

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 **35 million U.S. citizens are of Mexican heritage**.
- 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.



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**

Currency in USD. Source: U.S. Census Bureau 2019



US-Mexico Trade

Mexico is the US':

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

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



US-Mexico Border Crossings

Each day there are over

1 million

border crossings





Serious Challenges to Address

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

Migration & border Management

Finalizing USMCA

Surging Criminal Violence in Mexico

Strengthening Mexican law enforcement institutions and bilateral cooperation

Central American migrants

Potential Terrorism

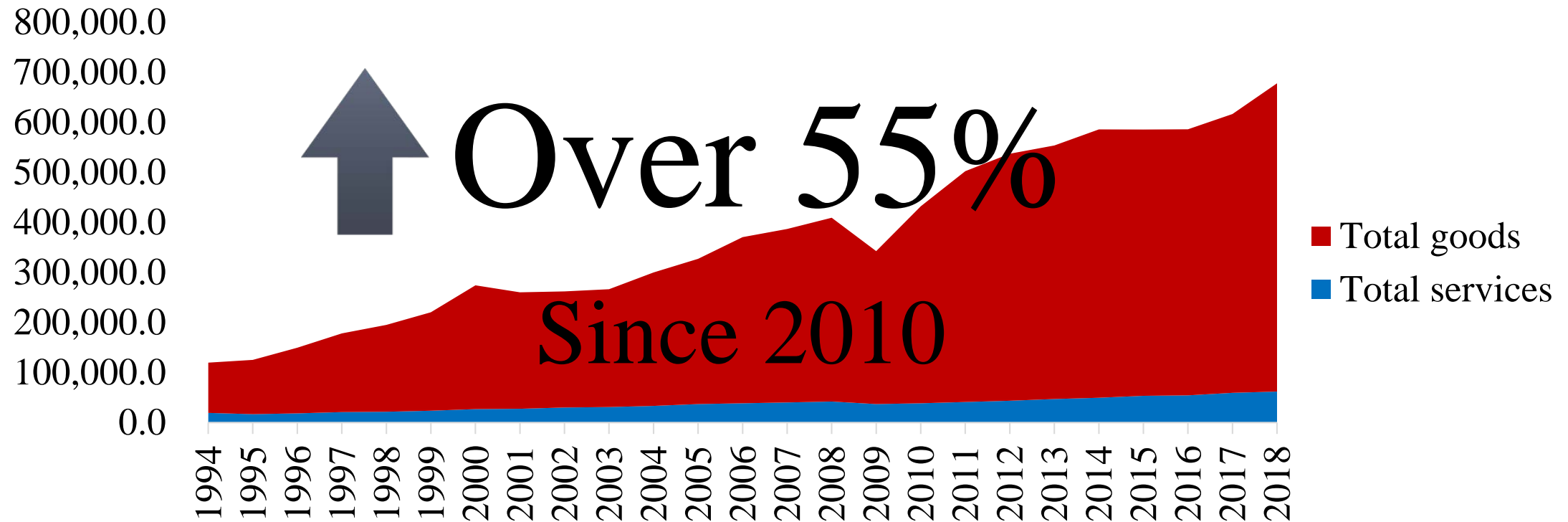
Countering Corruption

Negative public perceptions

Reducing poverty in Mexico

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



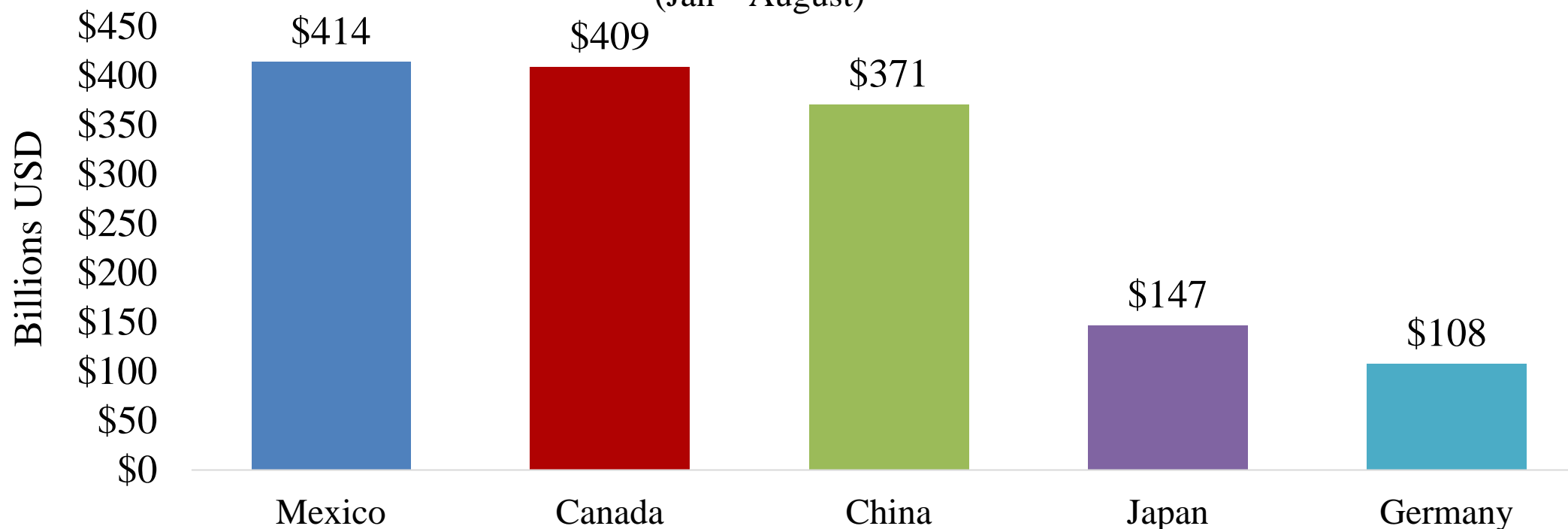


Mexico & Canada: Top Trading Partners in 2019

U.S. Top Trading Partners 2019

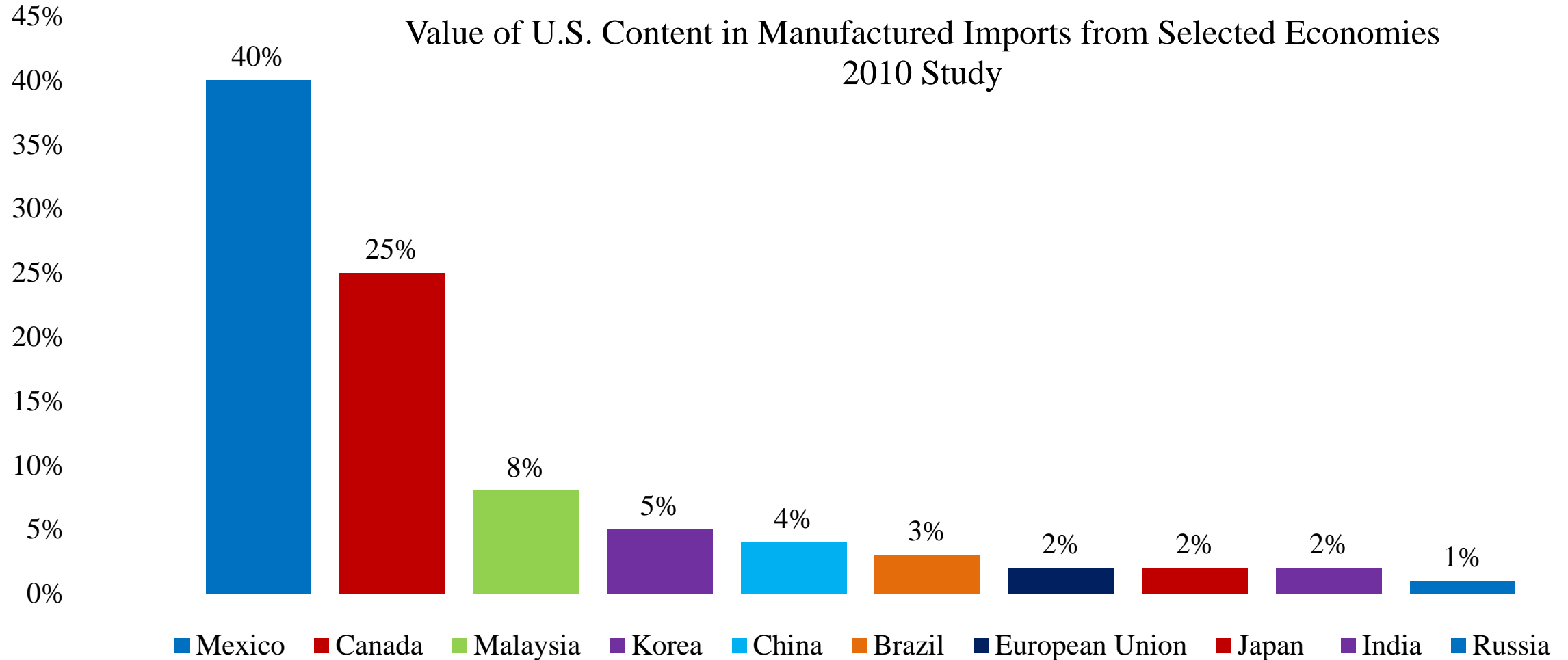
Imports + Exports

(Jan – August)

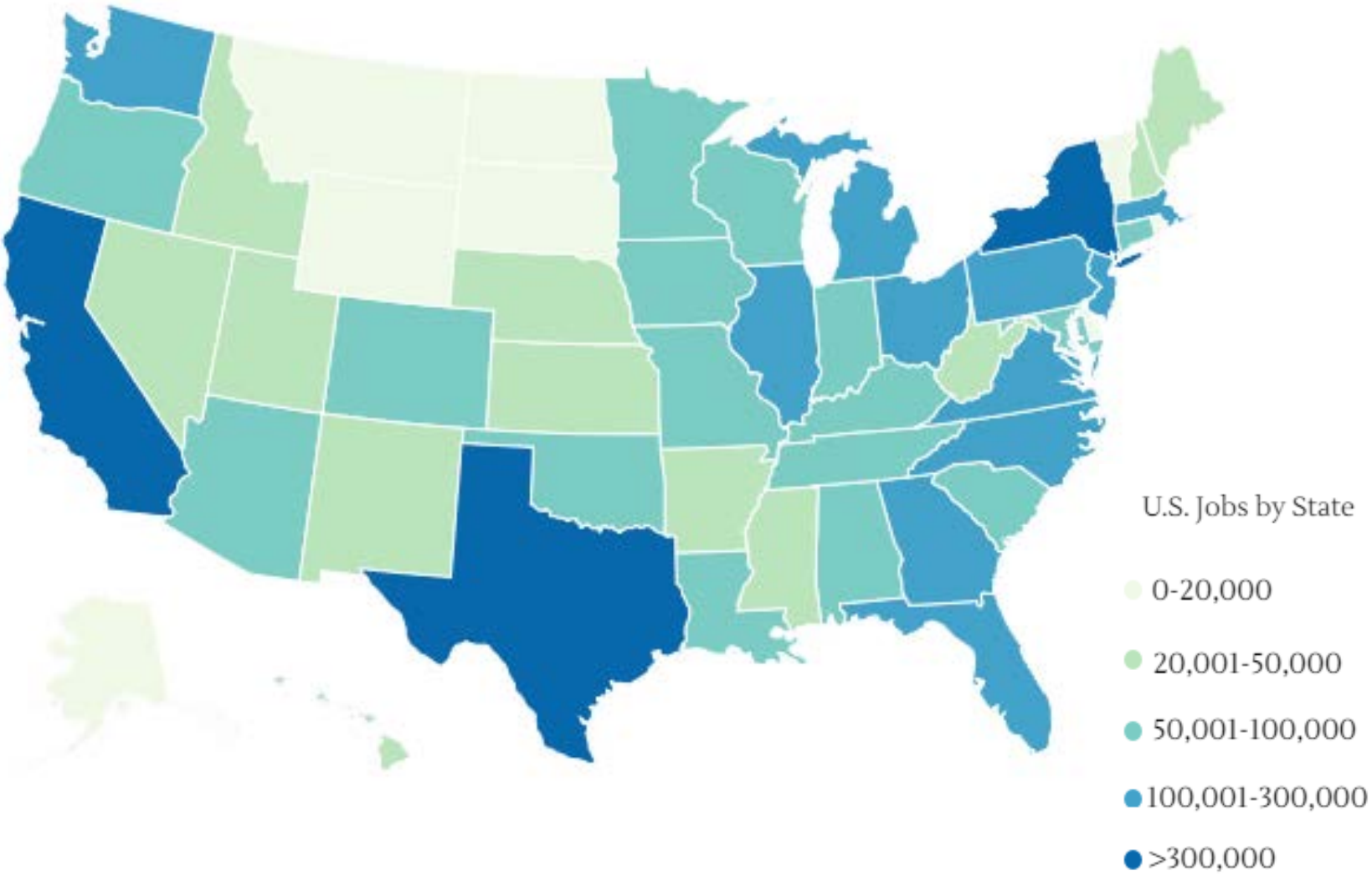


For the first time, trade with Mexico exceeds Canada and China.

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



Mexico trade supports some 5 million US jobs

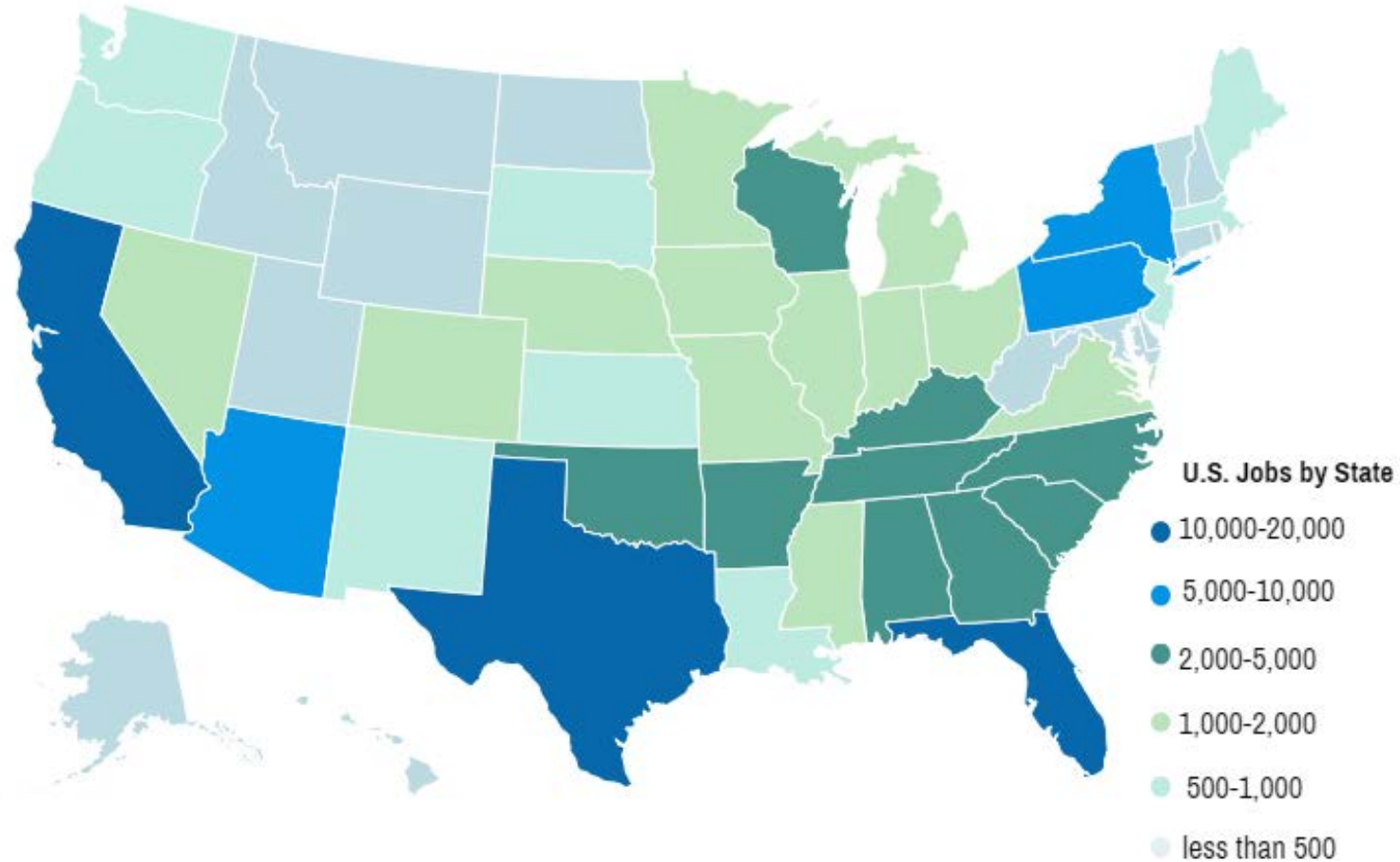


Some 5 million US jobs depend on trade and investment ties with Mexico (2017), compared to an estimated 700,000 jobs in 1993.

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

U.S. Jobs Created by Mexican Investment₂₀₁₆

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





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 **3rd 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

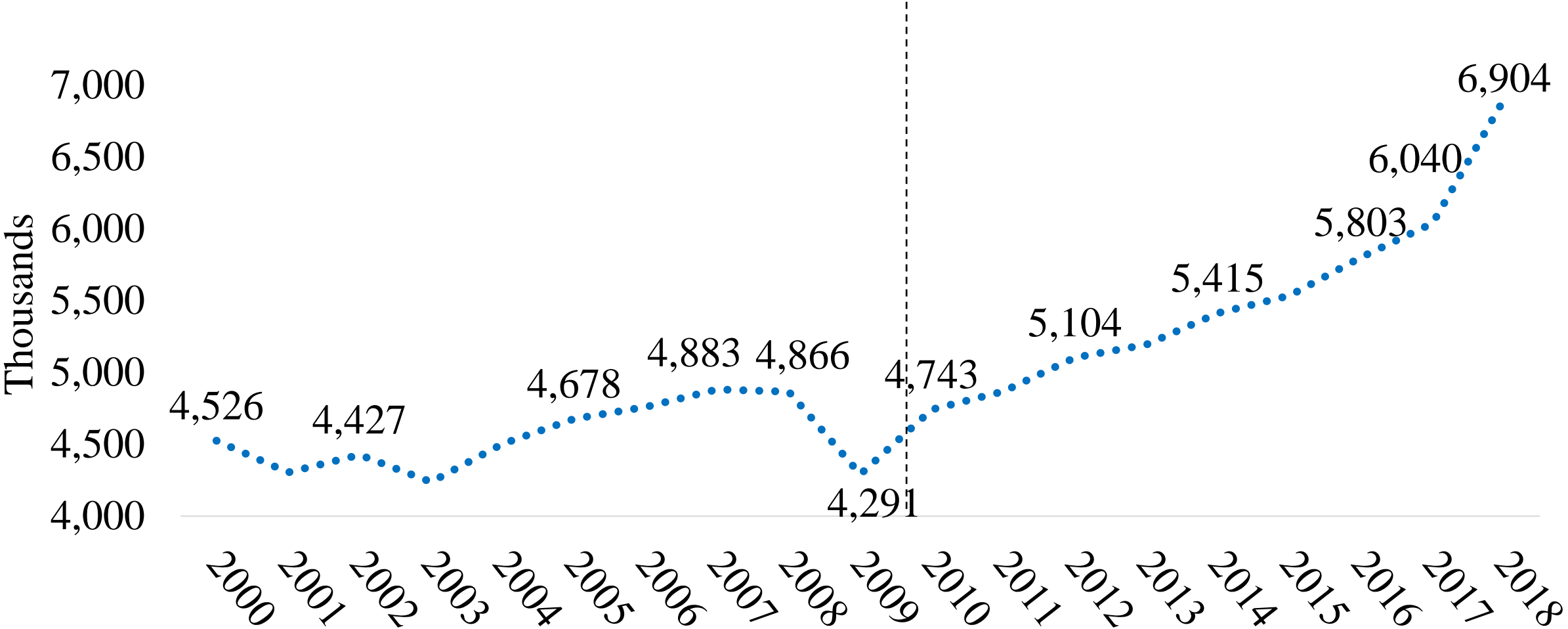
Border Management: Licit and Illicit Flows

Moving toward Co-Management of the Border





Trucks Crossing the US-Mexico Border



Source: Bureau of Transportation Statistics, 2017



2012-2016 from blame to “shared responsibilities”

- Making the border more open to legitimate travel and commerce.
- Working to align customs regulatory frameworks; increase joint use of customs facilities on the border to facilitate commerce.
- 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.
- Working to create a Trilateral Trusted Traveler Program.
- Worked to manage immigrant surge from Central America 2014-15.
- **Cooperation complicated 2017-18: 2019 in flux over migrant flows.**

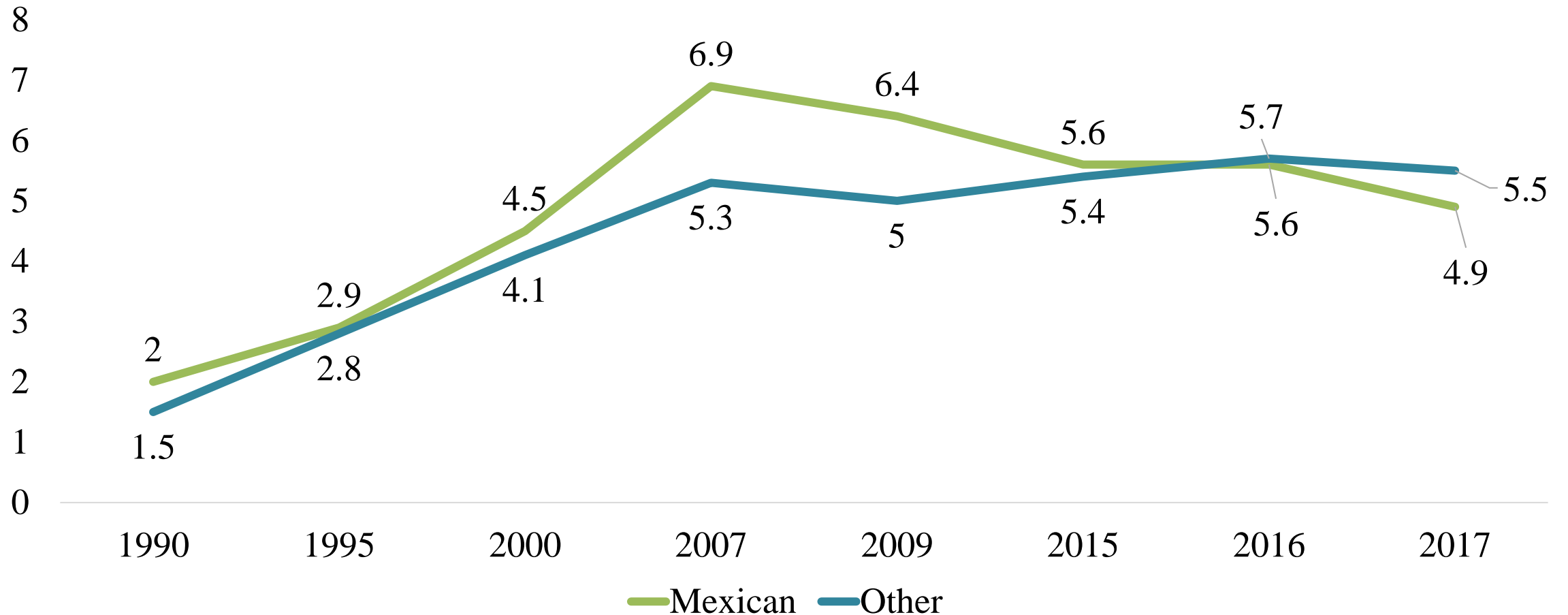
Migrant Flows

- 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.



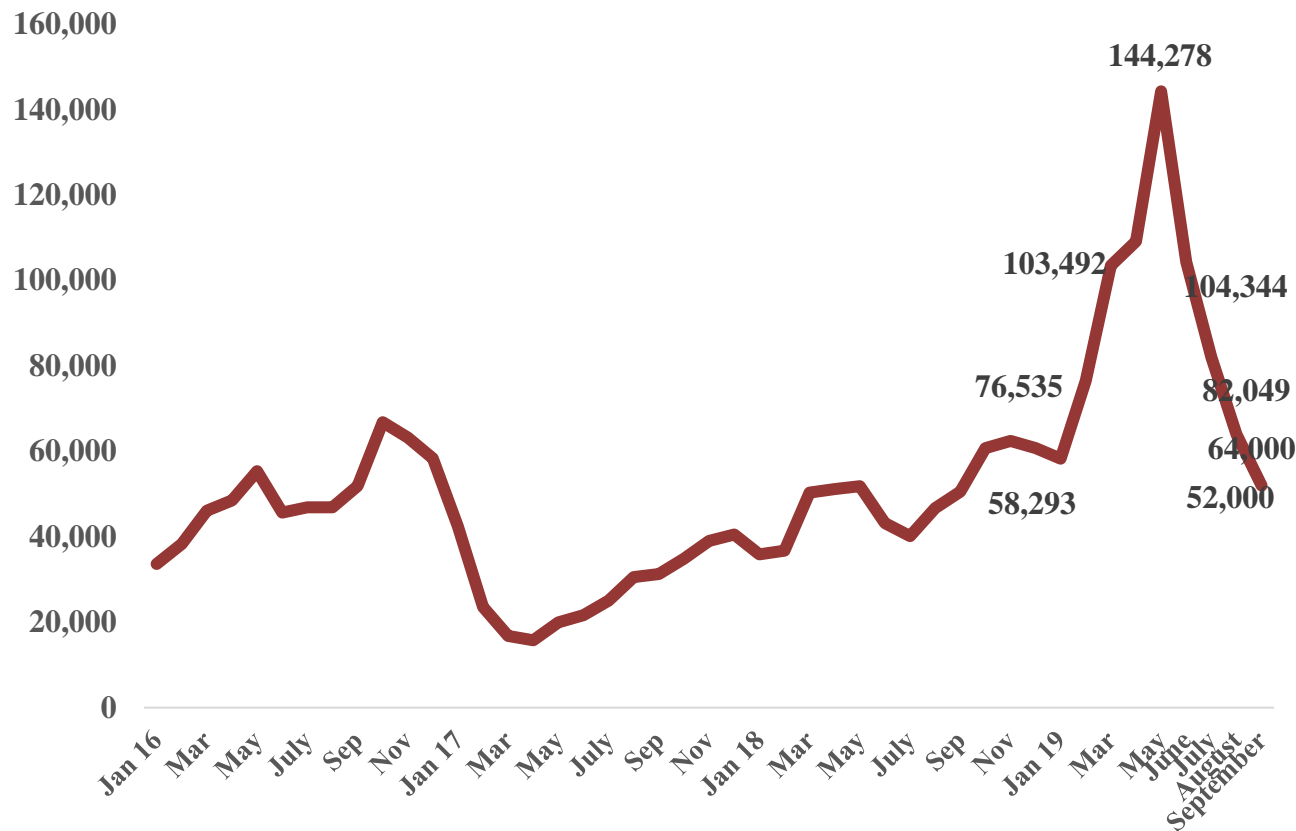


Number of Unauthorized Immigrants in the U.S.



Sharp Rise in U.S.-Mexico border apprehensions

Apprehensions at the southwestern border 2016 - 2019



- In **2018: 467,000 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 signed in June, Mexico stepped up its enforcement actions.
- **Apprehensions dropped to about 52,000 in September: a 65% reduction from May.**



Addressing Central American Migration

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).
- **Improved cooperation** to combat **transnational criminal organizations**.
- **\$53 million from Mexico** for three **NT infrastructure projects**.

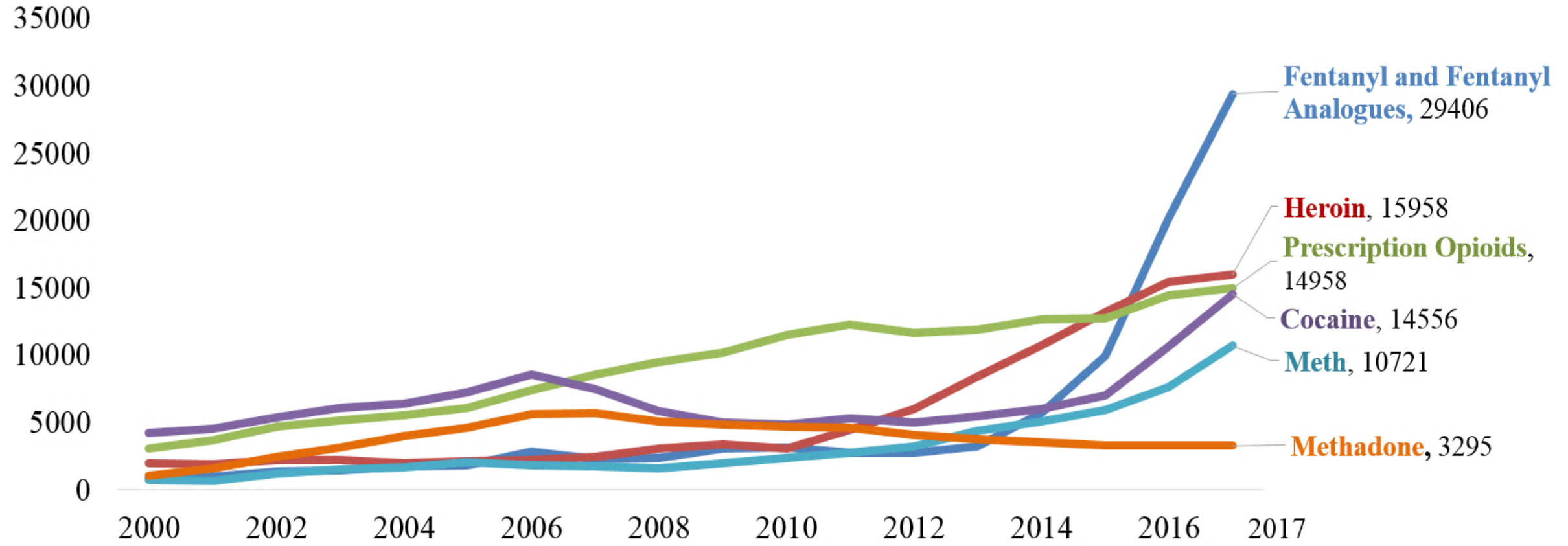
In 2018, Mexico's Senate **condemned U.S. border policies** and called to end cooperation.

In 2019, the **U.S. threatened tariffs** on Mexican exports over rising migrant numbers (and cut aid to Central America). In June, the two governments reached **agreement to reduce numbers and allow some migrants to wait for U.S. asylum decisions in Mexico**.

Bilateral Cooperation Against Crime: Pending Review



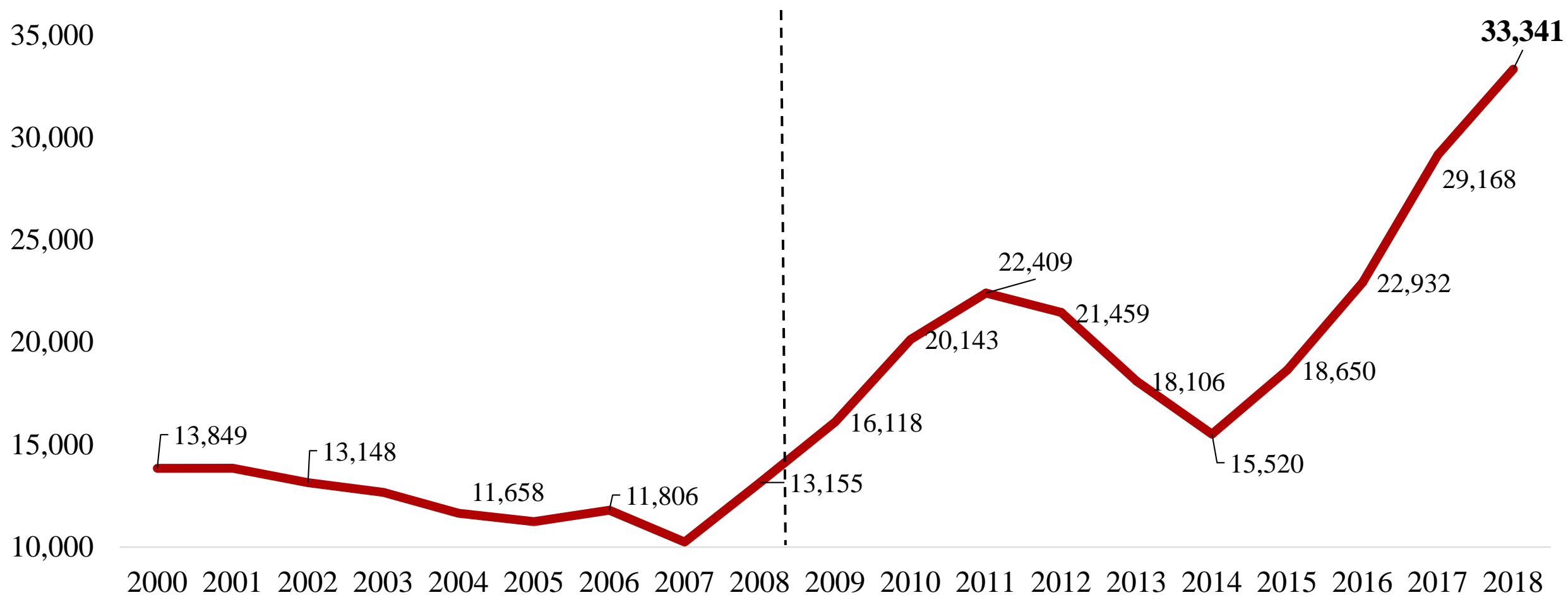
Driver: US Drug Overdose Deaths 2000-2017



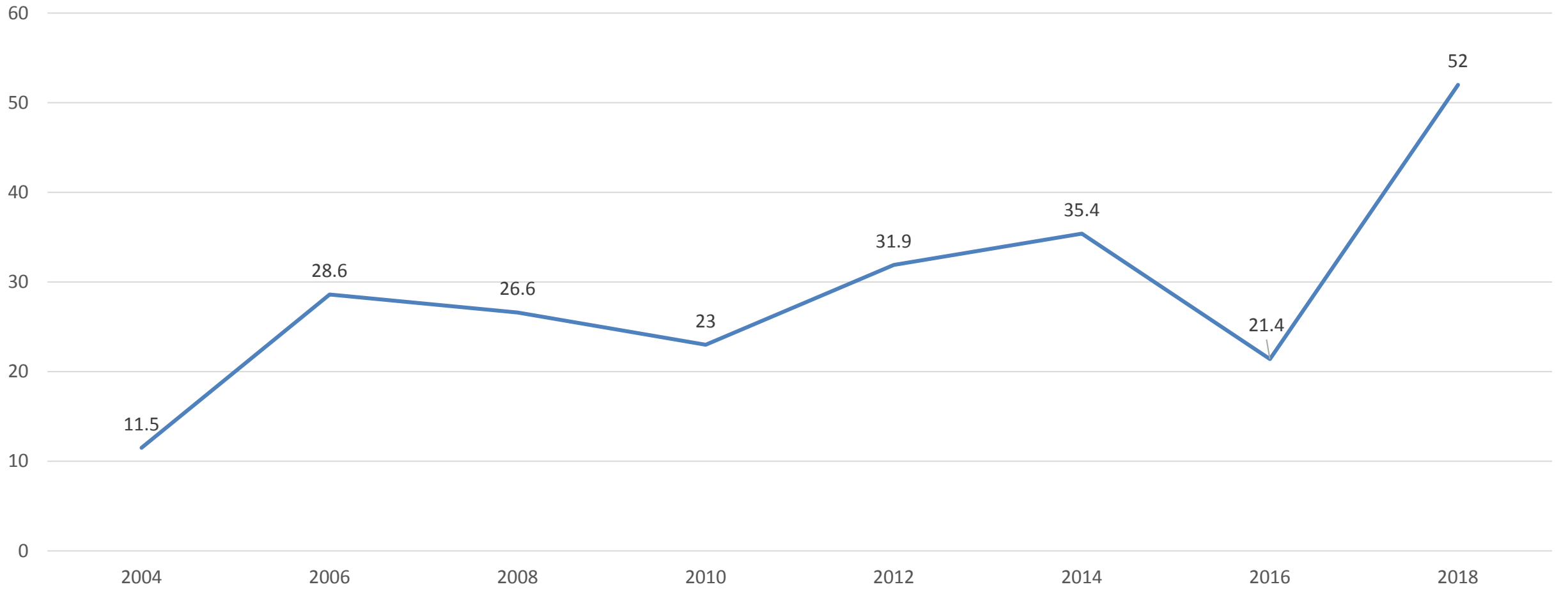
Source: CDC Wonder Database; CDC Provisional Counts of Drug Overdose Deaths, 2019



Urgency: Homicides in Mexico



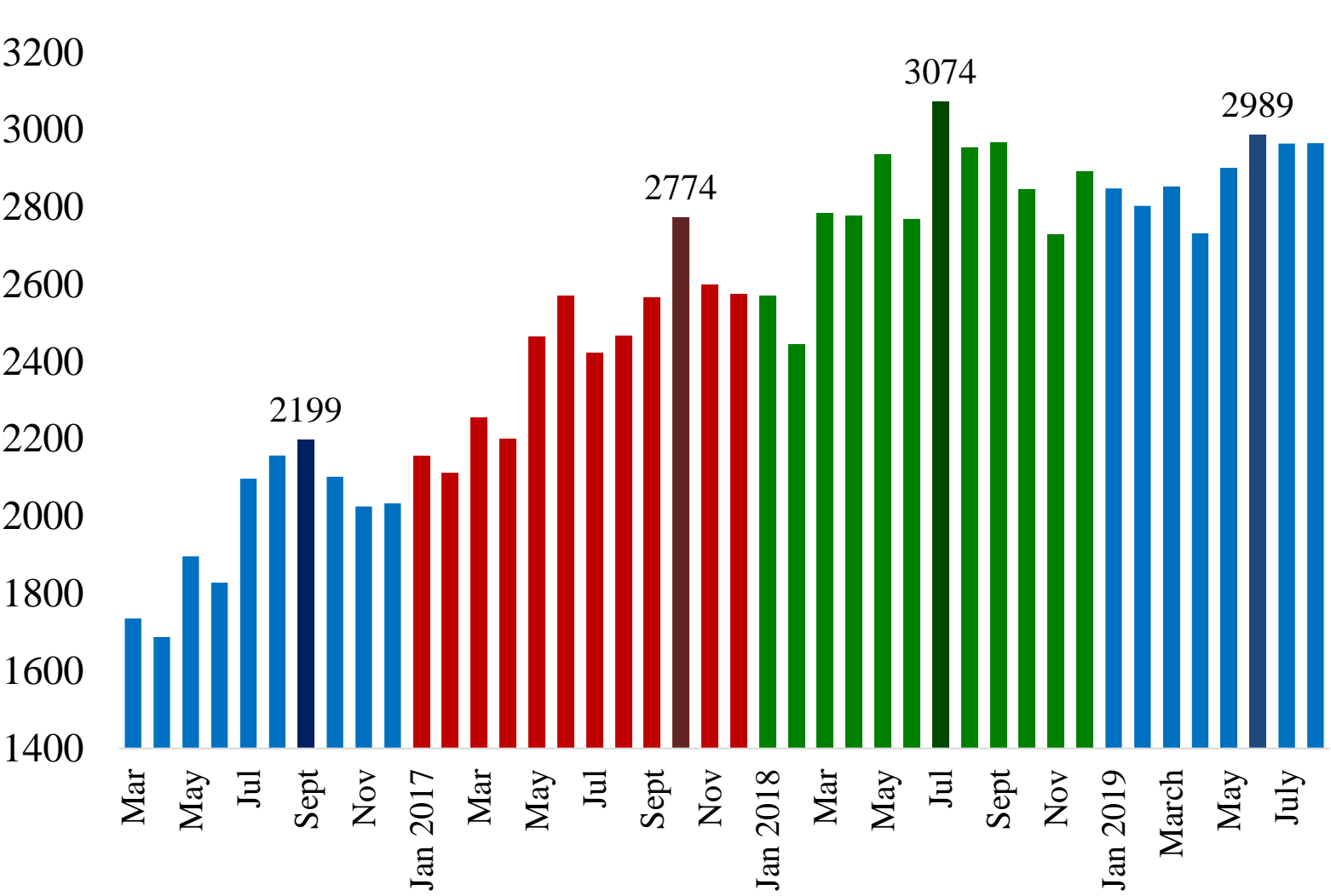
Percent of Mexicans who Report Security is the Most Important Problem



Source: LAPOP Americas Barometer Pulse of Democracy, 2019.



Homicides in Mexico: Still at Crisis Levels



33,341 homicides in **2018**; average **90** homicides a day. **July 2018: most violent month** since 1997.

2019 total homicides trending to new record.

Violence cost up to 24% GDP.

Cartels fighting for and controlling territory and routes; types of crime expanded and affect more states.

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

Source: Secretaria Ejecutiva de Seguridad Nacional, 2018; El Pais, 2018; Mexico News Daily, 2019.

Mexico's Peace Index 2018-19



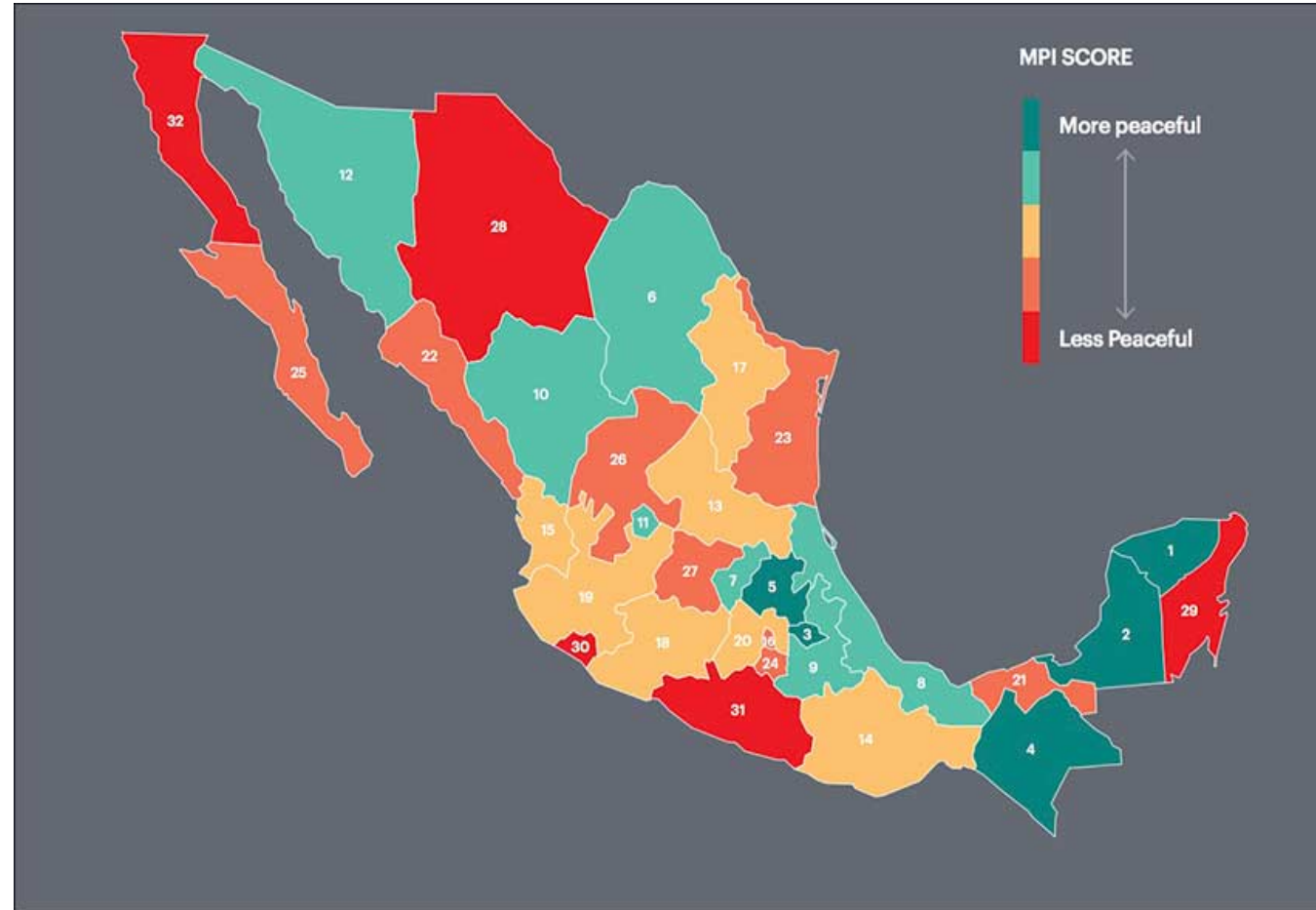
Least Peaceful States

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 unclear on 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/Security Cooperation

Mérida Initiative Programs &
Agency-to-Agency Cooperation

Defense Dialogues & Cooperation

Security Coordination Group

2017-2019 US-Mexico Agreements on Illicit Drugs

- Partner against criminals: “Unprecedented” cooperation in 2017.
- U.S. agrees on need to address demand for drugs among US citizens.
- Necessary tools: physical barriers, technology, patrolling, eradication, enhanced law enforcement cooperation, anti-addiction programs.
- Go after all elements in the criminal chain: means of production, cross-border distribution networks, flows of profits, weapons procurement.
- In 2018, AMLO ordered a review of Mexican policies & cooperation with the U.S. Mexico is implementing a new public security policy. AMLO questions cooperation. Collaboration continues, but U.S. concerned.

Trade Negotiations

NAFTA/USMCA



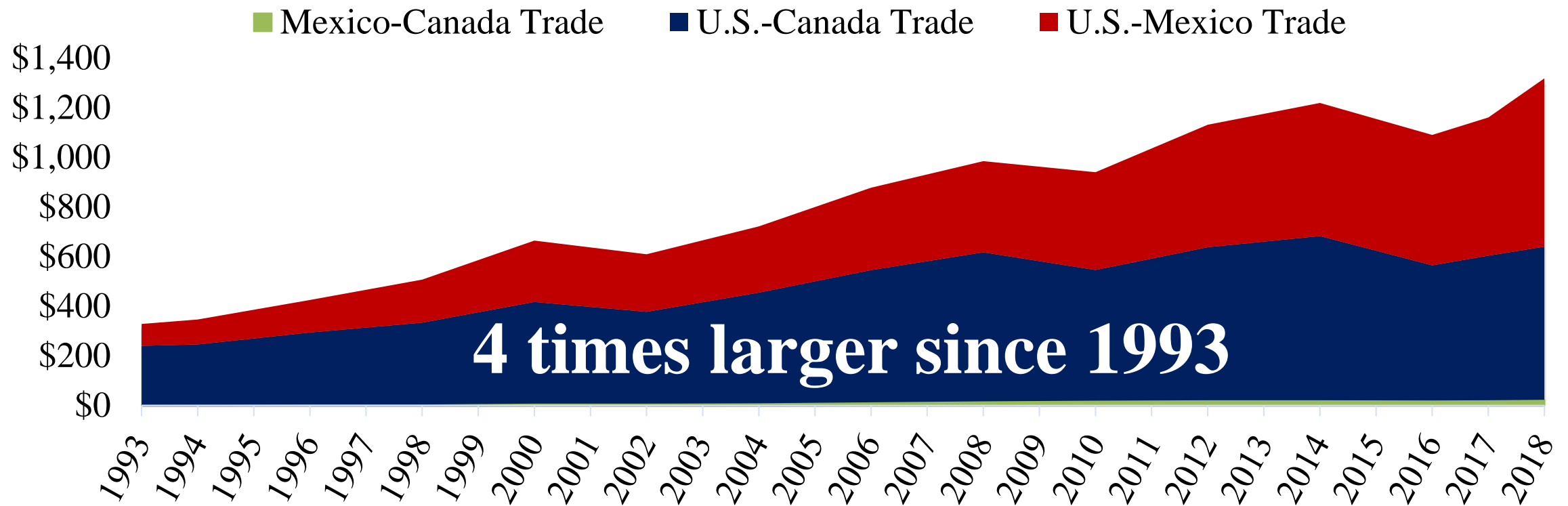
North American Trade

- 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





North American Investment

In 2017, Canada's and Mexico's FDI in the U.S. reached **\$471 billion**

The U.S. had **\$514 billion** FDI in Canada and Mexico.



US FDI in Canada
\$404 billion

Mexico's FDI in Canada
\$2 billion



Mexico's FDI in the US
\$18 billion

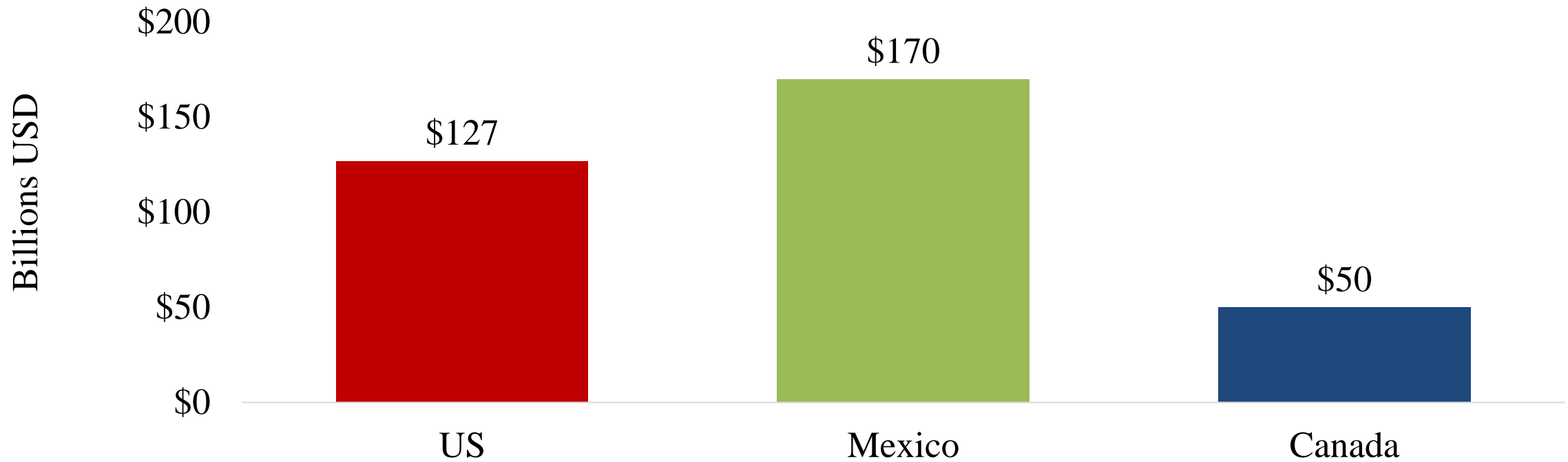
Canada's FDI in the US
\$453 billion



US FDI in Mexico
\$110 billion

Canada's FDI in Mexico
\$15 billion

NAFTA Countries are 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

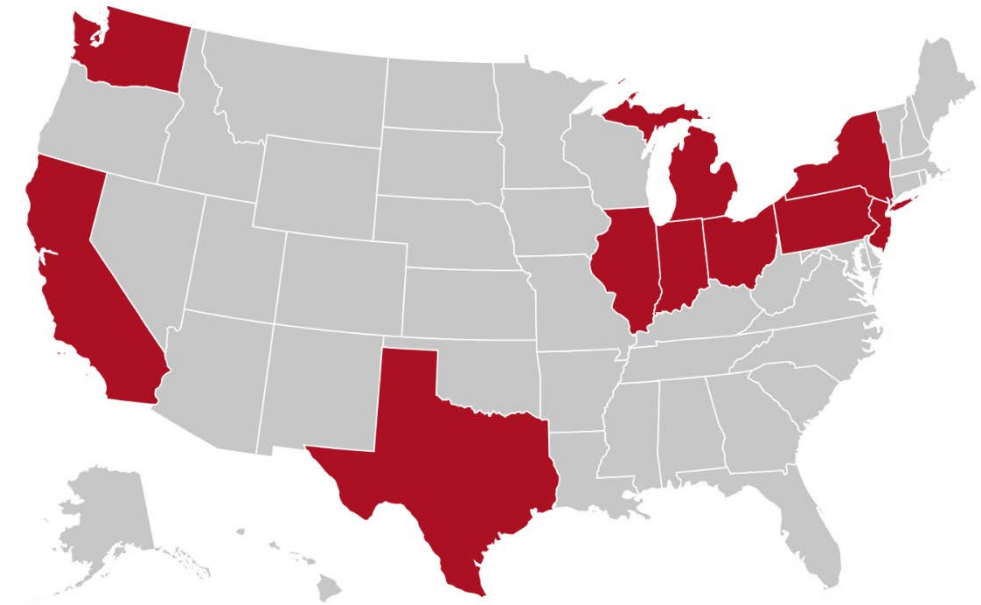
State	Volume \$USD (Billions)	State	Volume \$USD (Billions)
Texas	187	Indiana	9.8
California	73.1	Florida	9.7
Michigan	65.5	Pennsylvania	9.5
Illinois	22	Louisiana	8.6
Arizona	15.5	North Carolina	8.3
Ohio	14.7	Kentucky	7.7
Tennessee	11.7	New Jersey	7.4
Georgia	10.4	New York	6.4



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

- The **USMCA (United States-Mexico-Canada Agreement)**, or T-MEC in Mexico, is replacing the 1993 **NAFTA (North American Free Trade Agreement)**.
- President Trump, Mexican President Pena Nieto and Canadian Prime Minister Trudeau signed the new agreement on **November 30, 2018**.
- Needs to pass legislatures: key is U.S. House of Representatives.
- Mexican Senate approved it; Canada awaiting U.S. Congress' action.





Main elements of the USMCA (T-MEC)

- **Rules of Origin 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%).
 - 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.
- **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.

Serious questions about the vehicle Rules of Origin

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**?

Bigger negative impact if U.S. imposes **higher “national security” tariffs on autos.**

Several studies conclude USMCA will have marginal or negative impact on autos.



Approval of USMCA

Canada:

- **Had October elections.**

Mexico:

- **Reformed its labor laws and approved USMCA; July 2021 elections.**

United States:

- Unclear when/if a Congressional vote might take place. **Window for passage this year.**
- **Democrats seek strengthening enforcement in labor & environment**, changes in drug IPR.
- **House Speaker Pelosi named team which is negotiating changes with USTR Lighthizer.**
- **Still due:** implementing legislation; labor & environment impact assessment; enforcement plan.
- Stakeholders arguing for passage, unions seek stronger enforcement, **Democrats could delay.**
- Trump has threatened **withdrawal** to force congressional approval: **high risk.**

Mexico's Labor Reform



- In April, Mexico's Congress passed a reform which **meets USMCA commitments**.
- **Key elements:**
 1. Establishes the Federal Labor Conciliation and Registration Center.
 2. Independent Labor Courts will replace existing Dispute Settlement boards.
 3. Establishes guidelines to guarantee that union elections are carried out through a personal, free, and secret vote of union members.
 4. Recognizes the right of workers to join the union of their choice, to engage collective bargaining or 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 ask how to assure implementation?**



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.

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

- 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.**

- 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.

Source: USITC, 2019.

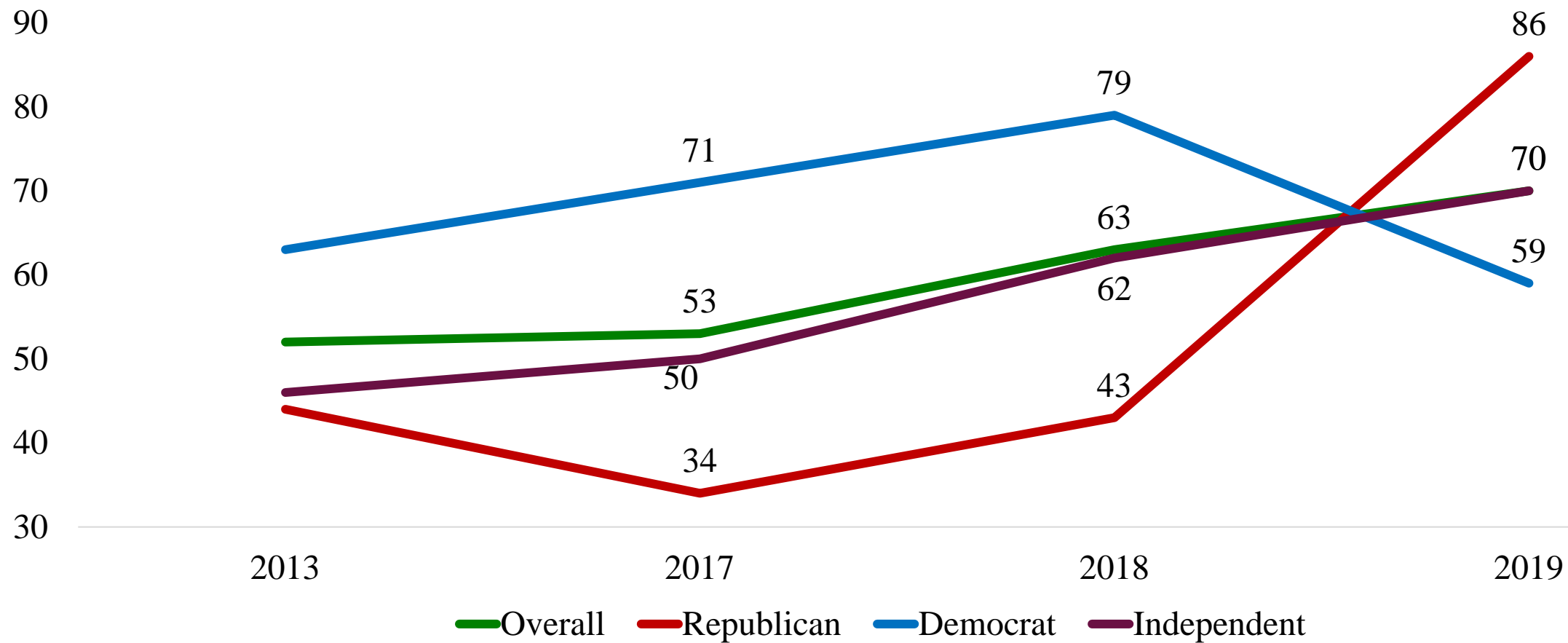


US Opinion:

Is NAFTA/USMCA Good for the US Economy?



Overall, Is NAFTA Good for the US Economy? (% Good)

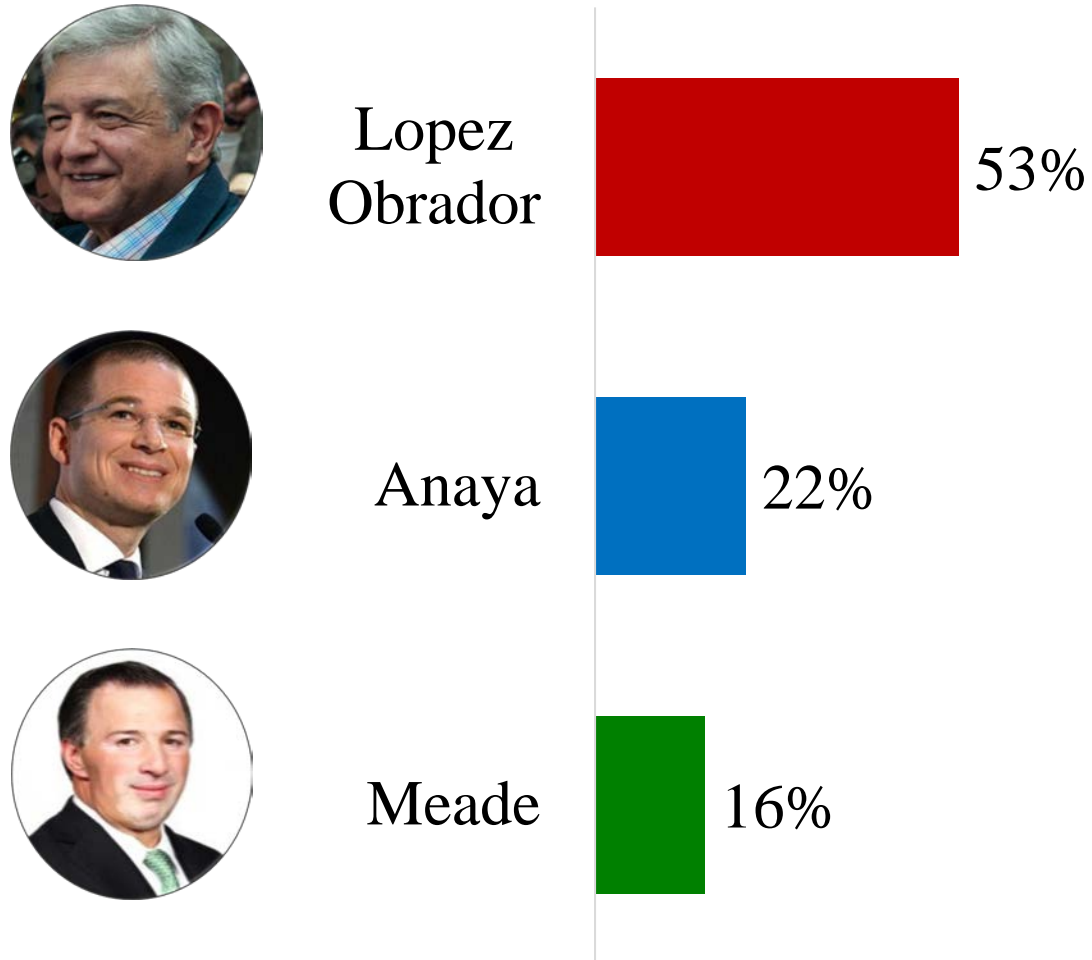


Costs of Withdrawing from NAFTA: Net Job Losses

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

Mexico's 2018 Elections

Presidential Results: Launches the “4th 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

Corruption
Violence and Security
Unemployment

Poverty and Low Wages
Public Health
Inflation

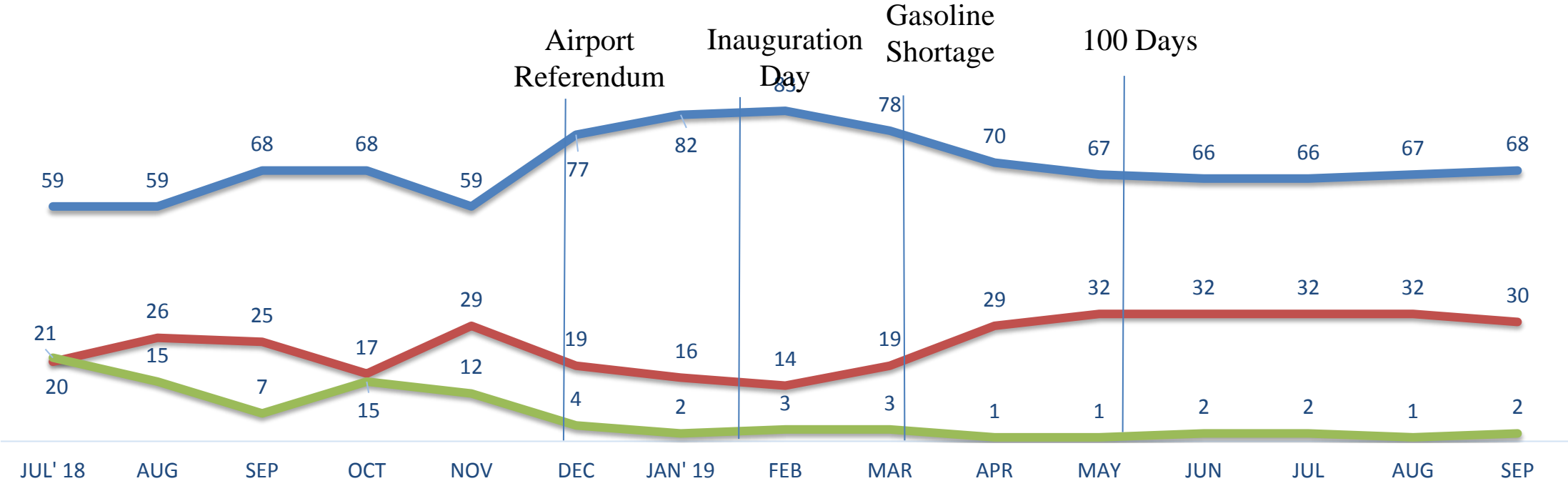


AMLO's Popularity: falling but high



AMLO'S POPULARITY CHART

— APPROVAL — DISAPPROVAL — UNDECIDED



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

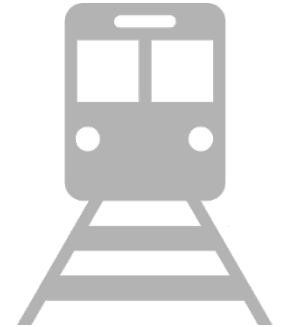
Source: El Financiero, 2019.

AMLO's Policy Proposals and Early Actions



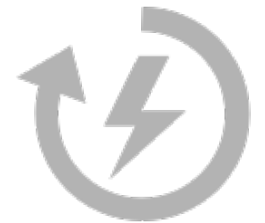
Economic Policy:

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



Energy:

- Strengthen **energy independence**.
- Strengthen the role of national oil company **PEMEX** and electricity authority, **CFE**.
- Postpone new oil exploration auctions for at least two years.
- Limit gasoline price increases; decrease prices in several years.
- Build **new refineries** to meet that need.



AMLO's Policy Priorities and Actions



Poverty:

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



Corruption and Government Efficiency:

- Better supervision of public spending; increase penalties for using public money for personal gain.
- **Cut public-officials salaries, perks and reduce staff.**
- Named new independent “Fiscal General” and pursuing some 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, 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.





Concerns with the “Fourth Transformation”

- **Power centered around President:** reduced role of cabinet and of checks and balances.
- **Fiscal Responsibility, Austerity & Social Programs:** Increased social programs without tax and debt increases: shrinking staff, salaries and other programs, and **>1% growth**.
- **Education and social programs:** **Buying political support, not improving results?**
- **Energy:** Increase PEMEX production while marginalizing private sector? **Bonds downgraded.**
- **Corruption:** Some actions, but lack of clear plan.
- **Public Security:** Critics question results and strategy?
- **US-Mexico Bilateral relationship:** Finalize trade deal? Avoid clashes over migration, crime & drug policy?
- **Democracy:** Diminishing independent voices in government and civil society?
- **Countervailing Powers:** Markets; investors; economic performance; Senate; public opinion.



Economic Risks in Mexico?



- AMLO has maintained **strong fiscal and monetary fundamentals**, winning IMF kudos, but the Fund also raised **warning flags about downside risks** ahead.
- Economic growth has slowed; **2019 growth projected only 0.4% & 1.3% in 2020.**
- 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** e.g. reducing **labor informality**, combatting **corruption** and enhancing **law enforcement and justice institutions.**

U.S.-Mexico Migration Issues



Migration is urgent area for cooperation.

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

- **On December 18 2018, the Mexican and U.S. governments announced an ambitious strategy to address the root causes of Central American migration.**
- **Proposed to attract investment to encourage economic growth, job creation in Guatemala, Honduras and El Salvador and in southern Mexico.**
- **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. Clear progress but controversy continues.**



U.S.-Mexico Migration Agreement

- In **June**, President Trump threatened a 5% or higher tariff on Mexico's exports unless **migrant numbers dropped**. The two governments reached agreement:
 - Mexico **deployed National Guard troops** to its southern and northern border (and elsewhere).
 - It enhanced actions against **migrant smugglers**.
 - **The U.S. implemented Migrant Protection Protocol**: asylum-seekers to **wait for U.S. decisions in Mexico**.
 - Mexico **prefers enhanced regional cooperation/assistance to "safe third country" agreement**.
- As of **October**:
 - Some **25,000 Mexican National Guard troops** and immigration officers were **detaining/deporting record numbers** of migrants.
 - Drop of **65% in the number of migrants** arriving at U.S. SW border by end of September.
 - Some **42,000 migrants are waiting in Mexico** for U.S. asylum decisions; U.S. processing is still slow.
 - Mexico seeks U.S. action to **stop illegal guns flowing into Mexico** with enhanced border cooperation.
 - U.S. has migration agreements with Guatemala, Honduras and El Salvador.
 - No regional aid cooperation/plan, as Mexico sought; Mexico still declines to be a Third Safe Country.

Maintaining a Partnership with Mexico?

Key Work Areas for U.S.-Mexico Relations

Trade:

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

Bilateral Border and Security Cooperation:

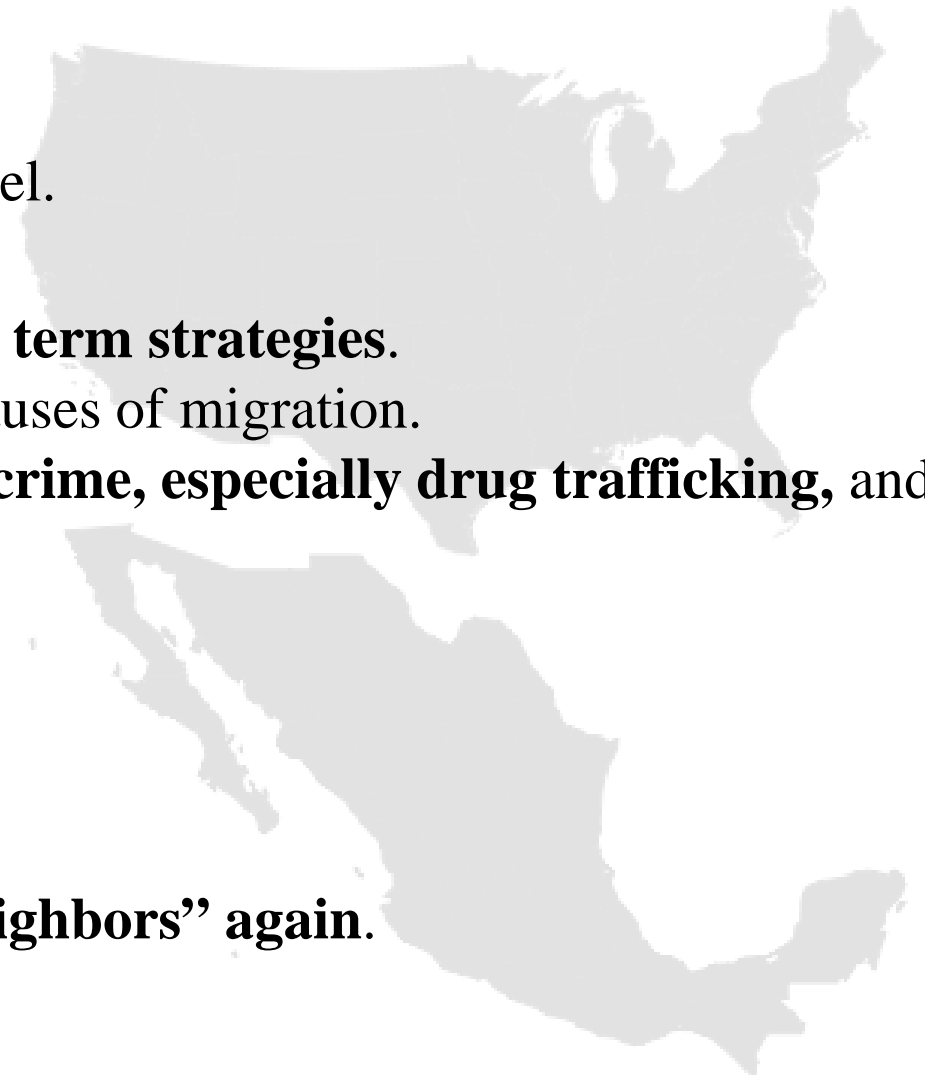
- Better manage **migration** with agreed **medium and long term strategies**.
- Deepen **support** for **Central America** addressing root causes of migration.
- **Energize cooperation against organized cross-border crime, especially drug trafficking**, and support Mexico's efforts to reduce crime and violence.
- Continue close cooperation against terrorism.

Improve Competitiveness:

- Revive agenda to **enhance economic competitiveness**.

Rebuilding Confidence:

- Take steps to rebuild trust; **avoid becoming “Distant Neighbors” again.**



Competitiveness Agenda: Enhancing Border Integration

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

Working with Mexico



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October 2019



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**

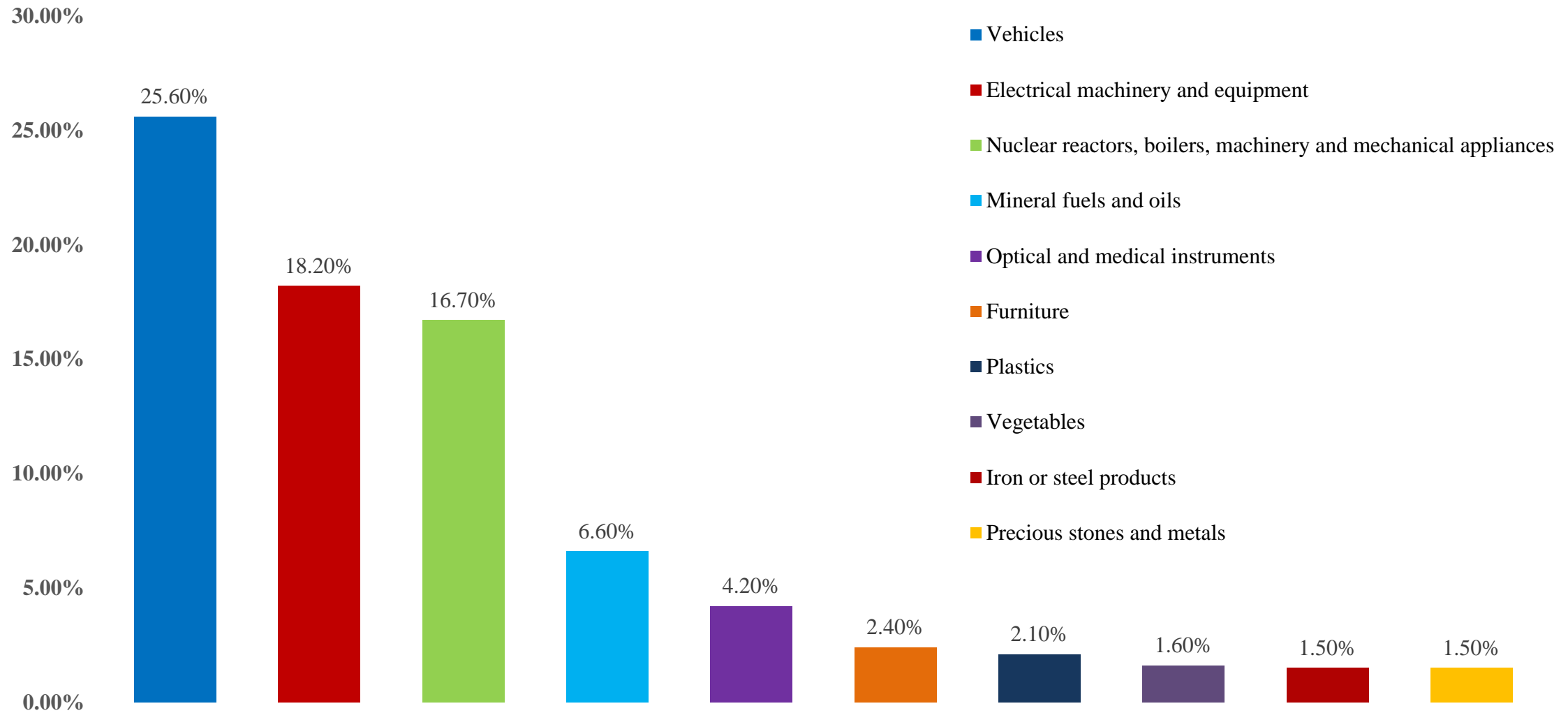
The US had **\$517 billion** FDI in Canada and Mexico.





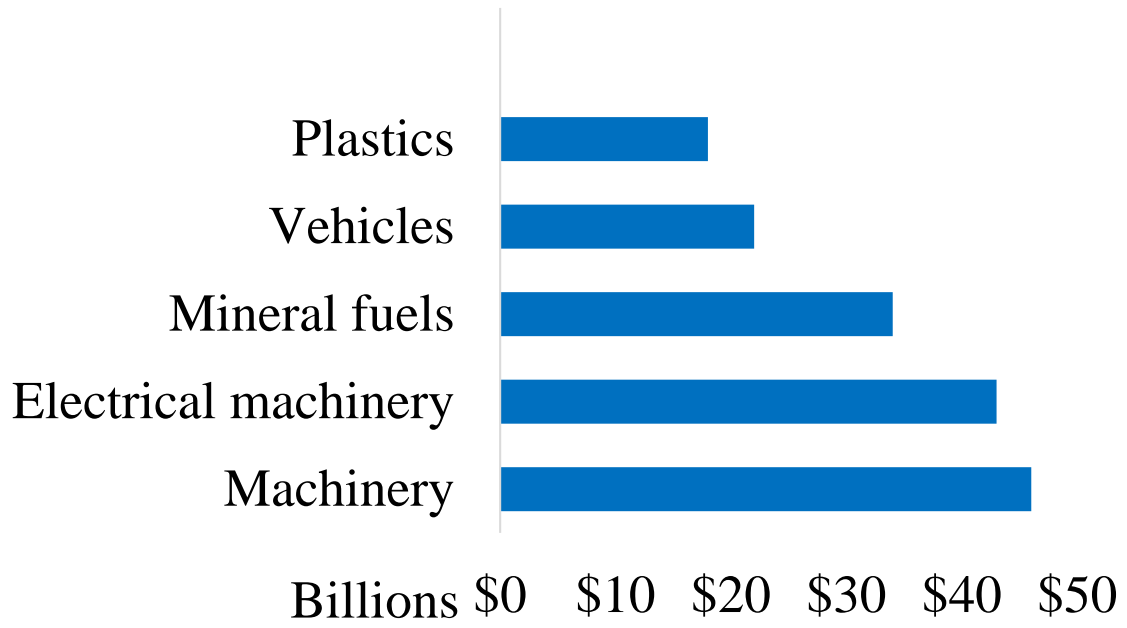
Leading Mexican Products Exported to the US

Manufactured Goods Dominate 2018

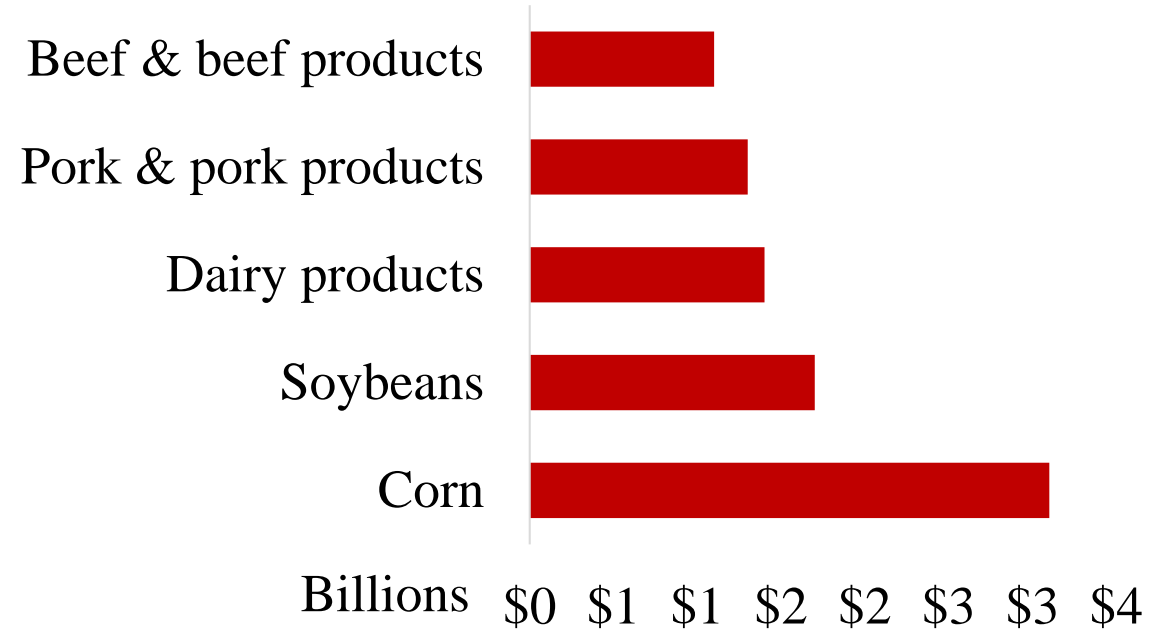




Leading U.S. Products Exported to Mexico 2018



Leading U.S. Agricultural Exports to Mexico 2018

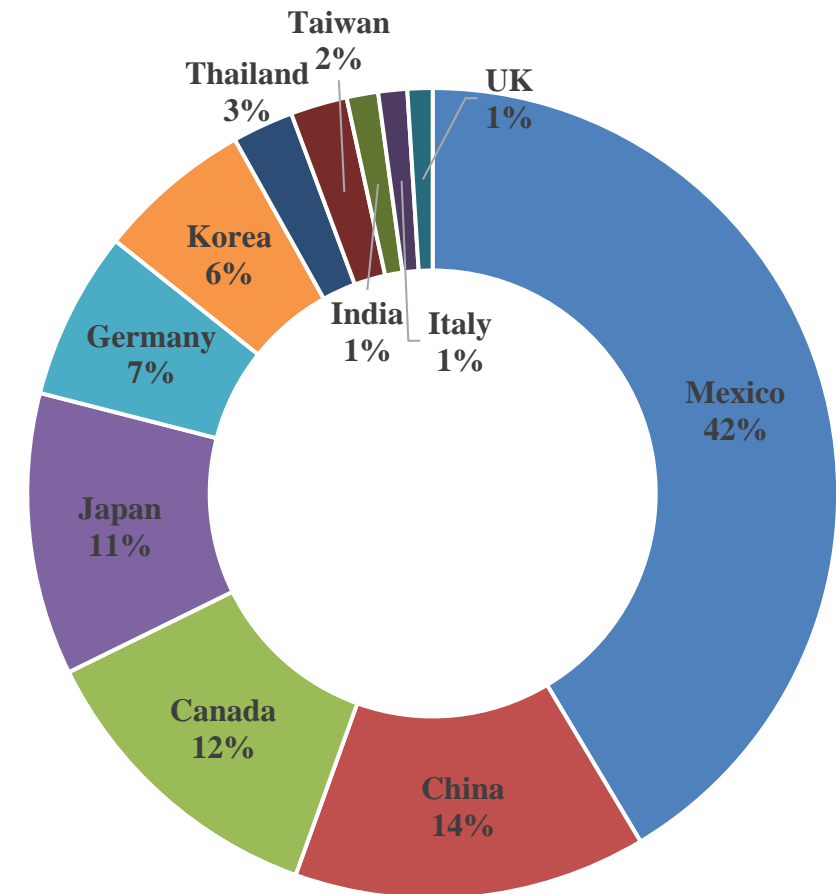


Source: Office of the U.S. Trade Representatives , 2018

The Automobile industry: Sourcing of U.S. Motor Vehicle Parts Imports 2018



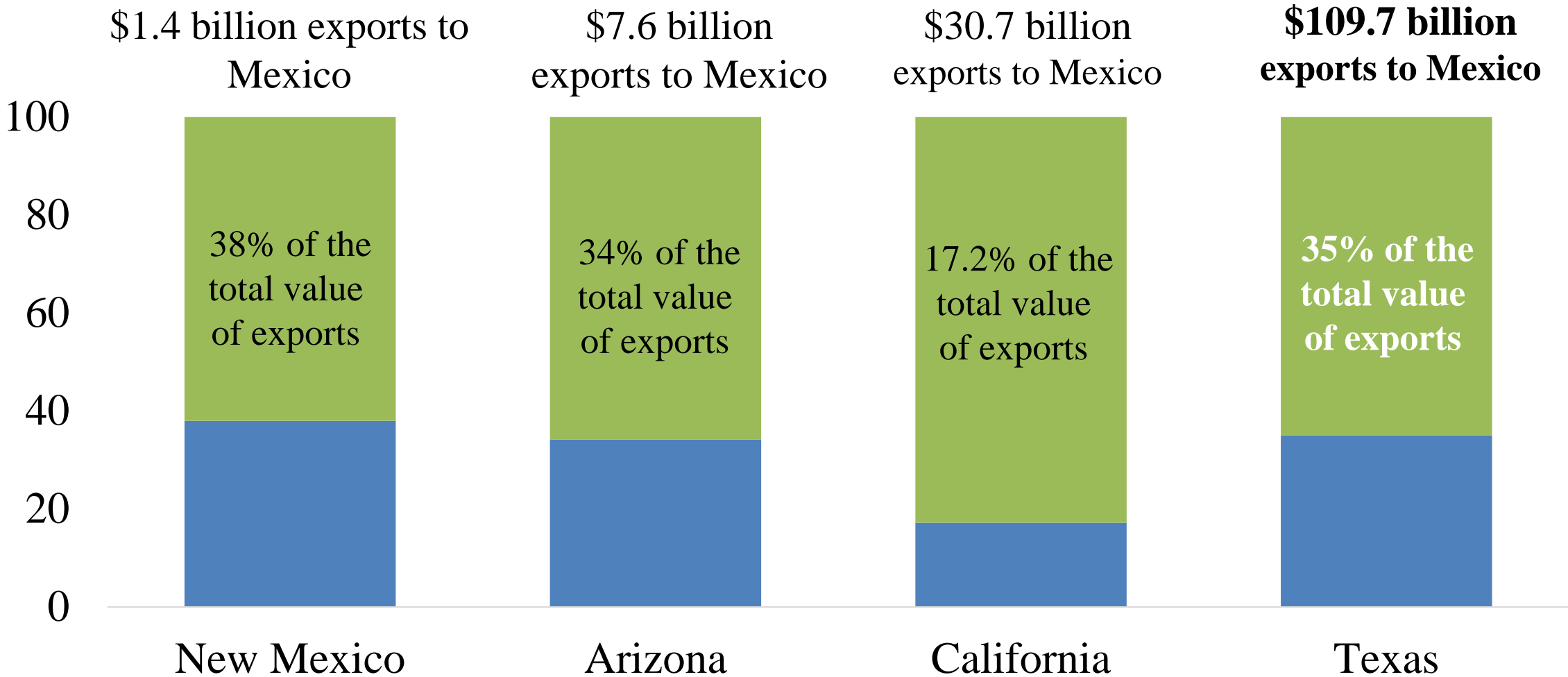
- The North American light-and medium-duty motor vehicle is estimated to be worth **USD 728 billion** annually: **28% of the global market** for new vehicles.
- In 2018, the U.S. produced over 11 million light vehicles, while 17.3 million were sold.
- In 2017, 48% of all vehicles sold in the U.S. were 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

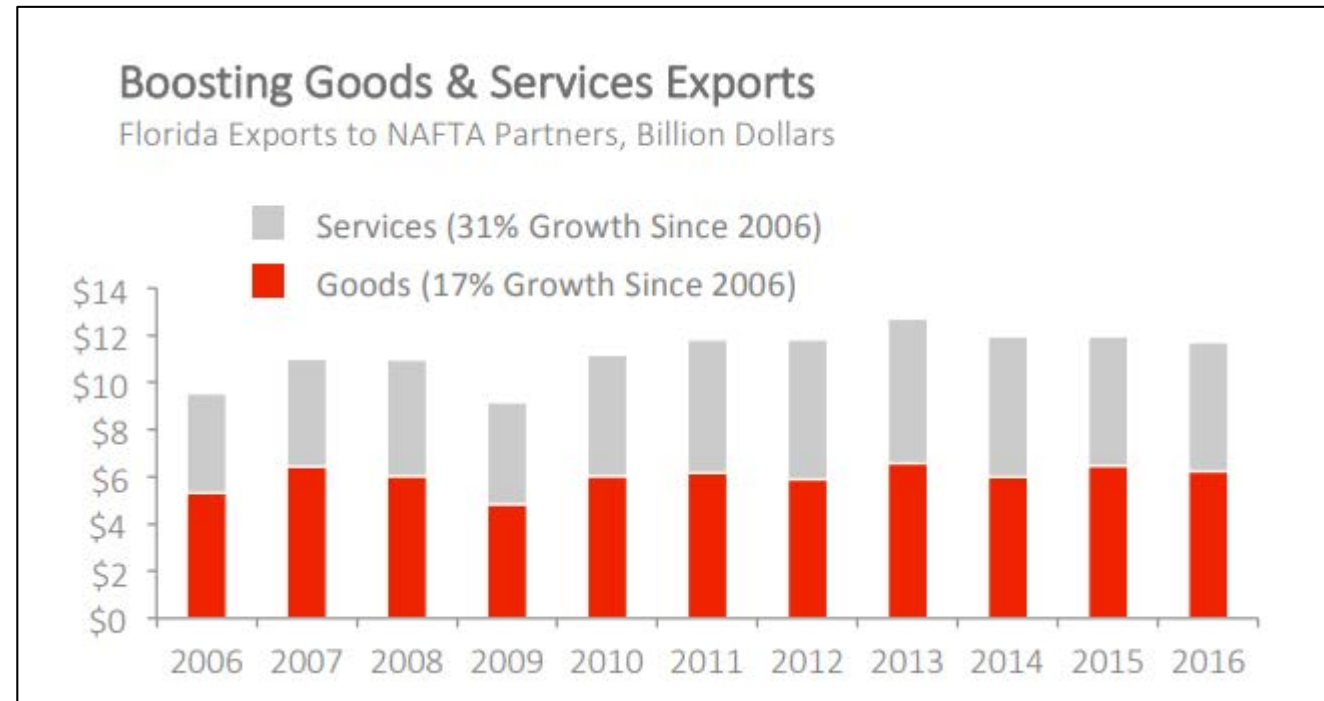
Texas is the top exporting U.S. state to Mexico (2018)



Source: United States Census Bureau, 2018

Florida and NAFTA/USMCA

- Trade with Mexico and Canada **supported 750,400 jobs** in Florida in 2017.
- In 2018, Florida exported **\$3.7 billion in goods to Canada** and **\$3.3 billion in goods to Mexico**.
- **76%** of Florida's agricultural exports are to NAFTA countries.



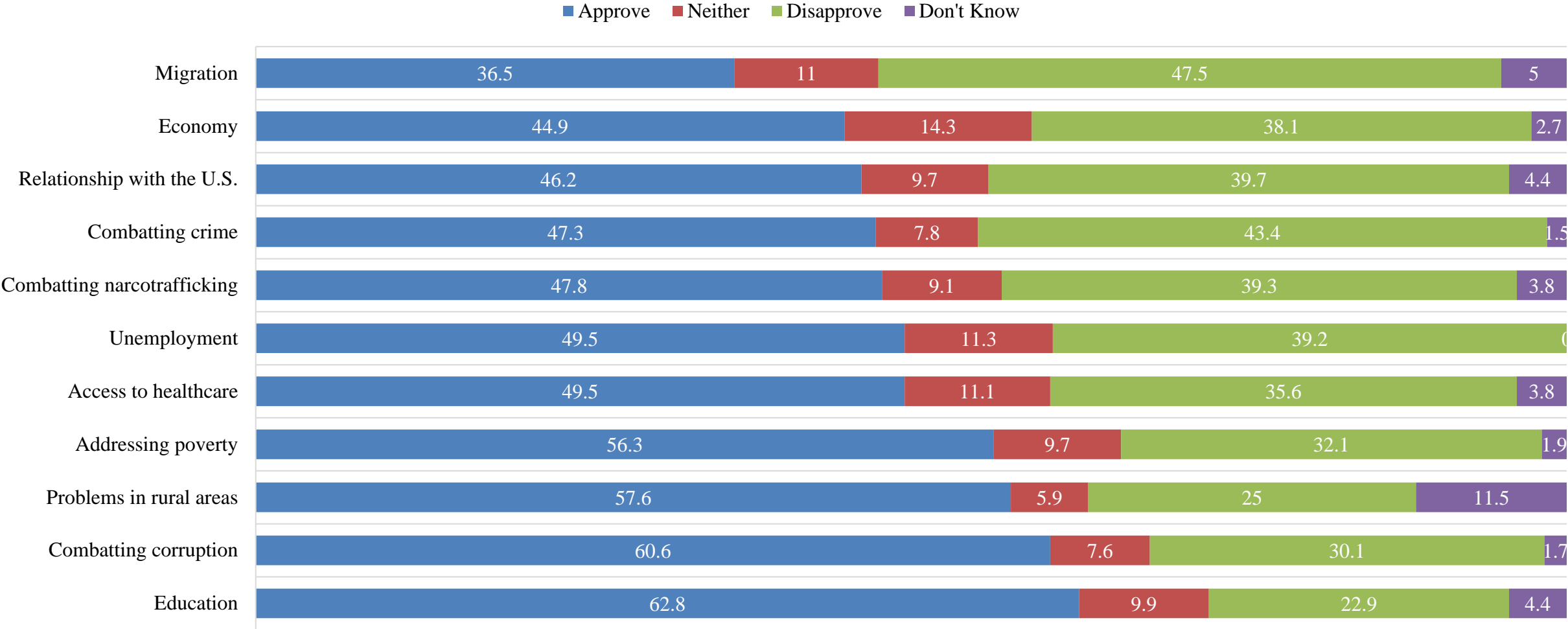
IMF: USMCA Gains per Country

- 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 (other gains built in NAFTA).

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	\$1,229
USA	- \$794	- \$1,609	\$3,701	\$1,297
Mexico	\$597	\$597	- \$614	\$550
Total Region	\$538	\$386	\$2,153	<u>\$3,076</u>



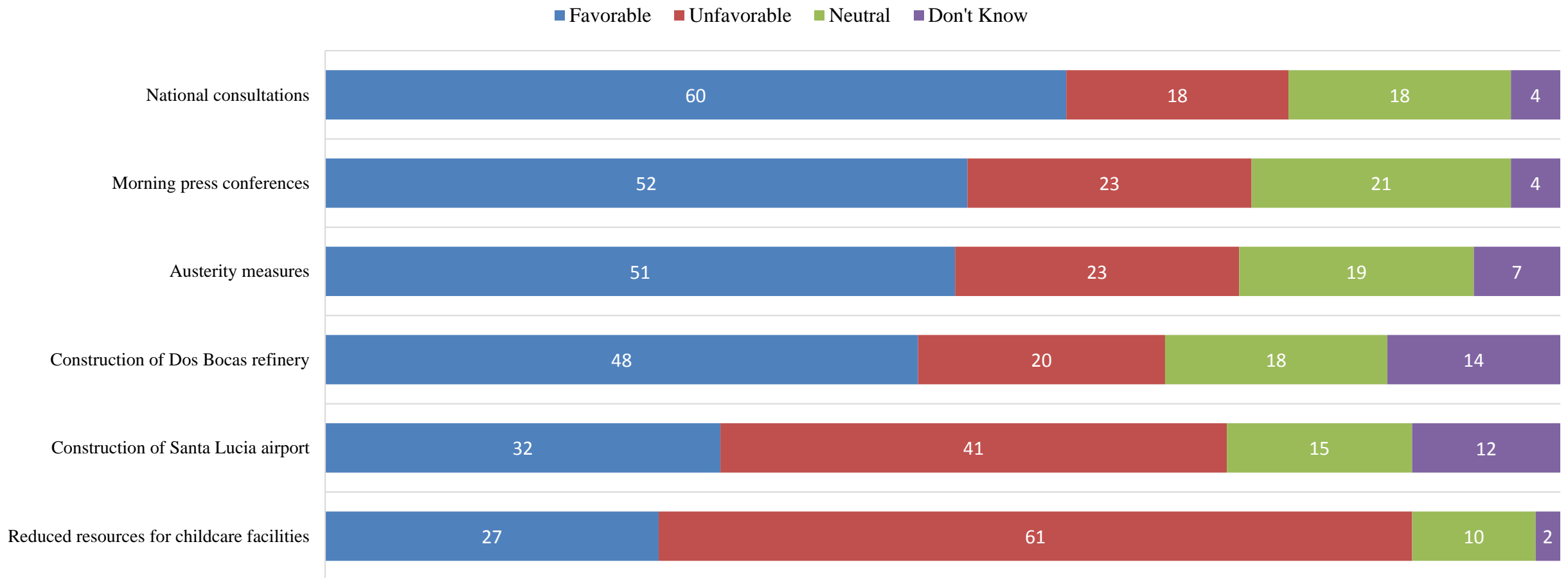
AMLO's Approval Ratings by Issue



Source: *El Universal*, July 2019.



Popularity of AMLO's Policies Varies



Source: *El Financiero*, July 2019.



AMLO after a year: How much progress?

- One year after his election **in July**, AMLO claimed that **78 of his 100 promises** have been fulfilled, most notably:
 - 94% less fuel theft
 - Closing of CISEN (intelligence agency)
 - Reduction of Presidential salary and ex-Presidents' pensions
 - No increase in public debt
 - Reduction of inflation from 5.3% to 4.3%
 - 4.5% higher tax collection
 - 1 million new jobs created; 10 million scholarships to be given
 - 600,000 participants in a workplace training program
 - Construction of the Dos Bocas refinery begun
 - Bidding for Mayan Train contracts to begin in July 2019
 - Cancellation of the building of the Texcoco Airport; use of land for an ecological reserve
 - Work to begin on Santa Lucía Airport in July 2019
 - Creation of National Guard, which is to deploy 70,000 troops to 150 regions within the country
 - A foreign policy that adheres to the principles of self-determination and non-intervention
 - Overcoming a possible economic/political crisis through an immigration agreement with U.S.
 - Ratification of the USMCA by Mexico

Background Slides



Areas of U.S.-Mexico Bilateral Work



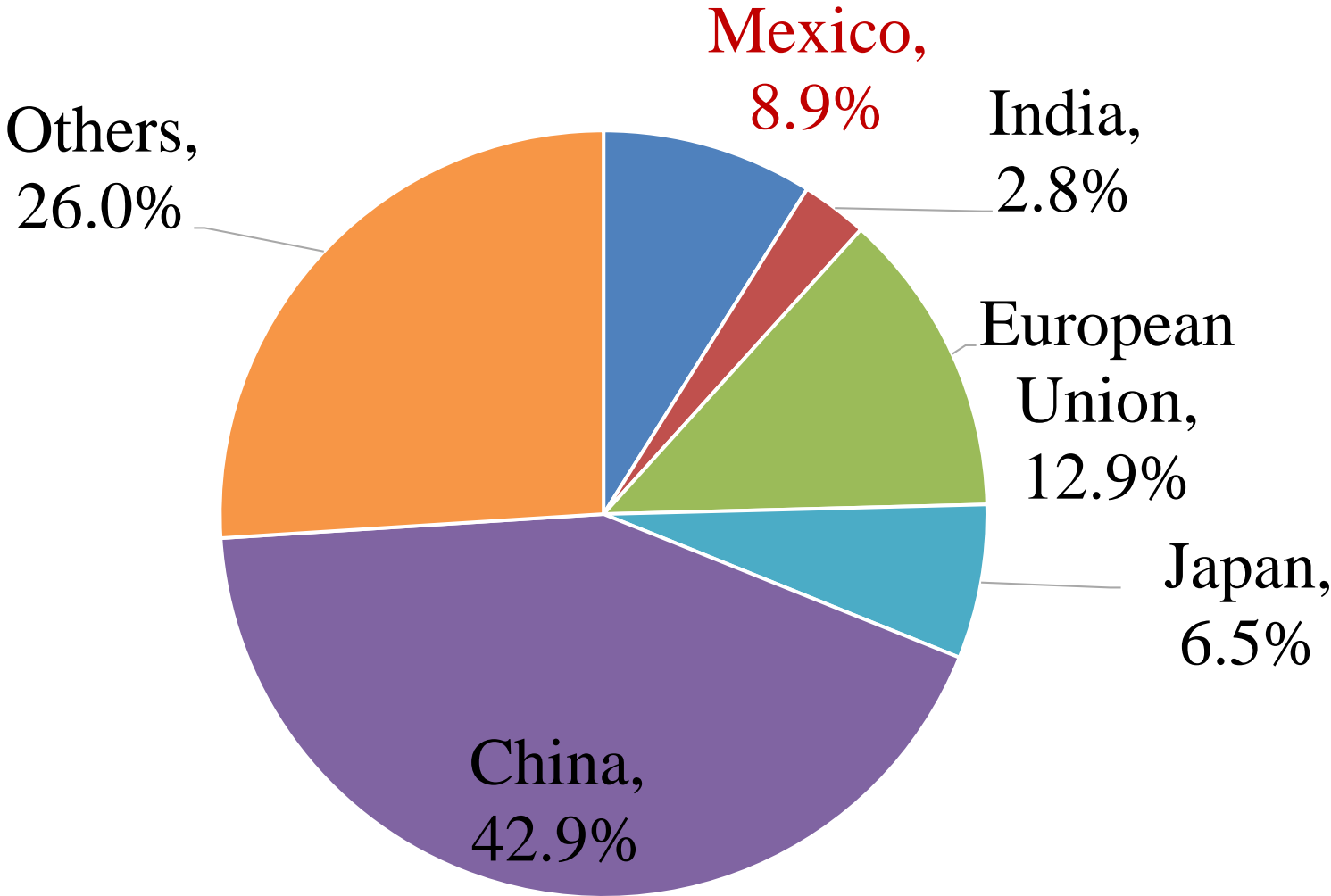
- Trade Facilitation
- Economic competitiveness
- Energy
- Border management and migration
- Public security and justice collaboration
- Fighting drug trafficking & organized crime
- Counter-terrorism
- Central America, the region, international
- Consular Issues for US and Mexican citizens
- Health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

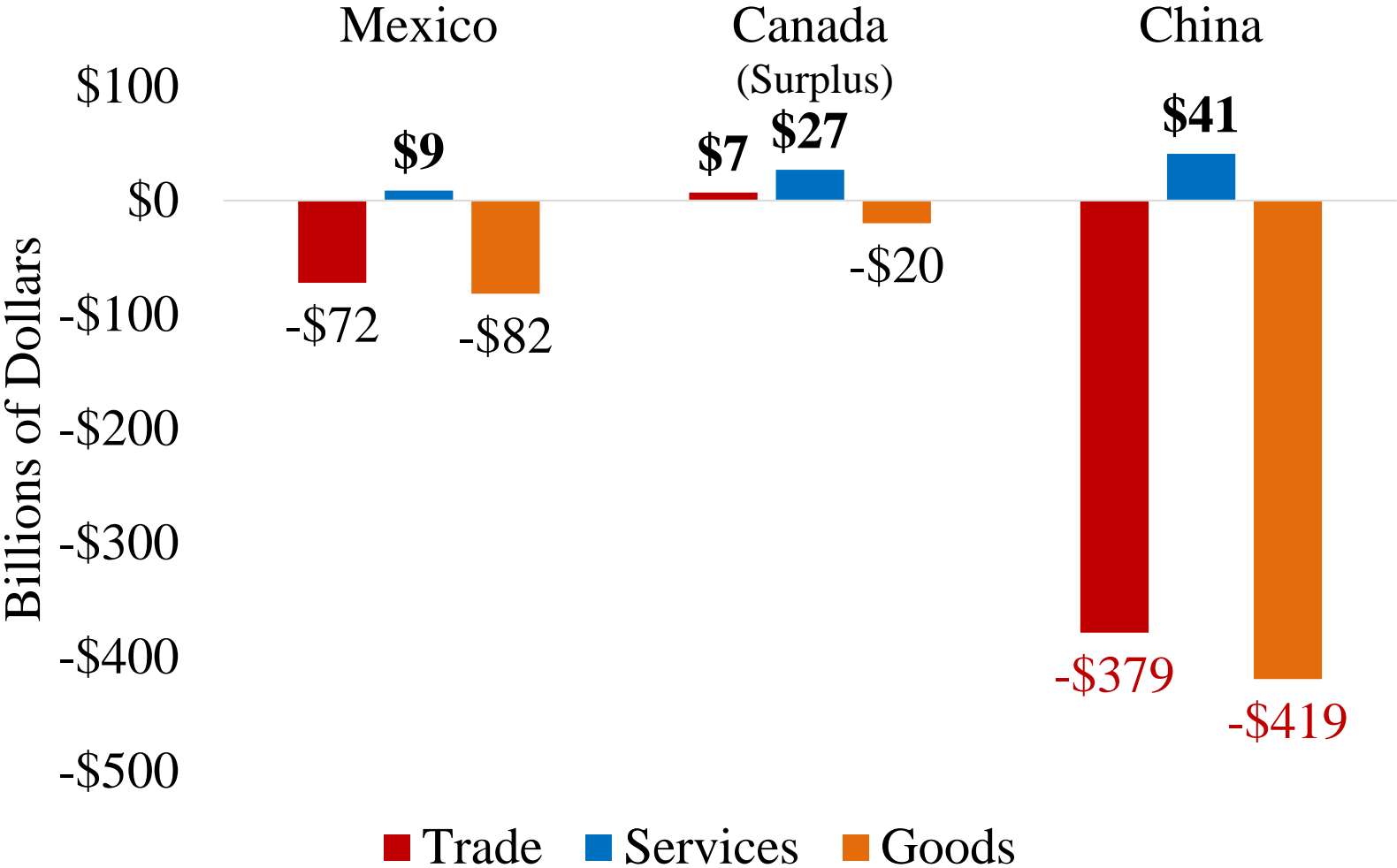
US Trade in Goods Deficit but Service Surplus



U.S. Trade Surplus of services with Mexico rose **19.1%** from 2017 to 2018

Source: BEA, 2018

US Trade in Goods and Services 2018



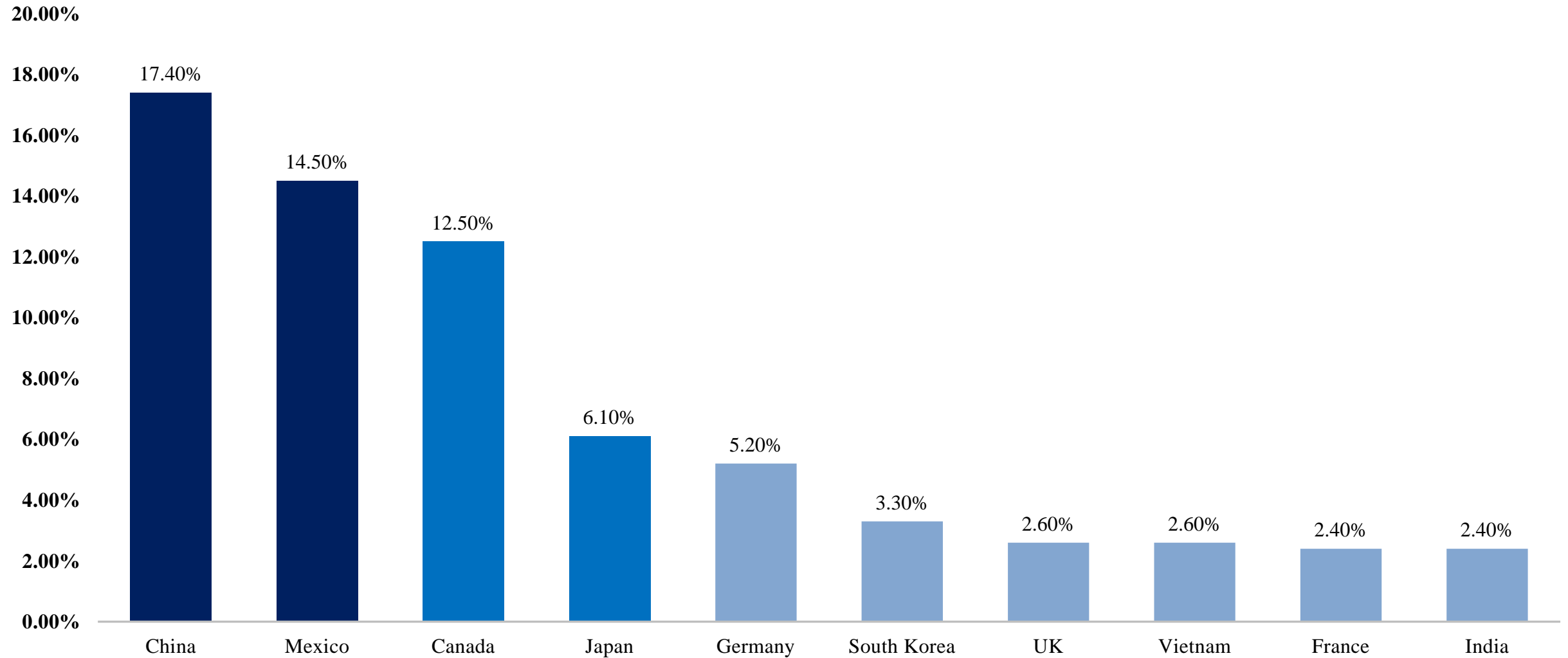
\$27 billion surplus in services & \$7 billion total trade surplus with Canada

\$8.8 billion surplus in services with Mexico

Source: Office of the U.S. Trade Representative, 2018



Leading US Imports: China on the rise



Source: United States Census Bureau, 2018

Where have the manufacturing jobs gone?

Competition from China

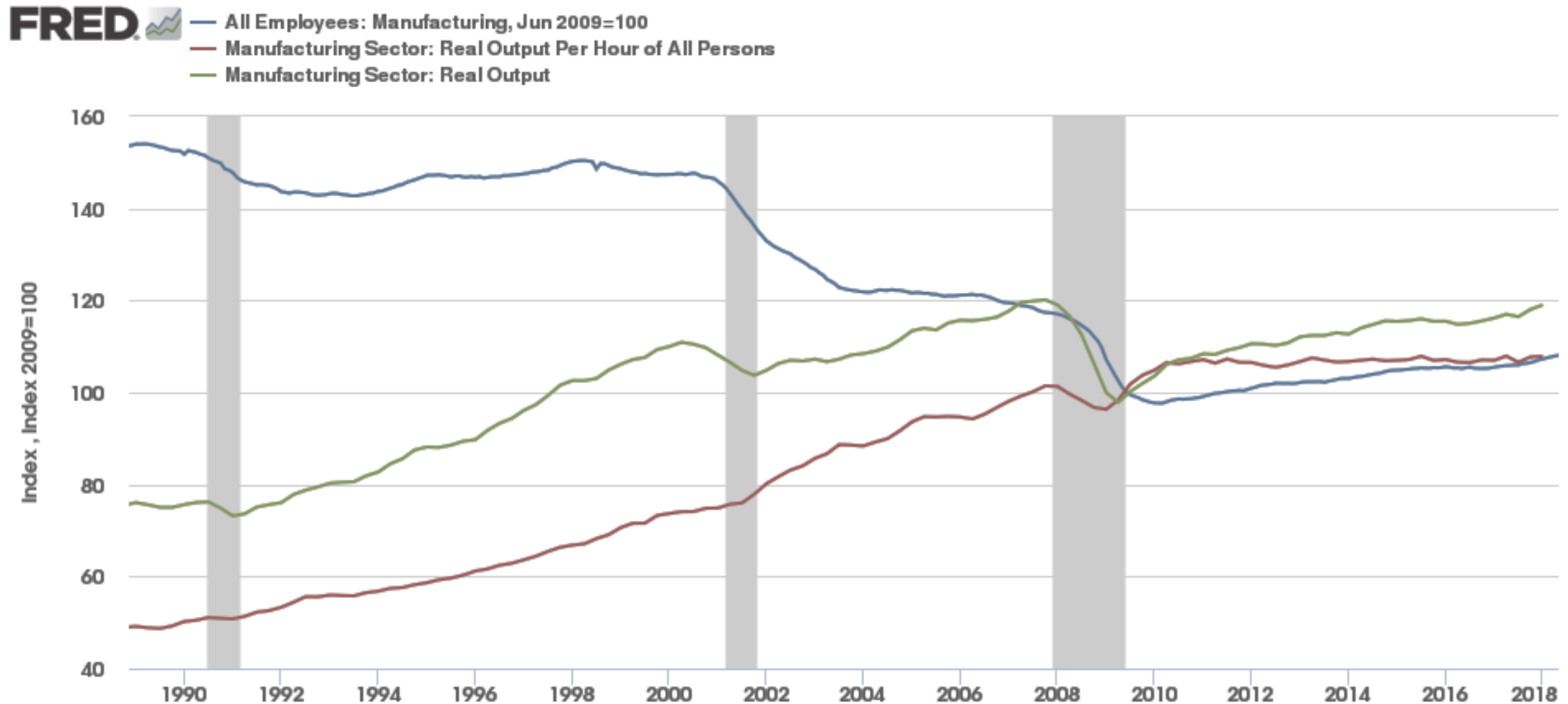
2 - 2.4 million

New Technology

4.7 million



U.S. Manufacturing Employment and Output



Shaded areas indicate U.S. recessions

Source: U.S. Bureau of Labor Statistics

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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).¹

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

GDP decline up to 0.64% (\$120 billion).¹

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

Investors see U.S. growth slowed and harm to specific sectors and equity markets.²

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



Dec 1st Inauguration Speech

- Described his plan in one phrase: **“End corruption and immunity”**
- Won’t investigate** corruption cases from the past
- **“The neoliberal economic policy has been a disaster**, a calamity for the public life of the country”; vowed to bring **“radical”** change
- Investments will be safe**; Respect **Central Bank independence**
- Will cancel the existing education reform**
- Questioned the benefit of the energy reform, **seeks energy self-sufficiency**
- Confirmed the **creation of a National Guard** for policing duties



Dec 1st Inauguration Speech

- Creation of a commission to **investigate the Ayotzinapa case**
- Reduction of salaries** from high level government officials
- Committed to **not pursue reelection**
- Will propose an amendment to **eliminate special immunity** for the President
- Won't increase taxes or the price of gasoline**; will reduce tax in border towns
- Will use **public referendums** on key issues
- *Youth focus*: 2 million 300 thousand young people will be hired in **apprenticeships**, 10 million **scholarships** for students
- Cooperation with the U.S.:** USMCA; address **development in Central America and southern Mexico** to reduce migration

AMLO's first 100 days



Foreign Policy

- **Non-intervention** in other countries.
- Good relations with the **U.S.**
- **Migration:** human rights protection, decriminalization, and cooperation with Central America.



Attacking Fuel Theft

- Theft dropped from 81 thousand barrels per day to some 15 thousand barrels.



Security

- Claimed a decline in the homicide rate.



Social Programs

- Payments to benefit 18 million **elderly**.
- **Youth employment** program: 82,142 in jobs.
- 817,000 pensions for people with **disabilities**.
- 9 million **scholarships** for poor students.
- **Tree planting** program creates 230,000 **jobs**.



Unfinished work from the last administration

- Mexico-Toluca Train
- Guadalajara Train
- 70 unfinished hospitals



AMLO's first 100 days: Beginning the "Fourth Transformation"

- AMLO claimed to have achieved or begun to work on **62 of 100 key commitments**



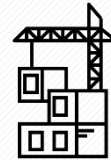
3 Constitutional reforms

- Mexico's Asset Recovery Law - Forfeiture of illicitly acquired property.
- Anti-Corruption Measures and Law enforcement - Make corruption and other crimes a felony without bail.
- Peace and Security Plan – New National Guard approved.



Economy

- Started increase in the minimum wage.
- The Mexican peso stronger against the US dollar.
- Created of 220,000 new jobs.



New Infrastructure

- Initiating *Tren Maya* rail project.
- Cancelling the construction of Mexico City's New International Airport and Expanding the Santa Lucia Air Force Base to absorb air traffic.
- Starting new Dos Bocas oil refinery.
- Starting work to build network for Free Internet in for public places in the marginalized towns.



AMLO's Critics



- **Economic and Capacity Concerns:**

Stagnation of public investment. Investor concerns reflected in downgrading of PEMEX bonds. Could make it hard for the economy to grow. **Lack of staff and resources to implement** programs.

- **Mexico's democracy is under threat:**

Centralization of power, attacking independent regulators, appointing disqualified people, **weakening civil service, using referenda/consultas, and ending education reform by decree.**

- **Battle against crime:**

Focused with daily meetings but strategy still being developed. The **National Guard will take years** to develop and deploy.

- **Lack of strategy on social programs:**

Unclear rules of operation for distribution of resources, monitoring, evaluation.

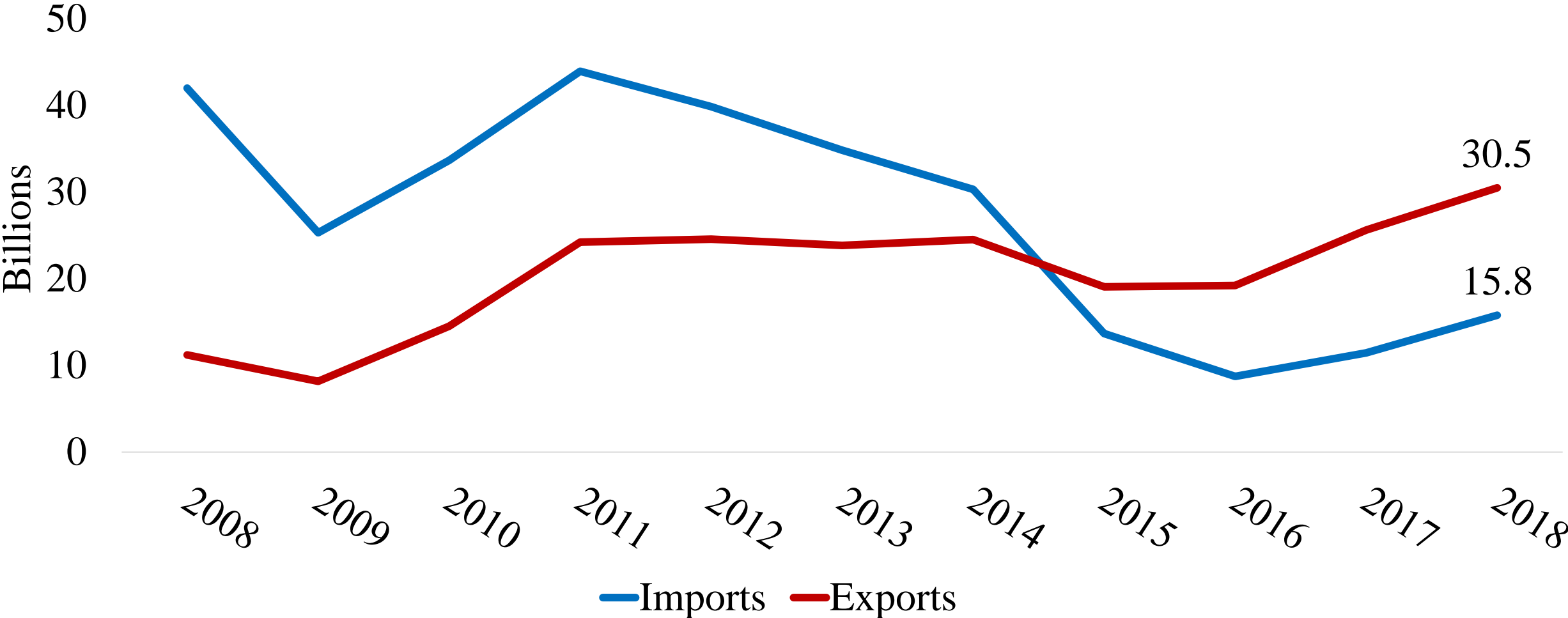
- **Political hegemony:**

Large majority in Congress and majorities in most state legislatures; opposition weak.



Energy and the Environment

U.S. Energy Trade Surplus with Mexico



Source: US Census Bureau, 2018



Energy Investment and Cooperation

- 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

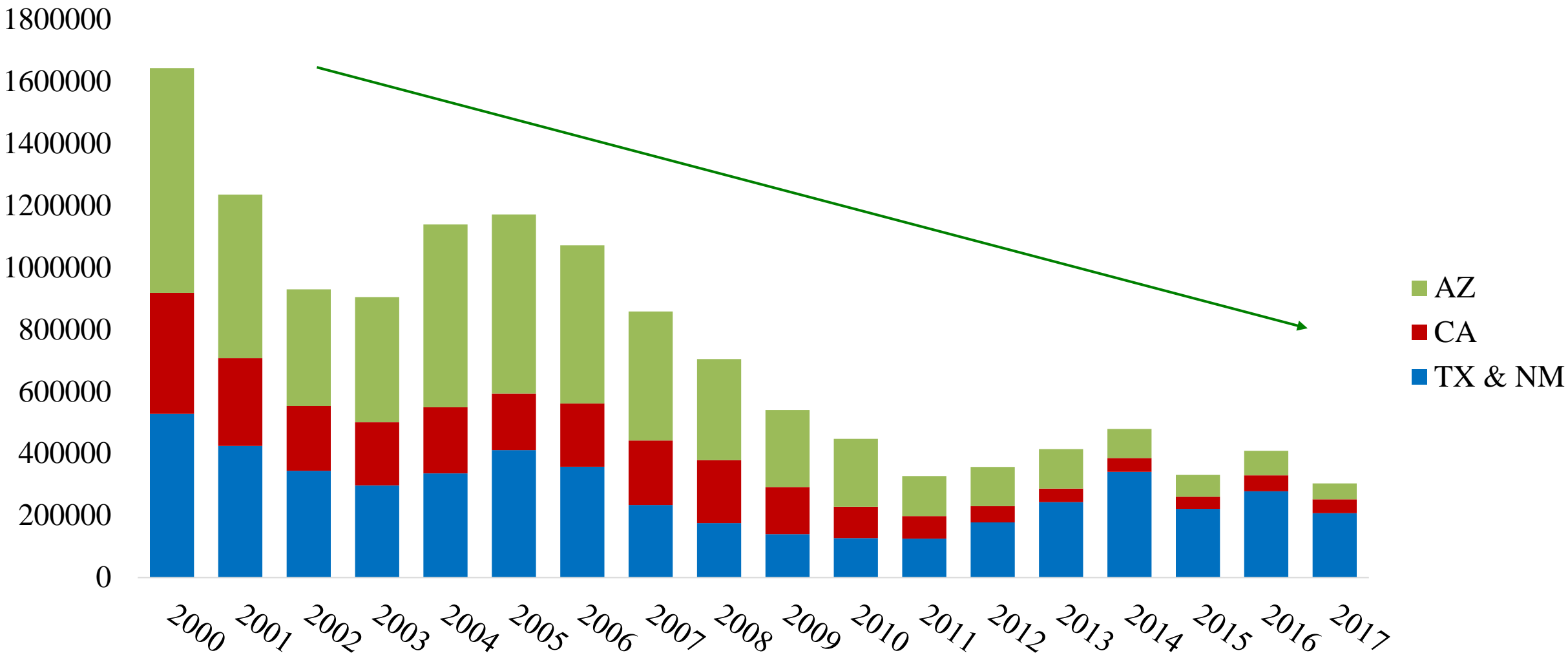


Americans' Views towards Border Wall

	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%



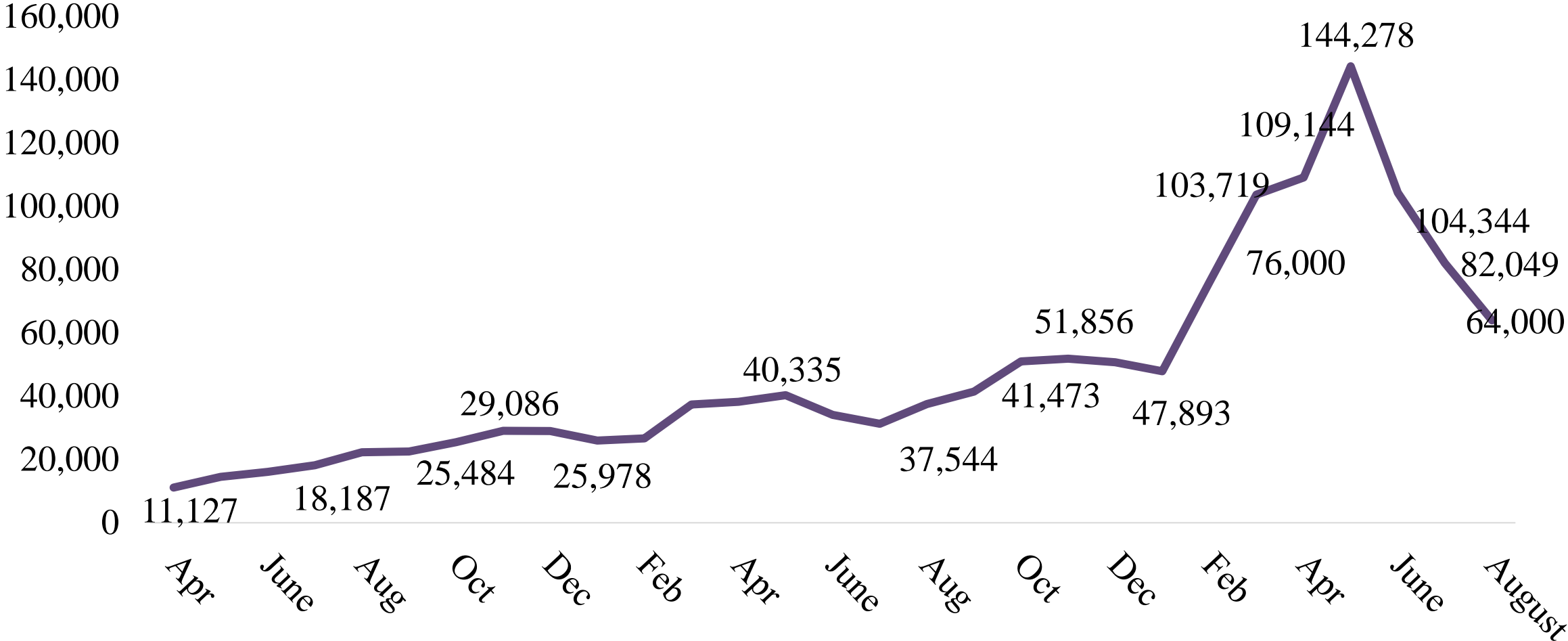
Southwest Border Apprehensions by State



Source: U.S. Border Patrol FY2000 - FY2017

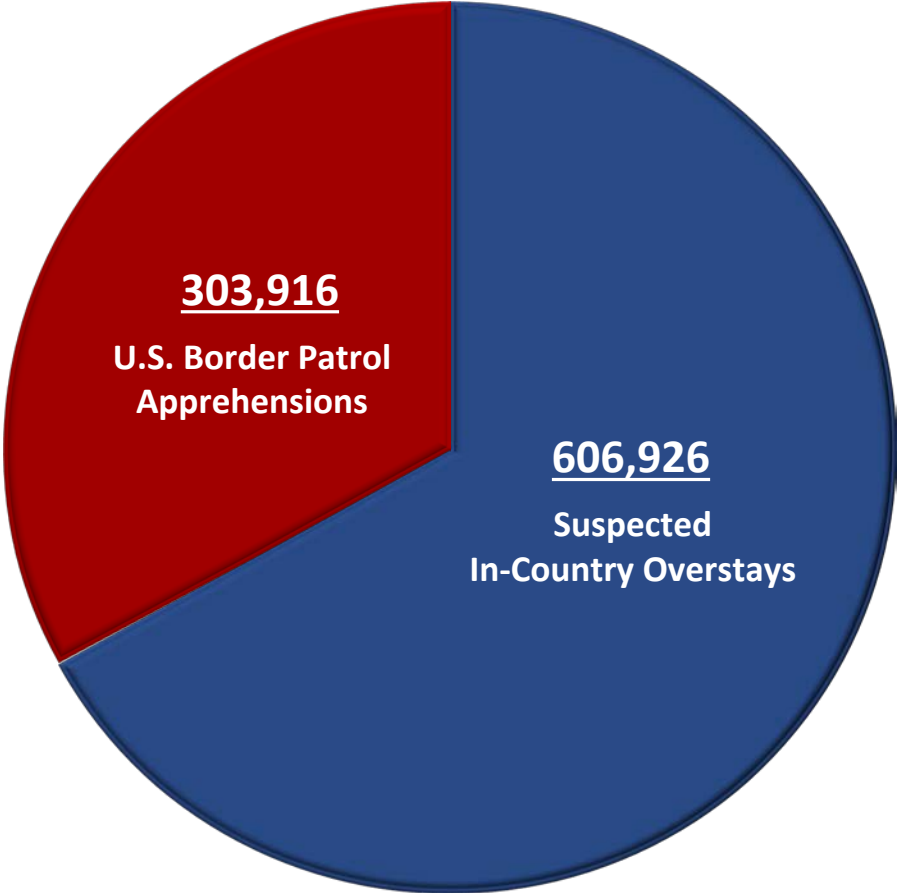


USBP Southwest Border Monthly Apprehensions



Source: U.S. Border Patrol Monthly Apprehensions (2017 - 2019)

Visa overstays exceeds illegal border crossing in 2017



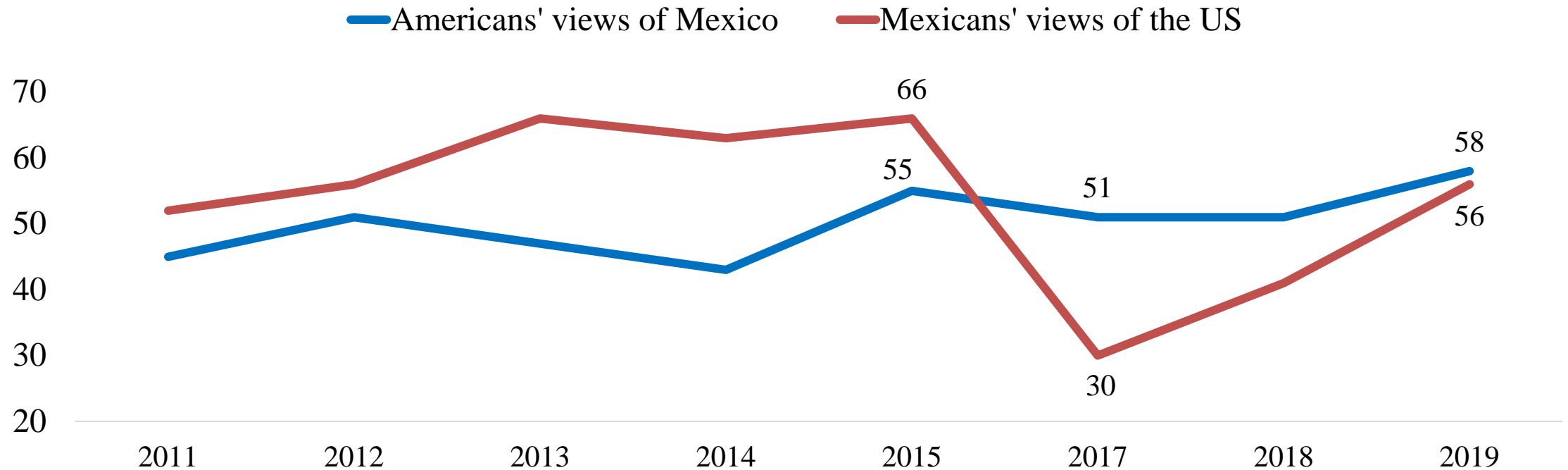
Source: U.S. Border Patrol FY 2017



Perceptions of Bilateral Relations and NAFTA

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**.
- **Mexicans** now **view bilateral relations as stable**.



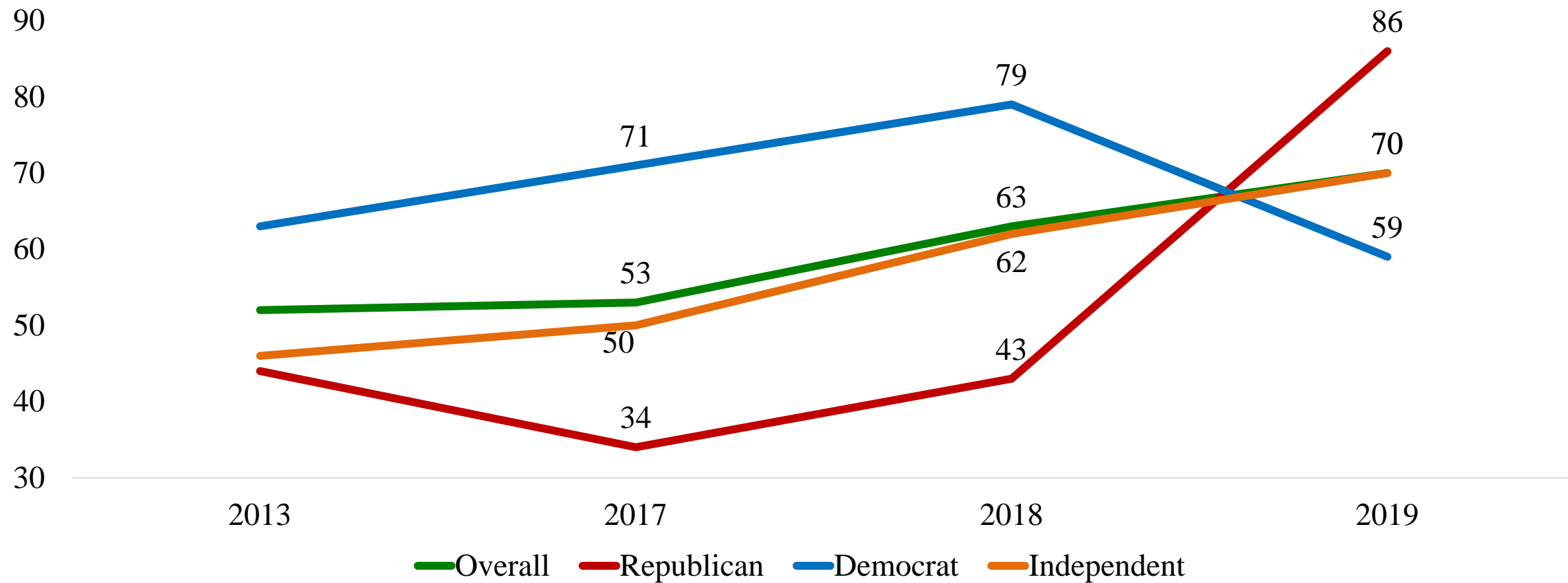


US Opinion:

Is NAFTA/USMCA Good for the U.S. Economy?



Overall, Is NAFTA Good for the U.S. Economy? (% Good)





Steel and Aluminum Tariffs: U.S. wants quotas

June 1	The U.S. imposed 25% tariff on imported steel and 10% tariff on imported aluminum from Mexico, Canada and the European Union.
June 6	Mexico imposed 15%-25% tariffs on \$3 billion worth of U.S. products (e.g. pork, steel and cheese).
June 22	The European Union imposed 25% tariffs on \$3.4 billion worth of U.S. goods (motorcycles, cranberry juice, cigarettes, denim and peanut butter).
July 1	Canada imposed 25% tariff on U.S. steel imports and 10% tariff on aluminum and other U.S. goods. Tariffs cover up to \$12.6 billion worth of U.S. goods.

Estimated Costs of Steel and Aluminum Tariffs

Over 400,000 U.S. jobs lost¹

GDP decline of 0.2%
(\$36 billion)¹

16 U.S. jobs lost for every 1 gained¹

Decline of 2% in all imports
and 1% in all exports¹

The IMF estimates gains of **\$386 million** from removing the steel and aluminum tariff, and **\$2.2 billion** from the removal of retaliatory tariffs³



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

TRADE



Finish **NAFTA renegotiation.**

Relocate Mexican customs inland from the border.

Establish a free trade zone on the northern border of Mexico: decrease the VAT rate, the income tax rate & energy prices, and increase minimum wage.



SECURITY



Establish **development plans** between the U.S., Mexico, and Central America to finance economic development.
Allocate 25% of investments to **security and border control.**

Each government will control its borders and combat trafficking of drugs and weapons.

AMLO's Proposals to Trump – July 12 Letter

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

U.S.-Mexico Migration Strategy



The formation of new caravans:

- Numbers could go higher than 20,000 people for the new caravan forming in Honduras.

U.S. addressing irregular migration and the record levels of illegal entries at the southern border:

- **In February**, the United States authorities **returned at least 76,000 migrants** to their countries of origin and expected to deport more than 90,000 in March, and a total of 900,000 by the end of the year.

Mexico won't militarize the border, but:

- Authorities will seek to **better patrol the entire 1,020-kilometer** stretch of the southern border.
- **Migration checkpoints will be set up** by the federal Police and Civil Protection personnel **on the Isthmus of Tehuantepec** to halt migrants who have entered Mexico illegally.

Serious Challenges at the border:

- There is an **overwhelming number of asylum seekers** in shelters in northern border cities.
- Migrants face long waits in border cities, many of which have **high rates of violent crime**.



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**.