THE BROOKINGS INSTITUTION

WEBINAR

HIGH WIRE: THE SHEINBAUM ADMINISTRATION AND THE FUTURE OF US-MEXICO RELATIONS

Washington, D.C.

Tuesday, May 26, 2026

PANEL DISCUSSION:

MODERATOR: MARY BETH SHERIDAN
Journalist, Fellow, Americas Institute, Georgetown University

VANDA FELBAB-BROWN
Senior Fellow and Director, Initiative on Nonstate Armed Actors, The Brookings Institution

PAMELA K. STARR
Professor of the Practice of Political Science and International Relations, University of Southern California

CHRISTOPHER SANDS
Visiting Fellow, Global Economy and Development, The Brookings Institution

* * * * *

SHERIDAN: Good morning, everyone. Welcome to Brookings. Thank you so much for joining us this morning after the holiday weekend for our panel, High Wire: The Sheinbaum Administration and the Future of U.S.-Mexico Relations. We're very excited to have you all with us. This panel really couldn't be more timely. We are at a moment as all of I'm sure with the Trump administration holding over Mexico the possibility of military intervention. President Trump said as recently as a few weeks ago, quote, "The cartels rule Mexico." This has been his theme since he took office.

He's put Mexico really at the center of his foreign policy and used tariffs. He has designated Mexican cartels. He has pressured Mexico really in a remarkable way to take more action against organized crime. And President Sheinbaum has responded with her own set of rather remarkable actions, including transferring nearly 100 organized crime figures to the United States, sending troops to the border on the Mexican side increasing cooperation with the United States. But we're still at a moment where there's a tremendous tension. And to make things even more unusual the US recently asked for the extradition of a sitting governor Sinaloa Governor Rubén Rocha. And this was pretty extraordinary for a number of reasons. It's very rare to seek the extradition and to indict a sitting governor.

But also Rocha is a very close confidant of Andrés Manuel López Obrador, the founder of Morena the past president and mentor of President Sheinbaum. And it also seems to indicate a direction, a new direction in US drug policy, which has traditionally focused on extraditing criminals or drug capos. And now it seems like there is a growing intent in the United States to go after politicians who are complicit with drug capos and indeed have really facilitated their ability to work. But that raises a lot of questions about what happens when you really start to take on the political structure of a country like Mexico.

Meanwhile, to keep things really interesting we have the review of USMCA, which Trump signed into law in 2020 and called it at the time, the largest and fairest trade agreement ever. But he has since expressed a lot of doubts. So if the three parties, Canada, the US, and Mexico, don't agree to renew it by July 1st- there will be apparently a series of more reviews coming up. And as, as some of you know I'm sure despite the tariffs imposed by President Trump and despite his sort of history of questioning free trade with Mexico, Mexico's exports are booming. The, and the trade deficit reached, it increased 15% in 2024. So you see a tremendous, on the one hand, interdependence between the two countries. But obviously a lot of questions as we approach the review.

So I'm Mary Beth Sheridan. I'm a longtime correspondent in Mexico. Most recently I was the bureau chief of the Washington Post. Now I am a fellow at Georgetown's Americas Institute, and I'm also a fellow at the Inter-American Dialogue's Mexico Program. Delighted to be joined here with some superb scholars and analysts. First, Vanda Felbab-Brown. She's a senior fellow in the Strobe Talbott Center for Security Strategy and Technology in the Foreign Policy program at Brookings. She directs the Institute for Non-State Armed Actors at Brookings. She's a leading expert on insurgency, terrorism, urban violence, and illicit economies, and her research spans international and internal conflicts across multiple regions. She's done extraordinary fieldwork in Mexico.

We're also joined by Pam Starr. She is a professor of political science and international relations at the University of Southern California's Dornsife College. She's also a fellow at the USC Center on Public Diplomacy. And this month she published a new book, The Making of Mexico: Revolution, Reform, and Transformation, in which she explores the competing forces shaping Mexican modernity. Welcome, Pam.

We also have Christopher Sands, a visiting fellow in Global Economy and Development program at Brookings. He leads the USMCA Initiative and also serves as director for the Center for U.S. Canada Relations at Johns Hopkins School of Advanced International Studies. His research focuses on North American trade integration, economic integration, and the political and institutional dynamics shaping the future of the U.S.-Mexico agreement and U.S.-Mexico-Canada agreement. So we will dive in. If you have questions, please feel free to send them to via email at events@brookings.edu. We will-- I'll start by posing some questions to our experts, and then we would love to hear from the audience.

So Vanda, maybe we can start with you. As I mentioned, the threat of U.S. military action has been hanging over the relationship and I'm curious, how likely do you see the possibility of some sort of US unilateral intervention? Or how much do you think Sheinbaum's policies represent a real break with the past and might persuade the Trump administration to hold off from any direct US military engagement in Mexico?

FELBAB-BROWN: Thank you very, Beth for steering us through the conversation today. Look, the issue of military intervention is very much on the table. I remember a year ago when the Trump administration came into office, I had a lot of engagements with leading Mexican experts. And up to January, February, they were dismissive of the ideas that many of the threats that the Trump presidential candidacy put on the table, designating criminal groups as foreign terrorist organization, imposing tariffs and the threats of military action were real.

They just didn't believe that they would happen. And now we have seen a large number of them taking place, and we have seen some of the extraordinary action that you mentioned, such as the indictment of a sitting Mexican governor and someone close to López Obrador, the previous Mexican president. Now, I don't think that it's determined that there will be unilateral action, and you have different sides, different camps in the US government. Some strongly advocating for it, others opposing it. And certainly something like that would rock the US-Mexico relationship in a way that we haven't seen, that would far surpass any of the actions, and would make it essentially impossible for the Sheinbaum administration to maintain cooperation with the United States.

I would also posit that it would accomplish very little that some airstrikes, drone strikes, even special operations forces raid against Mexican criminals, against labs, or perhaps even the snatch of a indicted politician would feel good on TV for a few minutes, but would really not systematically affect how Mexico deals with criminality and its limits of capacity. And, strikes against drug labs, high-value targeting of criminal actors is daily activity in Mexico, and certainly one that grew very substantially under the Sheinbaum administration. So during the López Obrador six years, we had enormous reduction in Mexican law enforcement actions against the cartels. We had a president that essentially gave the cartels a carte blanche, that held back law enforcement activities, that often publicly pleaded and engaged with the cartels. And we saw a real break and disruption to US-Mexico collaboration.

The Mérida Initiative ended. There was the bicentennial framework. Nominally on paper, it reiterated many of the same points that were in Mérida. In practice, cooperation really collapsed. Since the Sheinbaum administration came into office, we saw a lot of activity, a lot of actions. Many of them are highly desirable, and a lot of them stem from the own inclination of President Sheinbaum and her security minister, Omar Garcia Harfuch. A lot of them are the credit, the result of the pressure of the

Trump administration. There is no doubt that the Trump administration, through its extraordinary pressure, has made the Mexican government take far more action than it would have otherwise, and a lot of desirable action. But, and here is where I end if we go for US unilateral action, we will torch down all that was accomplished, and we will accomplish very little in terms of making actual progress against the criminal actors. So huge cost, very little to be gained.

Second, the Trump administration, I'll end here with this, needs to realize that Mexico will not be reformed from the immense power and infiltration of Mexican criminal groups very quickly. So if it asks the Sheinbaum administration the impossible, it will either dismantle the political functioning of the country or simply force the Sheinbaum administration into retracting and not cooperating. Now, that said, I very much welcome the indictment that we have seen against sitting and past officials suspected of links. I think that's a great policy. But what are the limits? What is reasonable to expect? What is beyond the reach needs to start factoring into policy.

SHERIDAN: Great. Thank you. So following up on that, Pam, you've followed the bilateral relationship for decades. How much is the Trump administration taking this into uncharted territory?

STARR: First let me say I apologize for being a moment late. I had technical difficulties, so I apologize for that. And I wanna thank Brookings for the invitation.

You're absolutely right, Mary Beth. We are in uncharted territory. And I would argue it, we're in uncharted territory for four core reasons. One is because of an, an agreement the United States and Mexico reached actually in 1927, a long time ago. A very informal agreement which I discuss in the aforementioned book. In which the two countries almost came to war.

And the way they avoided war was coming to the agreement of two core things. One is that that most issues in the bilateral relationship would be dealt with behind closed doors. There wouldn't be name-calling in public. And secondly what I call the autonomy within limits agreement, where the United States granted Mexico enormous political autonomy, both in domestic and foreign policy, on one very important condition: That Mexico never generate a national security threat for the United States. Both sides held to that agreement until the Trump administration. And part of the reason the Trump administration hasn't held to the agreement is because over time, the definition of what is a US national security interest has expanded. It's, it wasn't simply foreign adversarial powers, but now also included things like migration and security cooperation.

So that narrowed Mexico's freedom of movement. It didn't affect Mexico under López Obrador, who was able to manage the Biden administration in a way that exchanged cooperation on migration on that national security concern for autonomy elsewhere in the relationship. So first, those two historical agreements. A second informal agreement happened in 1993 in the negotiation of the North American Free Trade Agreement, in which the United States agreed that given that Mexico was going to increase its economic reliance on the United States, and therefore its vulnerability to US economic coercion the United States agreed to not mix issues.

It would deal with migration in, in, in a migration silo, security in a security silo, economy in economy silo. It wouldn't use its economic power to pressure Mexico on security or migration. Obviously, that's a policy that Donald Trump has changed dramatically. And then most recently was the indictment as Vanda mentioned of Governor Rocha in Sinaloa. Never before had the United States indicted a sitting a, a governor. And it has crossed a line where the United States, from Mexico's perspective, seems to be interfering in Mexico's internal affairs which was another thing the United States said that it would never do in that autonomy within limits agreements. So definitely uncharted territory. It's taken the, the relationship to a place it's not been in 100 years.

SHERIDAN: Fantastic. Thank you so much. And so you mentioned the NAFTA agreements and obviously followed by USMCA. So we are approaching or really in the midst of, discussions about the review of USMCA. Chris, can you describe for us what's coming? It's a bit of a confusing process. If you could just lay out for us what's coming with this review that's supposed to happen by July 1st. And are we likely to see some kind of agreement this year? Or what, what kind of fallout do you expect?

SANDS: Sure, Mary Beth. Thank you very much. And thanks everyone for including me on the panel. So w-what we expect from the process, and it should be noted this is the first time we've ever gone through the process of a USMCA review, which is a novel addition to the NAFTA framework that came with USMCA. Before, we never went back and looked at terms. So this is the first time. We are moving towards a date, and the date is July the 1st, which was the first operative date of the USMCA back in 2020. That agreement that date is the date by which the three leaders will put, or the three governments will put their cards on the table. And they have basically a choice between three options.

One, that they're gonna withdraw from the USMCA. Two, that they're going to renew the USMCA for a further 16 years with another review after six, so kind of a repeat of what we've seen. Or three, they're not withdrawing, but not renewing yet either. And this has been the middle ground option that Ambassador Jamieson Greer, the US Trade Representative, has been signaling since late 2025, was the likely landing point for the United States. So if we don't renew, here's the good news, the agreement continues for 10 years. And so there is some stability that comes from that. However, what happens is we begin negotiating to try to address US concerns about bringing everyone to the point that they're willing to renew. So essentially, it's an ongoing negotiation, as I think you said in the upfront, where there isn't really a timetable, just that July 1, 2027, we'll have another cards on the table moment and around.

So that's sort of the structure, and we've been moving towards it, and Jamieson Greer's been pretty good about telegraphing his interest. Now, part of that is that he has to report to Congress. That's part of his, our understanding of what he needs to do. And w- one of the, the key dates to watch is early June because Ambassador Greer has said that he will inform Congress of his intent, certainly not to withdraw. I don't... I- if he wants to withdraw he needs to be pretty careful, but to s- tell Congress what he intends to do on the 1st in early June. Now, this afternoon, Ambassador Greer is gonna be speaking at the Council on Foreign Relations, and he may choose that as a moment to telegraph a little bit more his intention with regard to USMCA, which will certainly be a, a big topic in that speech this afternoon.

Let me touch on one other thing, which is that we have seen from the beginning, and I'm really, Tying into Starr's observations here, we have been seeing the agenda expand from the beginning. Now, if you go back to the Canada-US Free Trade Agreement, there were people who said we should talk about labor and environment, and the trade negotiators said, "Get lost. This is a trade agreement. It's not social policy. We don't wanna do it." Then that was the same for the negotiation of NAFTA, but the Clinton administration admitted we should put some side agreements together to begin to bring environment and labor in. And that gradually become a norm for US trade negotiation that those two elements would be included.

And ultimately, when the USMCA came, rather than leaving these important areas outside the agreement, they were mainstreamed. And many people felt that was good. We had experimented, we had this adjacent agenda for a long time, and then we knew what to do to put it into the agreement. And I think at the beginning of the second Trump term, it seemed to me that it was possible that we would see security commitments fold in as well. Because at least since 9/11, we've had ongoing negotiations about borders with both Canada and Mexico. But I'll s- admit, I only thought we were gonna be talking about the border, perhaps a little bit about fentanyl, some of those security issues. But what we've seen in the last week is not just, or last couple of weeks, is not just this pressure on Mexico, but also a decision by a relatively mid-ranking US official to suspend participation in something called the Permanent Joint Board on Defense that the US and Canada set up in 1940 to help coordinate continental defense.

On top of that, the US presented Canada with a sort of unilateral security priorities document and demanded action in order to continue moving forward. Now, they've questioned everything from the F-35 purchase that Canada's made, all the way down to commitments to secure the Arctic and reach 2%, which the prime minister 2% of Canadian GDP, which the prime minister pledged to hit this year. But actually getting the spending rolling all the way towards now the new Hague commitment within NATO to spend 5% of GDP on defense. So Canada's on track, but is being scolded by the administration for not doing enough, not only on borders, but also on, on continental defense, which is a weird, but I think in some ways symmetrical analog to what the pressure on security that the Trump administration is bringing to bear on Canada, on Mexico, sorry.

SHERIDAN: Great. Thank you so much for that. Vanda, following up on your comment you mentioned that it was positive to see an indictment of a sitting governor, Rocha. He's now stepped down, but he's obviously this very prominent politician in Mexico. How critical is it to attack the political structures that work with and enable drug trafficking? And I'm curious The New York Times recently had a story with the Department of Justice in the US urging prosecutors to triple the number of indictments of corrupt government officials in Mexico, and to use terrorism charges for these individuals cooperating with drug cartels. Is that strategy likely to succeed? And, what are the risks here? That, that question's for Vanda.

FELBAB-BROWN: I do believe that getting at the crime politic-- I do believe that getting at the crime politics nexus and in some ways it's a far more powerful tool and foundational tool than even arresting the heads of criminal organizations. Nonetheless, this cannot just be done randomly and by numbers. Each of the cases really needs to be solid. If they are flimsy, if they collapse in prosecution that would obviously generate really bad optics and undermine the deterrence capacity of such further indictments. And then the question is, how is that going to mesh with the political system? Pam spoke very eloquently about the history of the relationship and the way we are in a new phase, and her book, The Making of Mexico, is really just brilliant of bringing about the, the context and explaining the changes where we are today.

First of all, we have a fascinating situation where obviously the Sheinbaum administration is replaying the López Obrador administration with former Secretary of Defense General Cienfuegos, where Mexico forced very effectively the Trump administration to hand Cienfuegos back. Mexico then launched an investigation into Cienfuegos that was very fast and very rapidly exonerated him of everything. So the Trump-- the, the Sheinbaum administration is now telling the Trump administration, "We will do our investigation on Rubén Rocha, and then we will make a decision." But at the same time, we have three of the nine other indicted politicians who handed themselves over to the United States, and who will presumably be collaborating and providing some fundamental evidence.

I would also suspect that the evidence on Rubén Rocha came out of the US interrogations of El Mayo and Ovidio and Joaquín Guzmán. And now there will be further information. So are we going to be in a disjunction where the US has evidence and the Mexican government is failing to act, and we have a really explosive situation because of the political sensitivities? Now, the Sheinbaum administration itself has been trying to get to some extent at the crime politics nexus, has been arresting local officials at the mayor level, at the municipality level, and has done so several times now, including recently. And unlike the Calderón administration, has had about thirty percent effective prosecution rate.

The Calderón administration indicted some hundred officials as well, but most of those collapsed in prosecution in Mexico. The direction of US policy, in my view, is correct. Indicting even sitting politicians is the right decision in the immense context of criminality and corruption in Mexico, and the failure of Mexican institutions to act in and of themselves. But What is the reasonable expectation? At what point does the US cross simply into complete political unsustainability, takes action that violate the very fundamental tenets of sovereignty, and in that way damages all cooperation as has been taking place. And second issue is that at some point we need to let Mexican systems, judicial, law enforcement to learn and develop on their own.

It cannot be that everything is handed over, outsourced to the United States to handle. So the will of the Mexican people to be safe from criminality needs to rise. It needs to become the agenda of the Mexican government. And the systems in Mexico need to start taking course sufficiently adequately themselves. Right now, we are in this highly contentious outsourcing to the US that on the one hand is good, but comes also with immense risks.

SHERIDAN: Terrific. Thank you. So Pam I'd love your thoughts about the Rocha indictment. How is that complicating Sheinbaum's political position? Can she give him up to the United States, or would that cause a rebellion in her own party?

STARR: There are actually two or three lines of argument on this. There's this one line of argument, mostly amongst security specialists in Mexico, who are saying that at the end of the day she's gonna have to give him up. There is a second line of argument that argues that likely she ultimately wants to give him up, that by sending a message, very strong message to the rest of the party, it would help her reduce the influence of the politicians who are associated with narco traffickers in Mexico. I don't think either of those arguments are correct. I think there is a logic behind both of them, but I think more likely than not, she's not going to be able to extradite Rocha. And certainly, her preferred option will be to try him in Mexico. I think more likely she will detain him and try him in Mexico.

And the reason for that is that he is a very powerful political broker within the Morena party. There are other power brokers who also have associations with organized crime, and if he were to be extradited, they would likely rebel against Sheinbaum, which would weaken her presidency significantly. But also, he was chosen for gov- the governorship by the former president, Andrés Manuel López Obrador, to carry out his hugs, not bullets policy. And that association raises the question of, if Rocha were extradited, would he have information that could potentially threaten López Obrador.

Claudia Sheinbaum would never do anything to threaten López Obrador. She is completely loyal to him, and she's loyal to the movement he created. And his being questioned in terms of association with organized crime and that becoming public would weaken the fourth transformation significantly in Mexico. So she would never do either of those things. So my sense is that, and I've said previously in a Substack post, that I think she will not and cannot extradite Rocha. But I do-- I would be surprised if he were not detained in the coming weeks and p- and tried in Mexico, and likely there would be a quiet agreement with him suggesting that he would not be in jail too long, probably just until Trump is no longer in prison.

SHERIDAN: Thank you. And Chris, on the security theme how much will this weigh or be involved with the talks on USMCA? Do you envision Trump using the threat of, some sort of rupture or whatever in USMCA if he doesn't get the security cooperation he doesn't he would like? And related to that I'm just curious, as I mentioned in the opening remarks despite the tariffs that have been imposed, Mexico's exports have just grown to the United States. And I'm curious if Mexico has become kind of the indispensable partner that the US almost can't break with in terms of trade.

SANDS: I think those are all very prescient questions, and so I'll try to answer them in a bit. First, this administration has shown a willingness to go to any degree, to any issue to gain maximum leverage on its partners. And one of the things that we've seen already is a focus early on, on Mexico. So Mexico has been the focus of the, the first set of bilateral talks between the US and Mexico, leaving the Canadians on the side. Canada would like to have a bilateral discussion and has begun some bilateral discussions between Canada and Mexico as well.

But Mexico's first up, and that is to your point, because of the super importance of Mexico to the US economy, connected by supply chains that are quite rich but also quite tight. They need-- we need to keep goods moving. And Mexico needs those supply chains as well. And so there's a real sense that maybe Mexico is first up because it's going to be the most important target. But there are a couple of linkages that are worth bearing in mind. Canada was involved in an investigation of a former Me- Canadian Olympic snowboarder who was working with a cartel, Ryan Wedding, who was arrested with some Canadian cooperation in order to be brought to justice in particular.

So Canada's not immune. Canada's also tried to differentiate itself from Mexico in the hopes that will give it a different kind of dialogue with the United States. Prime Minister Mark Carney initially proposed a security and economic arrangement that would supersede some of the past understandings that the US has had with Canada. That has gone nowhere. But what the Prime Minister has now tried to do is address Donald Trump's concerns about the Canadian border. So there's a significant investment in border personnel, including border security personnel that's been undertaken and is now underway, additional resources for the RCMP and for customs.

There's a redouble down effort to address the Safe Third Country Agreement between the United States and Canada, which was challenged in the Canadian Supreme Court and is an unresolved issue when it comes to human trafficking and other messaging-- human trafficking and other smuggling. And last but not least we've seen a focus between a refocus of Canada on fentanyl. When Canada first heard Donald Trump's charges on fentanyl, it had a couple of responses that didn't work. One was "You send more fentanyl to us than we send to you. It's not really a big problem like it is in the Mexican border. The Mexicans are worse. Go pick on them." None of those was very satisfying.

And the government had gradually started thinking under Mark Carney, "We need a better message." And the message since around March has been, of this year, has been, "We lose 20 individuals, 20 dead people who've died of opioid overdoses in Canada every day." And so while that's proportionally smaller than what the US experiences, the idea is to say, "Look, we're f- we are on side on this. We're not pro-fentanyl because we are also suffering." And I think that was one of the more successful pivots in messaging, and it did buy a little time and a reduction in the number of references to fentanyl in our bilateral conversations between the United States and Canada. All of which to say, I think that the administration is going to keep maximum pressure on both Canada and Mexico.

Security will be part of it. And this whole USMCA kick the can down the road, continue the negotiations is going to mean we're gonna be in this pressure cooker with no easy exit ramp all the way through the end of the Trump administration. And the quicker that we can come to an arrangement where we can calm down a bit the better. And I'll put one marker out down the road, and that is that we are just about to start hosting the FIFA World Cup of soccer. That's gonna put a lot of pressure on the three governments to cooperate. We don't need the shadow of ill will going between security services. That will make things harder.

But it's not just about the World Cup because in 2028 in Los Angeles, very close to the Cana- to the Mexican border, we will be hosting the Summer Olympics, a very big undertaking and one that will reflect very much on Donald Trump as he prepares to leave office, and others are running to replace him. A disaster in Los Angeles would be a real blot on the Trump administration's record. He doesn't want that. So keeping that in view, the next couple years are gonna be rough. Security will be part of the agenda. Trade will be part of the agenda. But there are a lot of s- powerful indicators that we should come to some sort of arrangement and not let this become a, a, a food fight over trade, security, and everything else.

SHERIDAN: Terrific. Thank you. Vanda, I know you've done extensive work on fentanyl. Any thoughts you'd like to add about the-- particularly the fentanyl issue?

FELBAB-BROWN: Yeah. I would like just to elaborate on one thing that Chris said which is the comment that the Mexican government made that US much more fentanyl comes from the US to Canada than from Canada to the United States. That's absolutely true, right? Canada is not a factor in bringing fentanyl into the US. At the height of flows, we have about twenty-two tons of fentanyl. Twenty-two thousand pounds of fentanyl coming from the US-Mexico border and around forty, fifty pounds coming from Canada. Three orders of magnitude difference.

And most of the stuff that comes from Canada is smuggled by the US users who buy it in Canada and for their personal use bring it. Nonetheless, as Chris said, although absolutely factually correct that message was not sufficient for the Trump administration. And the Canadian government created the fentanyl czar put in much more promised much larger budget for the border, for the RCMP, for a variety of actions on the seas as well as at the physical land border. But it's important to, I think, explain that the fentanyl market in Canada is completely separate from the US market. The fentanyl that is consumed in Canada, and Canada is going through a terrible opioid crisis just like the US is produced in Canada from imports o- of precursors based in China and India.

But it's cooked by not Mexican cartels. It's cooked by essentially these super labs operated by Canadian citizens not connected to the large cartels. Whereas US fentanyl is predominantly cooked it's essentially in its entirety cooked in Mexico by Mexican cartels and then imported into the United States. So you have two completely separate market. That's not to say that Canada does not have some security issues. You have significant presence of Asian organized crime, Chinese or Indian. You certainly have a quiet expansion of Mexican cartels in Canada that use Canada for transshipment. Canada can very legitimately complain about the massive amount of methamphetamine that cross the United States, go to Canada, and then from Canada are exported to Asia by the Mexican cartels. And there is massive amount of money laundering. So a lot of opportunities for fruitful collaboration. But Canada is not a factor in US fentanyl consumption.

SHERIDAN: Great. Thank you. So I'll throw out one last question to the panel and then go to the audience questions. Pam, I'm wondering what you think the USMCA review means for Mexico in terms of investment growth in the future of the fourth transformation as the movement of López Obrador is known, and Sheinbaum, of course?

STARR: It's extraordinarily important. López Obrador laid out the political foundations for what he hopes would be a long standing government in Mexico led by Morena and the Fourth Transformation. And Claudia Sheinbaum's responsibility, as she calls it, is to build the second level on the Fourth Transformation, and that is to make it sustainable. And the key thing she has to do is make it sustainable economically. She needs investment for there to be growth. She needs growth for there to be tax revenue. She needs tax revenues to sustain all the social programs that López Obrador put in place, which are the heart and soul of the Fourth Transformation.

And to do that, she's found it's been very hard to entice investment. Pro- I promise you, I am getting to USMCA. It's been hard for her to, to entice investment into Mexico, and there's two reasons for that. One is this thing that economists call the commitment problem, which is she can't commit that her successor will be pragmatic toward the private sector as she has been, and that it won't be a throwback to the more radical wing of Morena. She doesn't have the power within the party to ensure that her chosen successor will be the party's candidate. So there's that problem. But the bigger problem, I think, is the rule of law in Mexico. Mexico has always had a weak rule of law. It goes back to the colonial period, and it continues to the present day.

And while Mexico was able to build a fairly good federal judiciary focused particularly on criminal law civil law and particularly law related to contract law has never been strong in Mexico. And one of the things that NAFTA did was create a rule of law for foreign direct investment in Mexico. It was extraordinarily important for that. And to a certain extent, the federal judiciary also helped create a rule of law for domestic investors in Mexico. Both of those things are at risk now. One is the federal judiciary has been completely changed d- through the 2024 judicial reform, which makes all judges elected.

And Sheinbaum is trying to manage that inheritance from López Obrador in a way that doesn't undermine investment. But in terms of foreign direct investment, USMCA is essential. You need an investor state resolution mechanism, which is not in the USMCA. It was dropped from NAFTA when it was renegotiated. But you also need to have that agreement in place. And as Chris was saying USTR Greer has been signaling since the end of toward the end of last year that we're not going to have a, a, a successful review. We're going to have annual reviews. And as long as it keeps being annual, there is no guarantee for investors that their money is gonna be safe in Mexico.

So we look in investment numbers in Mexico now. Most of the foreign direct investment is reinvestment by companies that are already operating in Mexico. It's not new investment. And without that new investment, it's... and also new domestic investment, you're not gonna get the growth that Sheinbaum needs. So from her, it's not an issue of tariffs as much as it is the issue of providing investment protections to foreign investors.

SHERIDAN: Great. Thank you so much. I'm gonna-- We have terrific questions from the audience, so I am going to pivot to those. So staying on the theme of USMCA this question is nearshoring to Mexico became one of the most one of the defining post-pandemic investment stories for North American supply chains. To what extent have bilateral tensions under Trump's second term, including tariffs, cartel designations, and migration pressure, undermined investor confidence? And does the nearshoring thesis remain intact heading into the USMCA review? Pam or Chris, who'd like to take that one first?

SANDS: I can jump in really briefly. So yes, absolutely. Reshoring was a Mexican calling card. In the Canadian case, they started calling it ally shoring, bringing in that concept of security. But the one thing, and I think observers like Tony Payan at Rice have said that seems to be the case, is that the US agenda is not really near shoring, it's not really ally shoring, it's reshoring, bringing things back as much as possible to the US. And as it-- as the US has looked at major investments in things like critical minerals or automotive supply chains it has been consciously trying to make sure all the high value activity that they can get in the United States goes to the United States with lower value upstream activity in Canada and Mexico at best.

That's a major shift, and I think the private sector has been slow to respond because they're not sure how durable it is. USMCA and NAFTA before that gave the US a huge advantage of being able to work with comparative advantage in both Canada and Mexico and the specialization that occurred to be able to adapt. Now, Canada has talked about ex- diversifying its trade with commodities by selling them abroad, but its manufacturing is still so tied to the United States. And an increasing amount of what Mexico and Canada produce are intermediate goods in the manufacturing supply chains, intermediate goods that don't easily switch over to new supply chains.

They're usually quite I don't want to say bespoke, but specifically designed for the buyer I- as a piece in that chain. So that's I think problem number one. Problem number two, which has been I think very much what the Trump administration has wanted, is to create the kind of uncertainty where there's no safe bet for an investor who's looking to reinvest in plant equipment or start a new venture in North America somewhere. There's no clear sense that you can be an investor in Canada or Mexico and that your investment will be safe. And so we've seen Canadian auto parts suppliers investing in the United States to avoid border risk. We've seen money moving around. But Canada has at least an 8 to 9% productivity gap, which is holding it back.

Mexico has a challenge. It's gonna need to modernize, particularly for new plant and equipment. And in that environment, neither country is getting the investment, so it becomes a fait accompli that if everybody only feels they can safely invest in the US will end up on top of supply chains. And I think it's a terrible future for the North American economy if that retains. And I think that this whole notion of reshoring in Canada sense ally shoring hasn't been fully realized because the Trump administration has been so willing to be predatory against its neighbors.

SHERIDAN: Thank you. Another question. The Sheinbaum administration has publicly rejected US unilateral military operations on Mexican soil while simultaneously making high-profile cartel arrests. Is this strategy sustainable, or is Washington's patience running thin? And what would a genuine rupture in security cooperation look like? Vanda, would you like to take a stab at that?

FELBAB-BROWN: I can start. Look, high value targeting has been the mode in Mexico for some decades, right? And it went through different iteration, how much US input there would be at the height of cooperation during the Calderón administration and Mérida. You have US agents on the ground in Mexico and joint fusion centers. Some aspects of that had been recreated, such as joint intelligence centers in Mexico, joint US presence in intelligence generation on the ground in Mexico. But for example, the presence of US CIA agents has been highly controversial.

The Sheinbaum administration is retaliating against the governor of Chihuahua, who comes from a different rival party from PAN, for allowing the presence of CIA agents. She is trying to bring the governor to trial as Chihuahua and many other states head into governor elections next year. And incidentally Rubén Rocha's term ends next year. So whether he is under arrest in Mexico or house detention or exonerated by the Mexican government that will also change the dynamic once he is out of office. And I very much believe that the military option is on the table. I think it will just blow up the relationship quite literally.

But it's certainly something where you have strong advocates for it in the Trump administration. And not cooperating on some of the crime politics nexus on allowing greater presence of US law enforcement agents on the ground in Mexico. All of that feeds arguments that the Mexican government is insufficient and US military action is needed. I think it's a false argument but nonetheless it strengthens the argument. My last word here is the Rocha indictment did not come out of the blue. For months and months beforehand since really early mid 2025 the Trump administration was coming to President Sheinbaum with a list of officials whom it suspected of being very close to criminal actors and really key operatives of criminal actors, and was asking the Sheinbaum administration to arrest them, to extradite them to the US. She didn't do it, and now the crisis is very much out in public.

SHERIDAN: Great. So Sheinbaum won with a historic majority, but Morena is not monolithic. Where are the most significant internal fractures within the movement, and how might they constrain her room to maneuver in responding to US pressure? Pam, do you wanna try that one?

STARR: Sure. Morena has multiple and overlapping factions. I w- I would argue there's three core divides within the party. One between those who are more radical in their policies, both toward the United States, more anti-American, but also more radical in economic policies, those that are more pragmatic. A second division are those that are associated with organized crime and those that are not. And a third division is between the, the old style power brokers and their clientele their clients, their old pre-style politics within Morena. And then those who are more of the traditional left that don't aren't as focused on the clientelist politics.

The first there's a lot of overlap between those who, s- between radicals and narco politicians, between narco politicians and power brokers and radicals. They all, there's a lot of overlap there. And but on the other side, those who are pragmatic, non-corrupt, and the traditional left, that tends to be Sheinbaum's foundation of support in the party. They are not the majority by far. And so Sheinbaum has to manage these differences within her party in different ways because there are these different overlapping factional characteristics to the party. She is actually trying to use particularly the CIA intervention of breaking Ma- Mexican law and going on an actual operation with Mexican forces, which is prohibited under Mexican federal law using that as well as the indictment as a US intervention in Mexican internal affairs, and using it to call for the unification of the party behind her leadership, hoping to strengthen her leadership s- strengthen her position before the party and to use it, hopefully, to expand her power within the party.

We just learned yesterday that the son of Andrés Manuel López Obrador has decided to leave his position in the party and run for a federal deputyship in his home state of Tabasco next year. That was rumored, and it was, but it was something that Sheinbaum has been pushing for. So she's in a very difficult position because of all these divisions within the party and the fact that the biggest threat really to Morena's control of government is not the opposition, but a division within Morena itself. So managing all of these interlocking divisions within the party is incredibly complicated for Sheinbaum, and it's one of the reasons she feels very limited in what she can do in responding to the US indictment against somebody like Rubén Rocha.

SHERIDAN: That's great. Thank you. I'd like to just remind those watching us that if you'd like to submit a question, you can do so via email at events@brookings.edu, events@brookings.edu. So turning to a different subject, another question. How likely do you think is Mexico to modify or tweak its energy policy under pressure from the US during USMCA negotiations? Chris, would you like to comment on that?

SANDS: I, yeah, I can. Although I have to say I think it will be under pressure to make changes, but this is one of the really tough things for the for any Mexican government to make big concessions on. We already have retained some of the what we used to call NAFTA Chapter 11 investor state dispute mechanisms for potentially mining as well as energy in Mexico. There's also already a very significant international component. We don't think of it in terms of owning the resource, but in terms of pipelines and other sort of adjacent to oil and gas activity that goes on in Mexico.

Canada's actually moved very strikingly with $8 to $10 billion worth of projects that they have on the table. So this is an area where there's already a lot of interest, and I think Mexico likes the current situation. It hasn't had to break the constitution. It has been able to expand its production. And remember too that we have a series of US Gulf Coast refineries that have been critical in refining Mexican oil. The failure of the Keystone Pikes Pipeline, if you remember that saga from a couple decades ago, the idea of bringing the Keystone Pipeline to the Gulf Coast was to take similar Canadian oil, a little bit heavier than what you'd see in Texas, down to those refineries to try to take advantage of spare capacity.

But Mexico makes up most of the rest of that capacity and is facing at the same time a slowly growing competition from Venezuela as Venezuela, it goes through its political transformation and there is at least a little bit more oil coming out of it. So in the long term there's a highly dependent energy relationship between Mexico and the United States, but one where I think Mexico's current situation is likely to be where, exactly where it wants to end up. Not to say there won't be pressure on them to make con- concessions, but I think they'll try to stay with the status quo as much as possible.

STARR: If I might add onto that Mary Beth, and just to talk a little bit about the electricity sector. What Chris said about the petroleum sector is absolutely correct and I don't disagree in any way, shape, or form. But I think the electricity sector is actually the more interesting sector for foreign investors. Because Sheinbaum understands that Mexico's supply of electricity is insufficient to meet the needs of ex- expanding manufacturing, expanding investment and growth that she wants in the economy.

And one of the reasons investors have pointed to as why they won't expand manufacturing in Mexico is insufficient electricity supplies. And so she has dramatically reduced or dramatically increased the, Attractiveness of the offer she's making to private investors in the electricity sector such that the most recent offer for private involvement in the electricity sector in Mexico was oversubscribed. She is being much more flexible on the electricity front in part because she can, because López Obrador set it out at a 46/54, so that 54% of all electricity generation in Mexico must be generated by the Federal Electricity Commission, the state-owned electricity monopoly. Not quite a monopoly, but large firm.

And 46% can be private. And the way that the López Obrador government and the Sheinbaum government are interpreting who's producing what is giving her flexibility in allowing for more private investment in the electricity sector. So electricity generation, particularly in renewables, which generate which come to fruition faster than other kinds of electricity generation plants have been are moving forward rather quickly in Mexico right now, which is something we didn't see under López Obrador, and I think it's something that would not be of concern to the negotiators at in the renegotiation of the USMCA or the review of the USMCA.

SHERIDAN: Great.

FELBAB-BROWN: Thank you. I would add one other thing here which is that you of course had a significant privatization of the Mexican oil sector during the Enrique Peña Nieto administration. And then López Obrador comes in and reverses a lot of that which leaves various US investors feeling that their trade agreements have been violated. And you have a set of lawsuits that have been ongoing that have not been resolved. And that's one of the reasons why many US companies are quite comfortable with the uncertainty that Chris spoke about, and living with the year-to-year renegotiation and but not a likelihood that we would see the permanent renewal of USMCA.

And the second reason is that with the Trump tariffs the Mexican environment still has been highly advantageous to US businesses because despite the global tariffs, most of Mexico's and Canada's goods are exempted under USMCA. Now, if the Trump administration is not able to continue imposing the tariffs because of the Supreme Court decision and is not able to renew them under a n- new legal maneuver it's trying, then maybe the uncertainty with respect to Canada and Mexico will be more significant for US businesses.

But the bottom line is that the violated contracts in the energy sector, the still better investment environment there than elsewhere in the world has produced a pretty comfortable environment to go through the year-by-year ongoing review process, and that's what preserves a lot of leverage for the Trump administration on issues like security.

SHERIDAN: Great. Thank you. So another question, what is the likelihood that there will be a vote to revoke Sheinbaum's presidency in 2027? For those who don't know, there was a, a measure passed, I believe it was in the Constitution some years ago, that allows for a revocation vote of the president roughly halfway through her mandate. So Pam, how much does the possibility of a revocation vote hang over Sheinbaum? Does that limit her ability to act in all this, all these bilateral issues?

STARR: No, it's not really relevant to her. She's, she wants the revocation vote to go forward, and it'll go forward in 2028. And she wants it to go forward because López Obrador did it. It's a thing that Morena presidents now are supposed to do, is allow the people to vote to have her removed from office. But what it became under López Obrador wasn't a revocation vote, it was a vote of support.

She still is in the very high 60s, high to mid-60s in her support. And her support from Morena is enormous.

So Morena will use those clientelist networks I mentioned previously to mobilize the vote in support of Sheinbaum in the revocation vote. So it'll end up becoming a vote in support of her which actually should benefit her in her political maneuvering within the country and within the party.

SHERIDAN: Great. So another question. How should we evaluate Sheinbaum's anti-crime results? Are we seeing genuine disruption of cartel networks or primarily tactical reshuffling that leaves the underlying criminal governance structures intact? Vanda, what do you think?

FELBAB-BROWN: I think it's too early to say. We are seeing a multitude of factors. A lot of the high value targeting is business as usual even with the arrest and death of El Mencho. One of the most interesting development is the lack of violence that we have seen in succession, and presumably, the US-born son has been accepted by the lieutenants as the successor. So presumably, what's going on in, is not just a lull in violence like we saw before the Sinaloa cartel civil war, but actual successful leadership transition.

But nonetheless, this is, still stays on the tactical side. I think the transformative side could come from going after the crime politics nexus. And again, there is this division, the US pressing for high-level politicians and the Sheinbaum administration being only willing to go for municipal level politician, albeit going after them more effectively than prior administrations. But there are several aspects of the agenda that have fallen out. When the Sheinbaum administration came into office in October, it laid out an agenda that tried to move beyond high value targeting to middle level targeting, that tried to build a cadre of investigators that essentially don't exist in Mexico or in inadequate numbers.

The ambition was to create about five thousand of such investigators and to move and strengthen network dismantling as well as to move more forcefully against money laundering and various sources that of the cartels income, which go way beyond drugs. The cartels are deeply integrated into legal economies and have taken over many legal economies like fisheries and agriculture in various parts of the country. And that broader targeting, that institutional development has just fallen by the wayside. The Trump administration pressure has not helped because to-- in order to satisfy the Trump administration, they've been chasing top targets, and they've been reeling and responding each time the Trump administration moves.

But you also had significant opposition from actors like the Mexican military to the development of the five thousand investigators. Essentially, the numbers have not come anywhere close to that ambition. So the institutional development, police development is staying by the wayside. Under the 2024 constitutional reform, the National Guard now has investigative role. It has an investigative mandate, but still lacks investigative capacities. And in the judicial prosecution capacities, Mexico is still very much in the mode of handing people over to the US, not just high value targets.

But patrol will find will stop a car. They'll find drugs or guns. They'll call the US and say, "Hey, do you have anything on them and want to move the person to the US?" Because they don't want to run the investigation and run the prosecution in Mexico. So there's this deep outsourcing that goes way beyond the visible sides like Rubén Rocha or Joaquín Guzmán. And finally, on the financial law enforcement efforts, on the anti-money laundering efforts, Mexico still continues to be simply moving in response to the US. Very appropriately, I very much welcome that. We have seen the US Treasury Department enormously active, moving against banks, entities, individuals with indictments, and not just on drugs, but a wide set of activities. But the Mexican government is always just behind, always just tries to react what the US has done, as opposed to really leading a financial intelligence development that has capacity in of itself, that, that can stand on its own legs.

SHERIDAN: Thank you. I have one last question for Chris, I, who I believe has to head to the airport shortly. Chris both the United States and Mexico recognize that some Chinese manufacturers have used Mexican assembly operations to circumvent US tariffs. How aggressively is this issue likely to surface during the USMCA review, and what viable position does Sheinbaum have regarding Chinese FDI in Mexico?

SANDS: Oh, wow. That's the that, that is the loaded question of all loaded questions. And I think I, I'll be slightly optimistic. It's better to be optimistic at some point in a discussion like this. I think one of the challenges for the United States moving into this mid-century the 21st century, is to develop a more granular ability to monitor and map supply chains, making them transparent and to some extent accountable to make sure that there aren't bad things in the supply chain. This is something that in the private sector we've been talking about for a long time, the potential to use blockchain, AI, machine learning to optimize supply chains, to make adjustments to sudden disruptions like a hurricane or perhaps a, a bridge that goes out or where there's a problem.

The potential is there. However, I don't see any ability to develop that sort of brave new world of a much better managed supply chain without the cooperation of Canada and Mexico. And this is, I think, we haven't thought a lot about it, but this is the prize that I think the US could gain if it adjusted its tactics and really wanted Canada and Mexico as a partner. China has been the one consistent challenge that has united a lot of people in Donald Trump's party, but even Democrats, you saw this in the Biden administration, the threat that China may pose to our economy. So we've even seen some, some discussions of what they call a reciprocal tariff perimeter or perhaps a regional tariff perimeter in which, like a customs union, we would maintain common barriers to certain countries across the North American region in exchange for perhaps lower barriers internally.

That is certainly doable. We weren't ready for a customs union when we did NAFTA, in part because Mexico as a developing country got some better deals in Europe and elsewhere because of that status. But could we move there? That would be a huge gain, and I think one that Canada and Mexico might be inclined to move toward, but only if the US was willing to make up for what China could offer them. And I'll spell that out. For Canada, China is a major consumer of commodities, agricultural, mineral, even softwood lumber. And those are things that in a pinch, and I should add oil and gas as well, that in a pinch Canada could sell abroad in the Asian markets if it can build enough capacity to ship things out.

That's a huge win for them, even as manufacturing primarily stays tied to the United States. That's, that would be enormous. And this is why Mark Carney, the Canadian prime minister, did a deal with Beijing to bring in 49,000 Chinese-made electric vehicles at a 6% tariff rate into North America to show what could be done at the same time that Mexico was under tremendous pressure to stop importing Chinese EVs. But both countries have shown that they could work with China, but they might rather work with the United States, but the US has to have a policy to encourage them to move down and move in that direction. And I said that, for Canada it's commodities. For Mexico's the most likely beneficiary of reshoring jobs away from China because it does still have that.

A lot of its infrastructure is new, and it has a lower wage rate overall, which does have some protection. And you can see the importance of this in part- With this 301 investigation of forced labor. Very interestingly, Canada's thrown into the 301 investigation not because we believe Canada is pro foreign la- or forced labor, but because Canada, although signing all the right agreements, does no monitoring or inspections of products. And the US wants a much more rigorous regime to make sure Canada can make the claim not only are they opposed to it, but they're delivering forced labor free products. We're gonna end on this. There is a ... If you looked at the USMCA text, there are lots of things we saw in NAFTA, but there's a substantial part, by far the largest number of chapters are about setting governance guardrails.

Things like, if you change your interpretation, it has to be published. If you are making rulings, you have to be consistent. And this is how one should go about conducting their domestic governments in fairness to their partners. I think we'll see more and more of these governance guardrails as the US tries to bring Canada and Mexico into line with its approach to things. But for that to succeed, it has to have a willing partners in Mexico City and Ottawa. And the approach that we're taking to the USMCA review is not going to re- get those enthusiastic partners who really feel that it's worth working with the US because we're consistent and we're trustworthy. Because right now we have not.

SHERIDAN: Great. Thank you so much, Chris. Really appreciate that. I think we have time for one more question from the audience. So Mexico's judicial reform eliminated professional qualification requirements and introduced the popular election of judges. Given that the m- USMCA dispute resolution depends on independent Mexican courts, how exposed is the trade relationship to the erosion of judicial independence? Pam, what do you think?

STARR: I think without a doubt there is a vulnerability there. But I believe President Sheinbaum is trying to reduce that vulnerability. The original judicial reform passed in 2024 had virtually no requirements for the qualifications for people who would run for judges. They had enormous numbers of candidates on the ballot so many that the, the ruling party decided it needed to have lists to inform voters of who they should vote for. There were these folded things that looked like accordions, and they were called accordions in Mexico. And Sheinbaum was supposed to have the second round of judicial elections at the same time as midterm c- congressional elections, midterm elections, excuse me, for members of Congress and governors and local elections in June of next year.

This week there is legislation that is being fast-tracked through the Congress in a special session which will be approved before the end of the month that will change the way in which judges are elected. It will kick the election to 2028, so all people will be voting for are the judges and then obviously the revocation vote of President Sheinbaum will be on this in the same election. But the, they are changing the requirements for judges. The judges will have to have their qualifications verified by a judicial body. And they're gonna reduce the number of names that are on the ballot. Unfortunately, they're still gonna set up a, a selection process that gives the government 100% control over whose names go on the ballot.

So it, the question of independence is still gonna be there. But at least they're gonna be people who are more highly qualified than they were in the past, which is something that President Sheinbaum recognizes and has is trying to resolve. Interestingly, I think it's also important in terms of confidence in the independence of the judiciary that Sheinbaum has, is also made two changes in the Supreme Court in this legislation. One is to make the court more efficient, so dividing it up into two internal committees that will deal with small issues, which was the old structure of the Supreme Court. They're bringing that back. But they're also going to require the court to have a two-thirds vote to declare laws unconstitutional.

And the idea is they want to reduce the influence of what has turned out to be a fairly radical court that Sheinbaum wants to limit their influence over policy and politics so the and over the economy to provide more confidence to investors. Whether that will be enough for the United States, unclear. It's definitely a clear vulnerability. It's a card the United States can play if it chooses to do so. So far it has not

SHERIDAN: Terrific. Thank you to the panelists, and thank you to everyone who tuned in for a super informative discussion, and hope to be back at some point to see how all this is playing out. So thank you very much from Brookings and from all of us, and hope to see you again soon.

FELBAB-BROWN: Absolutely, we will be back.