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## Sustainability is Key to North America's Near-Shoring Potential and Future Wellbeing

Carlos Pascual

General Motors stated in November 2021, just seven months after announcing plans to invest \$1 billion in electric vehicle production in Mexico, that “Mexico won’t be a destination for foreign investment” unless it provides a solid legal basis to “meet our objective of having zero emissions in the long run.”<sup>1</sup> Indeed, Mexico’s energy policies could determine the future of North America’s integrated supply chains and the jobs and prosperity that go with them.

The world has entered an era in which the countries and companies that transition to net-zero emissions will shape the 21st Century economy. The pandemic, and now the war in Ukraine, have heightened concerns about the vulnerabilities of supply chains and the potential benefits from “near-shoring” manufacturing from Asia to Mexico. The challenge for Mexico and North America is that energy transition and near-shoring must move together.

1. See GM’s Mexico CEO quoted in Auto.com: <https://auto.economicstimes.indiatimes.com/news/passenger-vehicle/cars/gm-flags-concern-over-renewable-energy-in-mexico-sees-investment-risk/87817148>



*Rebuilding economies after Covid means clean forms of energy. Photo courtesy of: Trong Nguyen/shutterstock.com*

This parallel development is in turn vital for enhancing the potential prosperity of the continent and its ability to compete well in the global marketplace.

The past two years have turned on its head the conventional wisdom that led many to think that the pandemic's economic and social distress would bury concerns about climate change. Instead, many governments concluded that if they will invest 15-25 percent of their GDPs to resuscitate their economies, it makes sense to rebuild for a sustainable world. When the landmark UN conference on climate change (known as COP26) ended in November 2021, countries representing 90 percent of global GDP and about 90 percent of global emissions had committed to net zero.

To be sure, legal frameworks to achieve those targets must still follow. There will be inevitable setbacks in technologies. Some technologies will take more time than expected to become commercially competitive. But the direction of change is inexorable.

Financial markets and industry are not waiting for governments to act. Coming out of CPOP26, over 450 financial institutions from 45 countries representing \$130 trillion in assets had committed to net zero emission portfolios by 2050. In the oil and gas industry, companies like Exxon Mobil, Chevron, Shell, Total, BP, Equinor and Repsol have committed to net zero. So have companies as wide-ranging as Cemex, Ford, General Motors, American Airlines, Rolls Royce, Vodafone, and Burberry. The message is clear: the world's industries must demonstrate a path to reduce emissions to attract investment, lower their cost of capital and, in some cases, even to sell their products.

The war in Ukraine is now driving another reassessment that will lead to yet a stronger national security imperative to transition away from hydrocarbons. Despite the economic pain it will face due to its massive dependence on oil and natural gas from Russia, Europe will end its imports of Russian oil and gas in the next 5-10 years.

The United States faces seemingly clashing and enormous immediate and enormous pressure to



produce more oil and gas to help fill the gaps once supplied by Russia. But the other reality emerging from Russia's war is the vulnerability of global supply chains to geopolitical shocks that can send oil and natural gas prices sky rocketing – even for the United States, which is the world's largest producer of oil and gas. The long-term signals to transition to a net zero world have become more diverse and profound.

The opportunities are glaringly clear for near shoring in Mexico the production of electric vehicles, electronic products, textiles, and many other forms of manufacturing.

For the United States, Mexico, and Canada, this is the moment to build the infrastructure – for power generation, grids, transmission, and distribution – and to develop and share technologies for batteries and hydrogen – that will consolidate North America's leadership in a world defined by net zero.

Significant controversy, however, stems from lack of confidence in whether Mexico will provide a stable legal basis to invest in renewable energy

and the infrastructure to support a North American economy that will need to transition to net zero. As political debate on renewable energy continues to rage within Mexico, markets have signaled another reality. Mexico has had some of the world's most successful auctions (currently suspended) for wind and solar power, delivering prices at half the previous average national cost of power generation.

There are also very real issues to resolve on power transmission, distribution and phasing out investments in older and generally dirtier power plants. These are shared North American concerns and should be tackled as a region.

North America has a unique opportunity to reshape its supply chains and energy systems. Canada and the United States are committed to pushing ahead across the broad range of relevant issues. Mexico is key to the continent's potential in two key areas – to nearshoring and sustainability. And progress in both areas will make Mexico an even stronger partner in the North America alliance. No measures are more fundamental to investment in North America and its competitiveness as a region.









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**STRENGTHENING NORTH AMERICAN TIES** – A Must For Competitiveness

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