

# Working with Mexico



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# Important Ties with Mexico



- **U.S.-Mexico ties touch more U.S. lives daily** than any other country via trade, border connections, tourism, and family ties as well as illicit flows. The same is **even more true for Mexico**.
- An estimated **36.6 million U.S. citizens are of Mexican heritage**.
- From the year 2000 to 2017, the Mexican-origin population increased by 76%.
- The shared **1990-mile border** (3,201 km) creates overlapping security, economic and environmental interests.
- 2010-2016, government-to-government collaboration, including against crime, was unprecedented.



# Serious Challenges to Address

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U.S. drug demand and cross-border  
criminal networks

Strengthening law  
enforcement cooperation

Negative public perceptions

Addressing Causes of  
Central American migration

Implementing USMCA

Migration & border  
Management

Surging Criminal Violence in Mexico

Countering Corruption

Potential Terrorism



# Importance of U.S.-Mexico Trade

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Mexico is the U.S.':

- 2nd largest export market
- 3rd largest Ag export market: \$19 billion in 2017
- 1<sup>st</sup> or 2<sup>nd</sup> export market for 28 U.S. States
- 1<sup>st</sup> export market for U.S. Southern Border States

**For the first time in 2019, Mexico became the U.S.' largest trading partner, ahead of Canada and China.**





# US-Mexico Trade



**Exports**

\$300 Billion



**Imports**

\$378 Billion



2018 Trade in goods and services:

**\$ 678 Billion**

US and Mexico trade over  
**1 million dollars per minute**

# US-Mexico Border Crossings

Each day there are over

**1 million**

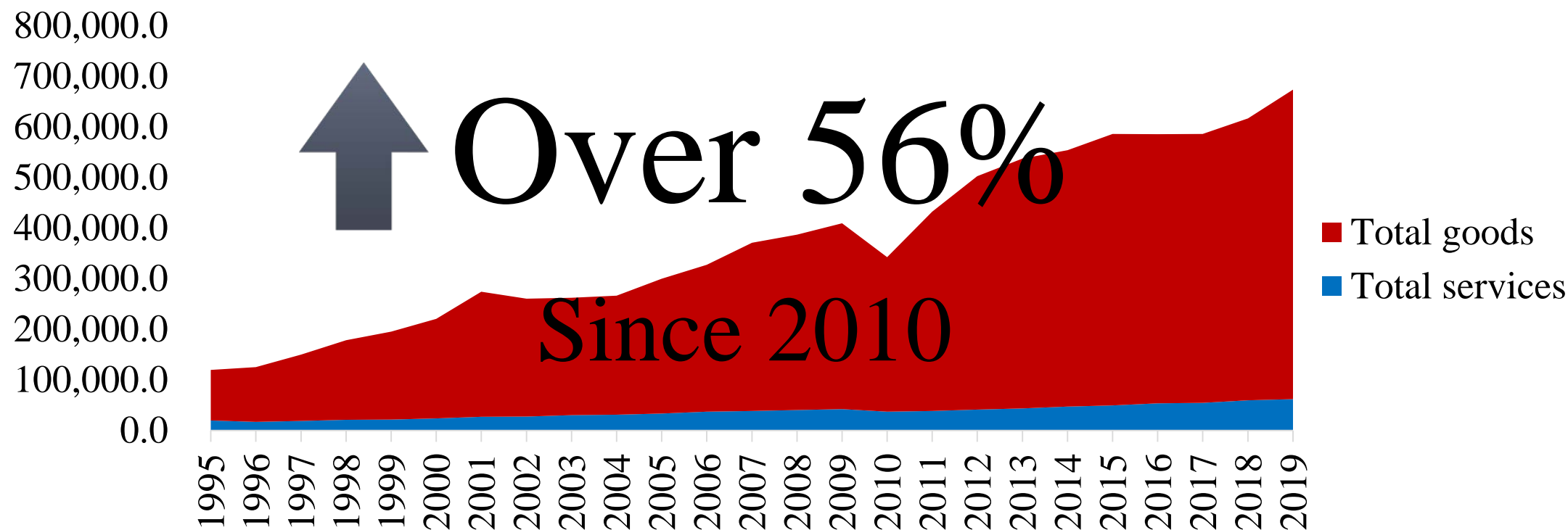
border crossings





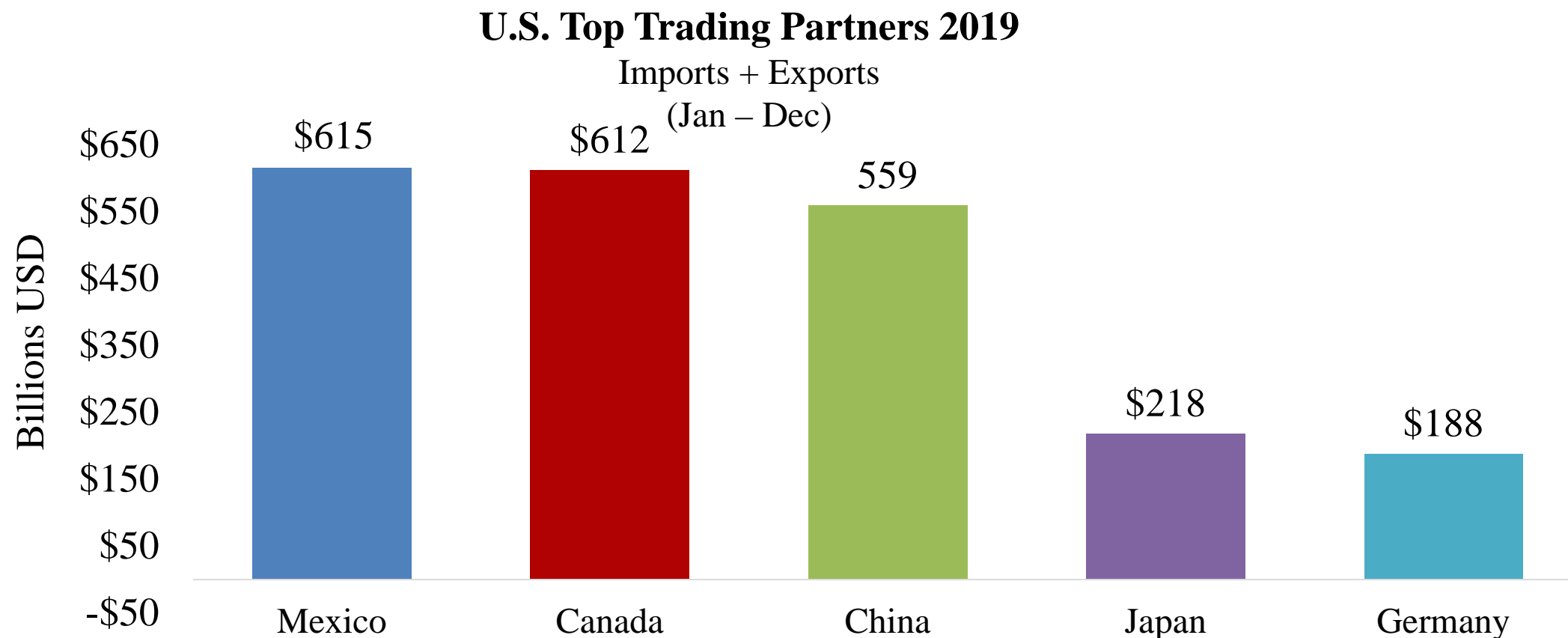
# U.S. Trade with Mexico has multiplied by 6 since 1995

- The U.S. sells **more** to Mexico than to all the **BRICS** countries together





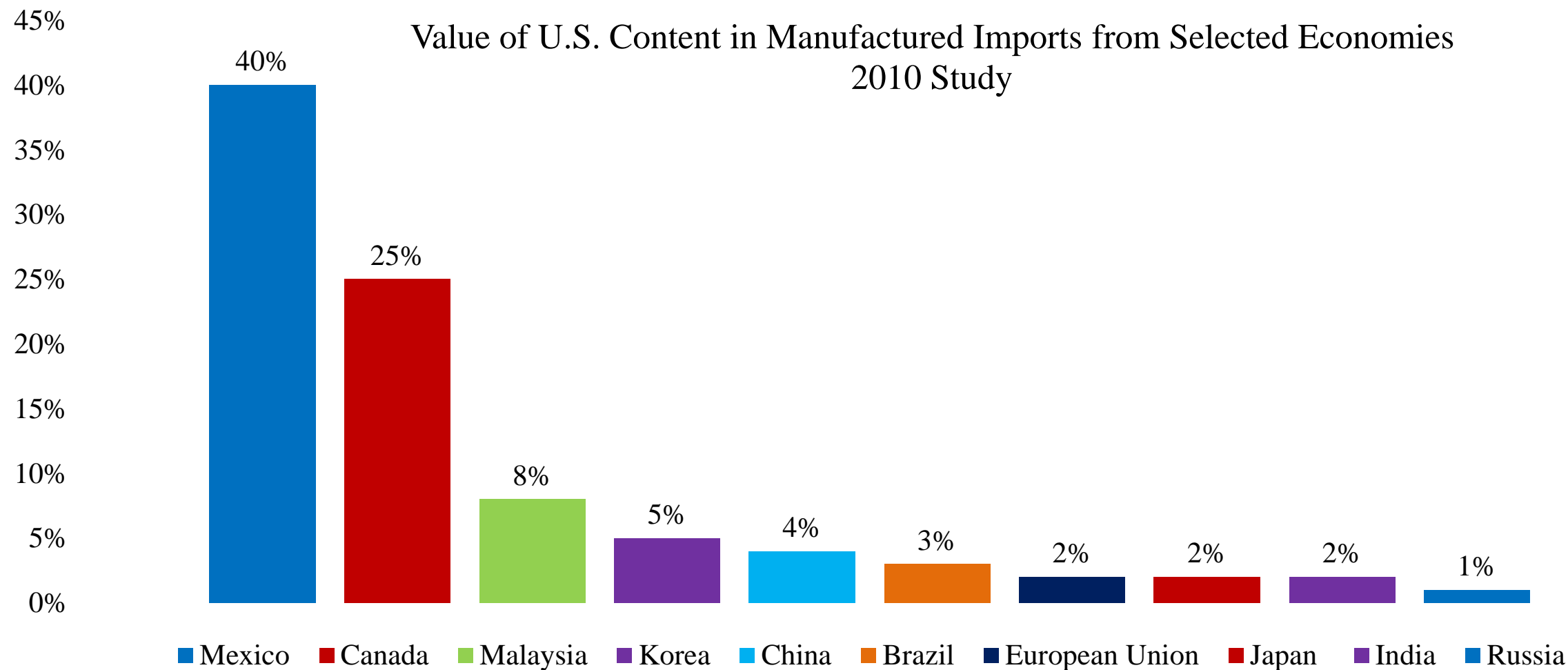
# Mexico & Canada: Top Trading Partners in 2019



For the first time, trade with Mexico exceeds Canada and China.

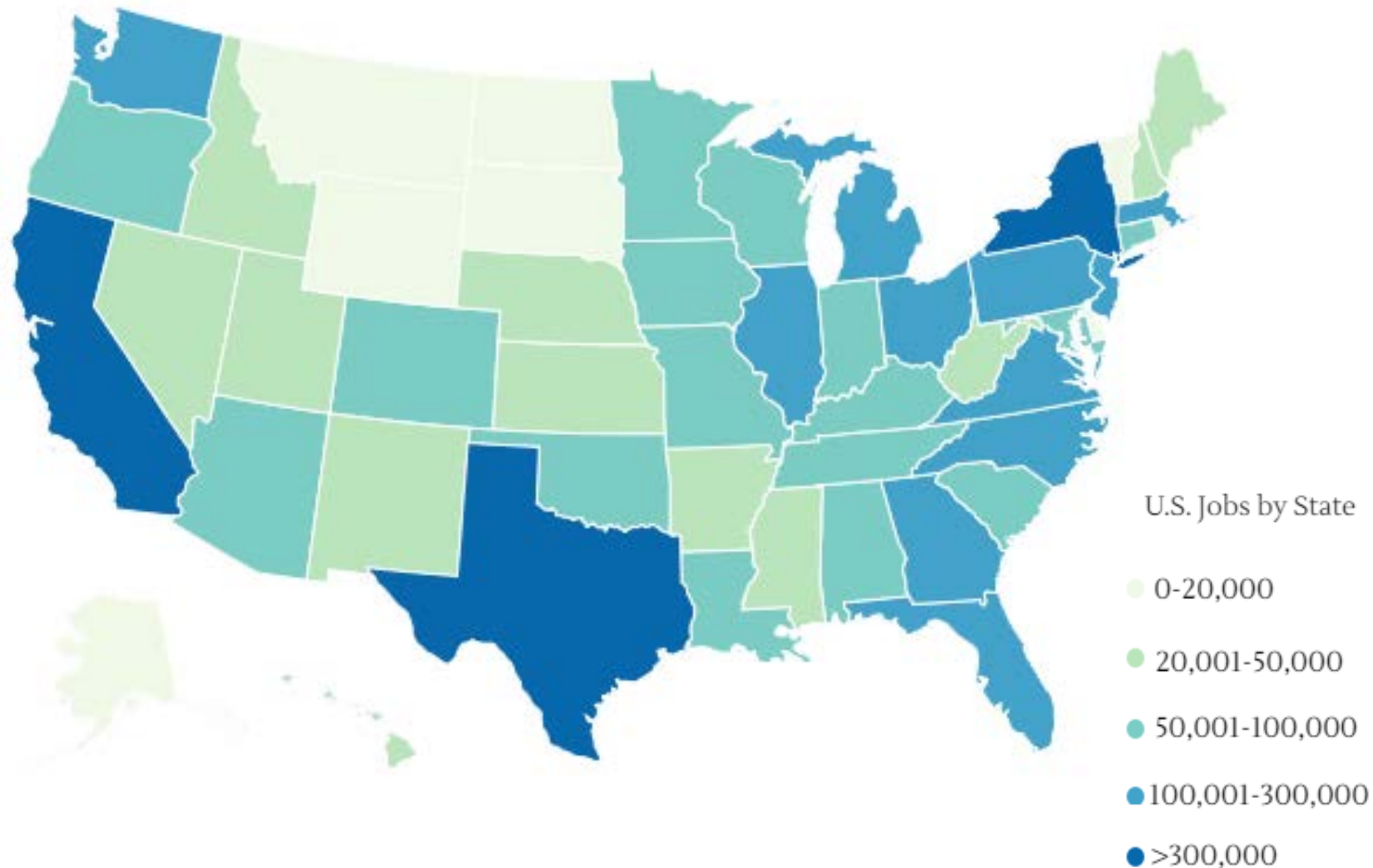


# More U.S. Content in Imports from Mexico and Canada



Source: Robert Koopman et al. "Give Credit Where Credit is Due: Tracing Value Added in Global Production Chains". NBER Working Paper No 16426.

# Mexico trade and investment supports over 5 million US jobs



Some 5 million US jobs depend on trade and investment ties with Mexico (2017), compared to an estimated 700,000 jobs in 1993.

Source: Trade Partnership, 2019; Clinton Administration Statement on the NAFTA, 1993.



# Rank Order: Top US States' Trade with Mexico 2018

State	Volume \$USD (Billions)	State	Volume \$USD (Billions)
Texas	174	Indiana	9.3
California	71.6	Florida	8.6
Michigan	61	Pennsylvania	7.7
Illinois	21.2	Louisiana	6.8
Arizona	15.7	North Carolina	7.6
Ohio	14.5	Kentucky	7.4
Tennessee	11.7	New Jersey	7.3
Georgia	9.9	New York	6.4





# U.S.-Mexico Border States

- In 2017, the U.S.-Mexico Border States' GDP reached **\$5.07 trillion**
- GDP from both sides of the border would constitute the **3<sup>rd</sup> largest economy in the world.**



## Largest economies in the world (2017)



United States: \$19.49 trillion



China: \$12.01 trillion



Japan: \$4.87 trillion



Germany: \$3.7 trillion

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# Border Management: Licit and Illicit Flows

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# Moving toward Co-Management of the Border





# US-Mexico Visitors

In 2018, the number of overnight visitors from the **U.S to Mexico** was **36.9 million**, which represented **39.7% of U.S. overseas tourism.**

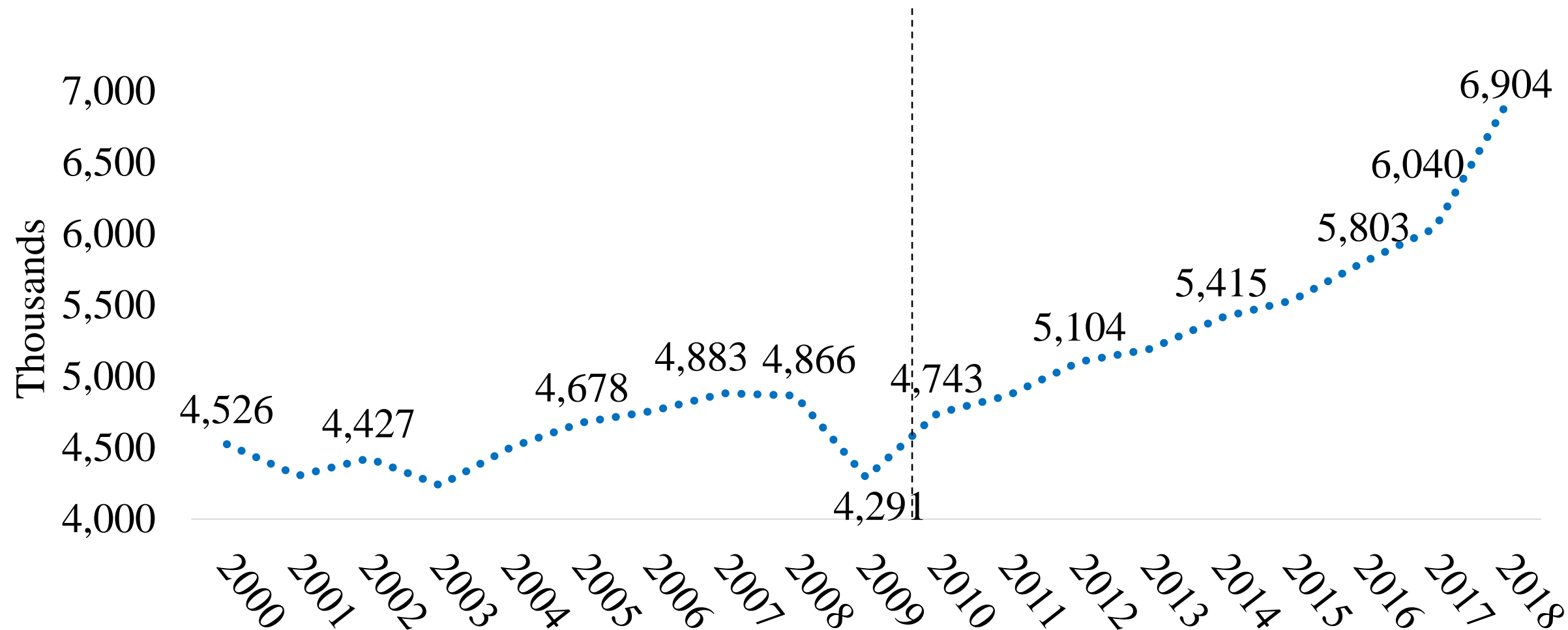
The number of overnight visitors from **Mexico to the U.S.** was **18.4 million** in 2018.

Together, they spent over **\$41 billion.**





# Trucks Crossing the US-Mexico Border







# 2012-2016 from blame to “shared responsibilities”

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- Making the border more open to legitimate travel and commerce.
- Worked to align customs regulations; started joint customs facilities.
- New mechanisms to communicate, coordinate and more effectively counter illicit trade and travel: drugs, guns, money and people.
- Steps to reduce cross-border violence.
- New programs to share information on potential border crossers.
- Worked to create a Trilateral Trusted Traveler Program.
- Coordinated to manage immigrant surge from Central America 2014-15.
- **Cooperation complicated 2017-19.**
- **2019 agree to reduce migrant flows.**



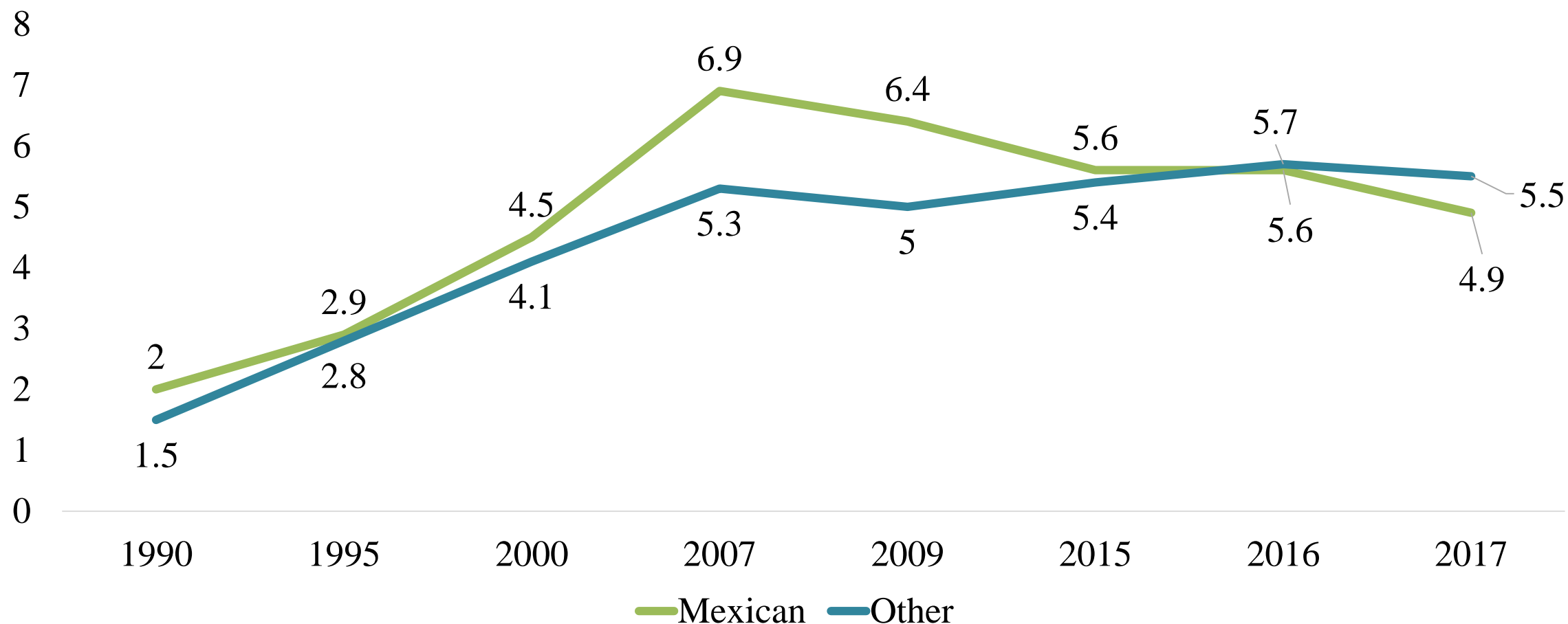
# Migrant Flows

- Mexican immigrants to the U.S. are at the **lowest levels** since the 1990s.
- Numbers of Undocumented Mexican immigrants in the U.S. **have been dropping** since 2007.
- In FY 2018, apprehensions of Mexican unauthorized immigrants declined **20.18%** from FY 2016.
- Net-Zero or Negative flows.





# Number of Unauthorized Immigrants in the U.S.





# Addressing Central American Migration: 2014-2020

**In 2014**, The US and Mexico **enhanced cooperation** in response to a surge of child and family migrants, including at Mexico's southern border against smuggling of people & drugs.

**In 2017**, the US and Mexico co-hosted a **Conference on Prosperity and Security in Central America**. Commitments included:

- U.S. FY 2018 budget request for **\$460 million** for the Northern Triangle (NT); \$53 in Mexican infrastructure projects.
- **Improved cooperation** to combat **transnational criminal organizations**.

**In 2018**, Mexico's Senate **condemned U.S. border policies** and called to end cooperation.

**In 2018-19**, Mexico called for addressing root causes; **U.S. threatened tariffs** on Mexican exports over rising migrant numbers (and cut aid to Central America). In June, agreement reached **to reduce numbers and allow some migrants to wait for U.S. decisions in Mexico**.

**In January 2020**, a new "2020 Caravan" of Migrants from Central America reached Mexico and clashed with the National Guard at the Southern Border. 800 migrants were detained, and some 2,300 Hondurans were deported.



The line graph illustrates the monthly number of COVID-19 cases in the United States from January 2020 to December 2021. The y-axis represents the number of cases, ranging from 0 to 160,000 in increments of 20,000. The x-axis shows the months and years. The data points are as follows:

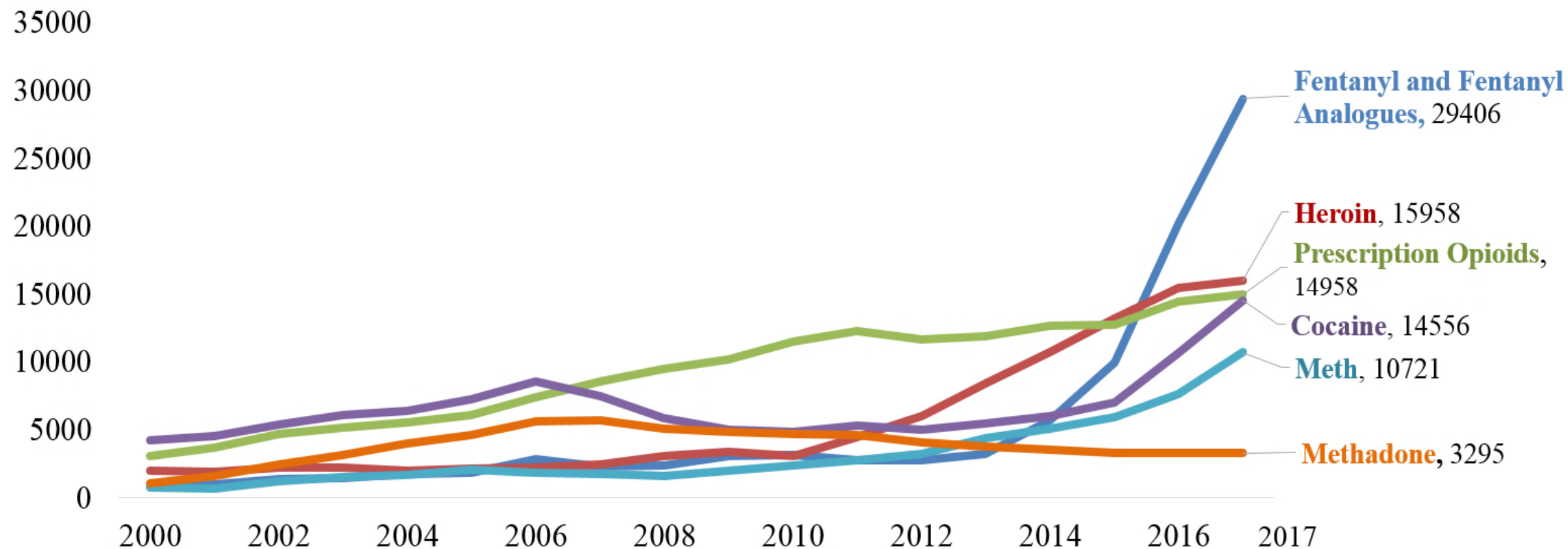
Month	Number of Cases
Jan 16	33,000
Mar	45,000
May	55,000
July	45,000
Sep	50,000
Nov	65,000
Jan 17	58,000
Mar	22,000
May	15,000
July	20,000
Sep	30,000
Nov	40,000
Jan 18	35,000
Mar	50,000
May	50,000
July	42,000
Sep	48,000
Nov	62,000
Jan 19	58,317
Mar	76,545
May	103,731
June	144,116
July	104,311
August	81,777
September	62,707
October	52,546
November	42,651
December	40,000

- In the **2019 fiscal year**, there were **851,508 border apprehensions**, most since 2012.
- Early **2019**, **record numbers** of migrant families: breaking records.
- Over **144,000 apprehensions in May**.
- After U.S.-Mexico agreement in June, Mexico stepped up its enforcement actions.
- **Apprehensions dropped to 45,184 in December: about a 70% reduction from May.**
- **Mexico detained 179,000 migrants; deported 84,300; 70,000 seek asylum**

# Bilateral Cooperation Against Crime: Pending Review

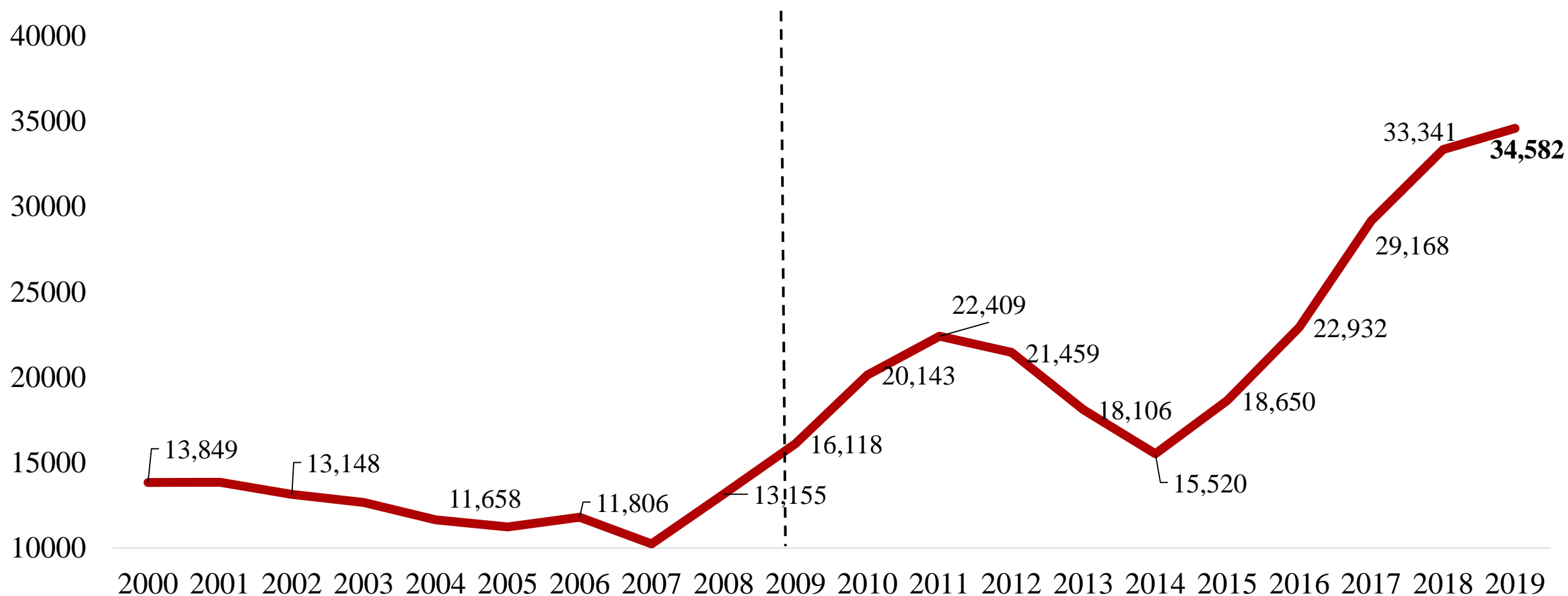


# Driver: US Drug Overdose Deaths 2000-2017





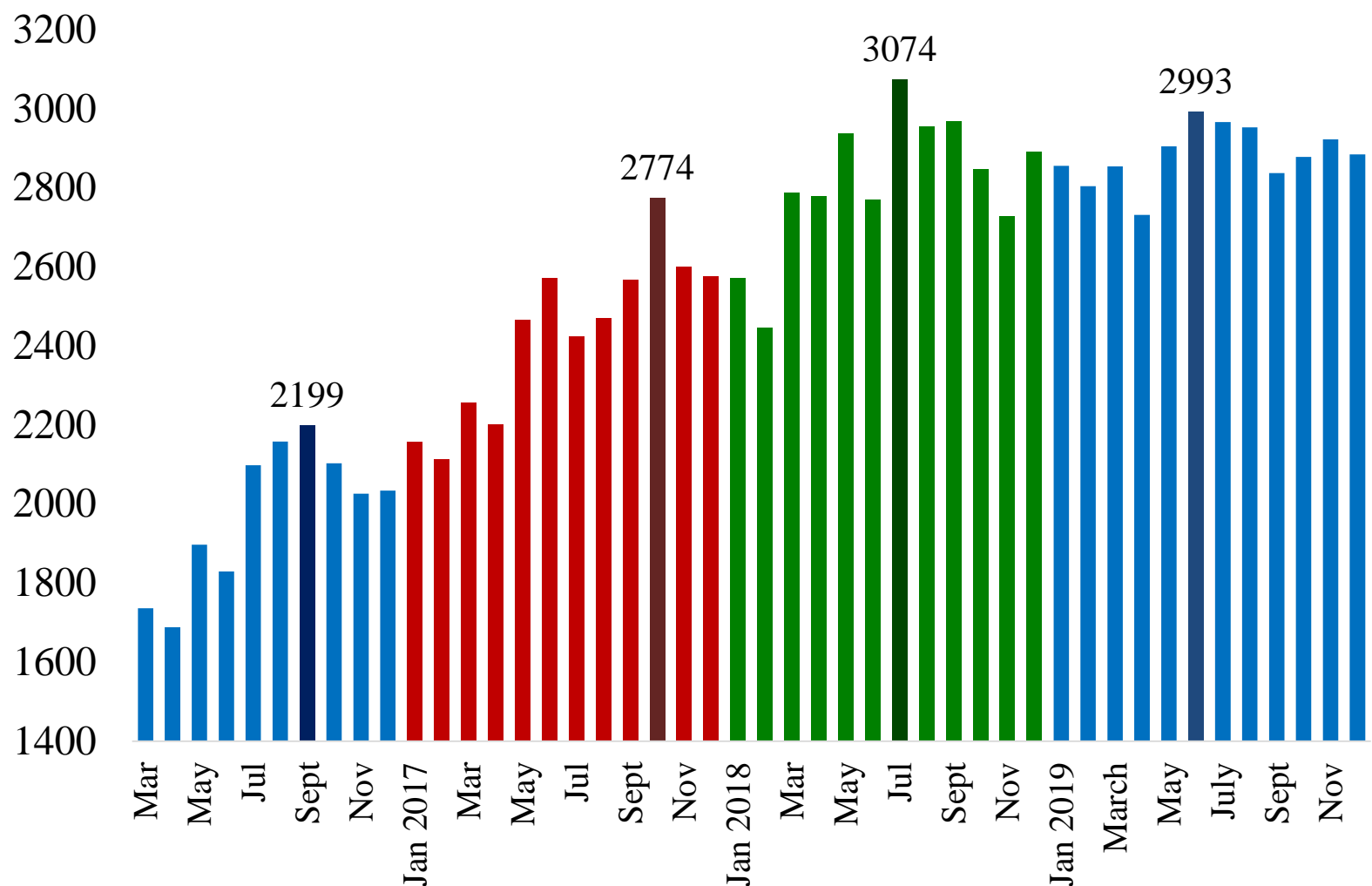
# Urgency: Homicides in Mexico







# Homicides in Mexico: Crisis Levels



**34,582** homicides in **2019**; **average 90 homicides a day**. **July 2018: most violent month** since 1997.

**2019 total homicides set a new record.**

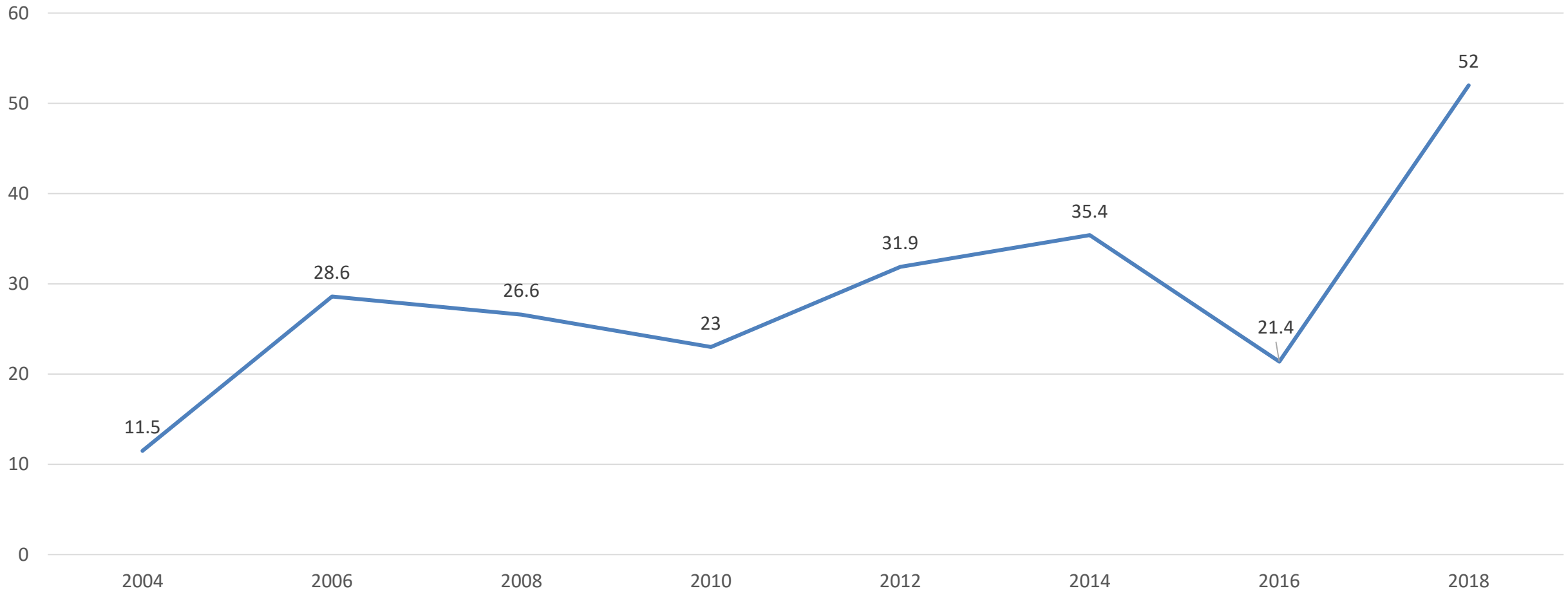
**Violence cost up to 24% GDP.**

Cartels fighting for territory and routes, but types of crime expanded and affects more states.

\$19-30 billion to criminal groups from US illegal drug sales

# Percent who See Security as the most Important Issue

## Dec. 2019 poll: 73% say they feel unsafe in their cities



Source: LAPOP Americas Barometer Pulse of Democracy, 2019; December 2019 INEGI poll.

# Mexico's Peace Index 2018-19



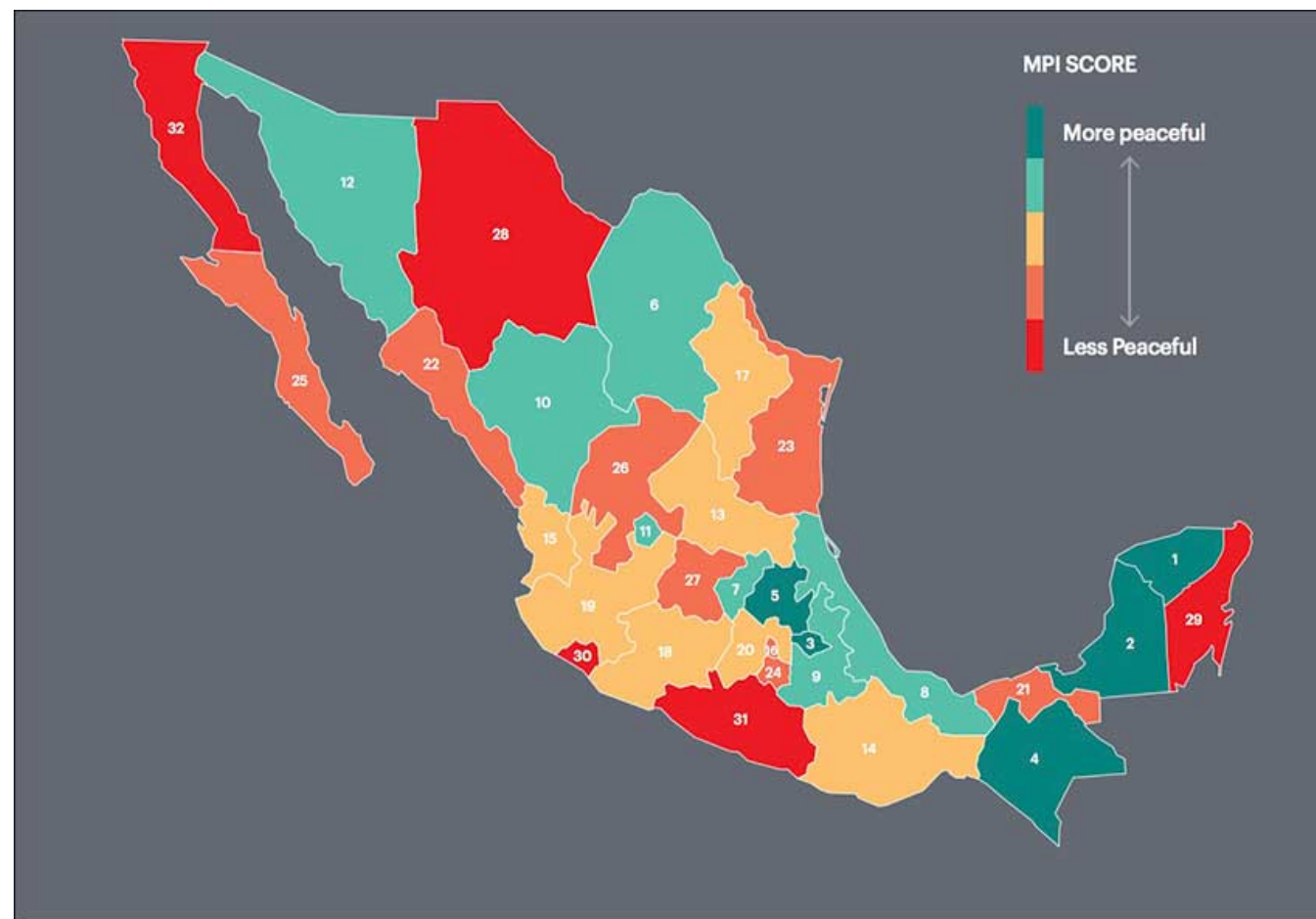
## Least Peaceful States

1	Baja California
2	Guerrero
3	Colima
4	Quintana Roo
5	Chihuahua

## More Peaceful States

1	Yucatan
2	Campeche
3	Tlaxcala
4	Chiapas
5	Hidalgo

- Peacefulness in Mexico declined by 5%, the third consecutive year.
- Economic impact of violence increased by 10% last year to 5.16 trillion pesos (US\$ 268 billion).



Source: Institute for Economics and Peace, 2019.

# Mérida Initiative: AMLO might end or repurpose bilateral cooperation? U.S. Concerned.

1. Disrupting the operational capacity of **organized crime**.
2. Institutionalizing reforms to sustain the **rule of law** and respect for **human rights** in Mexico.
3. Creating a “**21st Century Border**”.
4. Building strong and resilient **communities**.

**\$2.9 billion** appropriated by the US **since 2008**.

**\$1.6 billion** already spent on training and equipment via over 100 programs to bolster Mexican capacity.

Mexico has spent over **10** times more, but heroin, fentanyl and meth trafficking still increasing and criminal violence still high.

# US-Mexico Law Enforcement and Security Cooperation: 2008-2020

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Mérida Initiative Programs &  
Agency-to-Agency Cooperation

Defense Dialogues & Cooperation

Security Coordination Group (est. 2014);  
High-Level Security Group (est. 2019)

# 2017-2019 Challenges in Addressing Illicit Drugs

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- 2017 agreement to partner on supply and demand for illicit drugs.
- Necessary tools: physical barriers, technology, patrolling, eradication, enhanced law enforcement cooperation, anti-addiction programs.
- Attack entire criminal business network from means of production, cross-border distribution networks, to profit flows and weapons procurement.
- In 2018, AMLO ordered a review of Mexican cooperation with U.S. Has not agreed to a new U.S.-Mexico strategy & action plan as of late 2019.
- U.S. concern grows; drugs flows increase; LeBaron and Langford families massacre in Sonora; Trump threat to designate cartels as Foreign Terrorist Organizations sparks progress late 2019.

# Early 2019 Suggestions for Cooperation (2018-2024)

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- An alignment of key security objectives is essential.
  1. Create a [bilateral coordination group](#) to reconcile the priorities of both nations.
  2. Build [cooperation with the National Guard](#) and at sub-national levels.
  3. Trainings to [improve the Mexican criminal justice system](#); [joint investigative operations](#); enhance the quality and capacity of law enforcement and justice operations in Mexico.
  4. Establish/re-activate [international liaison units](#) to help both governments with investigations, information-sharing, evidence gathering etc.
  5. Create a joint U.S-Mexico [task force](#) on [fentanyl disruption](#).
  6. Exchange best [practices](#) on [drug abuse prevention](#) and harm reduction strategies.
  7. Enhance bilateral cooperation to strengthen [local policing approaches](#) in Mexico.
  8. Enhance cooperation regarding [criminal groups](#) working through and from [Central America](#).
  9. Separate cannabis regulation from security cooperation.

# Persistent Challenges



- Long-term approach to “chronic irritants” of bilateral security cooperation.

1. Corruption (undermines confidence).
2. Human rights violations.
3. Weapons trafficking.
4. Money laundering.



# Trade Negotiations

## NAFTA/USMCA

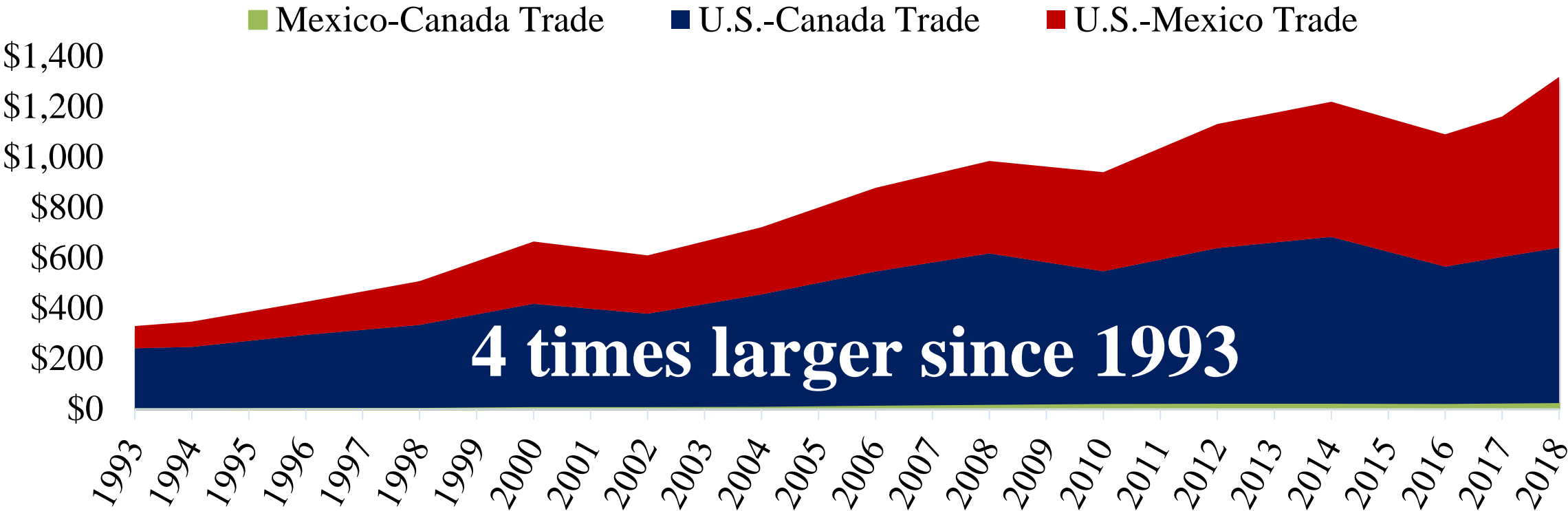


# North American Trade

- Canada, Mexico and the U.S. trade **\$1.3 trillion a year**.
- **\$3.6 billion a day**, reflecting major shared production networks.
- More than US trade with all the **European Union** and **over 2 times** more than with **China**.
- **Over 12 million U.S. jobs** are supported by trade and investment with both neighbors.
- **50 percent** of NAFTA trade is **intermediate goods**.



# North American Trade in Goods and Services



Source: Secretaria de Economia, 2018; BEA, 2018; Census Bureau, 2018; Americas Society/Council of the Americas, 2019



# North American Investment

In 2018, Canada's and Mexico's FDI in the U.S. reached **\$625 billion**

The U.S. had **\$517 billion** FDI in Canada and Mexico.



US FDI in  
Canada  
**\$401 billion**

Mexico's FDI  
in Canada\*  
**\$2 billion**



Mexico's FDI  
in the US  
**\$37.2 billion**

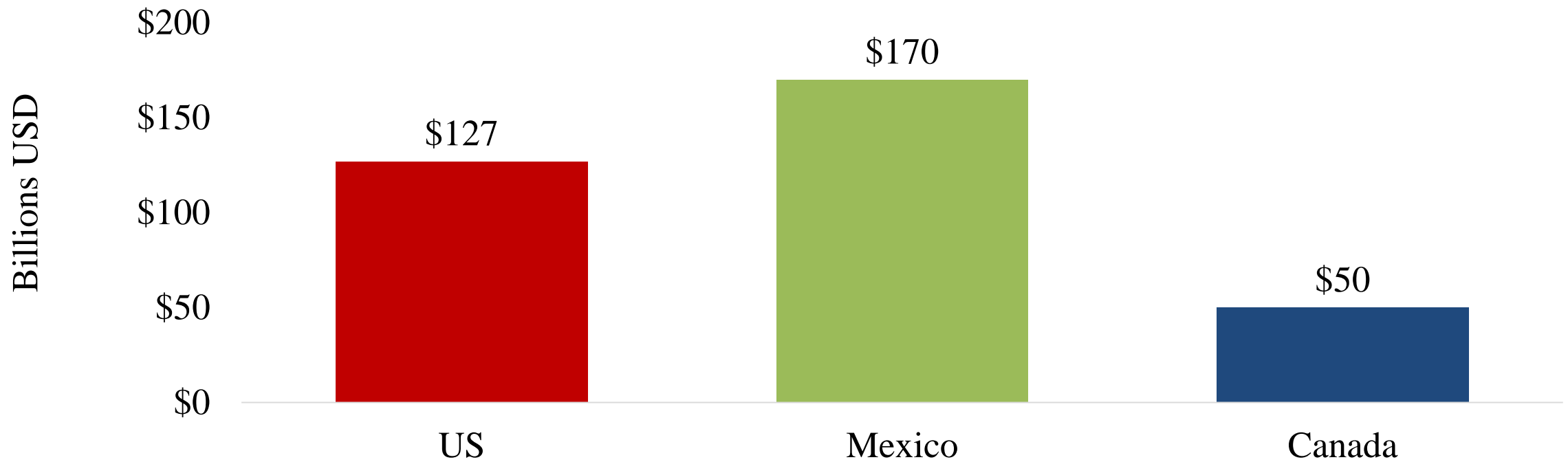
Canada's FDI  
in the US  
**\$588 billion**



US FDI in  
Mexico  
**\$114.8 billion**

Canada's FDI  
in Mexico  
**\$3.2 billion**

# NAFTA Countries were richer each year due to “extra” trade growth (2014 estimate)



The pure economic payoff for the U.S. is \$400 per person



# Rank Order: Top U.S. States' Trade with Mexico 2017

State	Volume \$USD (Billions)	State	Volume \$USD (Billions)
Texas	187	Indiana	9.8
California	73.1	Florida	9.7
Michigan	65.5	Pennsylvania	9.5
Illinois	22	Louisiana	8.6
Arizona	15.5	North Carolina	8.3
Ohio	14.7	Kentucky	7.7
Tennessee	11.7	New Jersey	7.4
Georgia	10.4	New York	6.4

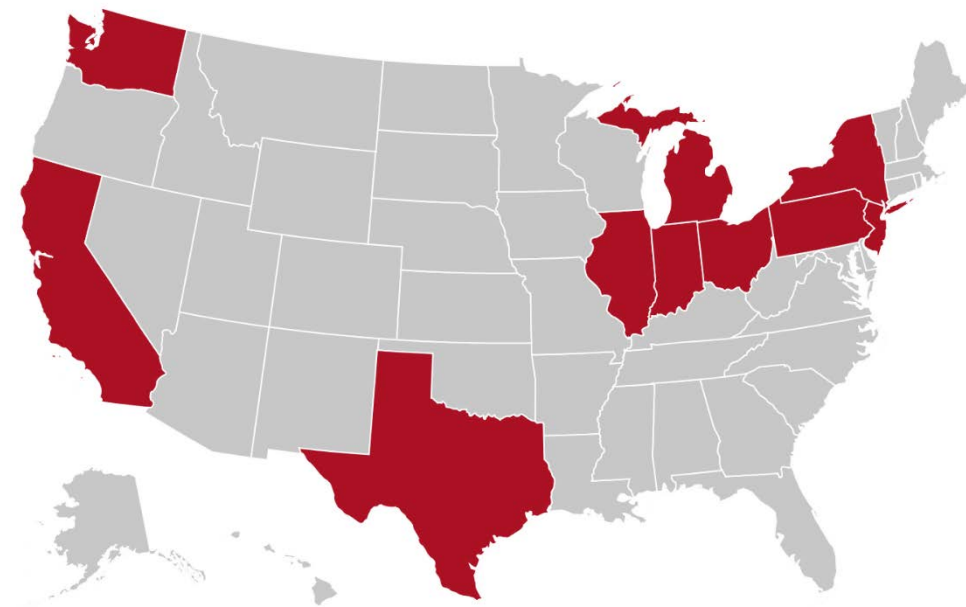


# Top U.S. States' Trade with Canada 2017

- Canada ranks as the **United States' top export partner**, accounting for **more than 18%** of the total.
- Canada is the **number one export market for 35 U.S. states**, and the largest foreign supplier of oil, natural gas, and electricity to U.S.

**Top 10 Trading States**

State	\$USD (Billions)	State	\$USD (Billions)
1. Michigan	72.0	6. Ohio	30.7
2. California	44.0	7. Pennsylvania	20.0
3. Illinois	41.2	8. Washington	19.8
4. Texas	35.2	9. Indiana	19.8
5. New York	33.7	10. New Jersey	13.6



# Net Number of U.S. Jobs Related to Trade with Mexico and Canada

## Top 10 states 2017

Trade with Mexico: 4.9 million		
No.	State	Net Number of U.S. Jobs
1	California	+ 572.2
2	Texas	+ 399.5
3	New York	+ 325.5
4	Illinois	+ 198.0
5	Pennsylvania	+ 195.7
6	Ohio	+ 170.9
7	Georgia	+ 158.2
8	North Carolina	+ 150.6
9	New Jersey	+ 141.2
10	Virginia	+ 135.3

Trade with Canada: 7.2 million		
No.	State	Net Number of U.S. Jobs
1	California	+ 898.5
2	Texas	+ 549.4
3	New York	+ 475.9
4	Florida	+ 446.3
5	Illinois	+ 293.7
6	Pennsylvania	+ 282.3
7	Ohio	+ 257.5
8	Georgia	+ 229.2
9	North Carolina	+ 225.8
10	Michigan	+ 209.7





# From NAFTA to USMCA

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- The **USMCA (United States-Mexico-Canada Agreement)**, or T-MEC in Mexico, is replacing the 1993 **NAFTA (North American Free Trade Agreement)**.
- Leaders of the three countries signed the new agreement on **November 30, 2018**.
- A revised agreement was reached on **December 10, 2019**.
- U.S. Senate approved and President Trump signed USMCA in January 2020.
- Mexican Senate approved earlier.
- Canada's parliament now moving to approve.





# Main elements of the USMCA (T-MEC)

- **Rules of Origin, wages and steel for Vehicles to be phased in 2020-2023**
  - 75% of the value of a vehicle to be produced in the region (up from 62.5%); 70% of steel and aluminum.
  - 40%-45% percent of auto content produced by workers earning over \$16 per hour.
- **Dispute Settlement**
  - Maintains NAFTA's dispute-settlement provision over unfair trade practice allegations (Chapter 19) and state to state differences of treaty interpretation (Ch. 20), but limits investor dispute (ISDR) options to key sectors of U.S.-Mexico investment; eliminates coverage for U.S.-Canada issues. New "rapid" dispute settlement for labor enforcement and eliminated ability of a government to block a dispute settlement panel.
- **Successfully Updated Treatment of IPR, Internet-related issues, Labor, Environment...**
  - Achieved or exceeded most of modernization goals sought, including stronger labor rights provisions, IPR protections, inclusion of electronic commerce and data issues, anti-corruption, among others.
- **Sunset Clause:** 16-year lifetime for the agreement, with a review every six years and possible 16-year renewal.
- **Dairy:** Addressed some U.S. concerns over Canada's dairy policies and restrictions.



# Approval of USMCA

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**Canada: Parliament needs to approve.**

**Mexico: U.S. unions and democrats will focus on implementation of labor reforms.** Some U.S. Unions will likely file complaints early. Mexico's reforms implemented over 4 years.

**Biggest gain from approving USMCA: reduced uncertainty that had hindered additional investment by businesses and farmers across North America.**

**Once Canada approves, the three states will move to implement which includes systems to monitor rules of origin for vehicles, setting up the dispute settlement system, and much more.**



# USITC: Likely Impact of USMCA



- International Trade Commission estimates that if fully implemented and enforced, USMCA would have a **positive impact on U.S. real GDP and employment** over 6 years.
- The most significant for U.S. economy are:
  1. Provisions that reduce policy uncertainty for **digital trade** (positive).
  2. **New rules of origin** applicable to the automotive sector (marginally positive).
- Estimate that strengthening labor standards and collective bargaining provisions would **increase wages of unionized Mexican workers by 17.2 percent**.

Real GDP	Employment
+\$68.2 billion (0.35 percent)	+176,000 jobs (0.12 percent)

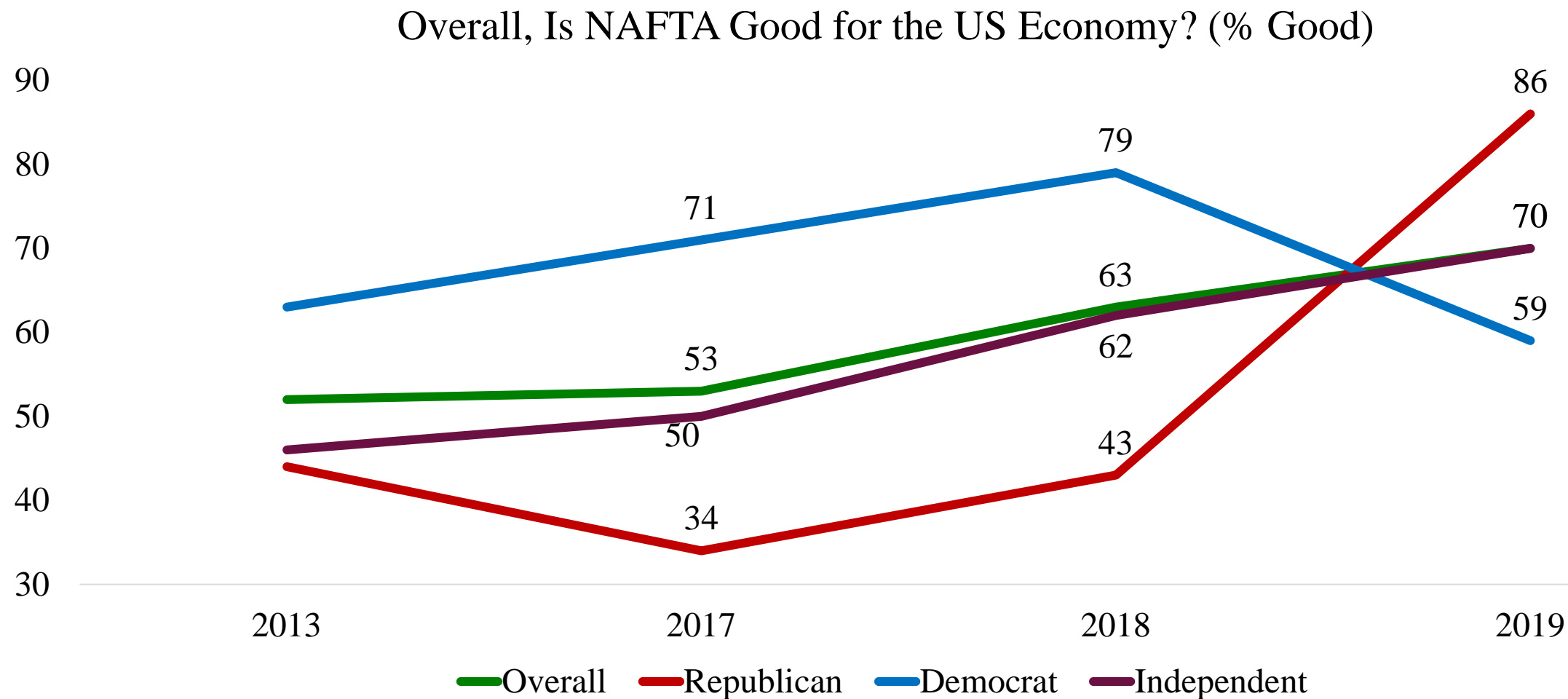
- Would increase U.S. Trade.

U.S. Exports		U.S. Imports	
to Canada	to Mexico	from Canada	from Mexico
+\$19.1 billion (5.9 percent)	+\$14.2 billion (6.7 percent)	+\$19.1 billion (4.8 percent)	+\$12.4 billion (3.8 percent)

- Not included: value of preserving existing commercial networks & 16 years of stable rules.



# US Opinion: Is NAFTA/USMCA Good for the US Economy?

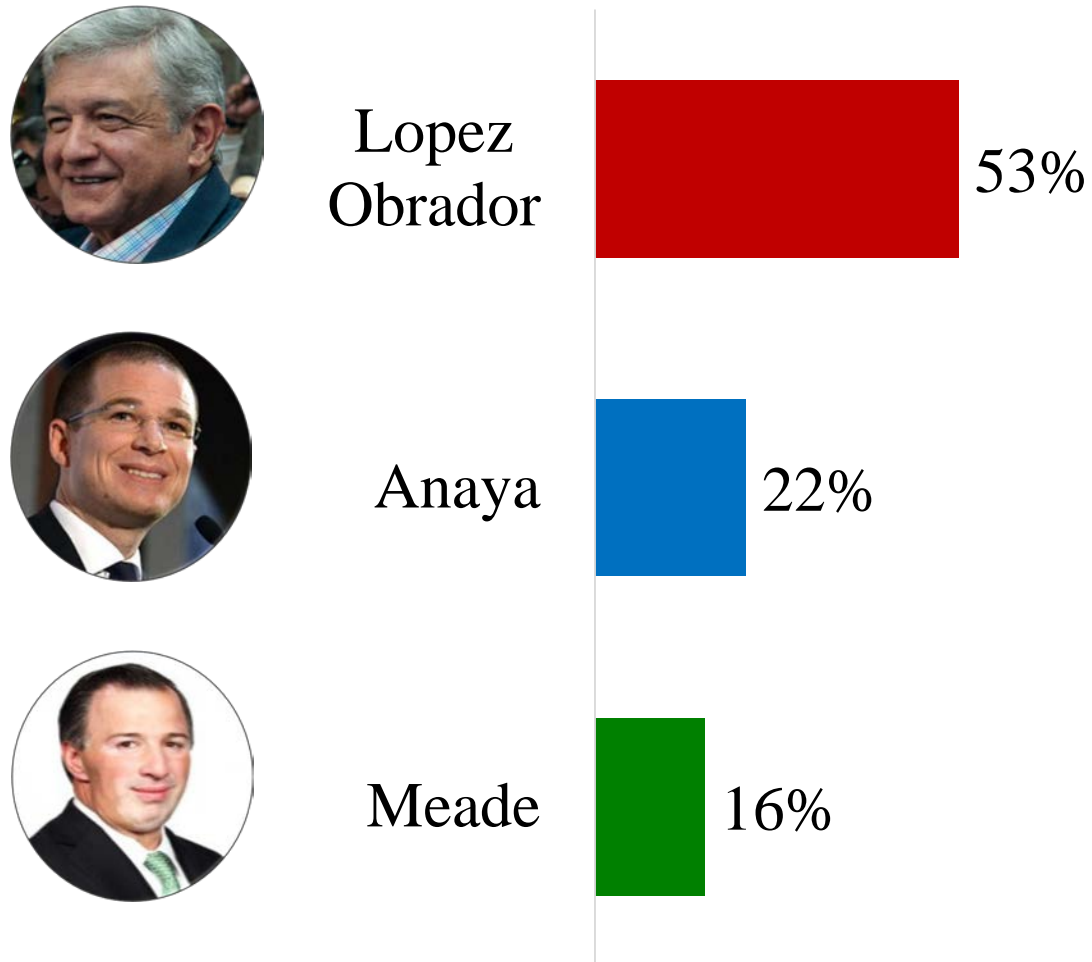


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# Mexico's 2018 Elections

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# Presidential Results: Launches the “4<sup>th</sup> Transformation”



July 1 voter turnout: 63.5%

Andres Manuel Lopez Obrador's party, Morena, **won big majorities in Congress** and state legislatures.

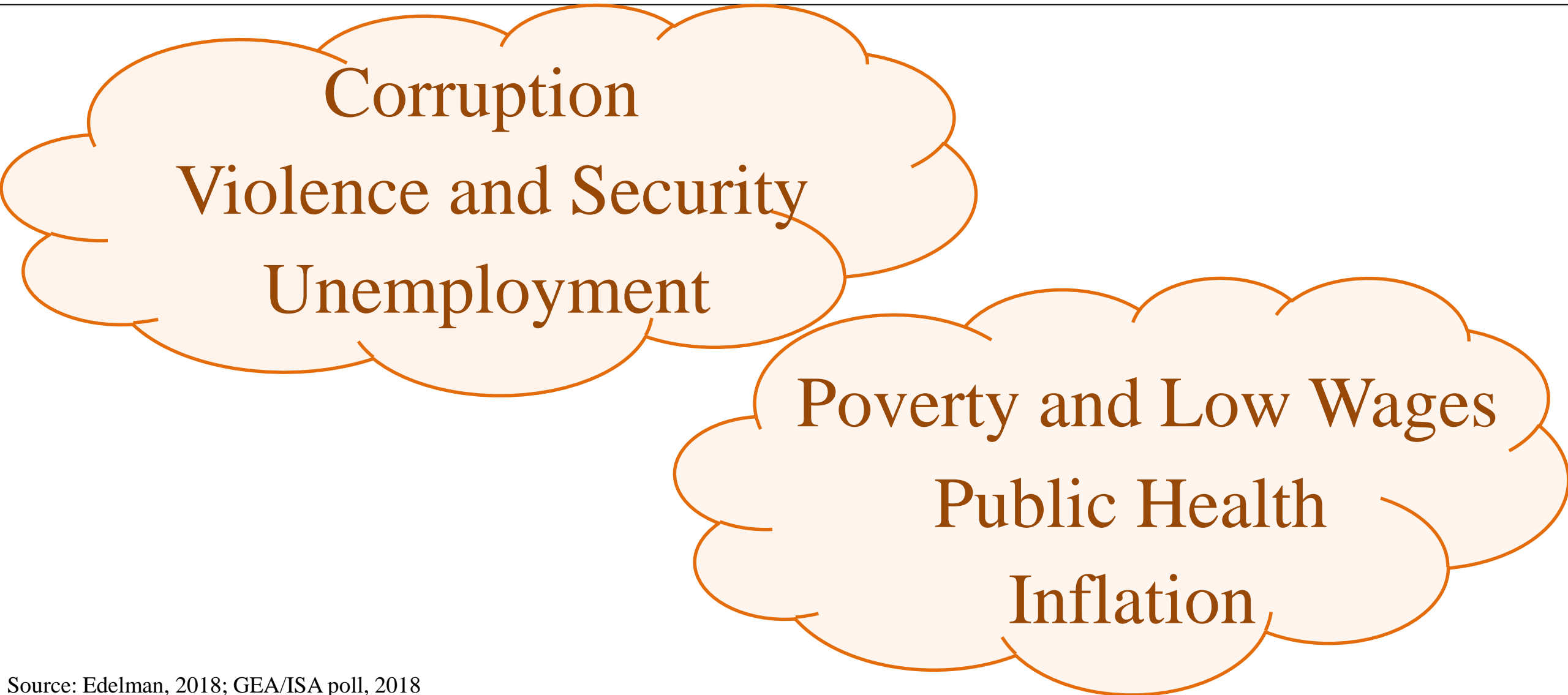
**AMLO** took office December 1.

**Most powerful President in decades:** few counterweights.



# Issues that Influenced Votes

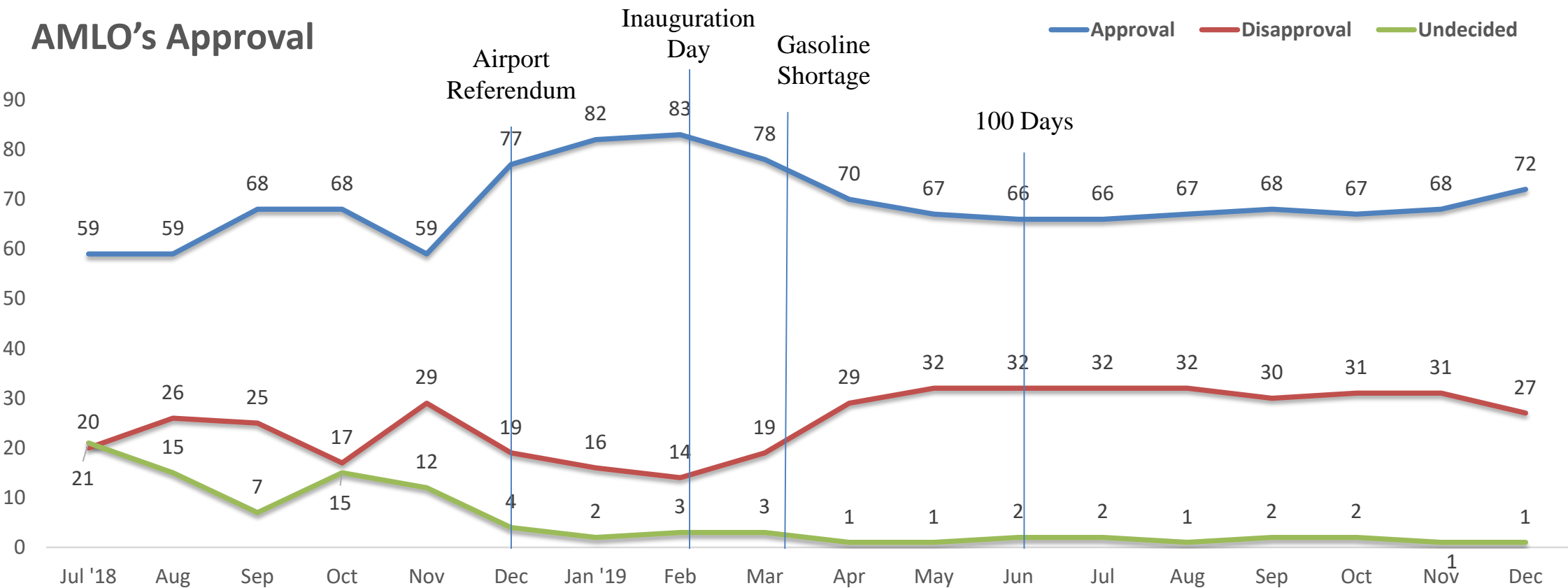
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# AMLO's Popularity Remains High



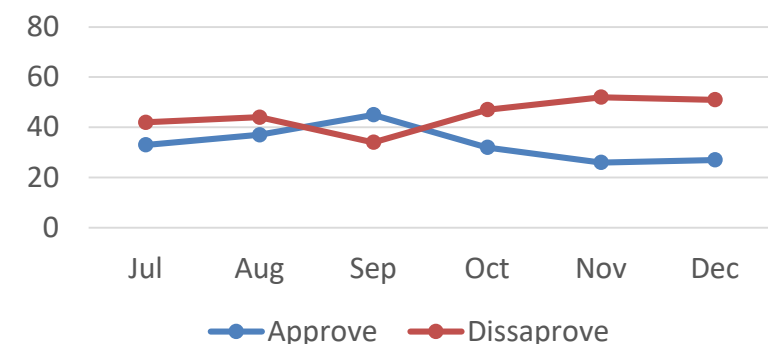
AMLO's current approval level is higher than any of the last three Presidents of Mexico

Source: El Financiero, 2019.

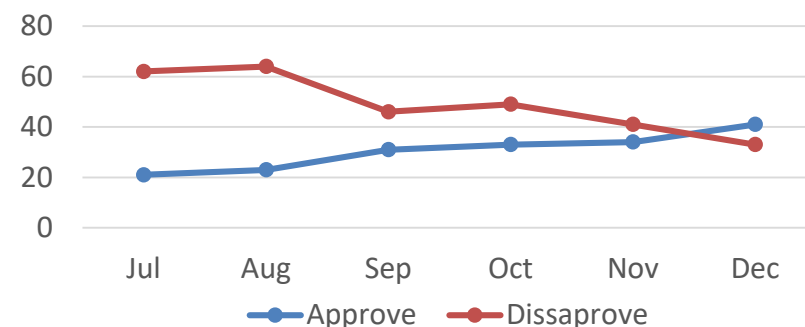


# AMLO's Approval Ratings by Issue - 2019

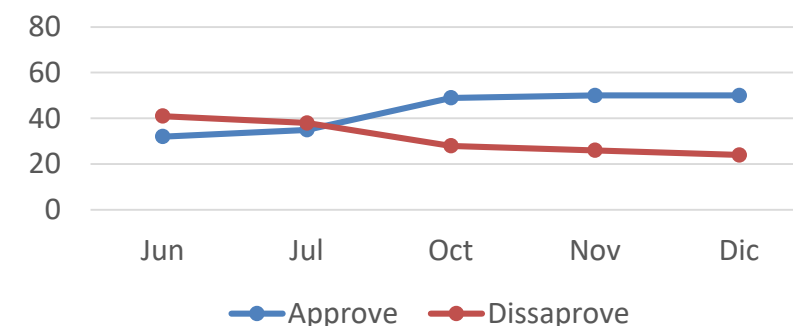
## Security



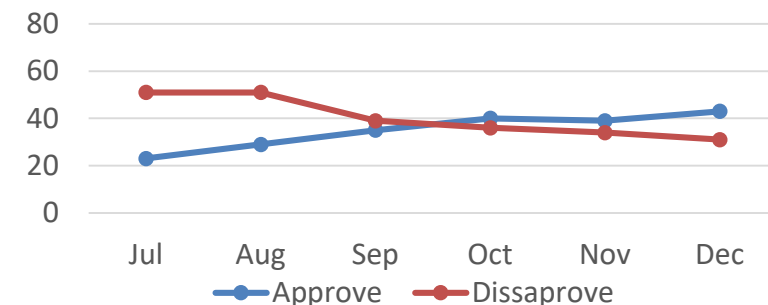
## Corruption



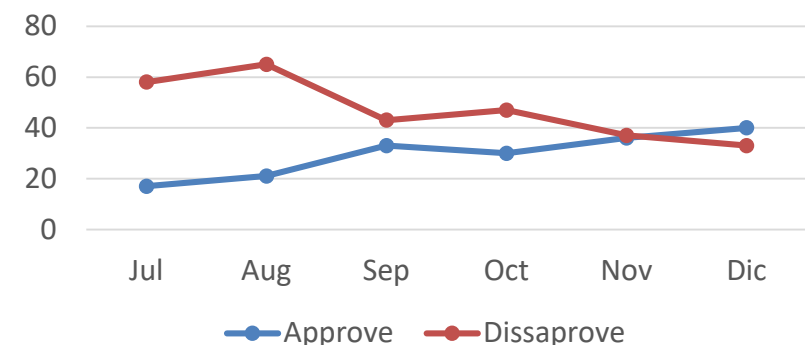
## Education



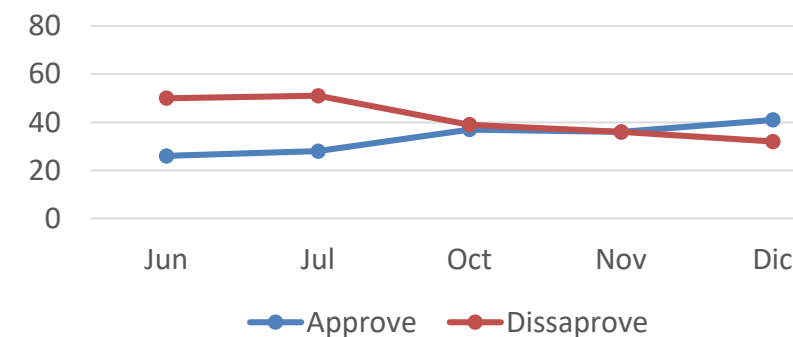
## Economy



## Poverty



## Public Health



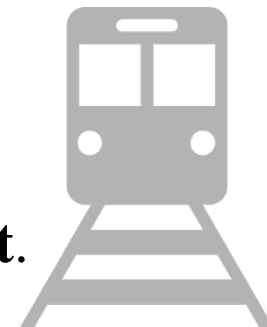


# AMLO's Policy Proposals and Actions



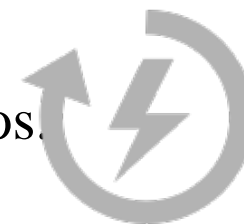
## Economic Policy:

- Focus on developing Mexico's internal market; **encourage investment**.
- **Build Infrastructure** (e.g. railways).
- Redirect spending to **social programs to poor** but **won't raise taxes or increase debt**.
- **Lower taxes along U.S. border**.
- **Aim to achieve 4% average GDP growth** over his six-year term; 2% year one;
- **Develop south** of country.



## Energy:

- Strengthen **energy independence**.
- Strengthen national oil company **PEMEX** & electricity authority, **CFE** vice private cos.
- Limit gasoline price increases; decrease prices in several years.
- Build **new refineries**.





# AMLO's Policy Proposals and Early Actions



## Poverty:

- Increased **minimum wage**.
- Launched new **youth jobs** programs.
- Subsidize inputs for **small farmers; programs benefit indigenous**.
- Provide universal health coverage; starting with **elderly and disabled**.



## Corruption and Government Efficiency:

- Better supervision of public spending; increase legal penalties for corruption.
- **Cut public officials' salaries, perks. Reduce staff and existing programs.**
- Named new independent "Fiscal General"; active Financial Crime Unit, pursue corruption investigations.
- Use **plebiscites** to consult with the people.



## Trade:

- Finish and implement **USMCA**.

## Education:

- Eliminated key parts of Education Reform that alienated teachers' unions.
- Launched new youth scholarships, promised new universities.



# AMLO's Security Proposals and Goals



## Security Proposals:

- **End to the War on drugs and “prohibitionist” policy.**
- Consider reforms in treatment of currently illegal drug production and use.
- **Weaken crime’s social base with social, education and jobs programs; provide alternatives to illicit income from drug cultivation and fuel theft.**
- Generate peace through **non-violent methods, transitional justice and amnesty.**
- Establish a **Council on Peace Construction; Emphasize human rights.**
- **Aim to reduce homicides and car theft by 50%.**
- **Strengthen the judicial system:** close wage gaps for employees.
- **Deploy up to 140,000 National Guard Officers across 226 regions.**
- **Aim to reduce crime rate by 15%.**
- **Aim to reduce the public perception of insecurity from 80% to 39.4%.**
- Try to boost **World Justice Project’s Rule of Law score** from 0.45 to 0.60 by 2024.





# AMLO after a year: Mixed Results

- On December 1, 2019, a year after taking office, AMLO claimed that **89 of his 100 promises** have been fulfilled. He **asked for one more year of support** to carry forward his transformative government programs.
  - **Crime**: mixed bag; claims 94% reduction in fuel theft but violent homicides set a record in 2019.
  - **Austerity**: senior government salaries, staff, sending reduced, but at what cost to government efficiency.
  - **No increase in debt, inflation reduced**, big **min. wage increase**, but **economic growth near 0%**.
  - **New Programs**: Claims over 1 million **jobs** created; new **scholarships** given, 600,000 participants in a workplace training program, other social reforms underway with **direct funds to poor**, but critics question results.
  - Construction of new Dos Bocas refinery begun, but critics say not needed and won't be done well or on time.
  - Work underway for Maya and Isthmus train projects; still many critics of Mayan project including in region.
  - New Mexico City Airport canceled and started work on Santa Lucia airport, but critics say costs are enormous.
  - **National Guard created**, which is to deploy 70,000 troops to 150 regions within the country, but **impact unclear**.
  - National Guard's **first major mission was to intercept Central American migrants; not stop crime: criticized**.
  - Overcame U.S. crisis through **immigration agreement with U.S.** but much work still needed on migrants.
  - **Tensions** with U.S. high over how to handle **organized crime**; criticized at home too.
  - Ratification of the **USMCA**.
  - **Popularity still high**.



# Criticisms of the “Fourth Transformation”

- **Power centered around President:** reduced role of cabinet and checks and balances.
- **Fiscal Responsibility, Austerity:** reduced government effectiveness & growth.
- **Education and social programs:** critics say buying political support, not improving results.
- **Energy:** PEMEX production not rebounding; Bonds downgraded.
- **Corruption:** Financial Intelligence Unit active; less transparency; more sole source govt. contracts.
- **Public Security:** Strategy to reduce violence not yet producing results; critics say no clear strategy to do so; proposed judicial reforms mixed bag
- **US-Mexico Bilateral relationship:** need to implement trade deal; Avoid clashes over migration, crime & drug policy?
- **Democracy:** Critics see a diminishing of independent voices in government and civil society.
- **Countervailing powers:** Markets; investors; economic performance; Senate; public opinion.



# Economic Slowdown in Mexico?



- AMLO has maintained **strong fiscal and monetary fundamentals**, inflation down, winning IMF kudos, but the Fund also raised **warning flags about downside risks** ahead.
- Economic growth has slowed in Mexico; **economy shrank 0.1% in 2019**. This is the first economic contraction in a decade; the **IMF trimmed its growth forecast for 2020 from 1.3% to 1%**.
- IMF suggestions include:
  - **Improving tax revenues** through better collection and reforms;
  - **Revisiting PEMEX's business plan**, including more joint ventures with the private sector;
  - **Enhancing** growth-friendly **public expenditures**;
  - Invigorating **structural reforms** such as reducing **labor informality**, combatting **corruption** and enhancing **law enforcement and justice institutions**.

**Government & private sector launched a \$44 billion 5-year infrastructure program in November. AMLO established new economic cabinet in January.**



# U.S.-Mexico Migration Issues



**Migration remains an urgent** area as U.S. pushes for lower numbers at the border.

**Long Term:** Dealing with the **roots of the problems in Central America and strengthening both country's capacities to manage migrants well.**

- December 2019, the Mexican and U.S. **governments announced an ambitious strategy to address the root causes of Central American migration** by attracting investment to encourage economic growth.
- **No significant action to implement this.**

**Short Term:** Managing better the unexpected **large flows of families**

- Both Countries were **overwhelmed by the rising numbers from Central America**, especially families. Facilities and tools to manage still lack needed capacity.

**Controversy continues** in both countries.



# U.S.-Mexico Migration Agreement

- In **June**, President Trump threatened a 5% or higher tariff on Mexico's exports unless **migrant numbers dropped**.
- After negotiations, the two governments reached agreement:
  - Mexico **deployed National Guard troops** to its southern & northern border & actions against **migrant smugglers**.
  - **The U.S. implemented Migrant Protection Protocol**: asylum-seekers **wait for U.S. decisions in Mexico**.
  - Mexico **refuses to become a "Third Safe Country;" prefers enhanced regional cooperation/assistance**.
- As of **January**:
  - Some **25,000 Mexican National Guard troops** and immigration officers **detaining/deporting record numbers**.
  - Drop **of over 70% in the number of migrants** arriving at U.S. SW border by end of October.
  - Some **54,000 migrants are waiting in Mexico** for U.S. asylum decisions.
  - Mexico and U.S. agreed to new cooperation to **stop illegal guns flowing into Mexico**.
  - U.S. got migration agreements with Guatemala, Honduras and El Salvador.
  - No U.S.-Mexico regional aid plan, as Mexico sought.

# Maintaining a Partnership with Mexico?

# Key Work Areas for U.S.-Mexico Relations

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## Trade:

- Complete **USMCA** approval; begin implementation.
- **Renew focus** on enhancing **facilitation of trade** and travel.

## Border, Migration, Security, Anti-Crime Cooperation:

- Better manage **migration**; strengthen migrant services.
- Deepen support for addressing root causes of migration.
- **Strengthen cooperation against cross-border crime.**
- **Trump threat to designate Mexican cartels as Foreign Terrorist Organizations generated progress on extraditions, navy back fighting drug groups, proposed legal reforms.**
- **Progress needed: bilateral action plan with specific objectives in key anti-crime areas.**

## Improve Competitiveness:

- Revive a bilateral and North American agenda to **enhance economic competitiveness.**

## Rebuilding Confidence:

- **Avoid becoming “Distant Neighbors” again.**



# Competitiveness Agenda: Enhancing Border Integration

STUDY	IMPACT ON EMPLOYMENT & GDP
The Perryman Group 2018 Study	<p><b>US Border States</b> Employment: <b>+702, 421 to +1.4 million jobs</b> <b>GDP: +\$69 billion to +\$140 billion</b> <b>Largest impact in California</b></p> <p><b>Mexico Border States</b> Employment: <b>+95, 948 to +193, 526 jobs</b> <b>GDP: +\$4.8 billion to +\$9.7 billion</b> <b>Largest impact in Nuevo Leon</b></p>

# Competitiveness: Address Talent Shortages



- There is a talent shortage across North America.
- Top Drivers of talent shortages: **lack of applicants, lack of experience, applicants expecting higher pay than offered** (Mexico and U.S. only) and applicants lack required hard skills (Canada only).

## Mexico



**50%** of employers are having difficulty filling jobs.

- Hardest roles to fill:

**Manufacturing, Sales Representatives, Office Support and Skilled Trades.**

## United States



**46%** of employers are having difficulty filling jobs.

- Hardest roles to fill:

**Skilled Trades, Drivers, Sales Representatives, and Healthcare professionals.**

## Canada



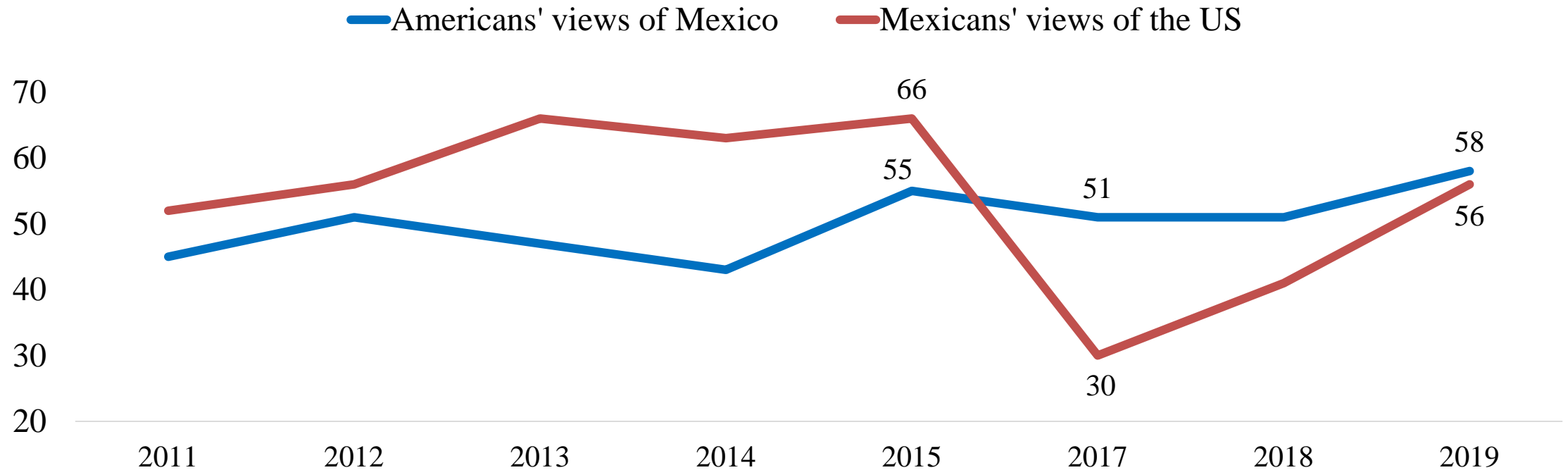
**41%** of employers are having difficulty filling jobs.

- Hardest roles to fill:  
**Skilled Trades, Drivers, Sales Representatives and Technicians.**



# Americans' and Mexicans' Perceptions of each other (per cent favorable)

- Mexico reversed its perception of the United States since AMLO's election.
- In 2019 polling, a **majority in Mexico (56%)** had a **favorable view of the United States**; while **58% of Americans** had **positive views of Mexico**.
- However, **three-quarters (77%)** of Mexicans have a **bad opinion of Trump**.
- **Mexicans** now **view bilateral relations as stable**.



# Working with Mexico



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**February 2020**





# U.S.-Mexico and North American Investment



Mexico's FDI  
in the US  
\$37.2 billion



US FDI in  
Mexico  
\$114.8 billion



In 2018, Canada's and  
Mexico's FDI in the US  
reached **\$625 billion**

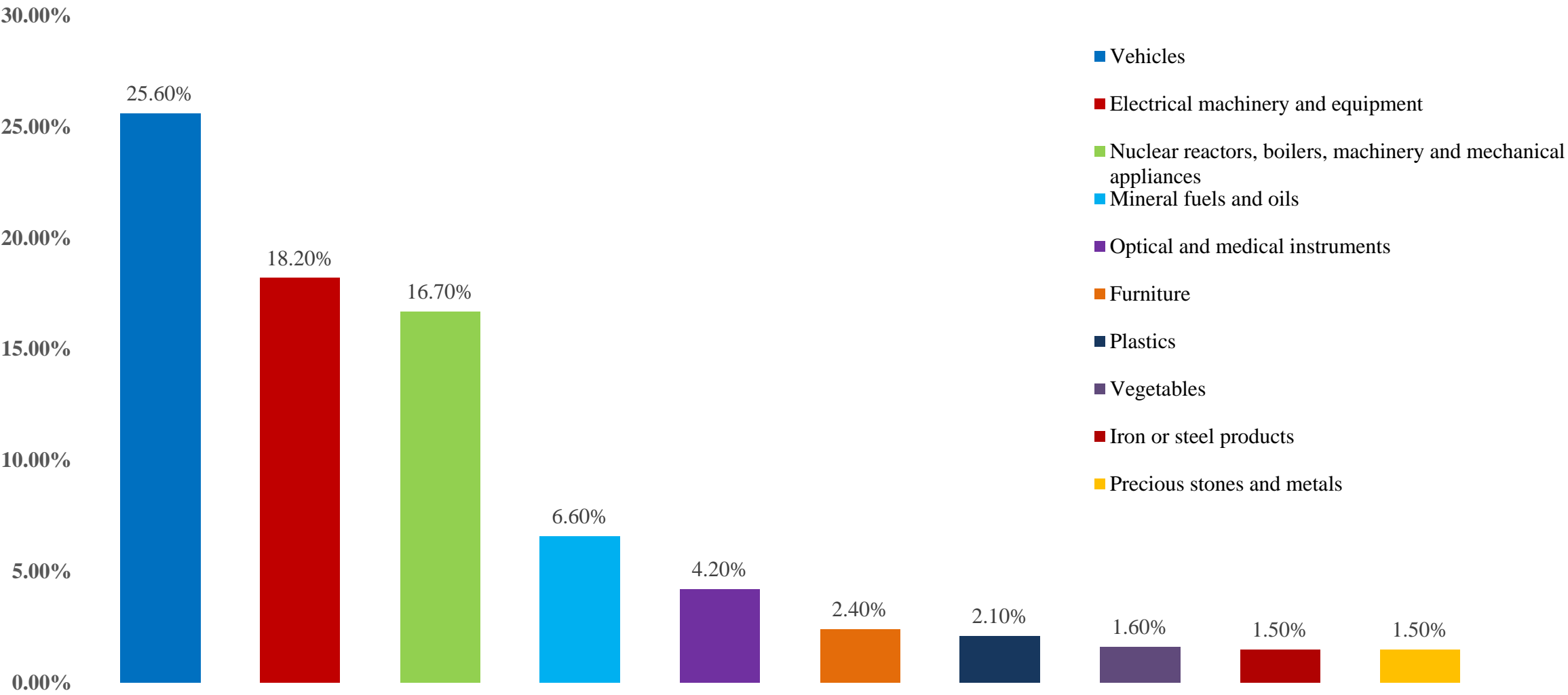
The US had **\$517 billion**  
FDI in Canada and  
Mexico.





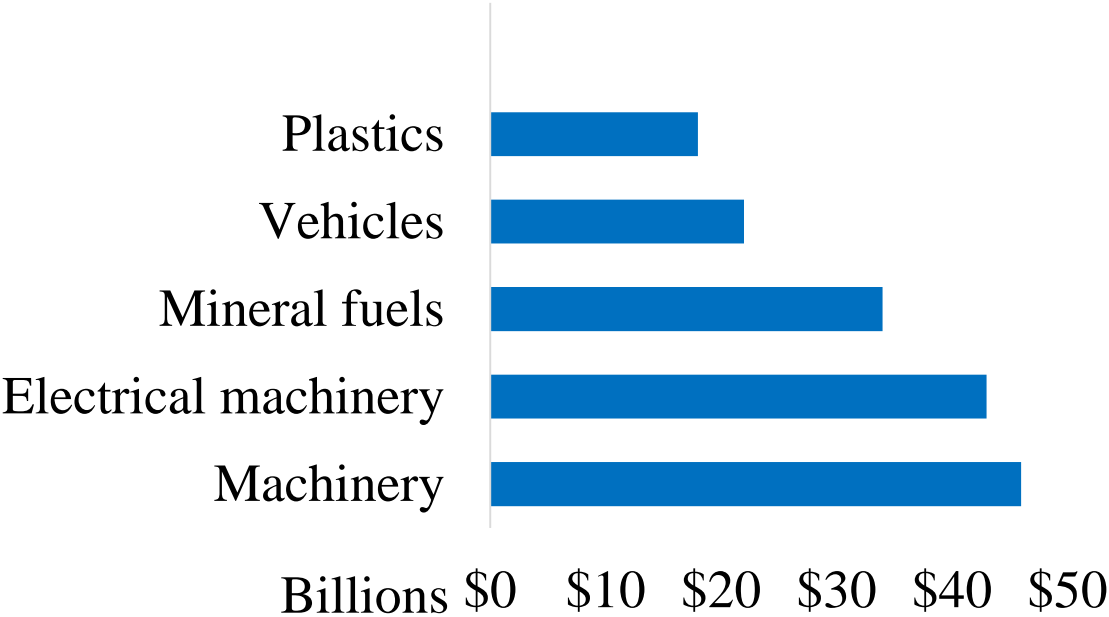
# Leading Mexican Products Exported to the US

## Manufactured Goods Dominate 2018

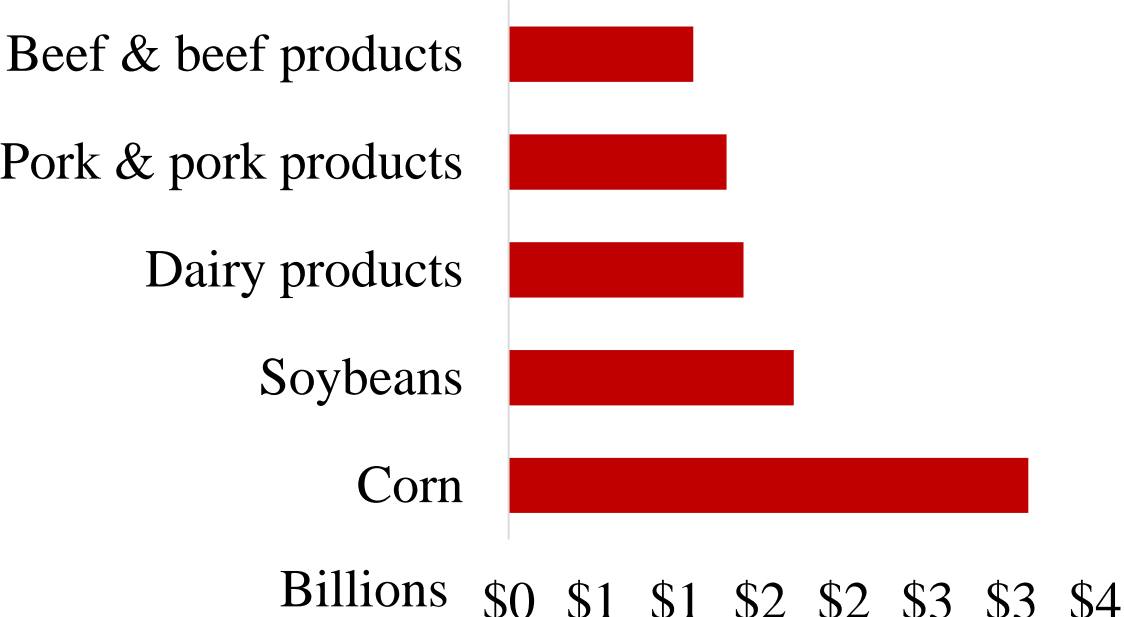




# Leading U.S. Products Exported to Mexico 2018



# Leading U.S. Agricultural Exports to Mexico 2018



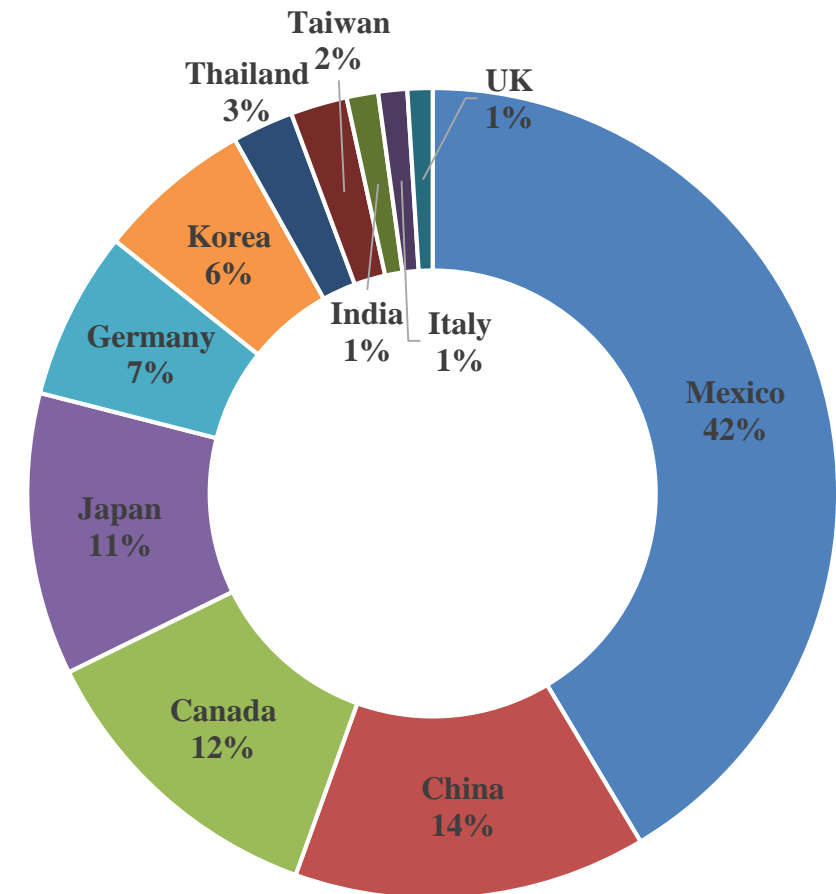


# The Automobile industry:

## Sourcing of U.S. Motor Vehicle Parts Imports 2018



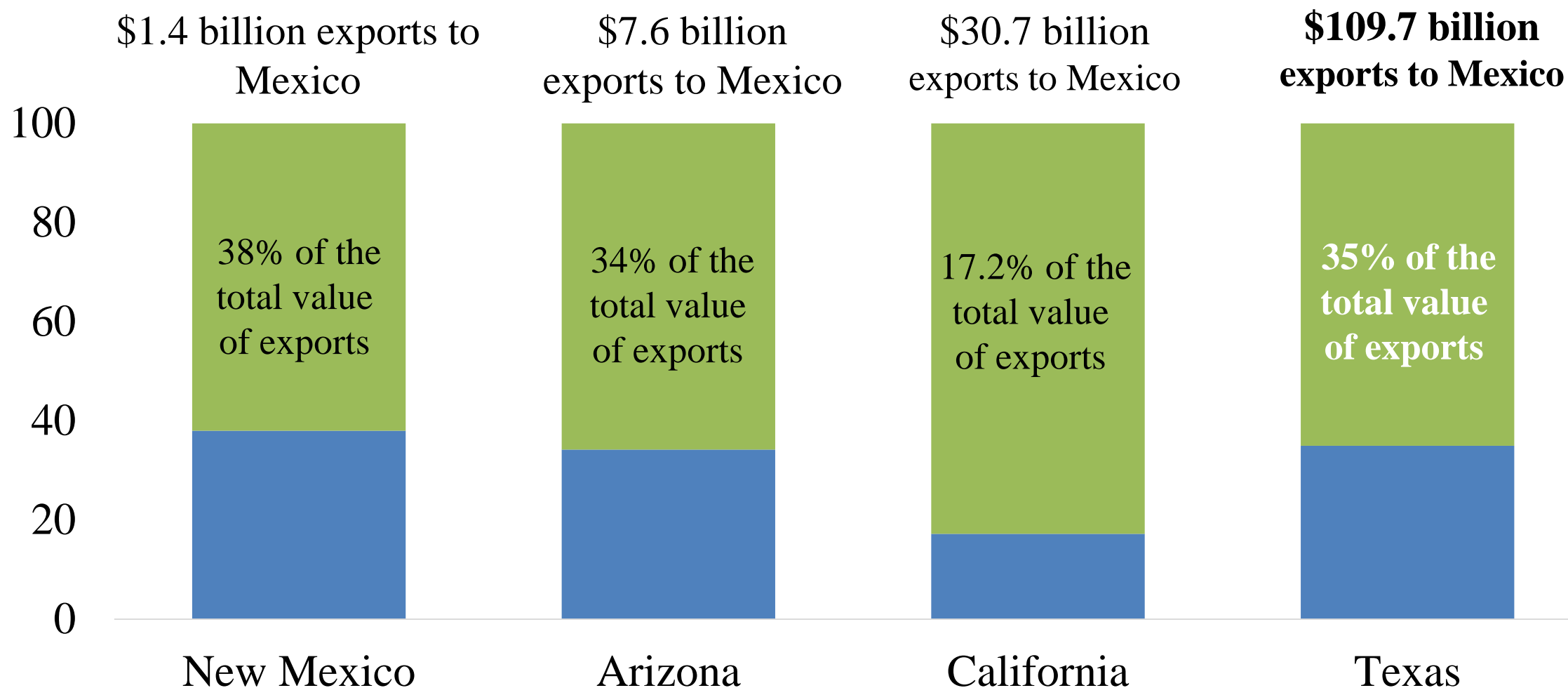
- The North American light-and medium-duty motor vehicle is estimated to be worth **USD 728 billion** annually: **28% of the global market** for new vehicles.
- In 2018, the U.S. **produced over 11 million** light vehicles, while **17.3 million were sold**.
- In 2017, **48%** of all vehicles sold in the U.S. **were imported** with 25% imported from **Mexico (14%)** and Canada (11%).
- According to **CAR's estimates** the typical Mexican-assembled vehicle – sold in the U.S. – includes **20 and 30 percent** U.S. and Canada content. **Harvard study found 38% average**.
- In contrast, the **average vehicle imported from outside the region** has only **3.5 percent** North American content.





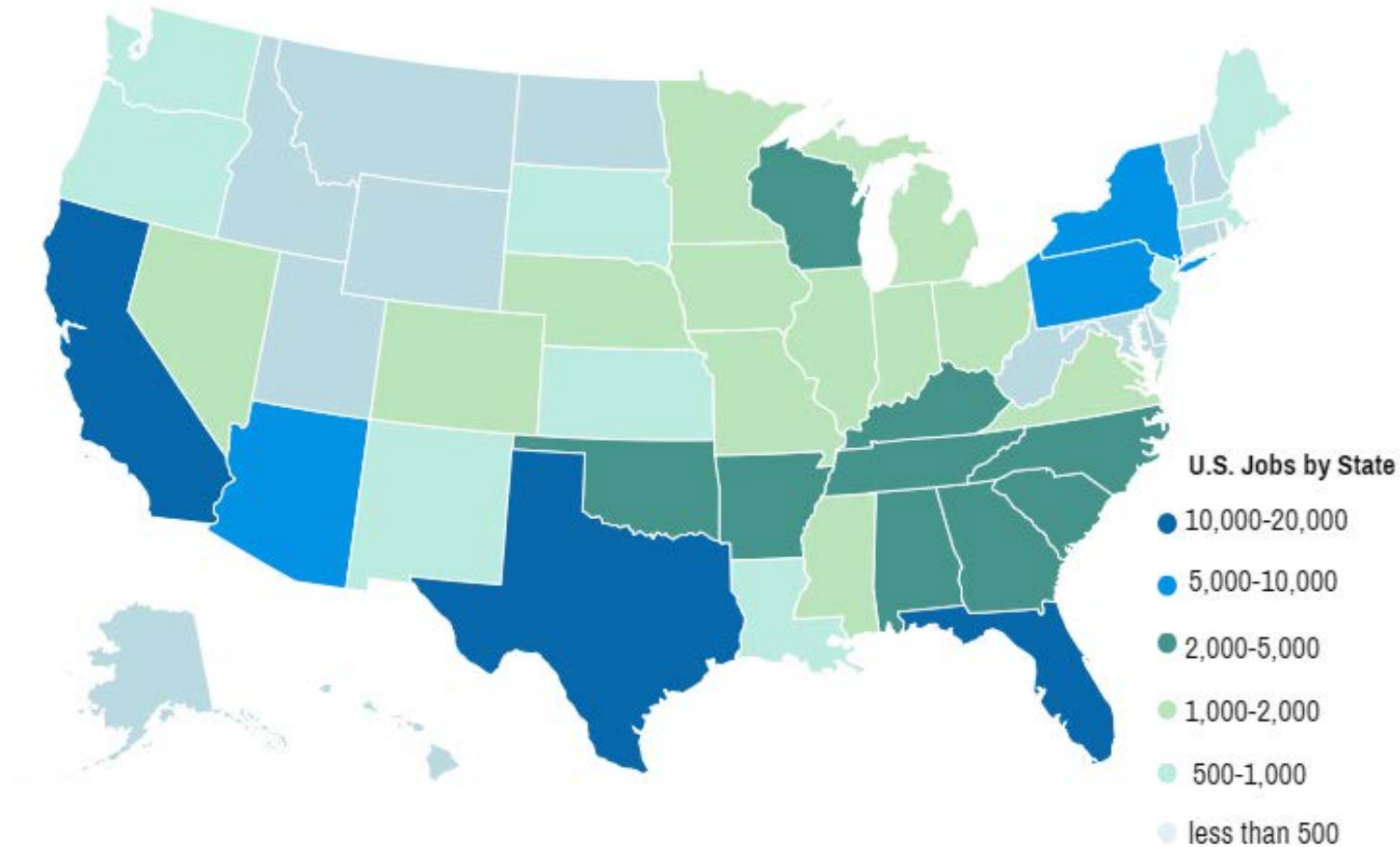
# US Border States Exports to Mexico

Texas is the top exporting U.S. state to Mexico (2018)



# U.S. Jobs Created by Mexican Investment<sub>2016</sub>

- Mexican investment supports **123,000 US jobs**.



# Serious questions about the vehicle Rules of Origin

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1. How burdensome will measuring wage rates and content in the supply chain be?
2. How much will the new rules raise the prices of North American vehicles?
3. How many jobs will be created and destroyed with the new rules? And where?
4. Will manufactures move production out of North America?
5. Will the U.S. auto industry be less competitive?

Several studies conclude USMCA will have marginal or negative impact on auto sector, including higher vehicle prices. Congressional Budget Office says some companies will choose to pay tariffs rather than comply with new requirements (will pay up to \$3 billion in tariffs over next 10 years.)

# Mexico's Labor Reform



- In April, Mexico's Congress passed a reform which **meets USMCA commitments**.
- In November, it **boosted funding to implement** reforms to signal serious commitment.
- **Key elements:**
  1. Establishes the Federal Labor Conciliation and Registration Center.
  2. Independent Labor Courts will replace existing Dispute Settlement boards.
  3. Guidelines to guarantee union elections are via a “personal, free, and secret” vote.
  4. Recognizes the right to join the union of choice, to bargain collectively, & to strike.
  5. Requires all existing collective bargaining agreements to be reviewed at least once during the four years after the legislation goes into effect.
  6. Establishes measures to protect workers against employment discrimination and gender inequality. Mandates social security insurance for domestic workers.
- **A demanding 4-year transition. U.S. skeptics added rapid response mechanisms for complaints of labor rights violations.**





# IMF: USMCA Gains per Country

- March IMF study: **biggest benefits were from ending the U.S. tariffs on steel & aluminum** and reciprocal tariffs by Canada and Mexico. Those ended.
- The USMCA's effects **real GDP relatively small** (negative for U.S.) .

Country	Welfare gain USMCA (\$US millions)	Removal of steel and aluminum tariff (\$US millions)	Removal of reciprocal surtaxes (\$US millions)	Total USMCA + Steel and surtax reforms (\$US millions)
Canada	\$734	\$1,428	- \$933	<b>\$1,229</b>
USA	- \$794	- \$1,609	\$3,701	<b>\$1,297</b>
Mexico	\$597	\$597	- \$614	<b>\$550</b>
Total Region	\$538	\$386	\$2,153	<b><u>\$3,076</u></b>

# Costs of Withdrawing from NAFTA: Net Job Losses

STUDY	IMPACT ON EMPLOYMENT
Impact Econ	<p><b>Unskilled Workers: auto, ag/food, textiles, services sectors suffer most (3-5 years)</b>  <b>U.S.:</b> loss of 256,000 jobs, with 95K more workers that would have to relocate  <b>Mexico:</b> loss of 951,000  <b>Canada:</b> loss of 125,000</p> <p><b>Skilled and Unskilled Workers (3-5 years)</b>  <b>U.S.:</b> loss of 1.4 million jobs  <b>Mexico:</b> loss of 1.5 million  <b>Canada:</b> loss of 497,000</p>
PIIE	<p><b>U.S.:</b> 180,000 exporting jobs lost, <b>most affected: auto, ag/food, &amp; manufacturing sector</b></p>
Oxford Economics	<p><b>U.S.:</b> 300,000 fewer jobs</p>
Trade Partnership Worldwide	<p><b>U.S.:</b> 1.8 to 3 million jobs lost (3-5 years)  <b>U.S.:</b> 200,000 to 700,000 fewer jobs over the longer term  <b>Canada:</b> 1.2 million jobs lost  <b>Mexico:</b> 2.3 to 10.3 million jobs lost</p>

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# Background Slides

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## **Areas of U.S.-Mexico Bilateral Work**



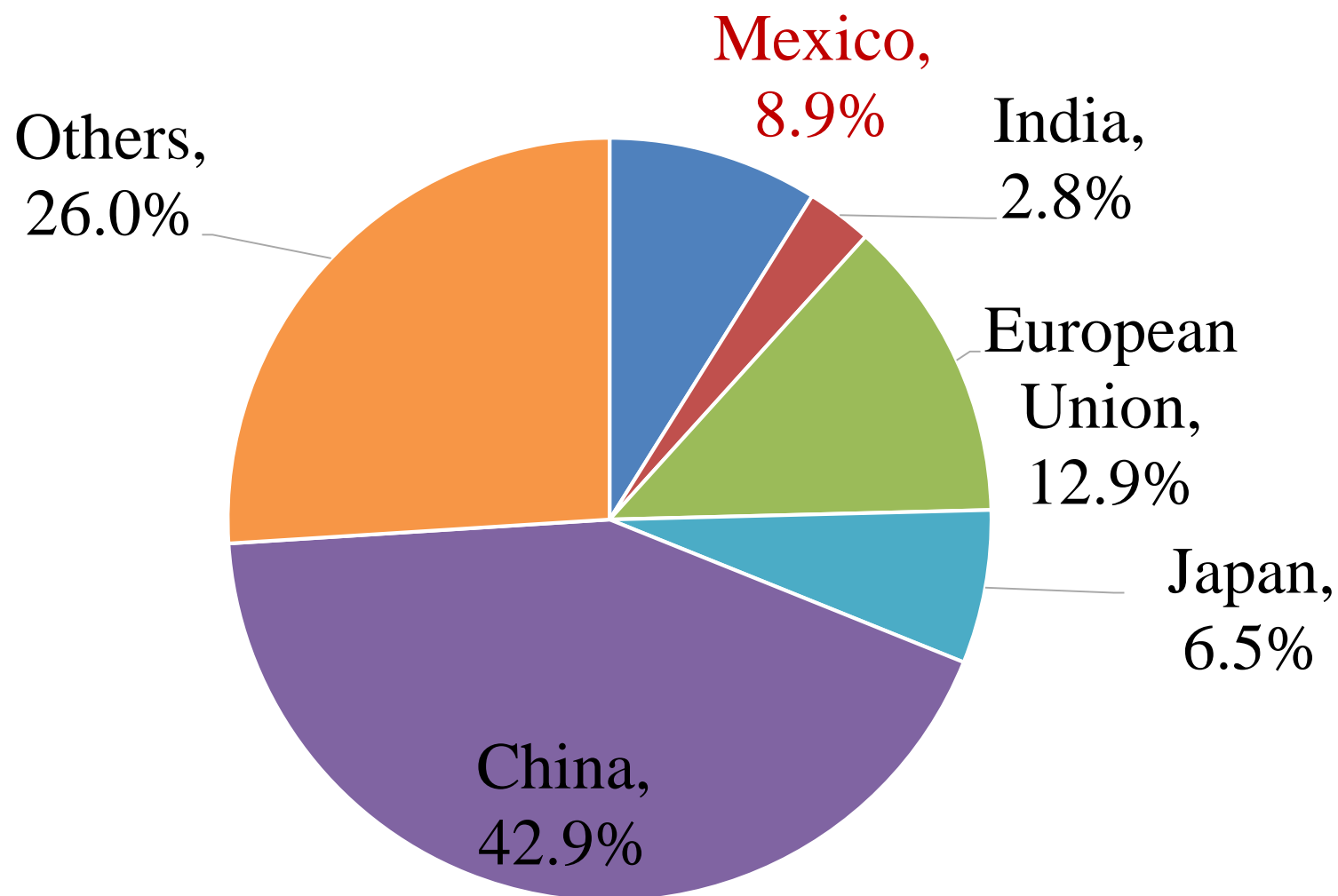
- Trade Facilitation
- Economic competitiveness
- Energy
- Border management and migration
- Public security and justice collaboration
- Fighting drug trafficking & organized crime
- Counter-terrorism
- Central America, the region, international
- Consular Issues for US and Mexican citizens
- Health issues
- Education, Innovation
- Environment
- Human rights

## **Trilateral Work: Canada, Mexico and the U.S.**



- Finalizing USMCA
- Energy & Environment Cooperation
- Regional and global priorities
- Trilateral Trusted Traveler Program
- Countering Illicit Drugs

# US Trade in Goods Deficit but Service Surplus

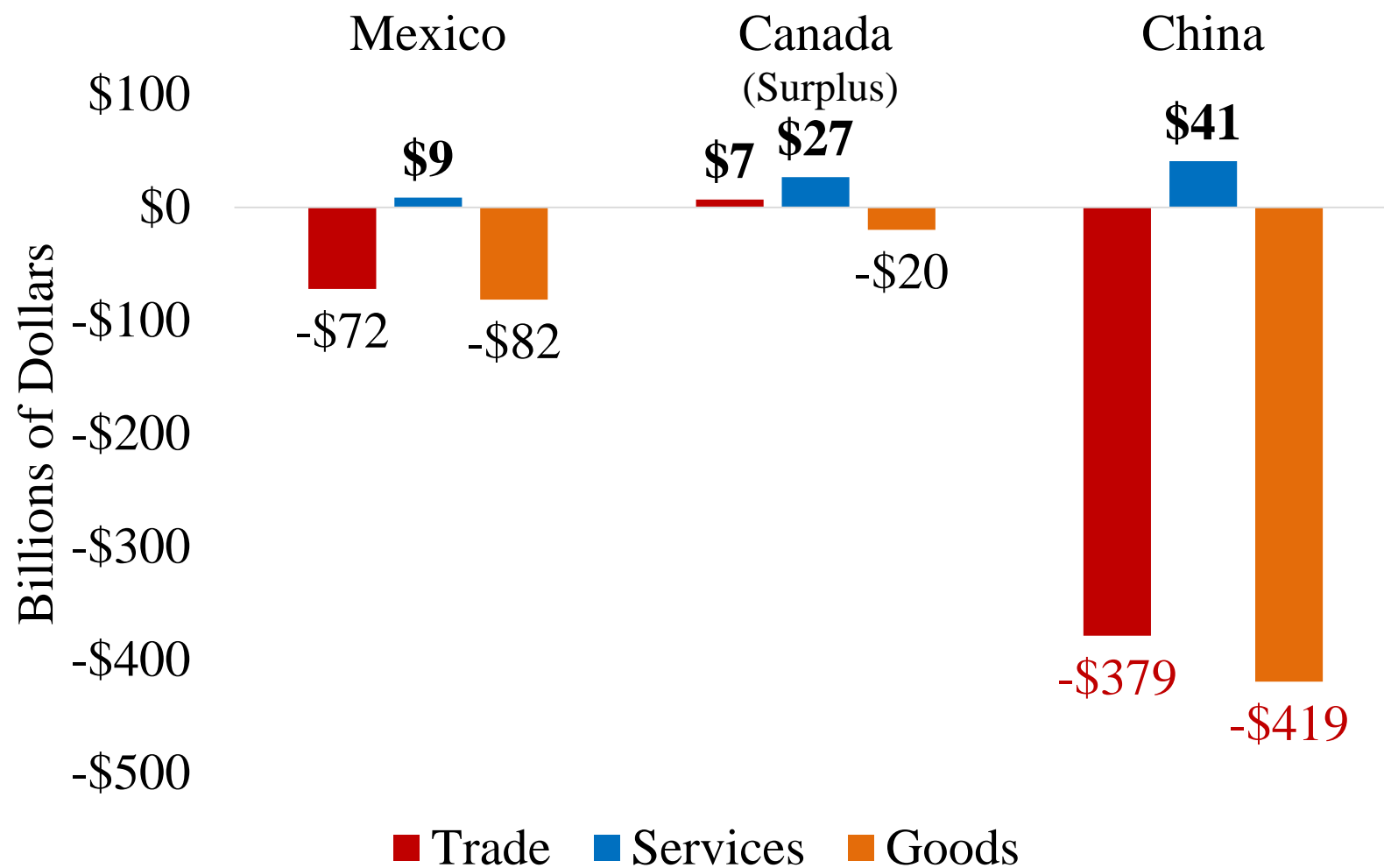


U.S. Trade Surplus of services  
with Mexico rose

**19.1%**

from 2017 to 2018

# US Trade in Goods and Services 2018

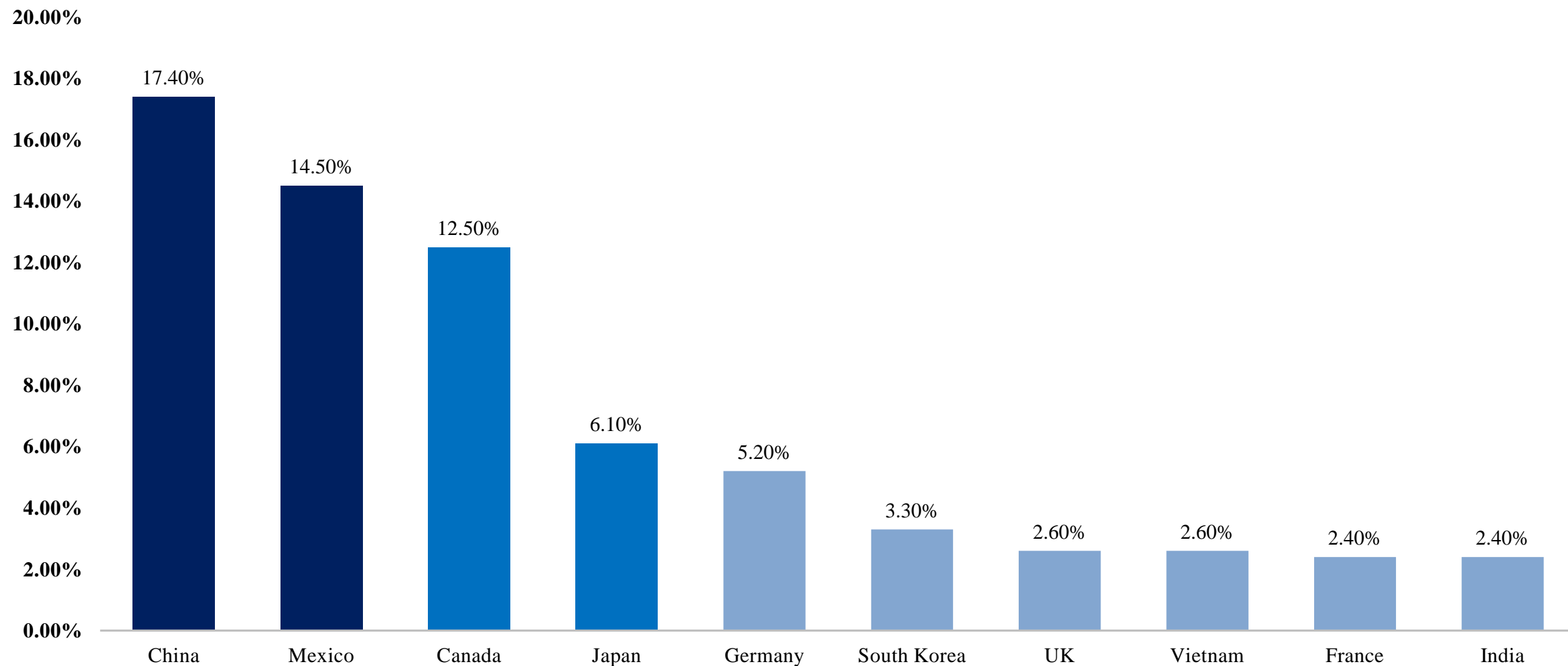


**\$27 billion surplus in services & \$7 billion total trade surplus with Canada**

**\$8.8 billion surplus in services with Mexico**



# Leading US Imports: China on the rise



Source: United States Census Bureau, 2018

# Where have the manufacturing jobs gone?

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Competition from China

2 - 2.4 million

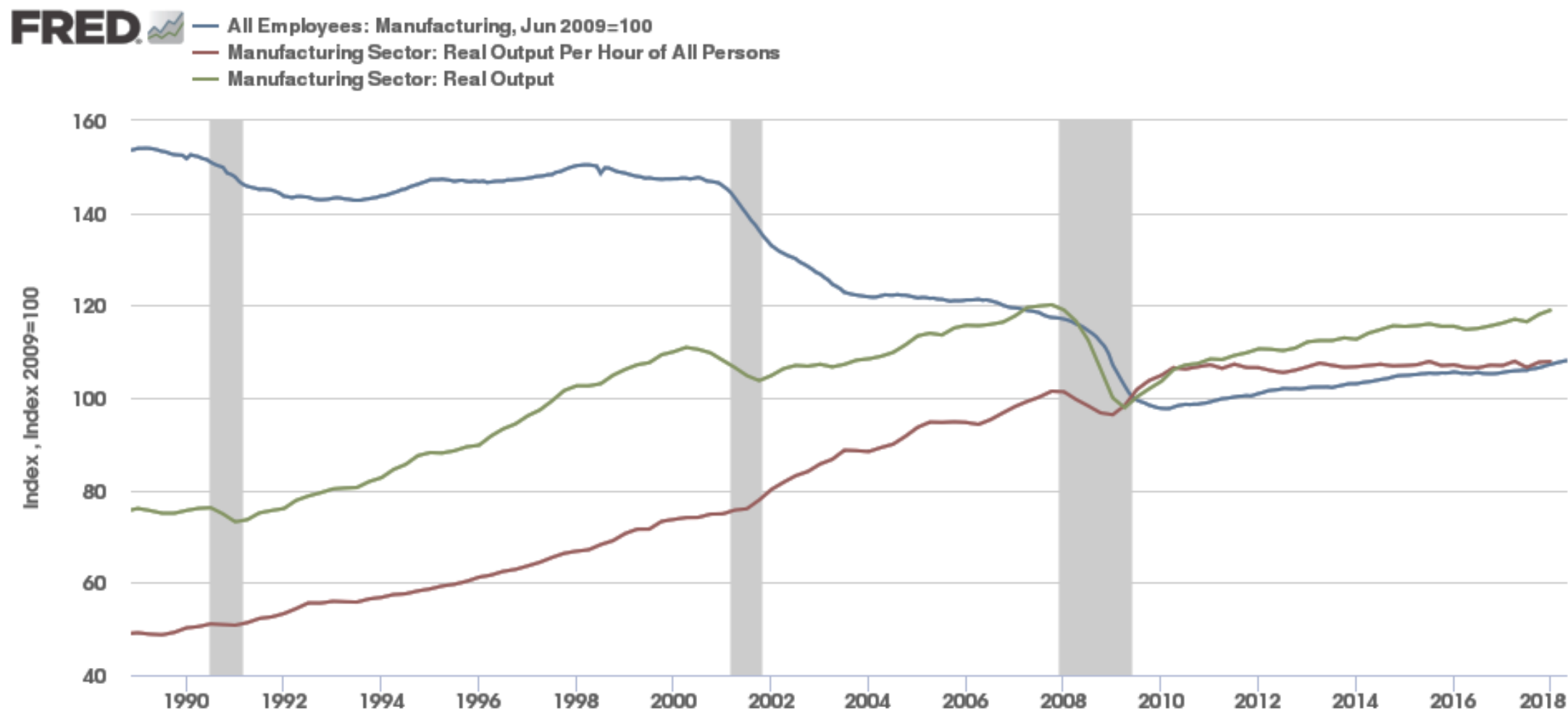
New Technology

4.7 million





# U.S. Manufacturing Employment and Output



Shaded areas indicate U.S. recessions

Source: U.S. Bureau of Labor Statistics

[myf.red/g/k51D](https://myf.red/g/k51D)

# What's at Stake?

\$ 1.3 trillion of North American Trade

Up to 14 million U.S. jobs & millions more in Mexico and Canada

\$452 billion U.S. investment in NAFTA partners & their \$388 billion in the U.S.

46,000 U.S. trucking jobs supported by cross-border trade; \$137 billion in annual vehicle and parts exports to neighbors and the world.

\$43 billion worth of food and ag goods exported to Mexico and Canada

\$88 billion in U.S. services exports & \$31.5 billion services trade surplus

# U.S. Costs of Withdrawing from NAFTA

From 256,000 low skilled jobs lost up to 1.2 million jobs lost (3-5 years).<sup>1</sup>

95,000 workers would have to relocate to other sectors (3-5 years).<sup>1</sup>

GDP decline up to 0.64% (\$120 billion).<sup>1</sup>

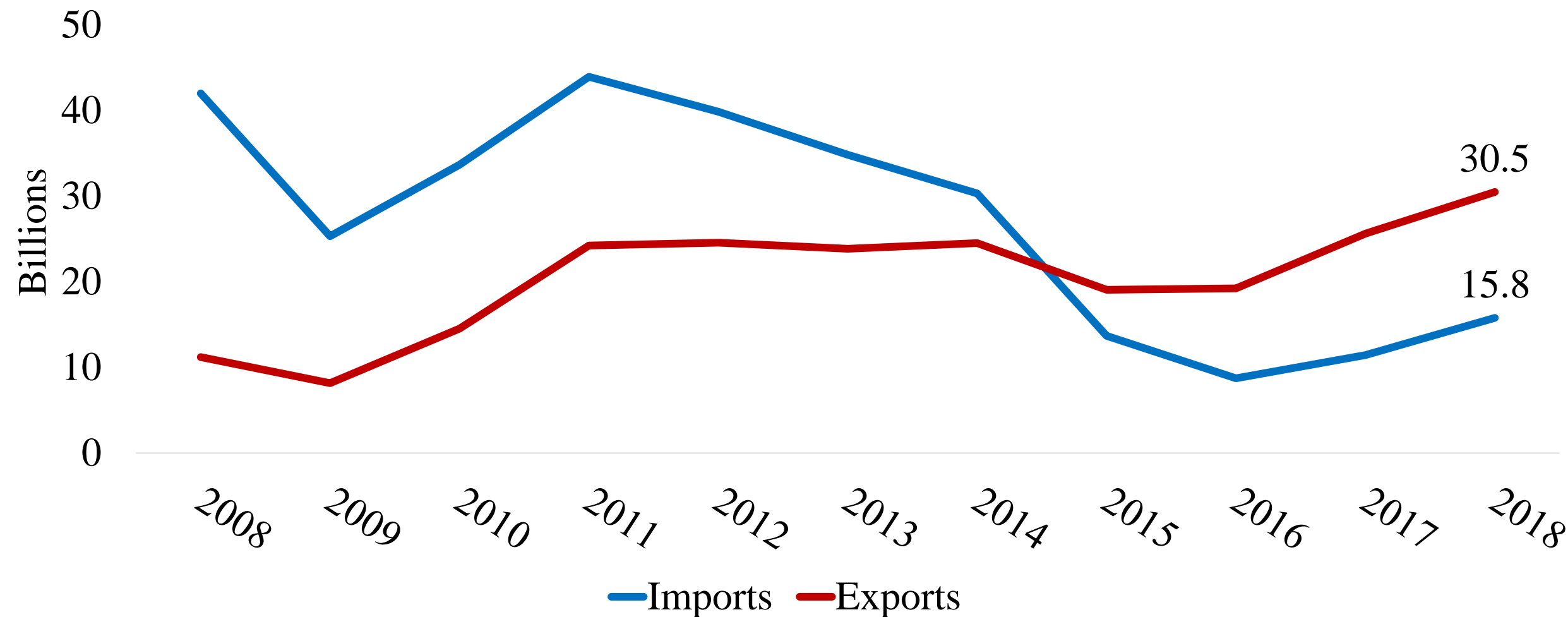
Hard hit sectors: agriculture/livestock/food; motor vehicles; machinery; other manufactured; services; transportation and logistics; textiles.<sup>3</sup>

Investors see U.S. growth slowed and harm to specific sectors and equity markets.<sup>2</sup>

Strategic dangers: reduced cooperation against drug trafficking and on migration; move back to "*distant neighbors*" with revived anti-Americanism.

# Energy and the Environment

# U.S. Energy Trade Surplus with Mexico





# Energy Investment and Cooperation

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- Pemex has signed **joint operating agreements** with Exxon, Chevron, Shell, etc.
- Exxon Mobil planed to **invest \$300 million in Mexico** over the next 10 years.
- Sempra Energy is investing **\$800 million**: \$500 million in a pipeline project between Texas and the Mexican Gulf port of Tuxpan.
- In 2017, U.S. and Mexico authorities agreed to work on expanding cross-border energy **infrastructure, including in electricity**.
- North American energy cooperation, investment & trade helps **ensure reliable low-cost energy to power manufacturing** across region and build **Energy Security**.
- AMLO seeks to **increase energy independence, strengthen PEMEX and CFE**, and invest in refineries: questions additional private sector investment and cooperation.
- **Rating agencies** question strength and capacity of Pemex: **downgraded bonds**.

# Border: Migrant Flows



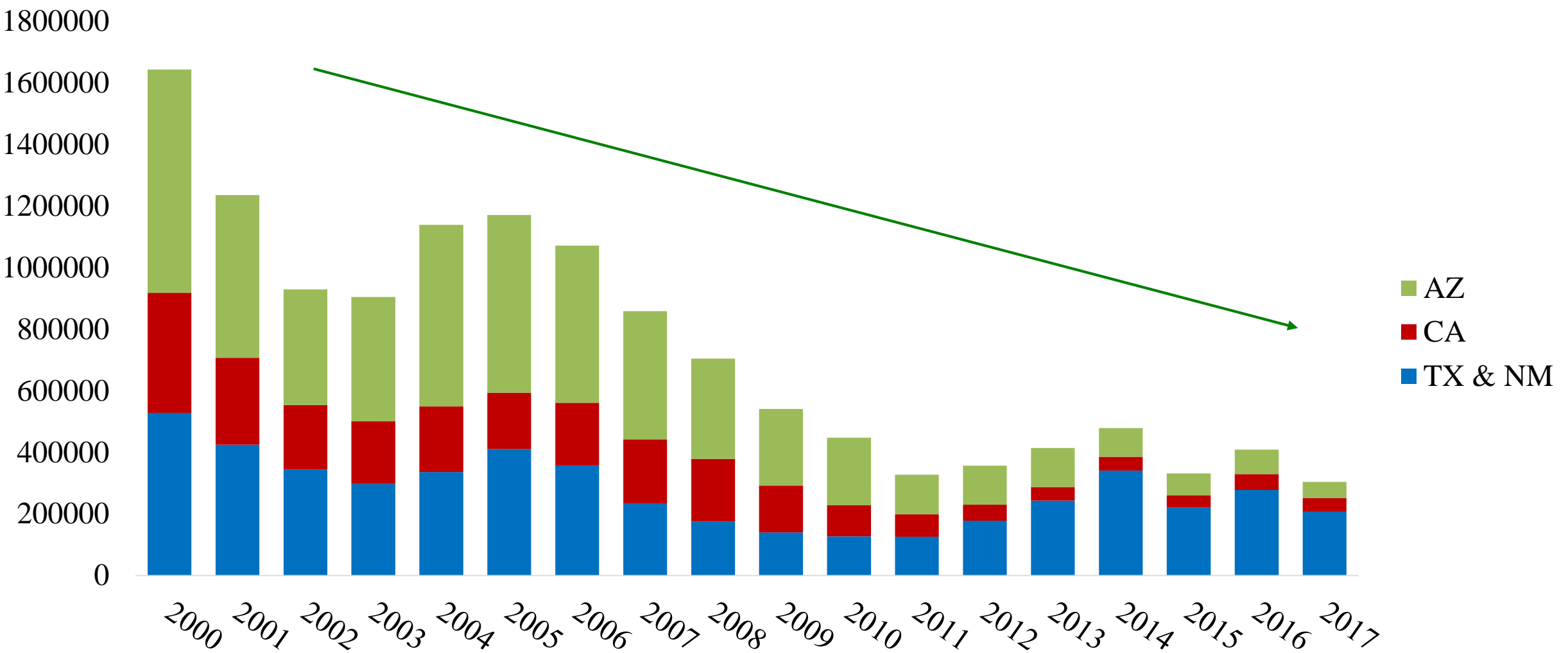
# Americans' Views towards Border Wall

	Total	Democrat	Republican
Support building a wall along the US-Mex border	40%	6%	82%
Agree that building a wall along the US-Mex border would reduce illegal immigration	54%	29%	87%
Believe the U.S. would ultimately pay for a border wall (rather than Mexico).	70%	87%	46%





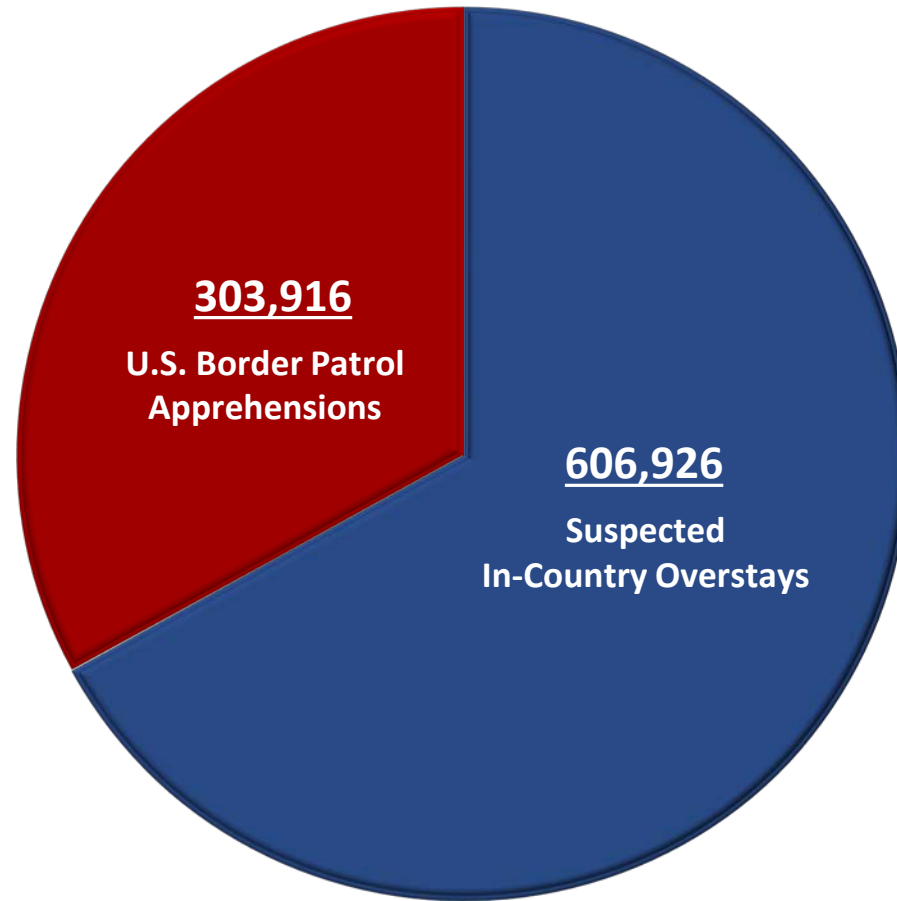
# Southwest Border Apprehensions by State



Source: U.S. Border Patrol FY2000 - FY2017

# Visa overstays exceeds illegal border crossing in 2017

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# AMLO's Use of Plebiscites: Critics Concerned



- The **10 projects** were all approved via a “**consulta**” in November 2018 (Tabasco Refineries, Isthmus of Tehuantepec, Plant Trees, Pension, Scholarships).
  - Only 925,000 people voted, **less than 1%** of Mexico's population. All received more than 90% approval, except Maya Train (89.9%).
- **First “Consulta” in October:**
  - Cancelled Mexico City's airport project, but only 1 million voted.
  - High cost in market confidence and alternative plan questioned.
- **Promises to hold more referenda.**



# AMLO's Proposals to Trump – July 12 Letter

<b>TRADE</b> 	<b>Finish NAFTA renegotiation.</b>	<b>Relocate Mexican customs inland from the border.</b>	<b>Establish a free trade zone on the northern border of Mexico:</b> decrease the VAT rate, the income tax rate & energy prices, and increase minimum wage.
<b>SECURITY</b> 	<b>Establish development plans</b> between the U.S., Mexico, and Central America to finance economic development. <b>Allocate 25% of investments to security and border control.</b>		<b>Each government will control its borders and combat trafficking of drugs and weapons.</b>

# AMLO's Proposals to Trump – July 12 Letter

<b>MIGRATION</b> 	<b>Improve economic opportunities</b> to keep Mexicans in Mexico.	<b>Migration cooperation</b> based on the respect for human rights.	Development plans to <b>mitigate poverty and avoid migration.</b>	
<b>DEVELOPMENT</b> 	Encourage <b>tourism</b> with high-speed train from Cancun to Palenque.	Create an <b>economic and commercial corridor</b> in the Isthmus of Tehuantepec.	Reactivate Mexico's <b>agricultural sector.</b>	<b>Urban development plan</b> in border cities.



# North American Trade

- Canada, Mexico and the US trade **\$1.3 trillion a year**.
- **\$3.6 billion a day**, reflecting major shared production networks.
- More than US trade with all the **European Union** and **over 2 times** more than with **China as of 2019**.
- **Over 12 million US jobs** are supported by trade and investment with both neighbors.
- **Some 50 percent** of NAFTA trade is in **intermediate goods**.