Building 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 as well as, sadly, illicit flows. The same is 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.
• In recent years, government-to-government collaboration has been unprecedented. Security-related cooperation has grown immensely.
Managing a Massive Relationship
US-Mexico Trade

2017 Trade in goods and services:

$616 Billion

US trades over 1 million per minute with Mexico.

Currency in USD. Source: BEA 2017
US-Mexico Trade

Mexico is the US’:
- 2nd largest export market
- 3rd largest trading partner
- 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
US-Mexico Border Crossings

Each day there are over 1 million border crossings.

Source: Bureau of transportation statistics, 2016
### Areas of U.S.-Mexico Bilateral Work
- Economic competitiveness
- Education
- Energy
- Environment
- Border management and migration
- Public security and justice collaboration
- Fighting drug trafficking & organized crime
- Counter-terrorism
- Health issues
- Human rights
- Central America and the region
- Work in the UN, G20, OECD and OAS
- Consular issues

### Trilateral Work: Canada, Mexico and the U.S.
- Modernizing NAFTA
- Clean Energy and Environment Cooperation
- North America Caucus on regional and global priorities
- Trilateral Trusted Traveler Program
- Dialogue on Countering Illicit Drugs
Serious Challenges to Address

- U.S. drug demand and cross-border criminal networks
- Modernizing NAFTA
- Strengthening Mexican law enforcement institutions and bilateral cooperation
- Regional migrant flows
- Immigration & border Management
- Surging Criminal Violence in Mexico
- Negative public perceptions
- Potential Terrorism
- Countering Corruption
- Reducing poverty in Mexico
Economic Security
North American Trade in Goods and Services

Source: Secretaria de Economia, 2017; BEA, 2017; Census Bureau, 2017.
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 1.9 times more than with China.
• 14 million US jobs are supported by trade with both neighbors.
• 50 percent of NAFTA trade is intermediate goods.

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 2017

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

Source: Secretaria de Economia, 2017
US Trade in Goods Deficit but Service Surplus

Others, 11.2%
Mexico, 8.9%
Canada, 2.1%
European Union, 19.0%
China, 47.1%
Japan, 8.6%

U.S. Trade Deficit with Mexico dropped 2.7% as a portion of Total U.S.-Mexico Trade between 2010-2017

Source: BEA, 2017
US Trade in Goods and Services 2017

Mexico

- $69
- $76
- $7 billion surplus in services with Mexico

Canada (Surplus)

- $25
- $22
- $3 billion total trade surplus with Canada

China

- $40
- $376
- $25 billion surplus in services

Source: BEA, 2017
More U.S. Content in Imports from Mexico and Canada

Value of U.S. Content in Manufactured Imports from Selected Economies
2010 Study

Source: Robert Koopman et al. “Give Credit Where Credit is Due: Tracing Value Added in Global Production Chains”. NBER Working Paper No 16426.
Leading Mexican Products Exported to the US
Manufactured Goods Dominate 2015

Source: OECD Stats, 2015
Leading U.S. Products Exported to Mexico 2017

- Plastics
- Vehicles
- Mineral fuels
- Electrical machinery
- Machinery

Billions: $0, $10, $20, $30, $40, $50

Leading U.S. Agricultural Exports to Mexico 2017

- Beef & beef products
- Dairy products
- Pork & pork products
- Soybeans
- Corn

Billions: $0, $1, $2, $3

Source: Office of the U.S. Trade Representatives, 2017
Where have the manufacturing jobs gone?

**Competition from China**

2 - 2.4 million

**New Technology**

4.7 million

Source: Autor et. Al, 2016; Hicks and Devaraj, 2015
U.S. Manufacturing Employment and Output
Mexico trade supports some 5 million jobs

Some 5 million US jobs depend on trade and investment ties with Mexico (2015), compared to an estimated 700,000 jobs in 1993.

In 2015, Canada’s and Mexico’s FDI in the US reached $388 billion.

The US had $452 billion FDI in Canada and Mexico.

U.S. Jobs Created by Mexican Investment, 2016

- Mexican investment supports 123,000 US jobs.
Reforms and Partnership
Mexico’s Major Reforms (2013-2018)

- Education
- Telecommunications
- Energy
- Judicial and Law Enforcement

More partnership with the U.S.
Energy and the Environment
Energy and the Environment

- Increased U.S. investment in Mexico’s energy sector following reform
- Increased U.S. natural gas and gasoline sales to Mexico
- New dialogues between energy regulators
- U.S. and Mexico work to protect border environment, river basins, and endangered species
- AMLO’s plans may bring changes, e.g. bigger role for PEMEX
Border Management Licit and Illicit Flows
Moving toward Co-Management of the Border
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.
- 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.
- Cooperation slowed in 2018
Trucks Crossing the US-Mexico Border

Source: Bureau of Transportation Statistics, 2017
Border: Migrant Flows
Migrant Flows

- The flow of Mexican immigrants to the U.S. is at the **lowest levels** since the 1990s.
- The number of Mexican immigrants in the U.S. **has been dropping** since 2007.
- In FY 2017, apprehensions of Mexican unauthorized immigrants declined **31.22%** from FY 2015.
Bilateral Cooperation Against Crime
US-Mexico Law Enforcement/Security Cooperation

- Mérida Initiative Programs & Agency-to-Agency Cooperation
- Defense Dialogues & Cooperation
- Security Coordination Group
Opioids Change the Game

Source: CDC Wonder Database; CDC Provisional Counts of Drug Overdose Deaths as of 8/6/2017
Violence up in Mexico
Urgency: Homicides in Mexico

29,168 killings in 2017; the most violent year since 1997.


Law enforcement and judicial process overwhelmed.

Cartels fighting, but types of crime expanded & more states affected.

Est. crime cost up to 17.6% GDP.

U.S. travel warnings for resort areas.

Perceptions of Bilateral Relations and NAFTA
Americans’ and Mexicans’ Perceptions of each other (per cent favorable)

- In 2017 polling, 66% of Americans had positive views of Mexico; while only 30% of Mexicans had positive views of the US.

US Opinion: Is NAFTA Good for the US Economy?

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

NAFTA Negotiations
What’s at Stake?

- $1.3 trillion of North American Trade
- Nearly 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

US-Mexico Preliminary Trade Agreement

- 75% of the value of a vehicle to be produced in the U.S. or Mexico (up from 62.5%)
- 40%-45% percent of auto content from workers earning over $16 per hour.
- Possible cap on tariff-free Mexican cars.

- 16-year lifetime for the agreement, with a review every six years and possible 16 years renewal.
- Eliminate settlement system for anti-dumping disputes, Ch19. (Potential deal breaker for Canada)
- Reduced coverage for Investor-to-State Dispute Settlement.
- Energy: undisclosed changes.
- Labor: undisclosed changes.

- Improved Goods Market Access chapter; provisions to incentivize NAFTA textile production.
- Updated annexes on ICT, Pharmaceuticals, Medical Device, Cosmetic Products & Chemicals.

- Stronger agricultural chapter covering biotech, Science-Based SPS measures.
- Expanded IPR Protections and internet coverage.
Remaining Issues to a Trilateral Agreement

- Canada’s Dairy Sector
- Dispute Settlement Mechanism
- Steel and Aluminum Tariffs
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

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

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

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

Sources: 1) Impact Econ; 2) Trade Leadership Council Survey; 3) ImpactEcon, Trade Leadership Council Survey, Food and Agricultural Letter, Atlantic Council, MEMA/BCG.
Mexico’s 2018 Presidential Election
Presidential Results

Voter turnout: 63.5%

Over 60% of the Mexican population is satisfied with the election’s results.

Over 65% of the Mexican population believe the security, economic and political situation will improve in the short-term under AMLO’s Presidency.

Source: Instituto Nacional Electoral; Consulta Mitofsky, 2018
Chamber of Deputies – November 2018

- Morena: 307 seats
- PAN: 128 seats
- PRI: 63 seats
- No party: 2 seats

Source: Wilson Center’s Mexico Institute, 2018
Senate – November 2018

- Morena: 70 seats
- PAN: 38 seats
- PRI: 20 seats

Source: Wilson Center’s Mexico Institute, 2018
Issues that Mexicans care about & influenced their votes

Corruption
Violence and Security
Unemployment

Poverty and Low Wages
Public Health
Inflation

Source: Edelman, 2018; GEA/ISA poll, 2018
AMLO’s Policy Proposals

**Poverty:**
- Increase minimum wage.
- Launch new **jobs programs**.
- Subsidize inputs for **small farmers**.
- Guarantee free **universal health coverage**.

**Corruption:**
- Better **supervision of public spending**.
- **Cut** public-officials salaries, perks and reduce staff.
- Name new independent **Anti-Corruption prosecutor**. Absolute **autonomy** of the **General Attorney’s office**.
- Legal reforms to increase **penalties for officials** who use public money for personal gain.

**Trade:**
- Conclude the **renegotiation of NAFTA**. Focus on expanding trade.

**Economic Policy:**
- Focus on developing Mexico’s **internal market**
- **Infrastructure projects** (for example, railway line)
- Redirect government spending to social programs.
- **Attract investment**.

**Education:**
- Eliminate teacher's evaluation.
- Launch **youth job/education programs**.
AMLO’s Policy Proposals

Energy:
- **Review of contracts** since the Energy Reform. **Postpone new auctions** (for at least 2 years).
- **Strengthen the role of PEMEX** with a preferred role for exploration and choosing partnerships.
- **Limit gasoline price** increases.
- **Build new refineries** to supply gasoline ($100 billion pesos).
- $75 billion pesos of next year’s budget will be allocated to **oil extraction**.

Security:
- Create a new **Department of Public Security**.
- **Support for crime victims**.
- **Better-trained and better-paid police**.
- Go after **cartel finances**.
- Armed forces off the streets in a 3-year framework.
- **De-criminalize marihuana** and, possibly, **growing poppy**.
- **Reintegration** of nonviolent drug offenders and **forgiveness** to some criminals.
- More **job and educational opportunities**.
- Review **cooperation with the U.S. – Merida Initiative**.
AMLO’s Policy Proposals on Science, Technology and Innovation

- Increase **public expenditure to 1% of the GDP** on Science, Technology and Innovation.
- Increase **scholarships and number of researchers** on these issues.
- Use **technology to increase agricultural productivity**.
- **Review of document “Towards the Consolidation and Development of Public Policy on Science, Technology and Innovation”** created by UNAM and other 80 higher educational institutions.

- **AMLO has expressed interest on creating a Department of Information Technology**, policy suggested by the National Chamber of the Electronic, Telecommunications and IT Industry.
- **Strengthen U.S.-Mexico cooperation** on science and technology.
- Stronger role for **CONACYT** under María Elena Álvarez leadership.
- **CONACYT** as intermediary through which the Federal government will coordinate public policy on Science, Technology and Innovation.
“Towards the Consolidation and Development of Public Policy on Science, Technology and Innovation”

• Make Science, Technology and Innovation a national priority.
• Define national and regional objectives based on the country’s needs.
• Define strategy and implementation plan.
• Sustain public funding on this sector. Expand the system of Science, Technology and Innovation.
• Strengthen partnerships between governments and educational institutions.
• Develop a regulatory framework aligned to the proposed objectives.
# AMLO Proposals to Trump – July 12 Letter

<table>
<thead>
<tr>
<th>TRADE</th>
<th>Resume NAFTA renegotiation talks; AMLO's team will work with EPN's team.</th>
<th>Relocate Mexican customs 20-30 km inland from the border.</th>
<th>Establish a free trade zone on the northern border of Mexico: decrease the VAT rate, the income tax rate &amp; energy prices, and increase the minimum wage.</th>
</tr>
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<tbody>
<tr>
<td>SECURITY</td>
<td>Establish development plans between the U.S., Mexico, and Central America to finance economic development. Allocate 25% of investments to security and border control.</td>
<td>Each government will control its borders and combat trafficking of drugs and weapons.</td>
<td></td>
</tr>
</tbody>
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Source: Wilson Center’s Mexico Institute, lopezobrador.org.mx, Politico.mx
## AMLO Proposals to Trump – July 12 Letter

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<th>MIGRATION</th>
<th>Improve economic opportunities.</th>
<th>Migration cooperation based on the respect for human rights.</th>
<th>Development plan between the U.S., Mexico, and Central American countries to <strong>mitigate poverty and retain the migration</strong>.</th>
</tr>
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<td>DEVELOPMENT</td>
<td>Encourage <strong>tourism</strong> with high-speed train from Cancun to Palenque.</td>
<td><strong>Creation of an economic and commercial corridor</strong> in the Isthmus of Tehuantepec.</td>
<td>Reactivate Mexico’s agricultural sector.</td>
</tr>
<tr>
<td></td>
<td>Urban development plan in border cities.</td>
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Source: Wilson Center’s Mexico Institute, lopezobrador.org.mx, Politico.mx
Critics concerns about an AMLO Presidency

**Backward-looking agenda: bigger economic role for the State?**

**Fiscal Responsibility vs new Social Programs** e.g. increase public investments, social programs and subsidies without tax and debt increases?

**Slow the Education Reform?**

**Weaken Energy Reform?**

**Corruption:** no effective plan?

**Public Security:** not sufficient to reverse violence?


Will he listen to his cabinet/others? Will he become more authoritarian?
AMLO’s Challenges

Lack of experience governing

Carrying out promised reforms
(salary + personal cuts and decentralization)

Having enough resources and income without increasing taxes

Developing specific policies & effective implementation
(e.g. security & corruption)

Meeting high popular expectations
Maintaining a Partnership with Mexico?
U.S.-Mexico Relations: Early Months Set Tone

Trade:
• Successfully complete NAFTA modernization negotiations, so all three can claim wins.

Bilateral Security Cooperation:
• Avoid further deterioration in cooperation. Collaborative review of programs.
• Better manage together migration and travel issues; intercept terrorists.
• Better fight organized crime, attacking production, distribution, logistics, finance networks, arms smuggling, and addiction/demand; support Mexico in reducing related violence.
• Deepen coordinated support for Central America to address root causes of migration.

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

Rebuilding Confidence:
• Take steps to rebuild deteriorating trust or risk becoming “Distant Neighbors” again.
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