



Southbound Trade Initiative

*A Fresh Approach to Trade and National Security in the Americas Hemisphere's
Free Trade Agreements*

By

Ernesto Pinal

National Association of District Export Councils



Program Overview

There has been a clear tendency in the last few years on the need to decentralize the manufacturing processes and supply chains from China. This process responds to multiple factors, but there are three in particular that with their convergence are accelerating the need for decentralization. The first one was the tariffs levied during the Trump administration to multiple goods manufactured in China, the second one was the severe supply chain disruptions experienced during 2020 and 2021 due to the Covid-19 effects, and the third one, the most recent, is the effects of the war in Ukraine that is disrupting even further the supply chains and global trade stability.

The Covid-19 pandemic made very evident the fragilities that our existing supply chain and manufacturing systems represent in their current format. Those fragilities not only pose significant challenges for the healthy operation of the North and South American economies, but they also represent important and tangible national security issues. The implied risks of the potential Chinese alignment with Moscow directly or indirectly in the Ukraine conflict, possess a severe potential of new sanctions enacted towards China by the west, crippling further supply chains and compromising access to strategic goods and components of national security nature for the Americas. Hence, the reduction of the current dependency on China as the main and almost sole factory for the Americas is a priority.

The ***Southbound Trade Initiative*** is a program sponsored by the National Association of District Export Councils and was launched in February 2022 to address the issue of overdependency on China. It offers a landscape on how to leverage and fully utilize the existing Free Trade Agreements in the Americas, combined with new reshoring and nearshoring strategies to create an integrated region of common producers and common consumers within the Americas, reducing the dependency on China as the main and almost sole manufacturing hub. This initiative takes advantage of the current Free Trade Agreements in place in the Americas: USMCA, CAFTA, Pacific Alliance, and a great number of binational FTAs among countries in the Americas, together with the new infrastructure development project in Mexico, the ISTMO train. This new train and highway are being built to connect the Atlantic and Pacific Oceans, creating an excellent industrial hub to facilitate the movement of goods and manufacturing options within North America, while creating an additional option to the already overloaded Panama Canal.

This initiative also addresses some vital and strategic considerations regarding the future of manufacturing and technology leadership in general, but with special attention in the context of China expansion of its geopolitical influence through its Belt & Road Initiative. The importance of securing access, supply, and processing of strategic minerals in the Americas is essential for the economies of the future, looking into transforming the current model from mainly just selling to China raw materials by the South American countries into developing their infrastructures to be able to transform those materials locally into items of more value added.



The ***Southbound Trade Initiative*** program aims to present elements conducive to visualizing a regional productivity zone in the Americas, and in the context of the partial and gradual replacement of China in the productive chains. It focuses on small and medium-sized enterprises in the United States and Canada that, as is known, are generally larger companies than the counterparts of Latin America. The idea is to locate, in this process, Mexico as a "catapult" to facilitate the transfer of manufacturing from China to the Americas within the implementation of the USMCA and in combination with the multiple free trade agreements existing in the Americas, adding an additional component that allows it to serve as an industrial developer to the south of Mexico and North of Central America. The specific cases of Tabasco, Oaxaca, Chiapas, and Veracruz, in conjunction with Central America (Guatemala, Honduras, Salvador, and perhaps Nicaragua) may be of particular interest by linking them to the use of the ISTMO train, with the USMCA and CAFTA as levers.

The emphasis of this initiative is of the private sector nature, responding to the needs and motivators of private initiatives, but can deliver great benefits of social development and national security to the public sphere. The national security aspect is a potent driver for the U.S. side.

The design of the program emphasizes Mexico's role as a facilitator to enable the transfer of manufacturing from China to North and South America, particularly in the context of medium-sized companies that are considering options to depend less on China. The program also seeks to strengthen the interest and attention of this process of relocation of the productive chain to the Americas (versus other Asian countries) with Mexico, Central and South America as the main landing points but within a strategic and integrated alliance with the US and Canada. .

The program pays particular attention to providing an overview of the caliber and stature that Mexico, and South America have today in the world of trade, as that is often underestimated or misunderstood in the U.S. and Canada business communities).

This program also seeks to open the interest in the audience so that they continue to investigate this topic in the following months, generating the need for future follow-up sessions by region and industry and with more specific topics, to finally convince them of the convenience of making the movement to the Americas.