



HLED 2023



11th NALS



EXPERTS' RECOMMENDATIONS

SEPTEMBER 2023

ABOUT



The [C26+ program](#) of the U.S.-Mexico Foundation (USMF) is a multi-stakeholder forum that closely follow the USMCA implementation and makes policy-recommendations targeted at supporting the advancement of initiatives that foster competitiveness in the region through innovation, entrepreneurship & technology.

The **C26+ membership** is composed by 60+ stakeholders from the private and social sectors in Mexico and the U.S. and with deep commitment to advancing the Chapter 26 provision of the USMCA on Competitiveness. Members are divided into three working groups: 1) Smart Borders 2) Digital Economy and 3) Innovation and Entrepreneurship.

The series of recommendations presented in this document highlight the importance of aligning policies, strengthening cooperation, and fostering competitiveness to drive sustainable growth and development in the U.S.-Mexico relationship and North America, in the context of the **High-Level Economic Dialogue** (HLED) between Mexico and the United States, and the **North American Leaders' Summit** (NALS), expected to take place in late 2023.

The **Smart Borders** working group offers recommendations on three main topics: processes and the relationship amongst customs agencies, the opportunity for a renewed narrative of shared border flows, and advancing the use of technology in infrastructure for a more efficient border. The **Digital Economy** working group focuses on ideas for addressing challenges within the sector and creating seamless exchanges between countries. Finally, the **Innovation and Entrepreneurship** working group provides solutions for industry-specific related challenges and guidance on the institutional support required.

A **common vision** of all **C26+ members** is that there is enormous opportunity for USMCA stakeholders, and capitalizing on our shared relationship through strategic collaborative efforts between the US and Mexico will accelerate the expansion of our combined success in key areas such as trade, infrastructure, investment, education, and exchanges - and ultimately foster a maximally competitive region.

More information of **C26+**
<https://www.usmexicofoundation.org/c26group>





Smart Borders



A new phase for the U.S. and Mexican Customs relationship

The U.S.-Mexico border management has entered a new phase due to the recent creation of the Agencia Nacional de Aduanas de México ([ANAM](#)), Mexico's new customs agency lead by military personnel and new responsibilities including tariff collection.

Major **issues** to be **solved** include:

1. **Lack of Communication Amongst Border Agencies:** While there are great examples of joint work at the local level, there is significant room for improving communication mechanisms between Mexican and U.S. border agencies at large.

Recommendation: Establish a joint communication platform based on open data standards and protocols between Mexican and U.S. border agencies to enable secure, real-time information exchange to enhance collaboration with shared visibility, resulting in minimized inefficiencies and delays in cross-border trade and security operations.

2. **New Challenges in Joint Inspections:** The recent integration of Mexican military personnel into joint inspections introduces new complexities and could potentially affect cross-border processes.

Recommendation: It is key to identify ways to involve more ANAM civilian personnel in the joint inspection processes, for a balanced and effective border management.

3. **Inefficiencies in Border Inspections:** The lack of efficient and modern inspection technology at many ports of entry between the US and Mexico leads to bottlenecks and costly trade disruptions. Embracing non-intrusive inspection equipment could streamline inspections and reduce delays.

Recommendations:

- a. Invest in and implement non-intrusive inspection technologies at Mexican ports of entry to expedite inspections and improve the flow of goods across the border.
 - b. Establish mechanisms for effective communication and coordination amongst international commitments, such as participation in the UN's single window trade facilitation efforts, and local border management projects.
 - c. Streamlining CTPAT Certification through increased on-site reviews and inspections and leverage open standard data technologies like verifiable credentials to enable secure pre-arrival data exchanges for enhanced trade facilitation while maintaining security standards, benefiting both countries' supply chains and improving benefits management under our [Mutual Recognition Agreement](#).
 - d. Dispatch of customs in interior ports is a short-term solution to address current border inefficiencies and reduce trade disruptions. This can help mitigate delays while longer-term solutions are being implemented.
4. **Local Efforts Drive National Success:** Strengthening collaborations among ANAM, U.S. Customs and Border Protection ([CBP](#)) officials with other stakeholders can drive impactful projects that improve cross-border processes and cooperation through shared training and resources.

Recommendations:

- a. Facilitate regular collaborative engagements and training sessions between ANAM and CBP officials to promote knowledge sharing, skill development, and effective border management practices. This can also include interactions between Servicio de Administración Tributaria ([SAT](#)) and the U.S. Department of Commerce ([DoC](#)) who are also in charge of foreign trade matters.
- b. Formulate and implement standardized protocols, principles, and plans that guide border management independent of individual leadership, ensuring continuity and stability, according to the needs of the post-pandemic era.

Opportunity for a New Narrative

The ongoing debate of prioritizing security over trade facilitation hinders progress, especially given the modern tools and technologies now available for managing both concerns. Clarifying the symbiotic relationship between these two objectives is crucial for devising strategies that enhance both trade efficiency and border security. Rejecting the narrative that these interests are in competition and employing tactics that solve for both builds deeper trust between governments and fosters a conducive environment for trade and investment.

5. **Public Perception and Agenda Setting:** Shifting the narrative from centering on security concerns to emphasizing the positive impacts of trade facilitation is key. Engaging the public can build support for initiatives that prioritize efficient and competitive border processes.

Recommendation: Develop public awareness campaigns highlighting the economic benefits of trade facilitation and its positive impact on both nations, garnering commercial support for streamlined border processes. These strategies should demonstrate how trade facilitation measures can enhance security and vice versa, emphasizing the interdependency and potential benefits of both aspects.

Infrastructure and Technology for a Smarter Border

6. **Time for a Technological Leapfrogging:** Exploring advanced technologies like interoperable data exchange systems and adopting open data standards present an opportunity to modernize border operations while fostering a competitive market of service providers. Leveraging existing technological developments from U.S. agencies, such as [US DHS SVIP](#) and [US CBP](#) can provide insights into effective implementation.

Recommendation: Collaborate with U.S. agencies to adopt and adapt proven technological solutions, such as interoperable data systems, to enhance efficiency and accuracy of cross-border operations.

7. **Nearshoring and Infrastructure Challenges:** Recognizing that efficient border processes are pivotal for nearshoring industries; proximity alone is insufficient to fully realize the potential of the USMCA region. Focusing on infrastructure improvements can enhance trade flows and bolster economic growth in border regions.

Recommendation: Collaborate with relevant commercial and governmental stakeholders to prioritize infrastructure enhancements at key nearshoring locations and ports-of-entry, aligning border management strategies with economic development goals.

8. **Infrastructure Projects progress:** The absence of clear timeframes and accountability for border infrastructure projects leads to delays and uncertainty for users and trade organizations.

Recommendation:

- a. Establish a comprehensive scorecard system to monitor and communicate the progress of border infrastructure projects, ensuring timely execution, accountability, and providing the visibility commercial organizations need to plan and adapt in tandem.
- b. Strengthen collaboration between Texas and Mexican authorities to effectively implement the Texas-Mexico infrastructure plan, leveraging federal funding and expertise to improve border infrastructure.



Digital Economy



Rising challenges in a new-generation sector

1. **Reach for a common Digital Economy definition:**

There is lack of global consensus on defining and measuring the digital economy, leading to different estimations of its size and impact.

Recommendation: Advocate for the adoption of a uniform and standard definition of the digital economy, considering various variables such as E-commerce, cloud computing services, ICT industries, network activities, etc.

2. **The De Minimis rule led to unfair trade:** The misuse of de minimis rules by some e-commerce companies to avoid taxes and bypass regulations is affecting the USMCA implementation, as well as local retailers and economic interests.

Recommendation: Engage governments into an open discussion that leads to policy addresses the misuse of these rules by non-democratic economies. Increase cooperation on trade issues and create a fair playing field for all businesses involved in cross-border e-commerce.

3. **Cybersecurity and Interoperability are key:** the growth and security of e-commerce and other digital services is intrinsically dependent on the trust of consumers, seamless processes.

Recommendation: Advocate for comprehensive and risk-based cybersecurity regulations aligned with international standards like the USMCA and strengthen trilateral cooperation on cybersecurity matters.

4. **Artificial Intelligence is a reality:** the industry is leader in AI implementation, but there is absence of a clear AI agenda and policy framework in Mexico, leading to uncertainty and unplanned approaches to AI regulations.

Recommendation: Push for the development of an AI national strategy, in line with UNESCO and OECD ethical principles, to foster innovation and guide AI regulations in a responsible manner. Consultations with the U.S. government on its own process to create an AI Bill of Rights can be also good to know challenges and opportunities.

5. **Impacts from the Semiconductor Shortage:** microchips are at the hearth of technology in the 4.0 era. The lack of these vital infrastructure reduces competitiveness, hinders the growth of the sector, and ultimately stops the digitalization process.

Recommendation: Include startups and SMEs companies in the semiconductor mapping efforts and support research in the field.

6. **Digital Skills and Education:** There is an increasing need to develop digital skills in the workforce and the education system to foster innovation.

Recommendation: Promote early integration of digital skills development in K-12 education systems, support talent mobility, and foster cooperation between industries and educational institutions to accelerate technology adoption.

Seamless exchanges boost competitiveness

7. **Cross-Border Payment Processing Times and Open Banking in Mexico:** Processing times (3-5 days) negatively impact liquidity and economic agility in Mexico. The limited number of players managing this demand creates a lack of competitiveness and hinders the potential for a better service offering.

Recommendation: It is essential to promote Open Banking by establishing a comprehensive framework and conditions. This would allow new participants (financial institutions, banks, fintechs, payment gateways, and third-party provider) to enter the market and offer cross-border payment services. This can lead to reduced processing times, improved security, and overall economic development in both Mexico and the U.S.

8. **Data Localization Requirements for Electronic Payment Fund Institutions (IFPEs) in Mexico:** Mexico's data localization requirements for IFPEs using cloud computing services or on-premise data centers present several challenges. The CNBV's resource-intensive approval process for foreign cloud providers and the expedited process for local on-premise data centers create an uneven playing field. Additionally, these requirements appear to contradict the digital trade and financial services provisions outlined in the USMCA agreement, negatively impacting U.S. financial services providers.

Recommendation: Mexican financial sector regulators (CNBV, and Banco de Mexico) are suggested to revise the data residency requirements for cloud computing services and ensuring a more transparent and equitable authorization model. By aligning the regulations with the principles of the USMCA agreement, Mexico can promote fair competition and foster the adoption of cloud computing technologies in the country, benefitting both local and U.S.-based companies.



Innovation & Entrepreneurship



Industry-related challenges

1. **Fragmented Ecosystem:** The entrepreneurial ecosystem in Mexico is perceived as fragmented, lacking a cohesive and connected community. There is a need for better integration and collaboration among various players, including intrapreneurs, entrepreneurs, investors, government, and private sector entities.

Recommendations:

- a. Strengthening Community Building Efforts should be made to create a more cohesive and connected community within the entrepreneurial ecosystem in Mexico.
 - b. Establishing platforms, networks, and events that foster interaction and collaboration among intrapreneurs, entrepreneurs, and other stakeholders can help build a stronger sense of community.
2. **Increasing challenges for Funding Access:** raising capital has become harder, since the VC firms in Mexico are placing higher stakes and requirements, leading some entrepreneurs to seek funding from US-based investors, contributing to the flow of capital away from the local ecosystem.

Recommendation: Facilitating Access to Funding Measures should be taken to improve access to funding for entrepreneurs in Mexico. Simplifying funding processes, creating incentives for local VCs to invest in early-stage ventures, and exploring funding partnerships between Mexico and the U.S. can help address the funding challenges.

Institutional Support for Competitiveness

Aim Support for Specific Industries: Mexico and the U.S. should identify relevant sectors and industries (logistics, electromobility, semiconductors, health, wellness), as well as sectors with nearshoring opportunities.

Recommendation:

- a. The government and the private sector should identify and prioritize specific industries that have the potential to thrive in cross-border collaboration. Promoting sectors like logistics, electromobility, and health and wellness can attract investment and resources, creating a more focused and productive innovation agenda.
 - b. Focusing on national security interests can appeal to investors and policymakers. Emphasizing the strategic significance of sectors like logistics, semiconductors, and privacy can attract more investment and support.
3. **Technical Talent Development:** There is a need to prepare technical talent in Mexico for the growing AI and tech-focused industries.

Recommendation: Collaborating with academic institutions to align curriculums with industry demands can help address this issue. Creating relevant educational programs and internships can develop a skilled workforce that caters to the needs of the growing AI and tech sectors.

4. **Need more support for Startups:** There should be more coordination between US and Mexican authorities to incentivize and support startups. This includes tax incentives for talent and management, as well as streamlined processes for joint IPOs of startups in both countries

Recommendation:

- a. Streamlined Coordination and Incentives Efforts should be made to establish more coordinated incentives for startups across borders. Simplifying tax processes and creating frameworks for joint IPOs can encourage cross-border investments and bolster the startup ecosystem.
 - b. With upcoming elections in the U.S. and Mexico, candidates should prioritize discussing entrepreneurship and innovation in their campaigns. Emphasizing the importance of supporting the startup ecosystem can generate political will and encourage policies favorable to entrepreneurship.
5. **Need of a pipeline for funding coming from governmental and international institutions:** the Mexican ecosystem has the opportunity to attract institutional funds like DFC, IFC, World Bank, and EXIM Bank. The lack of awareness and cooperation mechanisms hinders these institutions from investing in Mexico.

Recommendation: Develop a structured and well-defined investment pipeline, with consultations between the public, private and social sectors, that aligns with the criteria of institutional funds. This can attract significant investments and enhance collaboration between Mexico. Which in turn can create more awareness of the opportunities in Mexico for institutional LP's and university endowments



Ideas for Competitiveness

This paper contains the insights and recommendations of the C26+ members and they aim to highlight the importance of aligning policies, strengthening cooperation, and fostering competitiveness to drive sustainable growth and development in the U.S.-Mexico relationship and North America.

Smart Borders

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