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Investing in North America's Value Chains: Energy and Education

By José Antonio Meade

It has become common place to speak about the disruptions brought about by the Covid-19 pandemic and the war in Ukraine in everything from global value chains, inflation, food availability, and economic performance. This has led many to seek alternative solutions to improve supply chain resilience and deepen nearshoring.

But amongst everything that happened, we may lose sight of the fact that the North American value chains were quite resilient, especially in the face of Covid-19. This was not a forgone conclusion. As

different waves struck the region, they did so with different peaks and valleys. Early on there were significant concerns as to the capacity of Mexico to continue to play its role, especially supplying goods and services that were deemed essential. There were also serious concerns about certain sectors ability to perform in the US and Canada.

The most pessimistic concerns proved unfounded in the case of the North America's value chains, but worse case scenarios materialised and continue to be present outside our region. There is no



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better argument for nearshoring than how well the region performed under duress. In a way the success of North America's value chains should not have surprised us. We had prepared ourselves unknowingly by investing in North American oriented infrastructure for over 25 years within NAFTA and with the private sector in the lead.

Nevertheless, nearshoring offers important opportunities within North America. However, this strategy must include projects that help increase competitiveness across the region and contribute to the development of our neighbours, particularly in Central America. Policies that result in inclusive and sustainable growth should also be part of the agenda. The US-Mexico High Level Economic Dialogue is quite timely in this perspective and can help on the US-Mexico agenda as it did in the past.

Past success does not guarantee we will continue to do well. Next generation growth requires that we continue to creatively tackle problems and challenges.

Central among the key themes is energy. For the region to thrive, there needs to be access in the region to ample, secure, and clean energy. Natural gas is likely to continue to be relevant for many

years, and it will remain a natural way to contribute to combating climate change in much of the region. In particular, the energy matrix in Mexico and especially further south in Central America would be cleaner if natural gas were to play a larger role.

For Mexico, natural gas is also an example of an economic input that increases competitiveness. During the last 15 years, Mexico's economic network developed from having natural gas readily available in the state of Nuevo León, which helps explain the industrial development and the entrepreneurial spirit that this state possesses, to having natural gas available all the way down to the Bajío region in central Mexico. The states in that region developed impressive business and industrial bases with the availability of that natural gas and all are now well integrated into North America's value chains. This case demonstrates the important opportunity for regional strengthening of production capacities if natural gas networks can be developed further south in Mexico. All three countries will benefit by expanding the North American production space with expanded access to natural gas in Mexico



The expanded natural gas pipeline networks should be designed not only to help the southern part of Mexico, but also to bring into play the northern part of Central America. Getting such pipelines into Central America could help mirror the type of development that we had in northern Mexico, providing new employment opportunities for those who might otherwise migrate, and overtime, if accompanied by good economic policies and practices, the region could strengthen its ability to compete as we have seen happen in Southeast Asia over the past decade. By bringing Central America into the mix, through a better energy supply network, we could help begin a new developmental stage for the region. Within the context of nearshoring and global competition, we could also put into place a larger region that has stronger potential for dependable and less expensive logistic connections, a larger working population and more human capital available to take on a wide range of tasks that will be required for future growth.

The North American competitiveness agenda needs to look beyond energy to such key topics as water, border crossings, rail and highway infrastructure. It has to include security and migration. Cybersecurity needs to be central in any integration agenda given the increased reliance on the internet and telecommunications in our evolving production networks. But above all the dialogue needs to consider the social and human dimensions of the North American partnership.

In order for nearshoring trade to be positive and to enjoy broad political support, it has to be bring

about different results than the ones we derived from focusing only on trade. There are many people both sides of the borders that have not shared in the benefits of trade. One of the most important factors that explains whether someone is going to be benefited by trade is education.

In Mexico, the life expectancy of those who do not complete high school is 5 years shorter than those with high school or more education. If we want nearshoring to produce better results the process must be more inclusive, and in order to get the full benefits we have to invest more heavily in education and in the training of skills that our evolving economies need. This investment will likely help to strengthen ties between our countries, and the benefits of our shared trade and production will be more broadly enjoyed by a larger percentage of our population.

Trade, by and large, results in positive trends, but not everyone has enjoyed its benefits. In the past years, Mexico did well in combating extreme poverty and a lot of wealth was created. But now we need to do better for more of the population. Nearshoring and investment in infrastructure, including energy, without a doubt represents a chance for the region to thrive, but this time, we also need to invest in our human infrastructure: education, especially for marginalized regions, is an important precondition.





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He ran for the Presidency of Mexico in 2018. He is currently a board member of the Global Center on Adaptation, an Independent non-executive Director of HSBC Holdings, ALFA Group and Grupo Chedraui. In addition, he carries out consultancy, project financing and academic activities.

José Antonio has two undergraduate degrees in law and economics from Universidad Nacional Autónoma de México (UNAM) and Instituto Tecnológico Autónomo de México (ITAM), as well as a PhD in Economics from Yale University. He is married and has 3 children.

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