend on trade with Mexico and Canada.[32] The two countries are the top export destinations for more than 120,000 small and medium-size American businesses. Those businesses, their employees, and indeed all Americans will benefit from the improvements that the USMCA has made over the old North Atlantic Free Trade Agreement (NAFTA).

NAFTA was negotiated before e-commerce and other high-technology goods and services that one takes for granted today even existed. The USMCA modernizes the terms of trade among the three North American partners, updating rules for digital trade, strengthening protection of American intellectual property, and making other necessary improvements, such as removing regulatory and technical barriers and speeding up customs procedures that will benefit U.S. businesses.

The USMCA also updates standards governing agricultural trade (such as modern, science-based sanitary and phytosanitary standards), which is of great importance given that Mexico and Canada purchase about one-third of American farm exports. Other USMCA updates will positively affect other leading sectors of the American economy, such as financial services, manufacture of automotive parts and vehicles, medical devices, and chemicals. Meanwhile, the USMCA will make it more difficult for state-owned enterprises (SOEs) in Mexico or Canada to game the American system and gain unfair trade advantages. SOEs will have to compete on a level playing field.

The pending implementation of the USMCA will also help to reduce the region's dependence on the People's Republic of China by taking advantage of the global trend to de-Sinicize supply chains, which can produce a shift of manufacturing jobs to North America.

The post-pandemic recovery and re-opening of the following industrial sectors in Mexico are of especially great importance to the economic health and security of the United States.

Energy. Mexico is the fifth-largest oil producer in the Western Hemisphere, and the 12th-largest in the world, but its hydrocarbons industry has been in decline and production has fallen in recent years. Demand in Mexico for natural gas has been rising and the country may have vast untapped resources, but foreign investment and technology would be needed to develop more proven gas reserves. Meanwhile, Mexico depends heavily on gas imports from the U.S. Overall, Mexico's oil and gas sectors have been constrained by underperforming, inefficient, and corrupt SOEs.

President López-Obrador's predecessor, Enrique Peña Nieto, embraced a wide-ranging reform agenda that included the theretofore untouchable energy sector, where he introduced changes that opened Mexico's entire energy supply chain to competition and foreign investment by companies that would bring much-need technology to Mexico's oil and natural gas sectors.

Although these historic energy reforms were implemented in 2014, the overly complicated new hydrocarbons law fell short of demanding further streamlining of regulatory oversight and imposing an even more diminished role for the state-owned oil company Pemex.

Unfortunately, President López-Obrador, who entered politics in the 1970s during the 70-year reign of the Institutional Revolutionary Party (PRI), has turned back the clock on energy reforms.[33] Pemex was the foundation of the PRI's power, and López-Obrador seems to think he can order a return to resource nationalism by decree and defend Pemex's monopoly.[34]

Fortunately, the new USMCA will drive substantial growth in North America's integrated energy sector. The USMCA will continue energy trade among the three neighbors, maintain the integrated North American energy supply chain, and reduce U.S. dependence on oil from hostile foreign countries.

As it provides post-pandemic help and technical advice to Mexico, the Trump Administration should promote the rapid implantation by Mexico of the USMCA energy provisions, both in law and in practice. The U.S. should also press the government of Mexico to welcome equity investments by U.S.-based oil companies to develop additional crude and natural gas capacity in Mexico.

Mining. Deloitte reports[35] that the mining sector worldwide has been significantly affected by COVID-19. Global demand for key commodities, such as copper, iron ore, and zinc (all of which are mined in Mexico) has fallen due to the pandemic.

According to Reuters,[36] the mining sector accounts for about 4 percent of Mexican GDP. *Forbes* reports that Mexico is the world's leading producer of silver. It is also the second-largest producer of gold in Latin America.[37] Demand for those commodities has been less affected by the pandemic. Fortunately, in the medium term, the USMCA will provide 16 years of stability for mining businesses in North America. The short-term outlook, however, is more dire.

Among other critically needed and imported minerals and metals, reduced supplies of fluorspar will directly affect the United States. According to the U.S. Geological Survey (USGS), fluorspar "is used directly or indirectly to manufacture products such as aluminum, gasoline, insulating foams, refrigerants, steel, and uranium fuel."[38] The USGS reports that the U.S. is 100 percent reliant on imports of fluorspar, and that Mexico is America's lead supplier.[39]

Unfortunately, in response to the pandemic, President López-Obrador declared part of the Mexican mining sector to be non-essential and ordered some mines to cease operations.[40] To assure the provision of vitally important minerals and metals to U.S. manufacturers, the Trump Administration should urge the Mexican government to reconsider that decision, and to take immediate steps to get the entire mining sector in Mexico back to work.

Intermediate Goods. U.S. manufacturers, particularly in the vital defense and aerospace industries, rely on intermediate goods produced by factories in Mexico. The supply of these goods has been disrupted by the pandemic. Restoring those supply chains will be vital as the U.S. economy gets back up and running.

The Washington-based National Association of Manufacturers, which represents 14,000 member companies across the U.S.,[41] sent an open letter to the Mexican government that was signed by 300 CEOs calling for the "reopening of certain Mexican factories that were closed due to the COVID-19 pandemic in order to maintain supply chains in the North American market."[42] As CNBC reports:

> The Pentagon is encouraging Mexico to open some of its manufacturing facilities during the coronavirus pandemic in order to support a crucial supply chain for U.S. defense companies. Many of the U.S. defense firms, especially aircraft manufacturers, rely on Mexican suppliers that have closed due to the COVID-19 outbreak.[43]

Auto Sector. North America's auto industry is one of the world's largest and most competitive production hubs. Automotive manufacturing is the largest manufacturing sector in the U.S., producing 3 percent of U.S. GDP. The industry is also America's largest exporter, employing over 7 million Americans,[44] and will be key to the post-pandemic recovery in all three USMCA countries. Maintaining the industry's competitiveness and productivity are vital to the North American economies. The USMCA's provision increasing the rules of origin (ROO) requirements for automakers could increase prices of North American–produced automobiles. New rules under the USMCA require that 75 percent of auto content be made in North America for duty-free access. Automakers have the option of filing for an additional two-year phase-in period for 10 percent of their production, with initial plans submitted to the U.S. Trade Representative (USTR) by July 1 and finalized plans no later than August 31. In light of manufacturing disruptions caused by the pandemic, members of the auto industry are calling for a delayed phase-in of these ROO requirements.[45]

If automakers do not use components or materials that meet that threshold, they would be required to pay a tariff on them. Despite the well-meaning intentions, that provision could inadvertently increase costs. Which, in turn, would make North America's auto industry less competitive in the global marketplace and drive manufacturing to lower-cost manufacturing zones.

The economic impact of the ongoing COVID-19 pandemic on the world and region has been far-reaching and hugely disruptive in terms of scale and velocity. It must not, however, weaken or undermine the commitment to free trade or the implementation of the USMCA, which is at the very heart of the economic vitality of North America. Uncertainty is the biggest threat to businesses of all sizes right now. In order preserve the stability and predictability that results from the USMCA, North American trade partners must:

- **Leverage and protect economic interests by transforming the U.S.–Mexico High Level Economic Dialogue into a trilateral economic recovery commission that includes Canada.** Led by the U.S. Secretary of State and the USTR, the commission should include senior officials from the Department of Commerce, the Department of Homeland Security, and the Customs and Border Protection, and their respective counterparts in Mexico City and Ottawa. Agenda items should be focused on economic recovery, sharing best practices of pandemic prevention and reinforcing and diversifying supply chains servicing critical industries to prevent single points of failure.

- **Synchronize their economic recovery timetables to overcome shortages and production delays caused by the economic pause.** The integrated nature of North American trade has made the region competitive, yet Mexico's drastic economic pause will disrupt U.S. and regional recovery efforts. Consequences of an economic pause are happening now. Mexico's emergency health declaration shut down manufacturing facilities essential for producers, consumers, and suppliers on both sides of the borders. The aerospace, automotive, technology, telecommunications, defense, and mining industries, among others, already report serious disruptions to their operations. Private-sector leaders must work together to make up for delays caused by the economic pause.

- **Develop a framework with the Mexican and Canadian governments, in consultation with the private sector, to coordinate essential sectors permitted to operate during a national emergency.** Free-market forces best manage the complexities of economic systems, but right now, Mexico's decision to prohibit key companies and factories from operating has severely affected North American supply chains. To get North America's productivity and competitiveness going, U.S. and Canadian leaders must encourage Mexico to lift prohibitions on key industries that fuel North American economies and service U.S. national security interests, such as the aerospace, automotive, food and beverage, pharmaceutical, defense, telecommunication, and mining industries. Companies in these industries should be allowed to resume operations under strict health safety standards.

- **Use extreme caution in declaring anything non-essential in a future crisis.** Governments are inherently incapable of managing every activity in an incredibly dynamic economic system and determine the essential nature of every industry. Free markets manage these processes in a more efficient manner.

- **Remove lingering trade and investment protectionism.** It is imperative to remove uncertainty caused by lingering protectionism in order to spur economic growth and reinvigorate supply chains. Unsurprisingly, global trade and investment flows will continue to decrease because of COVID-19. The removal of protectionist policies that induced uncertainty would not only benefit the economy in the long term, but would also help to speed up the recovery by stimulating entrepreneurial economic dynamism in the two allies.

- **Reject any shortsighted subsidies to businesses.** These subsidies engage the government in a process of picking economic winners and losers and are prone to corruption. If economic systems evolve to a sort of new normal after the crisis, subsidies will interfere with firms' adjustment to new market realities.

- **Reinstate fiscal discipline and avoid tax increases.** As a critical factor of overall economic freedom, a healthy fiscal balance is essential to ensure effective and accountable governance, particularly given the proven fact that governments burdened with large deficits and debt have less ability to respond effectively in a future crisis. While restoring government spending to pre-crisis levels is an immediate goal, governments should go further and look for opportunities to reduce legacy spending and subsidy programs that interfere with the normal evolution of production processes in response to market forces.

- **Work closely together to ensure ease of border transit for goods and services.** Mexico and Canada are the United States' largest trading partners, and it is in all three countries' interest to responsibly resume and facilitate cross-border trade flows.

- **Take proactive steps to advance e-commerce in the context of accelerating the implementation of the USMCA's digital trade chapter.** That chapter broke new ground and provides a solid basis for further development of the already large cross-border flows of e-commerce.

- **Ensure that the USMCA's automotive rules of origin are implemented in a way that does not hinder the ability of the industry to start thriving again during and after the pandemic.** In this time of transition to the USMCA, the uncertainty of the current situation is holding back new investment and any required adjustments of supply chains.

- **Strengthen U.S.–Canadian cooperation on cybersecurity.** The Internet is an increasingly important tool both for facilitating traditional trade and forming the electronic highway for e-commerce. It is vital to ensure network security to preserve the integrity of that trade.

- **Advance fifth-generation (5G) wireless technology in close partnership and coordination.** The efficacy of e-commerce and effective cybersecurity will be negated if North America does not secure its own 5G technology. Close cooperation on trusted 5G networks and devices is critical to maintaining shared economic prosperity and protecting national security interests.

For its part, the U.S. should:

- **Repeal the Jones Act.** The U.S.'s century-old legislation has hindered maritime trade between ports within the United States and U.S. territories due to its requirements that any shipments of goods between such ports must be done by ships that are U.S.-built, U.S.-flagged, and at least 75 percent U.S.-crewed—which make domestically connected shipments prohibitively expensive in comparison to international shipments. Repealing the antiquated Jones Act will relieve some of the financial strain that U.S. households and businesses now face because of the COVID-19 pandemic, freeing them from its hidden and unnecessary additional costs.

Preparing for a Future COVID-19 Outbreak

The current COVID-19 pandemic is a reminder that the economy, geography, and public health of the U.S., Mexico, and Canada are intertwined. More broadly, biological threats—natural or accidental— can undermine these vital interests. Given the fact that infectious diseases know no borders, all countries must maintain and enhance their own capabilities necessary to prevent, detect, and swiftly respond to disease threats.

It is imperative that the three nations work together to ensure the public health security of North America, which is directly linked to each nation's economic security. As the National Coronavirus Recovery Commission Chairman Kay C. James, president of The Heritage Foundation, points out,

> Good public health policy is good economic policy, and vice versa. If the economy fails, there will be severe, long-term health consequences; and if the health care system fails, there will be severe, long-term economic consequences. A nation decimated by the disease cannot have a functioning economy, and a catastrophic loss of jobs wreaks horrific damage on both mental and physical health.[46]

Fundamentally, nations' capacity to handle pandemics hinges on the quality of their institutions and economic systems, particularly given the positive linkage between economic freedom and health care management. As the region battles the first wave of COVID-19 infections, it should prepare itself for a resurgence until vaccines are broadly available. The North American partners should use lessons from the 2009 H1N1 outbreak to improve their regional health care coordination to reduce the health and economic repercussions of the virus. Leading this effort should be the new trilateral economic recovery commission recommended in this *Special Report*. In order to prepare for future waves, U.S., Mexico, and Canada should:

- **Maintain a strong and effective regional health cooperation.** The United States, Mexico, and Canada must be transparent about their capabilities to assure neighbors that they can stop a future outbreak. Policymakers in the three countries bear a collective responsibility for developing and maintaining robust capability to counter infectious disease threats at both country and regional levels. This capability includes ensuring that key resources are available to fill gaps in pandemic preparedness, which will save lives and make North America safer and more secure. They must also coordinate domestic public health measures that could affect one another.

- **Monitor and minimize future risks of pandemics.** Developing and implementing public health security strategies should include enhancing resource capacity to meet the demands of health crises, ensuring timely medical equipment supply, and investing in a regional bio-surveillance network to detect as well as contain emerging infectious diseases through close coordination.

- **Mitigate internal and external health threats by coordinating travel restrictions.** All three countries agreed to a prudent temporary suspension of non-essential travel across their respective borders to contain the pandemic. Yet there was little coordination among the three countries on suspending flights from international hot spots. The interconnectedness of the North American economies requires deeper coordination on emergency management activities.

Conclusion

This North American recovery plan gives Washington, Mexico City, and Ottawa and their respective private sectors an actionable framework for cooperation following this century's largest global crisis. Principles for economic recovery and health support must be based on the same values that led to North America's prosperity—economic freedom, commitment to regional cooperation, and shared democratic values. Even before the pandemic, the three partners recognized the importance of closer economic cooperation, by charting a new chapter on trade and investment, with modernizing NAFTA into the USMCA. Recovery efforts must target current vulnerabilities, such as Mexico's health crisis, synchronizing economic recovery timetables, and preparing for a future outbreak. The future of North America's economic prosperity depends on the actions taken now.

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