Building a Partnership with Mexico

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Building a Partnership with Mexico

• U.S.-Mexico ties touch more U.S. lives daily than any other country via trade, border connections, tourism, and family ties. The same is true for Mexico.

• An estimated 35 million U.S. citizens are of Mexican heritage.

• Share a 1990-mile border (3,201 km) & adjoining environment.

• In recent years, government-to-government collaboration has been unprecedented.
Managing a Massive Relationship
US-Mexico Trade

2016 Trade in goods and services:

$579 billion

US trades over 1 million per minute with Mexico.

US-Mexico Trade

Mexico is the US’:

- 2nd largest export market
- 3rd largest trading partner
- 3rd largest Ag export market: $18 billion in 2016
- 1st or 2nd export market for 29 U.S. States
- 1st export market for U.S. Southern Border States
U.S.-Mexico Border States

- The U.S.-Mexico Border States’ GDP would constitute the 4th economy in the world and would represent over 25% of both countries total GDP.
US-Mexico Border Crossings

• Each day there are over 1 million border crossings.

• Each day, over 490 thousand (47% of the total) take place through Ports of Entry in Texas.

US-Mexico Visitors

• In 2016, the number of overnight visitors from U.S. to Mexico was 25 million.

• The number of overnight visitors from Mexico to the U.S. was 18 million.

• Together they spent over $34 billion.

• 7.7 million Mexicans visit Texas and spend $4.5 billion every year.

U.S. Trade with Mexico has multiplied by 6 since 1993

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

## Rank Order: Top US States’ Trade with Mexico 2015

<table>
<thead>
<tr>
<th>State</th>
<th>Volume $USD (Billions)</th>
<th>State</th>
<th>Volume $USD (Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas</td>
<td>178</td>
<td>Georgia</td>
<td>9.7</td>
</tr>
<tr>
<td>California</td>
<td>71.9</td>
<td>Pennsylvania</td>
<td>8.4</td>
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<tr>
<td>Michigan</td>
<td>55</td>
<td>Florida</td>
<td>8.3</td>
</tr>
<tr>
<td>Illinois</td>
<td>22.2</td>
<td>Kentucky</td>
<td>8.3</td>
</tr>
<tr>
<td>Arizona</td>
<td>16.8</td>
<td>North Carolina</td>
<td>7.7</td>
</tr>
<tr>
<td>Ohio</td>
<td>14.7</td>
<td>New Jersey</td>
<td>7.4</td>
</tr>
<tr>
<td>Tennessee</td>
<td>12</td>
<td>Louisiana</td>
<td>7.3</td>
</tr>
<tr>
<td>Indiana</td>
<td>10.1</td>
<td>New York</td>
<td>6.8</td>
</tr>
</tbody>
</table>

Texas-Mexico Trade

- Total trade = $178 Billion
  (more than US trade with its #5 partner: Germany = $164B)
- $487.6 million a day
- $20.3 million an hour
- $338.6 thousand a minute
Texas is the top exporting U.S. state to Mexico

- **New Mexico**: $1.6 billion exports to Mexico, 43% of the total value of exports
- **Arizona**: $8.3 billion exports to Mexico, 38% of the total value of exports
- **California**: $25.3 billion exports to Mexico, 15% of the total value of exports
- **Texas**: $91.7 billion exports to Mexico, 37% of the total value of exports

Exports from Texas to Mexico by Industry (% of total trade)

- Computer and electronic products: 26%
- Transportation equipment: 12%
- Petroleum and coal products: 12%
- Chemicals: 9%
- Electrical equipment: 8%
- Agricultural Products: 2%
- Others: 31%

More U.S. Content in Imports from Mexico than Others

Value of U.S. Content in Manufactured Imports from Selected Economies

Source: Robert Koopman et al. “Give Credit Where Credit is Due: Tracing Value Added in Global Production Chains”. NBER Working Paper No 16426.
Leading U.S. States Exporting Agricultural Products to Mexico

- Texas: 3.7 Billion
- California
- Iowa: 1.6 Billion
- Louisiana
- Nebraska
- Missouri
- Kansas
- Illinois
- Minnesota
- Ohio

Mexico Trade supports 5 million U.S. jobs

5 million US jobs depend on trade with Mexico, compared to an estimated 700,000 jobs in 1993.

Over 1 million U.S. Border State jobs (382,000 Texas jobs) depend on trade with Mexico.

U.S. Jobs Created by Mexican Investment

- Mexican investment supports 123,000 US jobs (20,000 jobs in Texas).

Border Management Licit and Illicit Flows
Moving toward Co-Management of the Border
Moving from blame to “shared responsibilities”

- Making the border more open to legitimate travel and commerce.
- **Working to align** customs regulatory frameworks; moving toward a North American single customs platform.
- **New mechanisms to communicate, coordinate and more effectively counter** illicit trade and travel: drugs, guns, money and people.
- Steps to increase security and reduce cross-border violence.
- New programs to share information on potential border crossers, including via shared border radio-frequency identification system.
- Working to create a **Trilateral Trusted Traveler Program**.
Net Migration from Mexico

- In 2016, there were 1.3 million less unauthorized Mexican immigrants in the US than in 2007

Source: Pew Research, 2017
Migrant Apprehensions: US-Mexico Cooperation

Deportations by Mexico
175,136

Apprehensions by the U.S.
134,572

Security and Justice Issues
US-Mexico Law Enforcement/Security Cooperation

Mérida Initiative Programs & Agency-to-Agency Cooperation

Defense Dialogues & Cooperation

Security Coordination Group
Mérida Initiative: Evolving

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.

-$2.6$ billion appropriated by the US since 2008.

-$1.6$ billion already spent on training and equipment via over 100 programs.

Mexico has spent over 10 times more.
Opioids Change the Game
Drugs Involved in US Overdose Deaths 2000-2016

- Fentanyl and Fentanyl Analogues
- Heroin
- Prescription Opioids
- Cocaine
- Meth
- Methadone

Source: CDC Wonder Database; CDC Provisional Counts of Drug Overdose Deaths as of 8/6/2017
2014 Death Rates for Drug Poisoning

U.S. Opioid Crisis

• Opium derivatives use: over 5% of the U.S. population in 2013.

• Since 1999, overdose deaths involving opioids has quadrupled.

• Opium and heroin production in Mexico has grown substantially, as has transshipment of illicit opioids, e.g., Fentanyl, from China.

• In 2016, Presidents Peña Nieto and Obama launched a working group on drugs and dismantling criminal networks.

Sources: The Globalist, The White House, CDC.
2017 Agreements to Combat Illicit Drug Trade

• Partner to destroy criminal organizations.

• Address the demand for illicit drugs among US citizens.

“*We have one common objective to end the tragic impacts of illicit drug trade on both sides of our border,*” Secretary Tillerson

• Necessary tools: physical barriers, technology, patrolling, eradication, enhanced law enforcement and justice actions, and anti-addiction programs.

• Go after all elements in the chain: means of production, cross-border distribution networks, flows of cash and profits, weapons procurement.

“*It’s a multifaceted problem...it needs multifaceted solutions,*” Secretary Kelly
Violence up in Mexico: Mexican Strategy and Tactics?
Homicides in Mexico

January-August 2017: **18,637 killings**: up 27% from the same period in 2016.

June 2017: the **most violent month** in the last 20 years.

Law enforcement appears overwhelmed; cartels fighting; types of crime expanded, e.g. oil theft; more states affected.

Revised U.S. travel warning for vacation spots.

Source: Secretaria Ejecutiva de Seguridad Nacional, El Financier & Dallas Morning News, 2017
NAFTA
5 WAYS TO IMPROVE NAFTA

U.S. withdrawal from NAFTA would be incredibly costly.

However, these 5 updates to the agreement could favor both U.S. competitiveness and American workers:

1. Account for recent technological advances.
   Now that the Internet and smartphones are everyday tools of business and commerce, issues such as cross-border data flows and exports of digital products should be included in updates of the agreement.

2. Revise customs processes and requirements.
   Simplifying customs rules and paperwork would make it easier for small U.S. businesses to take advantage of new online platforms, like Amazon and Etsy, that have made it easier to venture into foreign trade and find buyers abroad.

3. Update NAFTA’s rules of origin.
   NAFTA includes rules about what percentage of a product must be produced within North America in order to enter the U.S., Mexico, or Canada tariff-free. A detailed analysis should be done to determine how these rules could be strengthened to incentivize investment and job growth in the U.S.

4. Strengthen the NAFTA side agreement on labor rights.
   While the countries of North America have already agreed to abide by their own labor laws in a NAFTA side agreement, incorporating labor issues into NAFTA itself could better ensure that companies don’t leave the U.S. in an effort to avoid the costs of respecting workers’ rights.

5. Eliminate obstacles to service exports.
   Since the U.S. has an advantage in the high skill industries that make up much of services trade, like financial and educational services, special emphasis should be placed on eliminating obstacles to these exports.

Further protection of U.S. workers requires investment in workforce development:

- Improving basic education
- Aligning higher education with labor market demand
- Strengthening worker retraining programs

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Trump to Announce Plans for Renegotiation of NAFTA: Five Ways to Improve the Agreement
U.S. NAFTA Modernization Objectives

Controversial topics include:

- Focus on reducing trade deficit.
- Eliminate chapter 19 dispute settlement mechanism, and otherwise preserve United States freedom to enforce rigorously its trade laws.
- Keep in place preferential purchasing programs such as “Buy America”.
- Eliminate the Investor-to-State Dispute Settlement (ISDS) mechanism.
- Proposals to strengthen rules of origin and incentives to ensure greater sourcing of products in US.
- Sunset clause.
Third Round of NAFTA Renegotiations

Progress

• Small and medium-sized businesses
• Competition policy
• Digital trade
• State Owned Enterprises
• Sanitary and Phytosanitary measures
• Customs
• Telecommunications
• Protections and rights for Mexican workers
• Fourth Round in DC on October 11-17

Expected US Proposals

• Ways to reduce US trade deficit
• Minimum amount of U.S. content in autos
• Elimination of Chapter 19 dispute resolution mechanism
• Sunset clause
Overall, Is NAFTA Good for the US Economy?

Source: The Chicago Council on Global Affairs
Do You Think Mexico Practices Fair or Unfair Trade with US? (% Fair)

Source: The Chicago Council on Global Affairs
A Strong Partnership with Mexico
Opportunities from a Border Region Perspective

• As Mexico’s largest trading partner, Texas has a tremendous amount to win or to lose: manufacturing, energy, agriculture.

• Press for attention to border infrastructure and facilitation: use combined border state clout so a consistent chorus is heard by Congress, Governors, and Cabinet Secretaries.

• Border facilitation improvements: Build in a commitment to on-going bilateral work to improve border crossing times and procedures; trilateral work to adopt best practices, including consistent regulations, processes and rules.
Opportunities from a Border Region Perspective

• **Border Infrastructure:** Build in *reference* to the importance of modern border infrastructure and sufficient staffing.

• Seek more efficient and better coordinated *bi-national planning mechanisms*, and *trilateral planning* where relevant, for example on transportation corridors.

• **Develop federal, state and local strategies:** Form a *border alliance* to talk with the federal governments about resource needs and policies that have effect all along the border.
Tasks Ahead from a Border Region Perspective

- **Economic development:** Champion coordinated multi-year regional plans with local, State and Federal buy-in.
- **Improve communication and coordination** between local and federal governments of both sides of the border.
- Regularly convene **stakeholders** to share know-how.
- **Institutionalize** regional alliances and bilateral relationships.
- Organize **coordinated outreach plans** to sell the economic and security importance of the border region. **Speak out for Texas!**
- **Think big:** competing with global producers; Industry 4.0 ahead.
U.S.-Mexico Tasks Ahead

• **Trade:**
  • Successfully complete NAFTA modernization negotiations.

• **Bilateral Security Cooperation:**
  • Better manage migration and travel; intercept terrorists.
  • Better fight organized crime, attacking production, distribution, logistics, finance networks, arms smuggling, and addiction/demand.
  • Continue to support Central America; partner with others.
  • Deepen military-to-military cooperation and partnership.

• **Improve Competitiveness:**
  • Enhance technology, information sharing and processes to improve security and facilitation of legitimate trade and travel.
  • Invest in programs, including education, to further develop the complimentary nature of the two economies, create jobs and improve global competitiveness.
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