

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



Exports

\$276 Billion



Imports

\$340 Billion



2017 Trade in goods and services:



616
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: **\$19 billion in 2017**
- 1st or 2nd export market for **28 U.S. States**
- 1st export market for **U.S. Southern Border States**

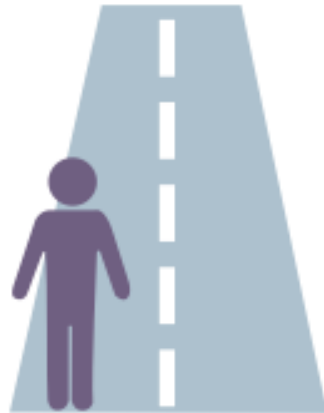


US-Mexico Border Crossings

Each day there are over

1 million

border crossings



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

Immigration & border
Management

Modernizing NAFTA

Surging Criminal Violence in Mexico

Strengthening Mexican law
enforcement institutions and
bilateral cooperation

Negative public perceptions

Potential Terrorism

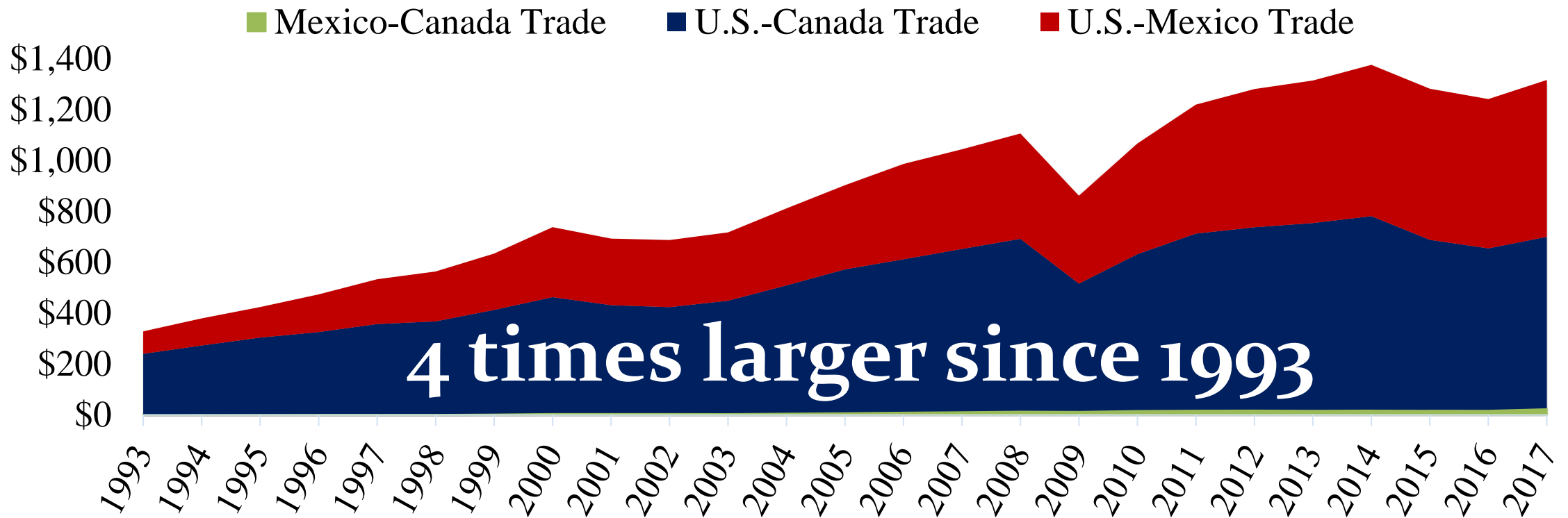
Countering Corruption

Regional migrant flows

Reducing poverty in Mexico

Economic Security

North American Trade in Goods and Services



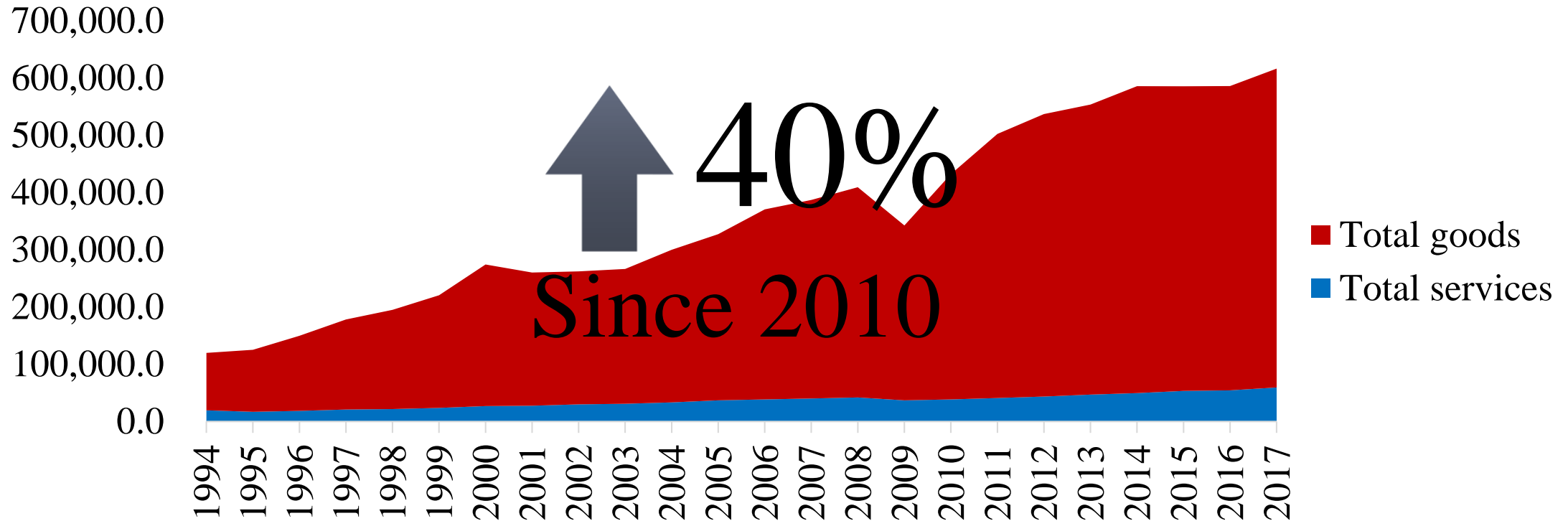


North American Trade

- 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**.

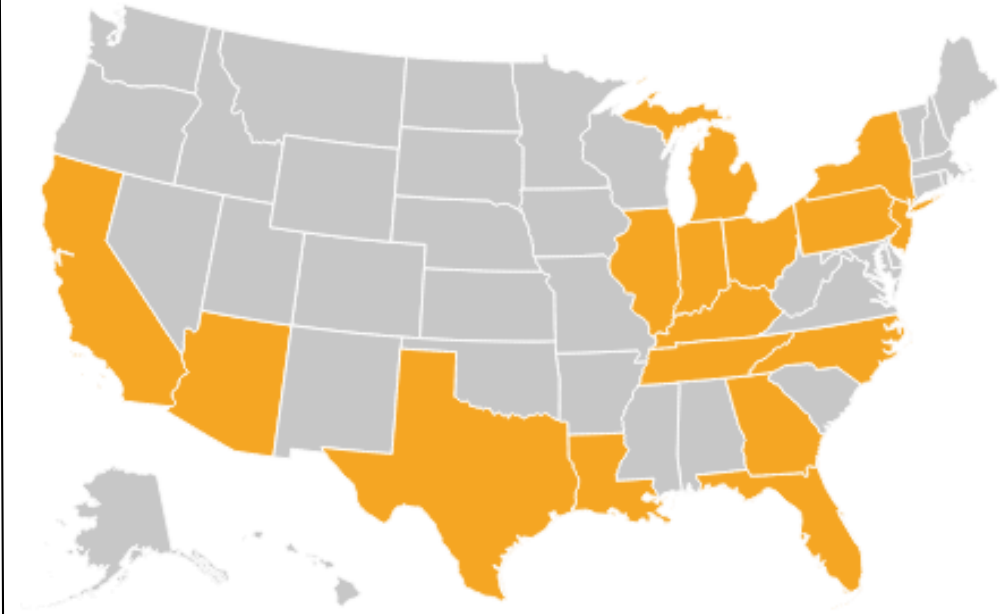
U.S. Trade with Mexico has multiplied by 6 since 1993

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

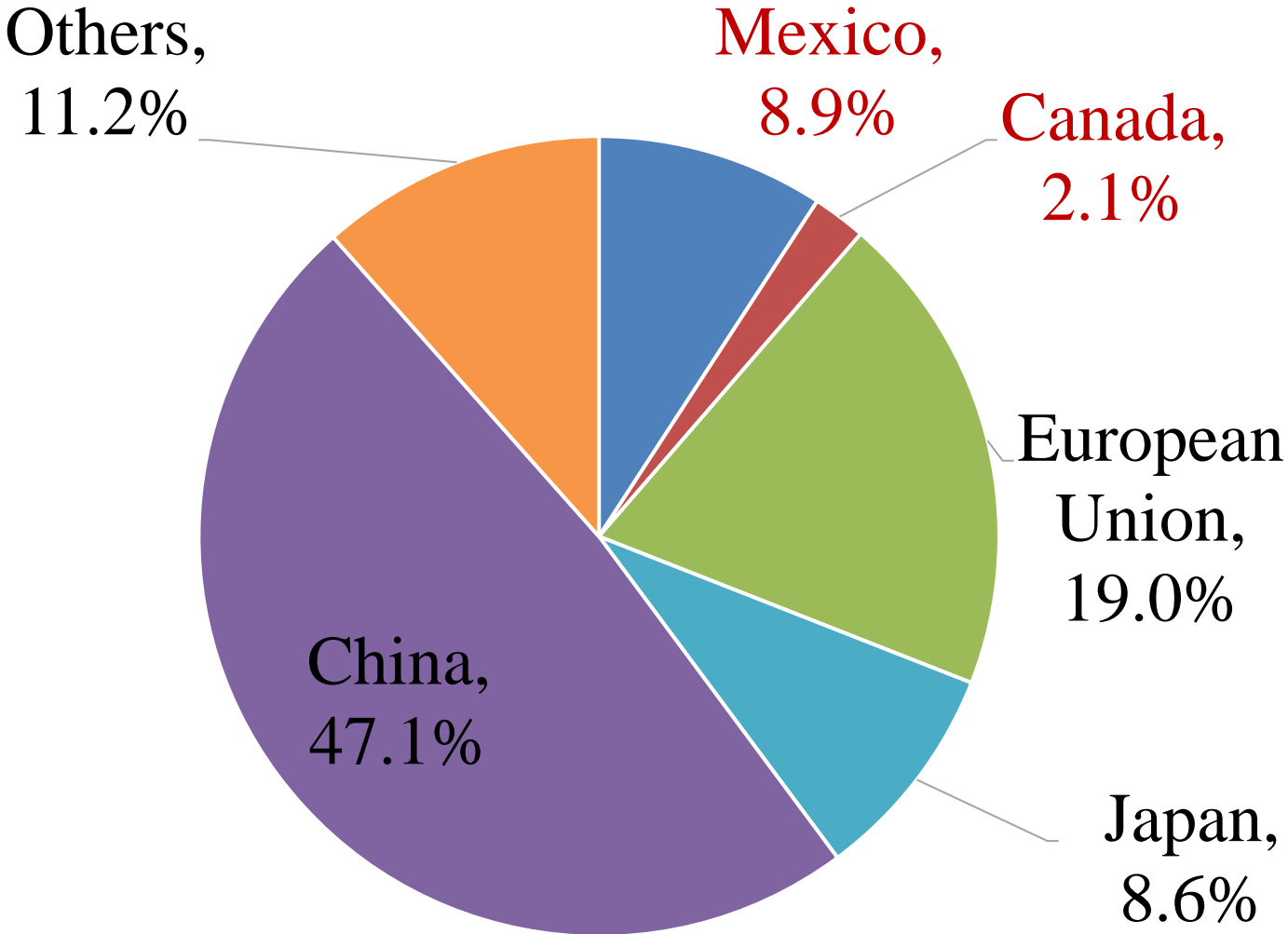


Rank Order: Top US States' Trade with Mexico 2017

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



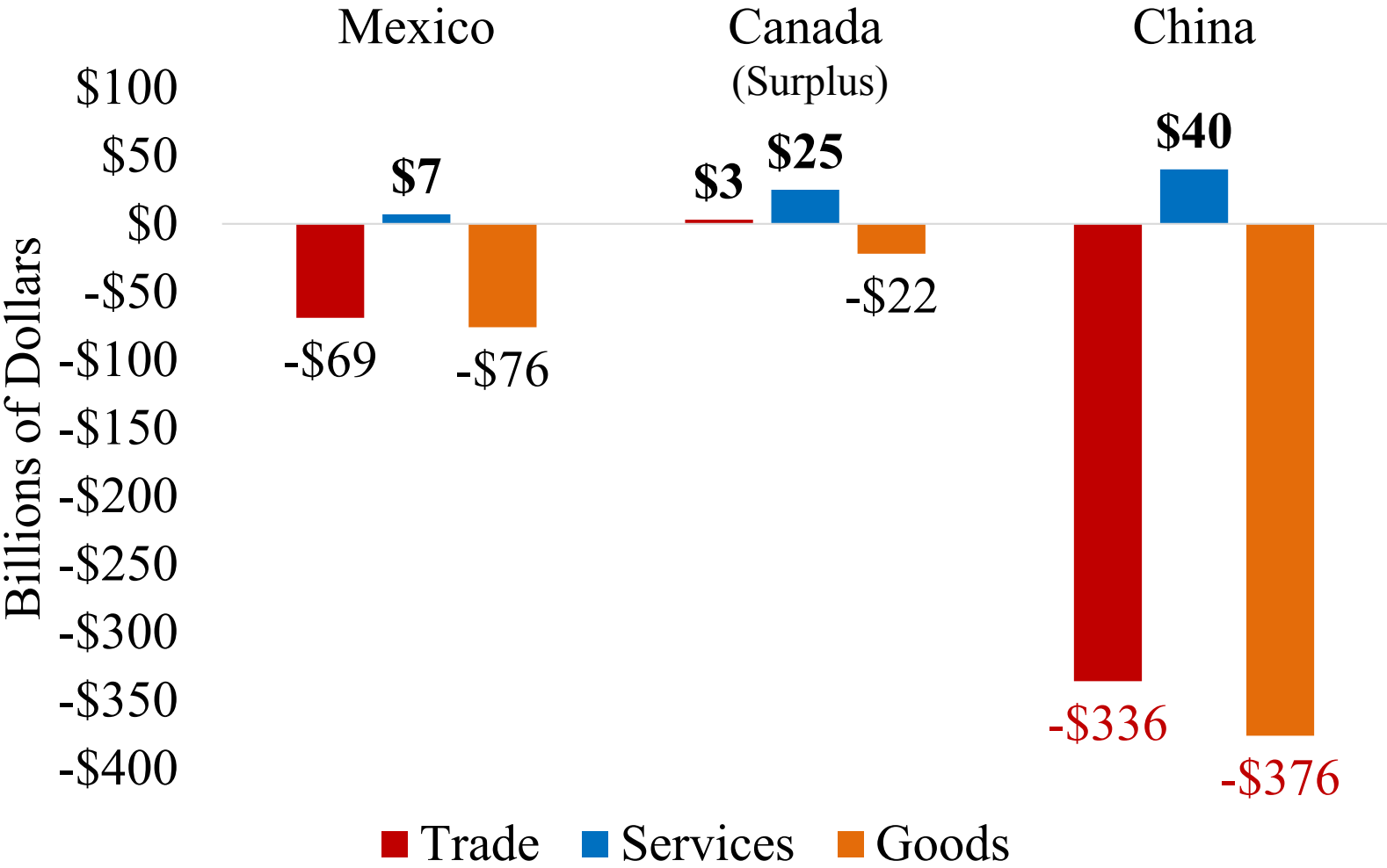
US Trade in Goods Deficit but Service Surplus



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

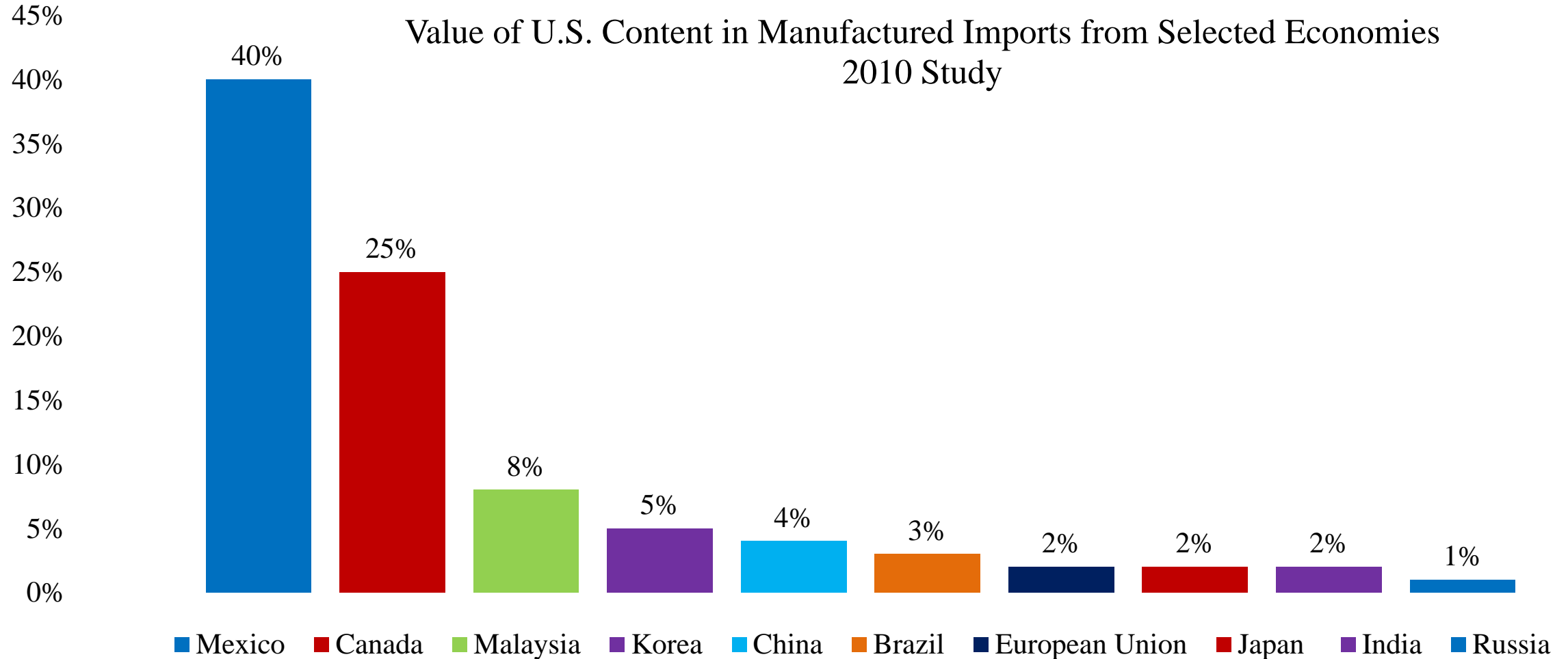


\$25 billion surplus in services & \$3 billion total trade surplus with Canada

\$7 billion surplus in services with Mexico

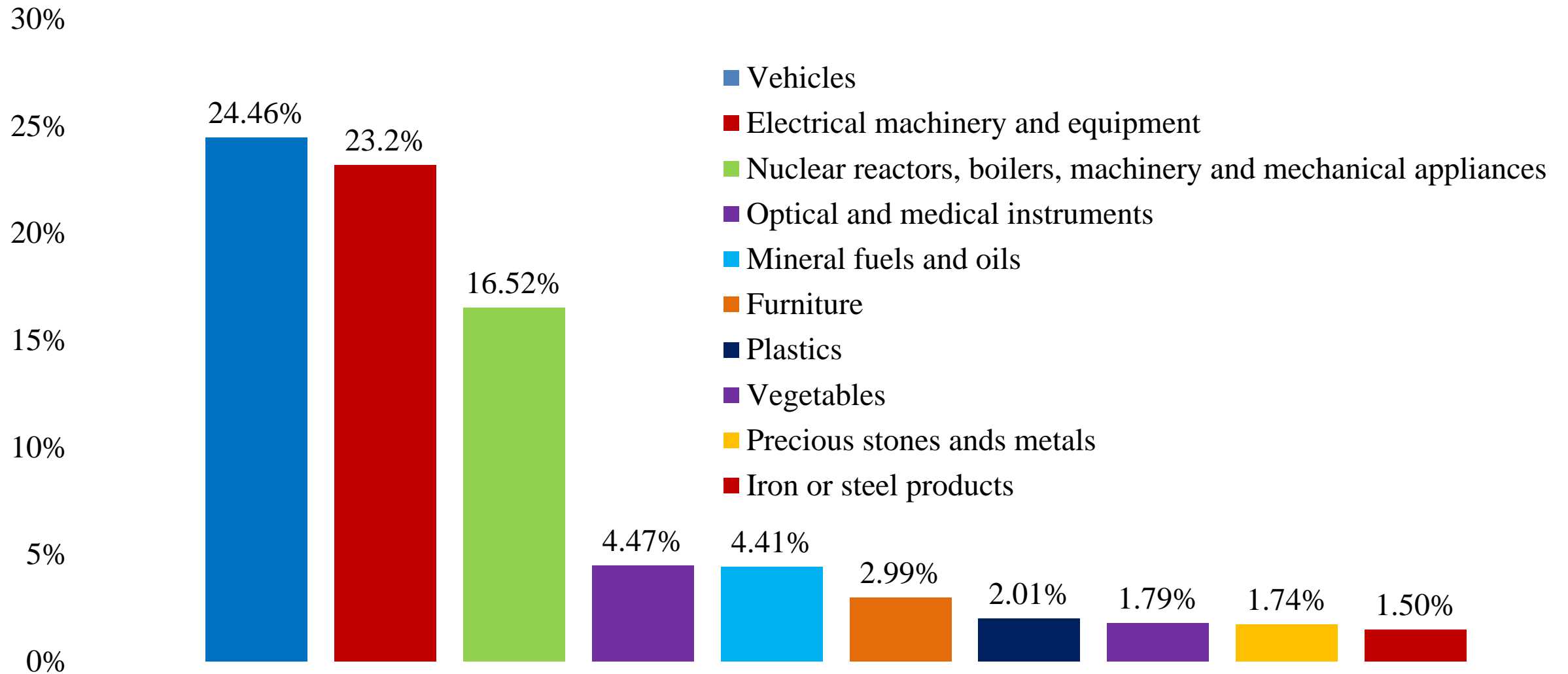
Source: BEA, 2017

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

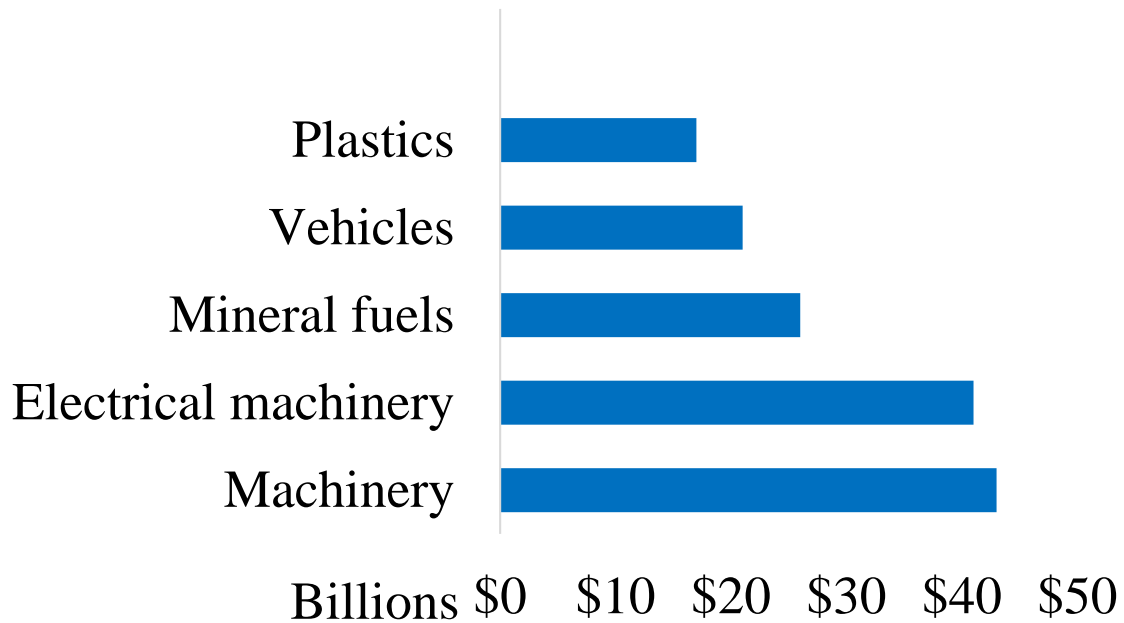


Leading Mexican Products Exported to the US

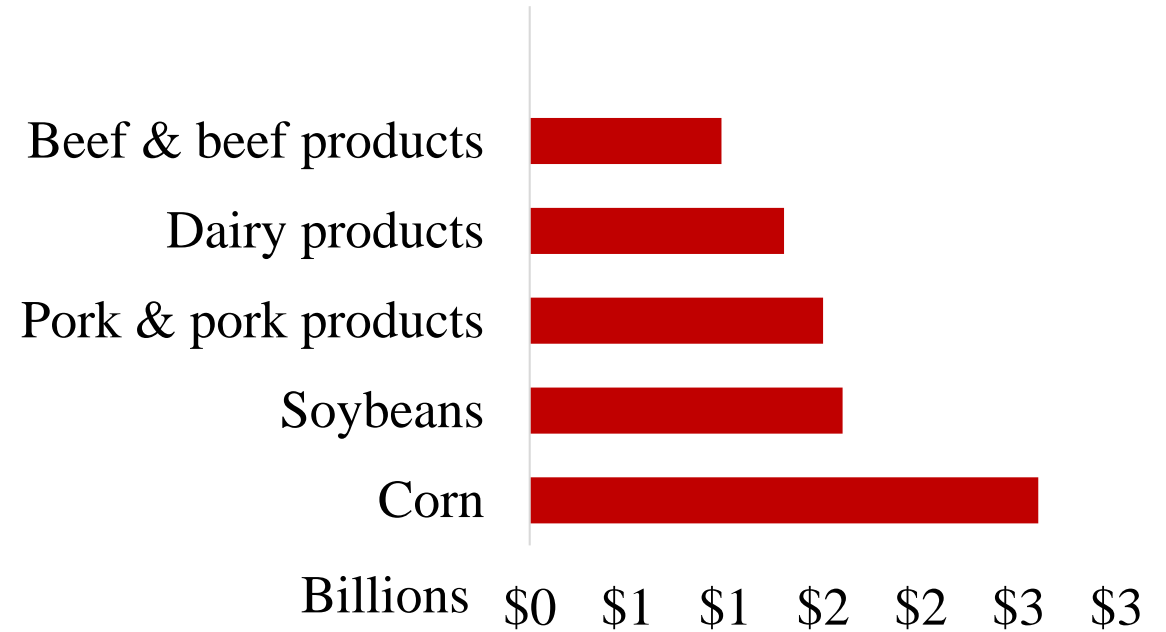
Manufactured Goods Dominate 2015



Leading U.S. Products Exported to Mexico 2017



Leading U.S. Agricultural Exports to Mexico 2017



Where have the manufacturing jobs gone?

Competition from China

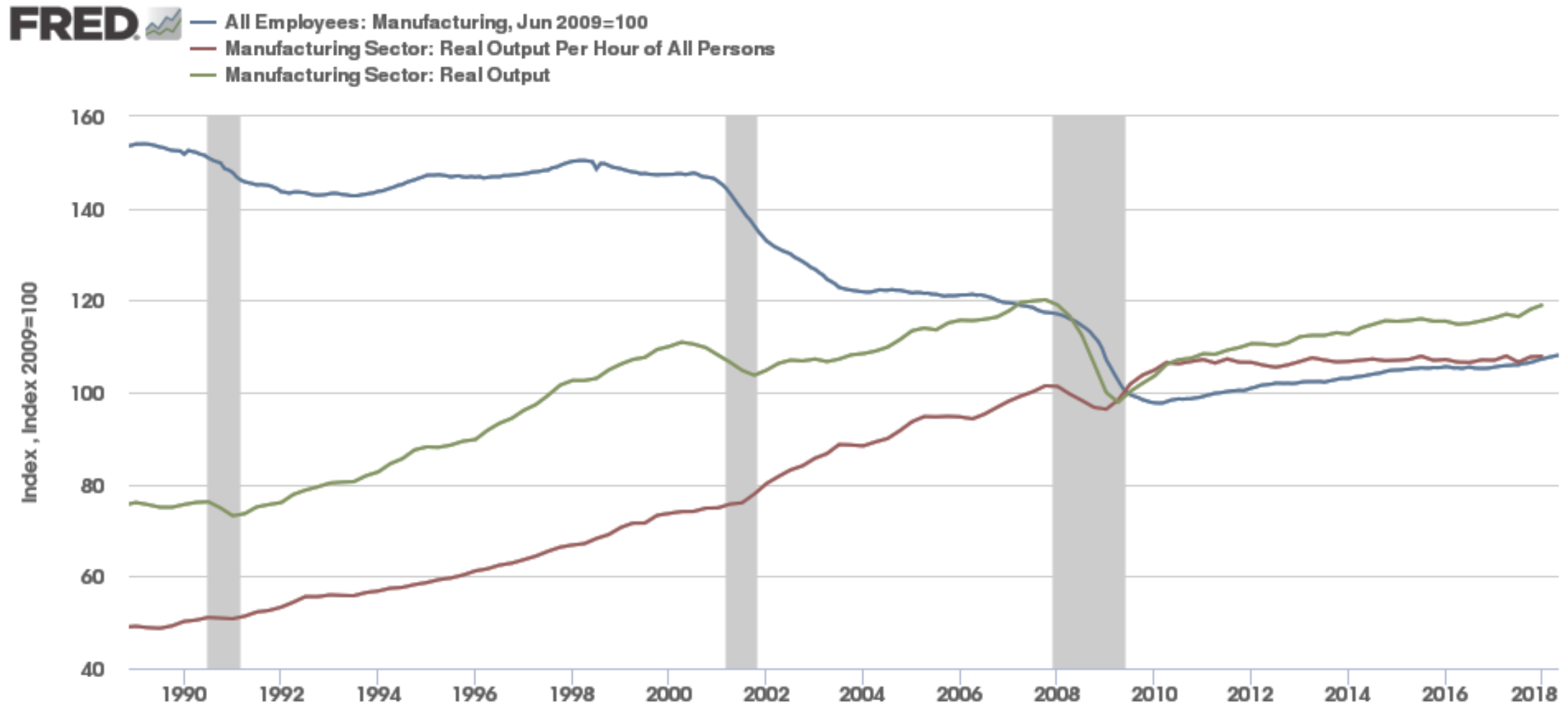
2 - 2.4 million

New Technology

4.7 million



U.S. Manufacturing Employment and Output

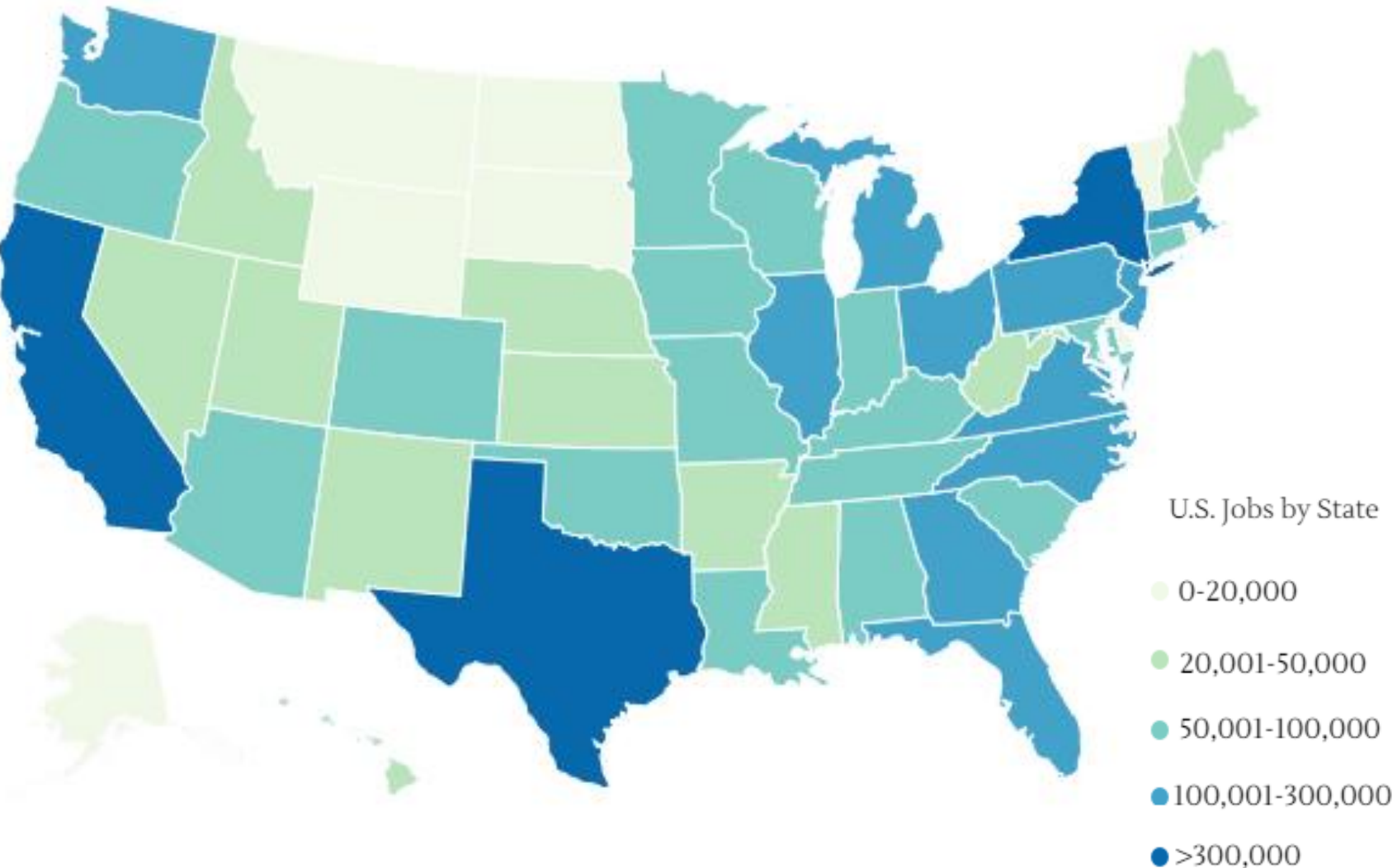


Shaded areas indicate U.S. recessions

Source: U.S. Bureau of Labor Statistics

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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.

Source: The Wilson Center, 2016; Clinton Administration Statement on the NAFTA, 1993.

U.S.-Mexico and North American Investment



Mexico's FDI
in the US
\$17 billion



US FDI in
Mexico
\$88 billion



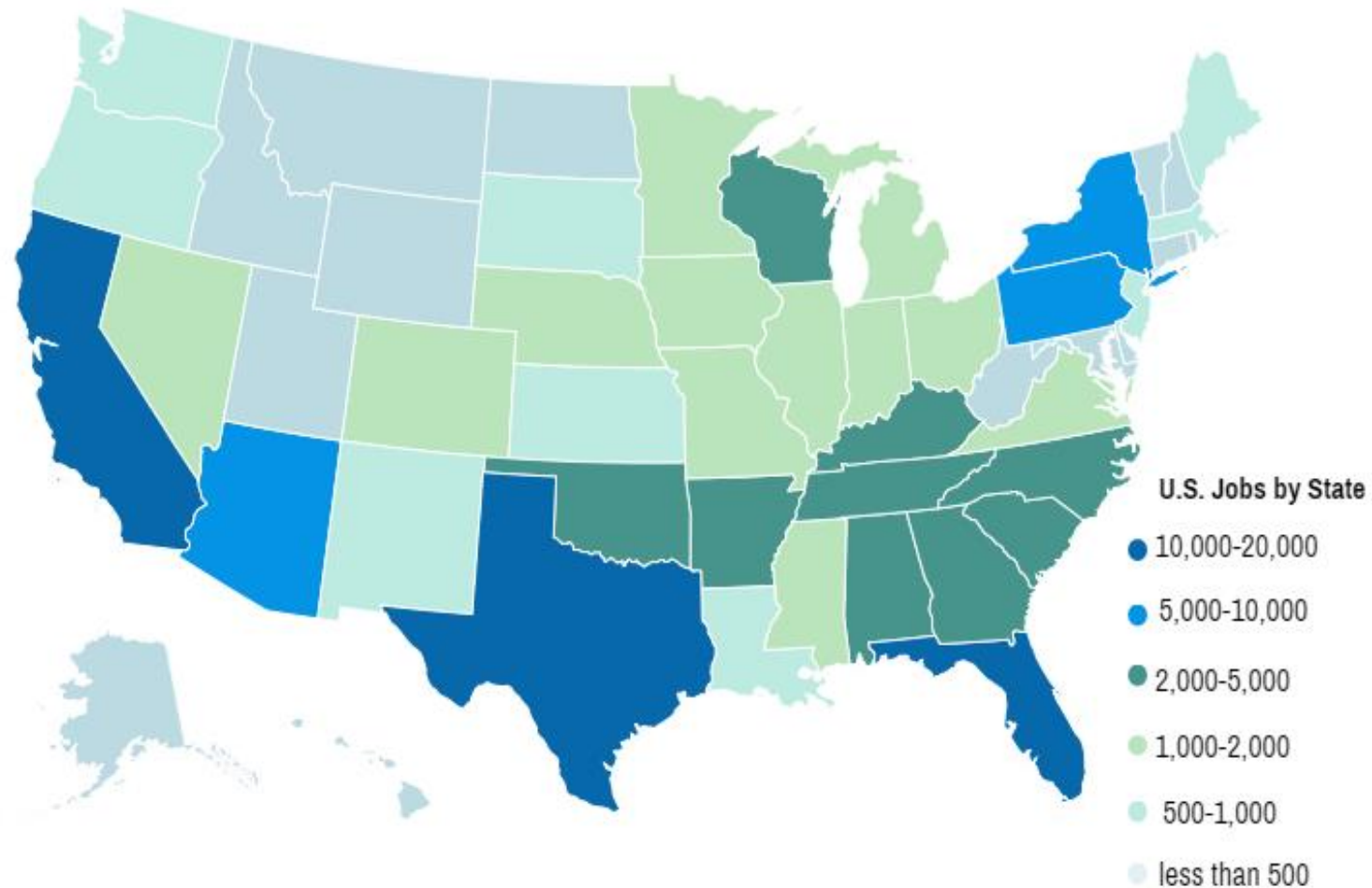
In 2015, Canada's and Mexico's FDI in the US reached **\$388 billion**

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



U.S. Jobs Created by Mexican Investment₂₀₁₆

- 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

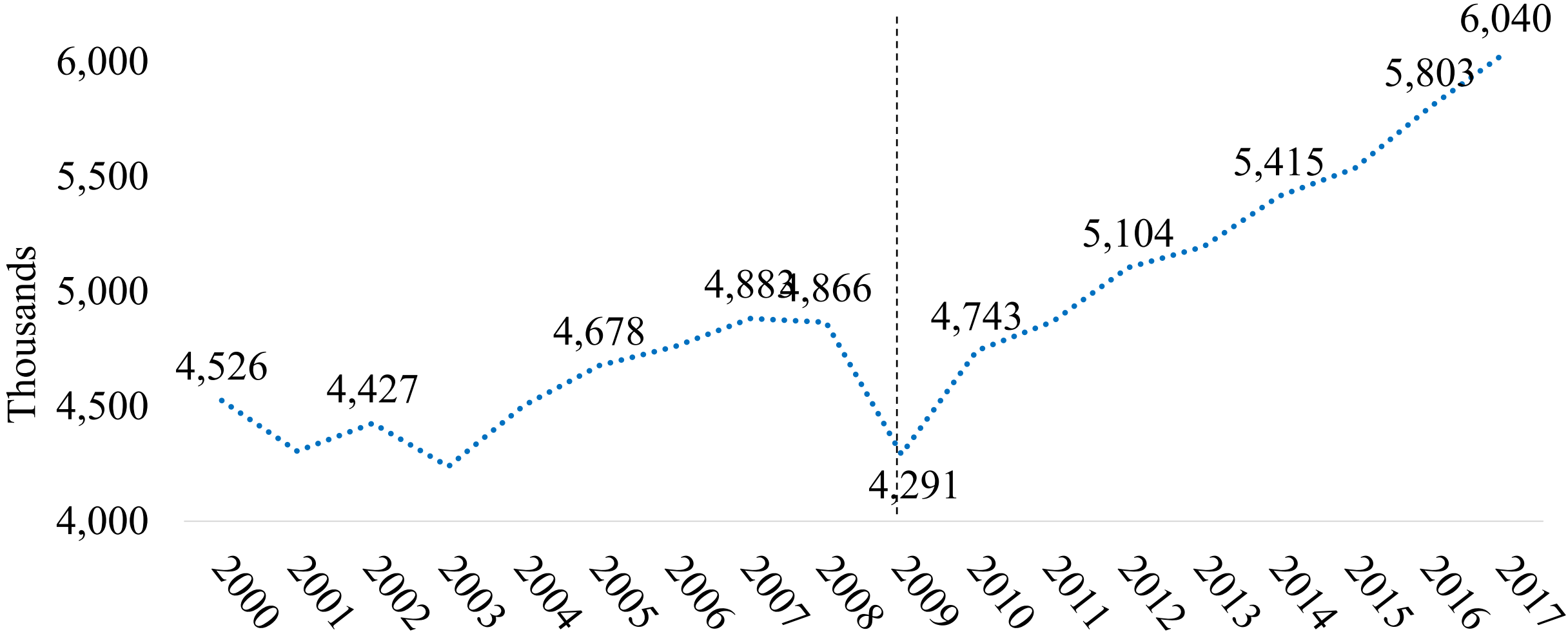
Moving toward Co-Management of the Border



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

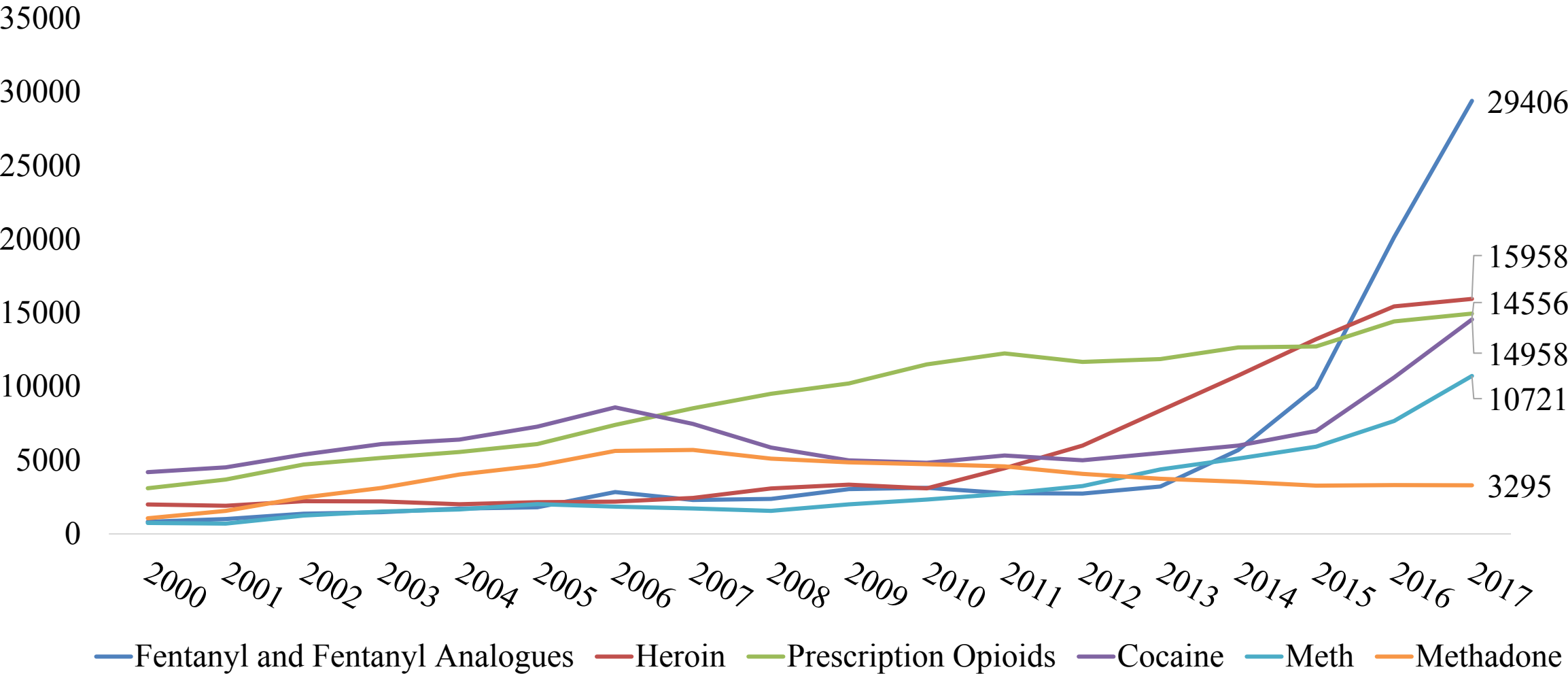
Mérida Initiative Programs &
Agency-to-Agency Cooperation

Defense Dialogues & Cooperation

Security Coordination Group

Opioids Change the Game

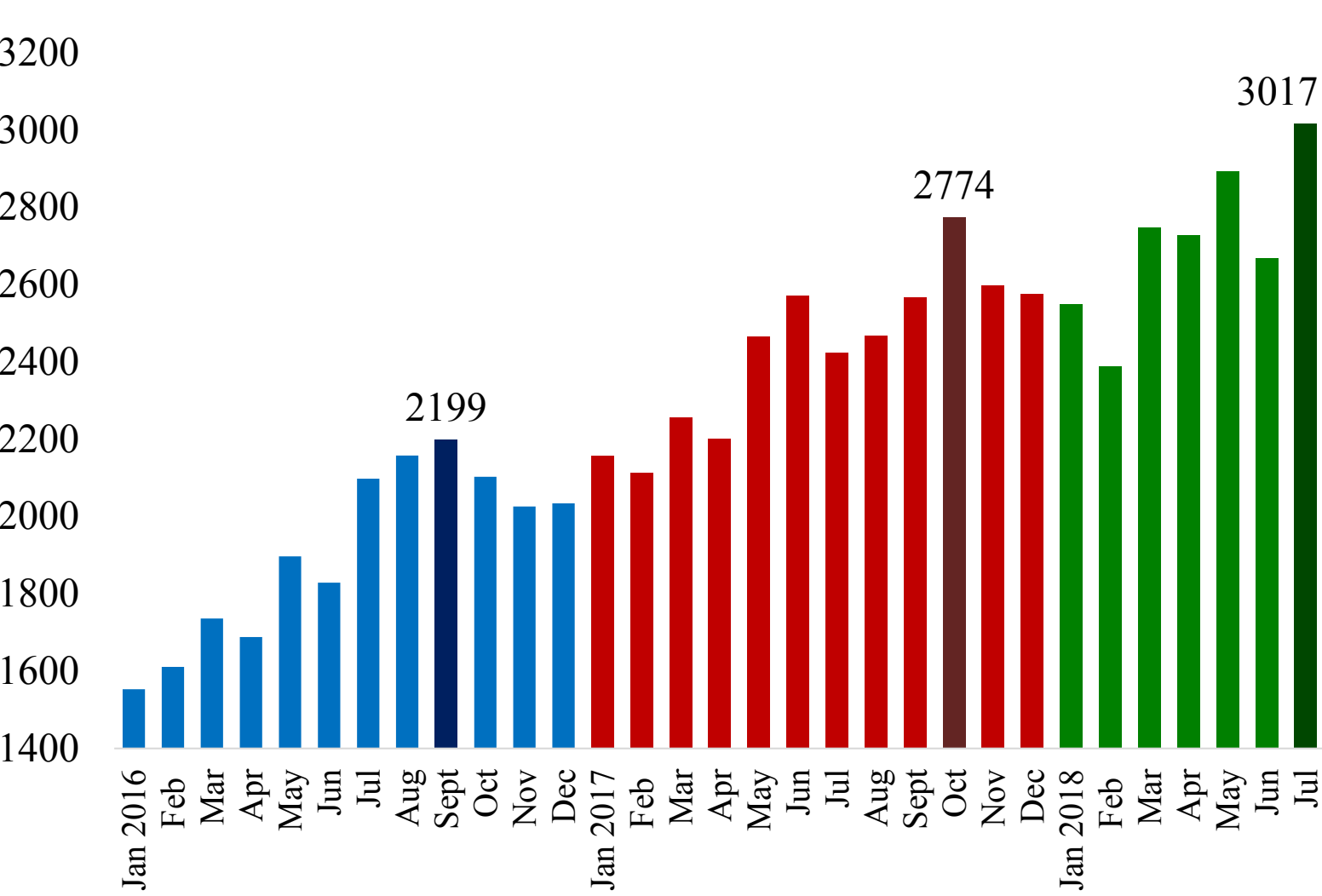
Urgency: US Drug Overdose Deaths 2000-2017



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.

July 2018: most violent month since 1997. Violence up in 2018.

Law enforcement and judicial process overwhelmed.

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

Est. crime cost up to 17.6% GDP.

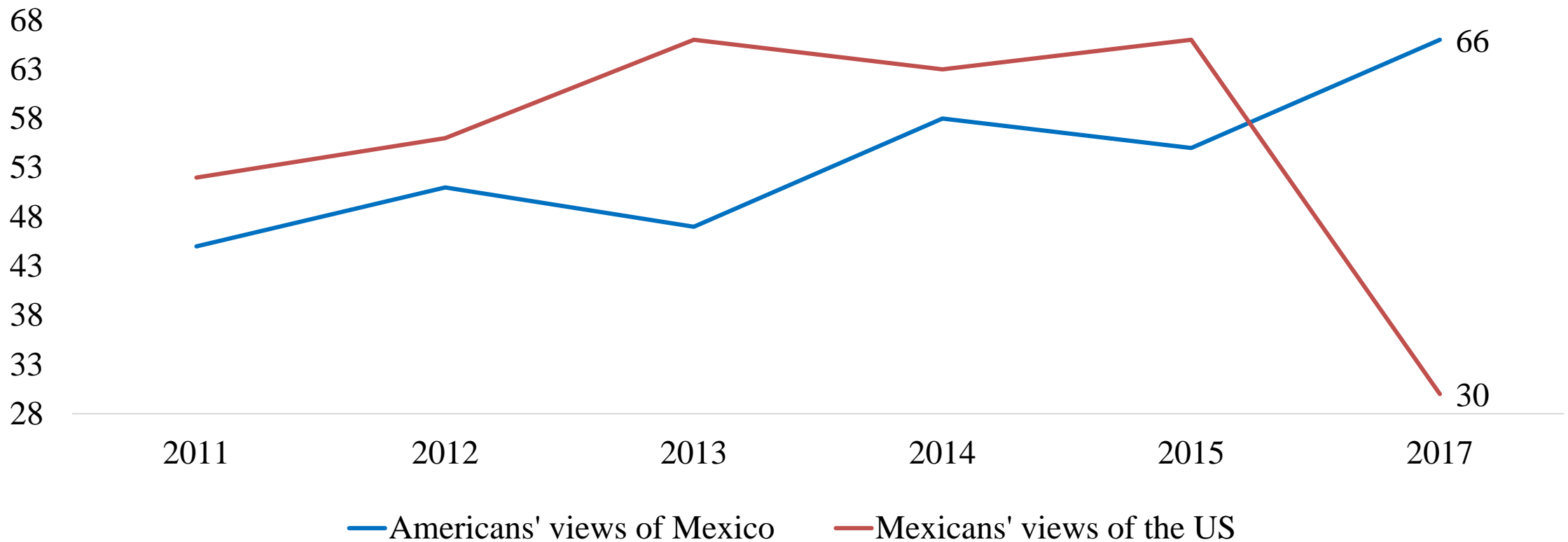
U.S. travel warnings for resort areas.

Source: Secretaria Ejecutiva de Seguridad Nacional, 2017; Reuters, 2017; El Pais, 2017.

Perceptions of Bilateral Relations and NAFTA

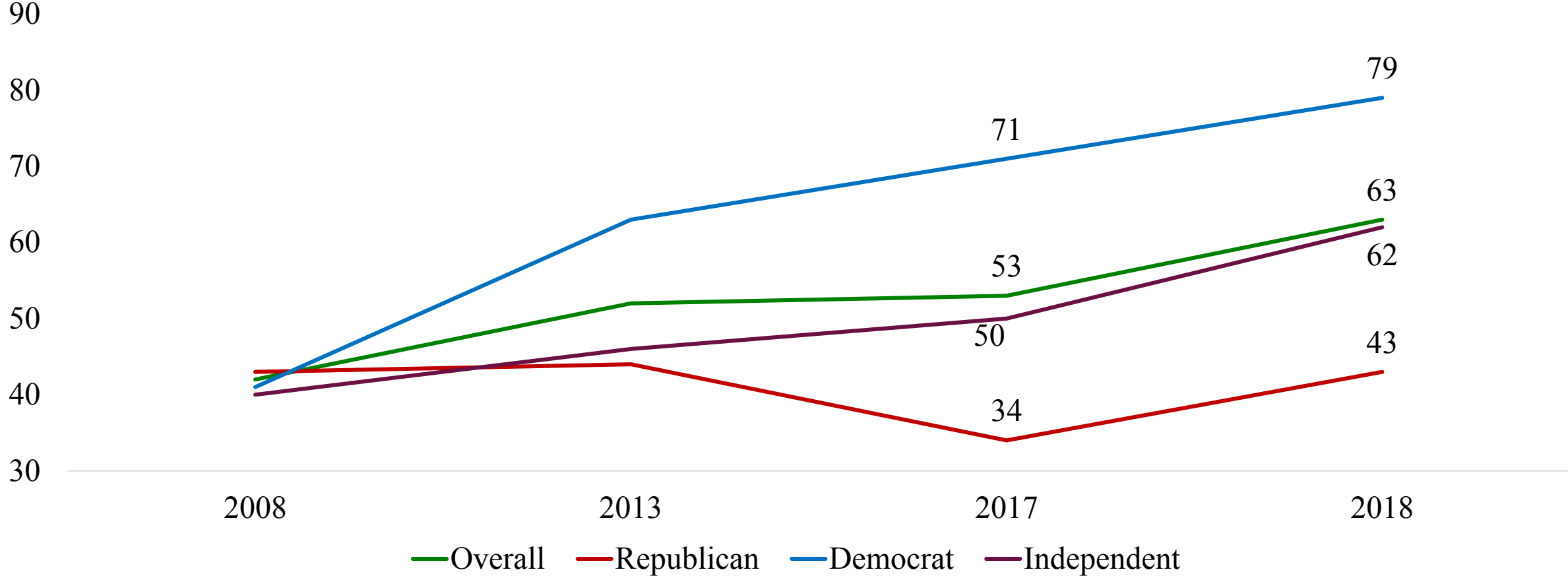
Americans' and Mexicans' Perceptions of each other (per cent favorable)

- 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)



Source: The Chicago Council on Global Affairs August 2017.

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

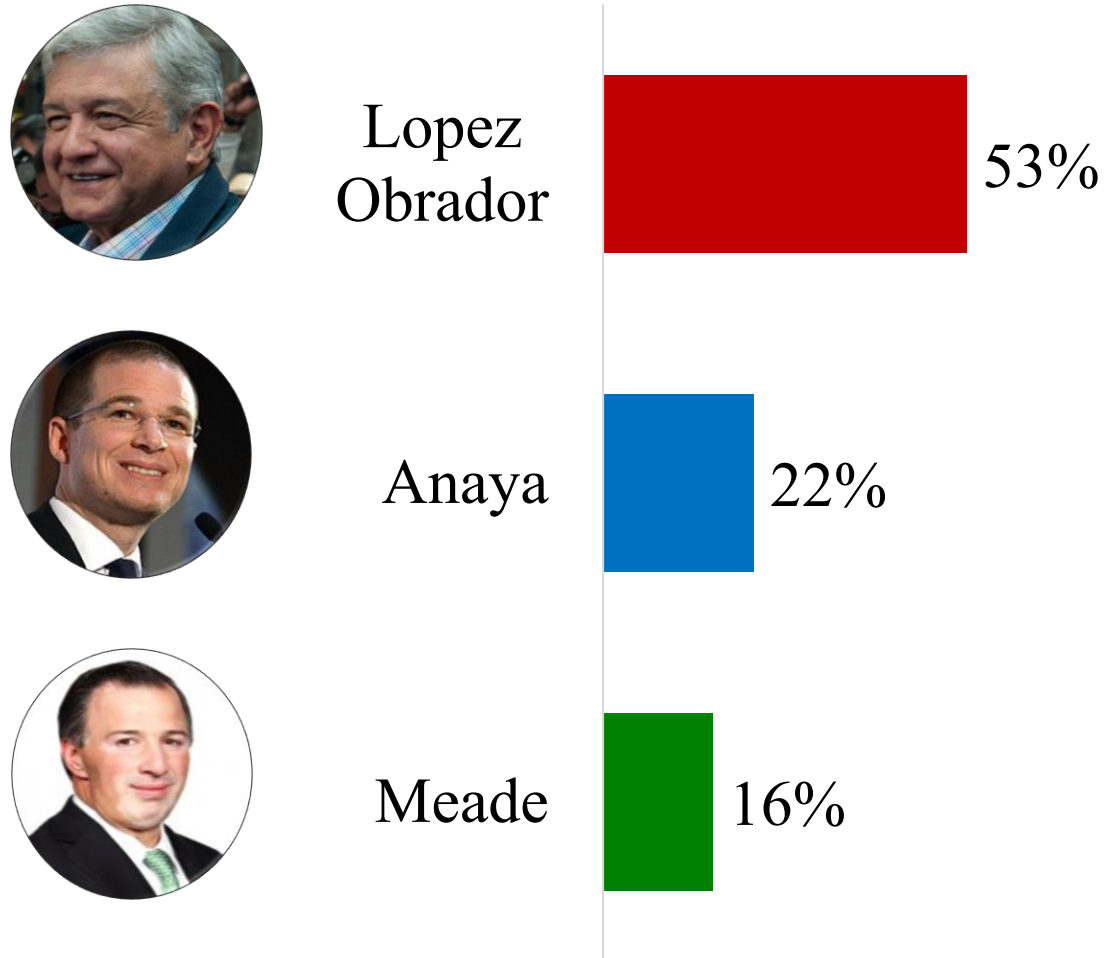
Hard hit sectors: agriculture/livestock/food; motor vehicles; machinery; other manufactured; services; transportation and logistics; textiles.³

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.

Mexico's 2018 Presidential Election

Presidential Results

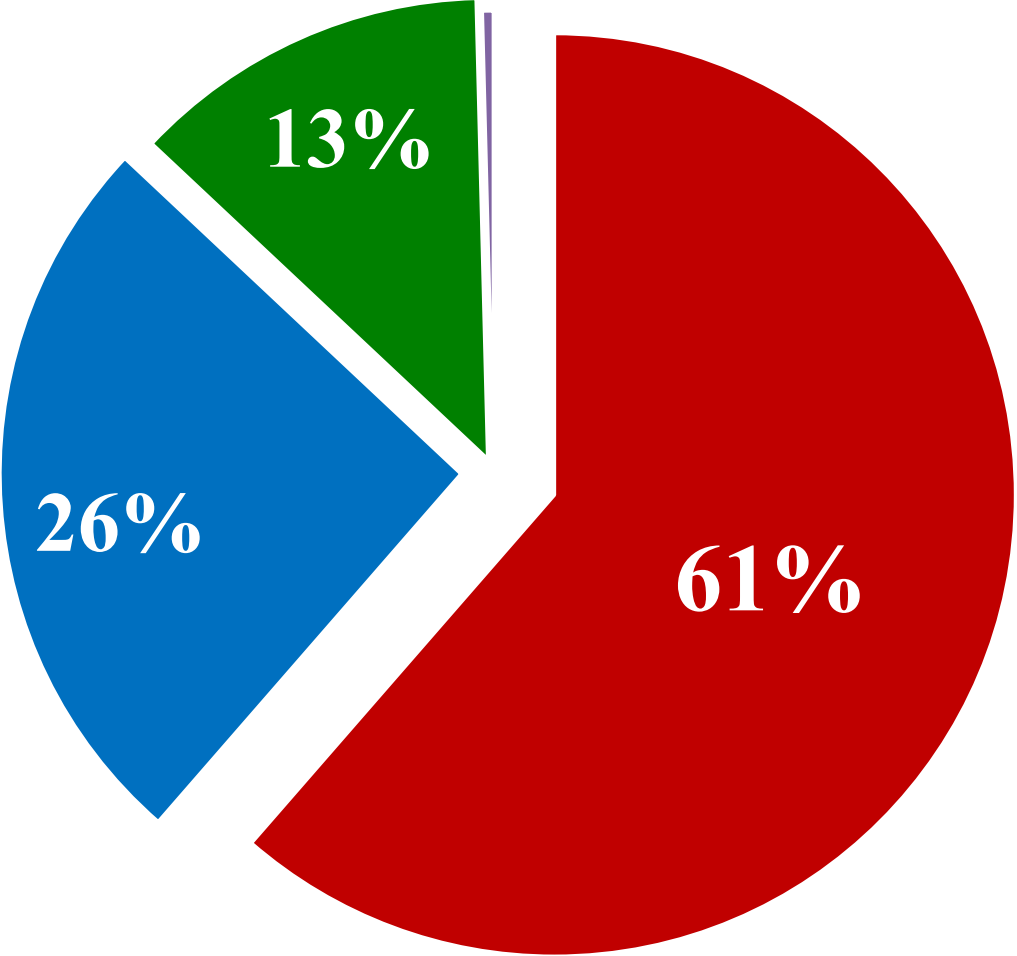


Voter turnout: 63.5%

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.

Chamber of Deputies – November 2018



■ Morena
307 seats

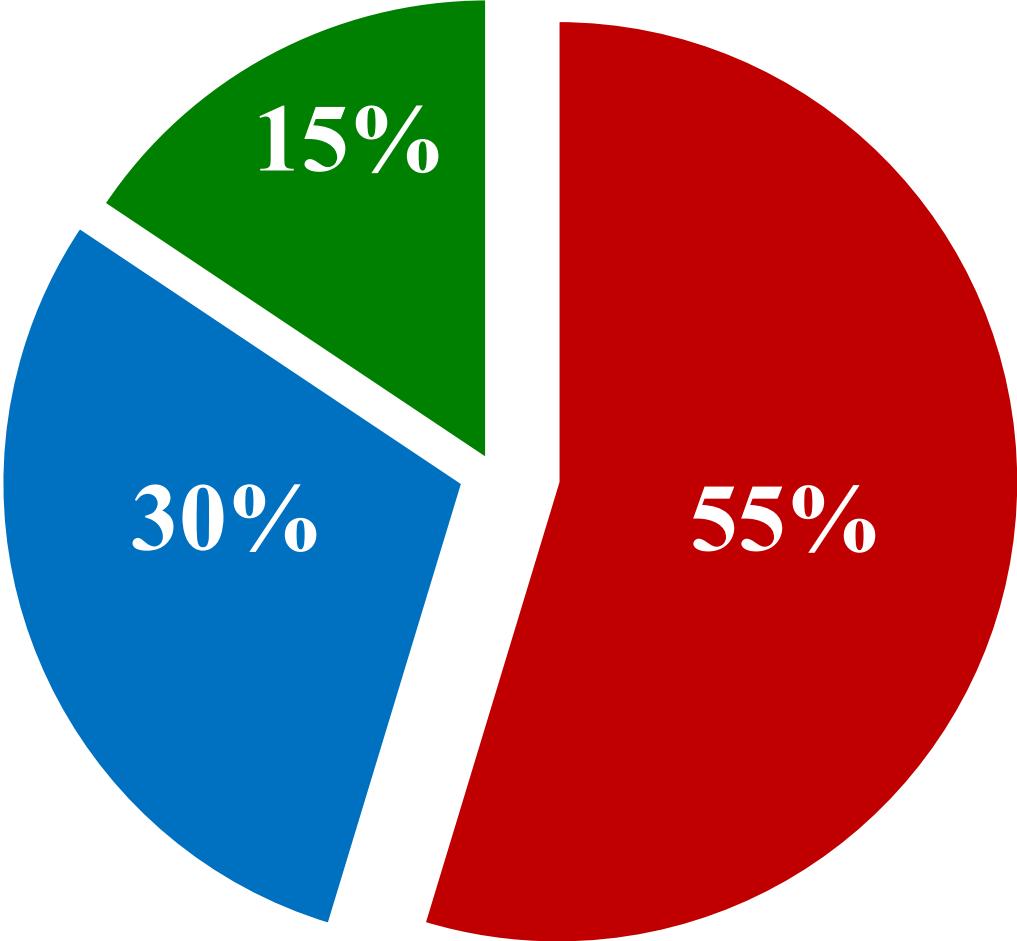
■ PAN
128 seats

■ PRI
63 seats

■ No party
2 seats



Senate – November 2018



■ Morena
70 seats

■ PAN
38 seats

■ PRI
20 seats

morena
La esperanza de México



Issues that Mexicans care about & influenced their votes

Corruption

Violence and Security

Unemployment

Poverty and Low Wages

Public Health

Inflation

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:

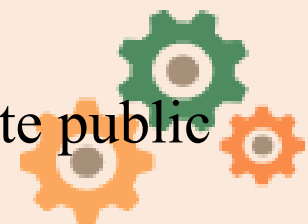
- Create a new **Department of Public Security**.
- **Support for crime victims**.
- **Better-trained and better-paid police**.
- Go after **cartel finances**.
- **Armed forces off the streets in a 3-year framework**.
- **De-criminalize marihuana** and, possibly, **growing poppy**.
- **Reintegration** 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

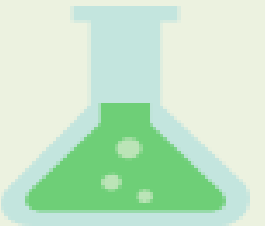


- Increase **public expenditure to 1% of the GDP** on Science, Technology and Innovation.
 - Increase **scholarships and number of researchers** on these issues.
 - Use **technology to increase agricultural productivity**.
 - **Review of document “*Towards the Consolidation and Development of Public 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

TRADE



Resume **NAFTA renegotiation** talks; AMLO's team will work with EPN's team.

Relocate Mexican customs 20-30 km 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 the 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 Proposals to Trump – July 12 Letter

<p>MIGRATION</p> 	<p>Improve economic opportunities.</p>	<p>Migration cooperation based on the respect for human rights.</p>	<p>Development plan between the U.S., Mexico, and Central American countries to mitigate poverty and retain the migration.</p>	
<p>DEVELOPMENT</p> 	<p>Encourage tourism with high-speed train from Cancun to Palenque.</p>	<p>Creation of 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>

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?

US-Mexico Bilateral relationship. NAFTA? Clashes over migration, border anti-drug policy? Non-interventionist foreign policy?

Will he **listen to his cabinet/others?** Will he become more **authoritarian?**

AMLO's Challenges



Lack of **experience governing**

Carrying out **promised reforms**

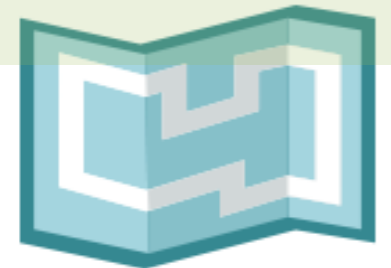
(salary + personal cuts and decentralization)



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:

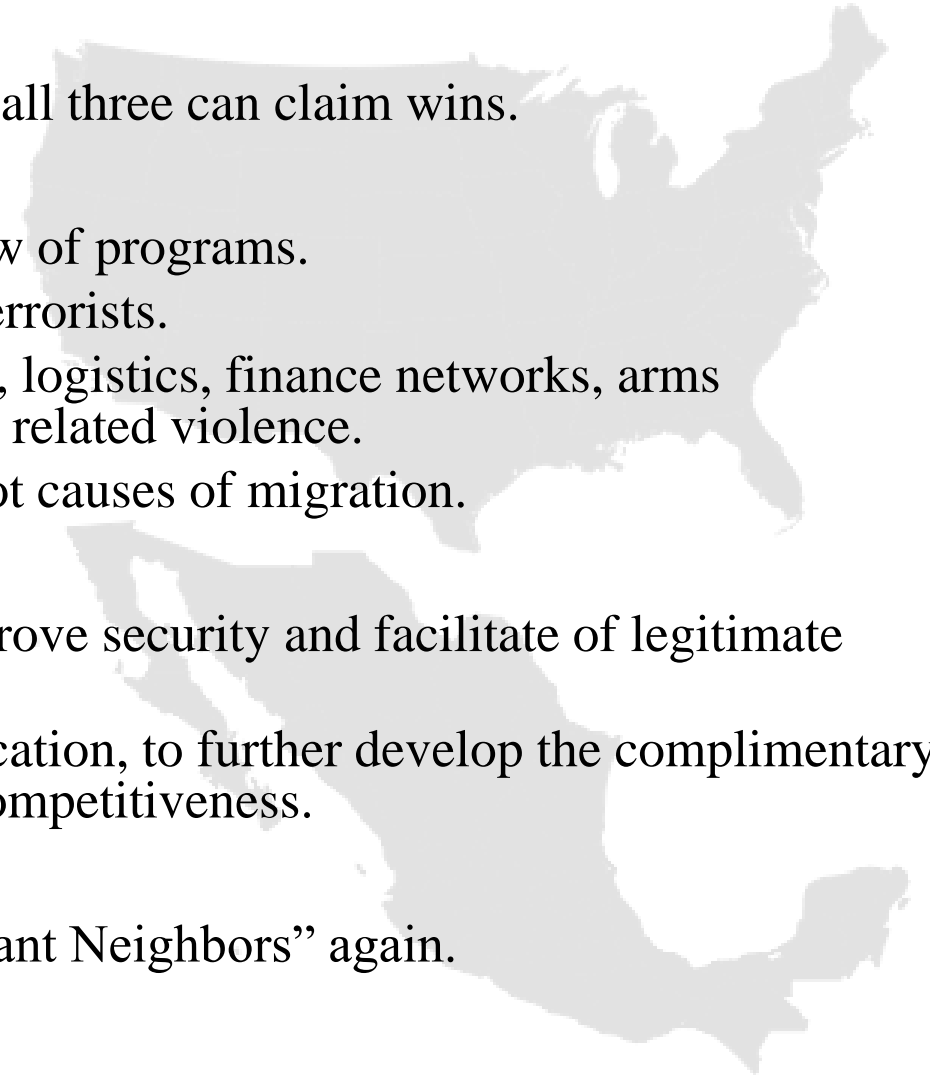
- Avoid further deterioration in cooperation. Collaborative review of programs.
- Better manage together migration and travel issues; intercept terrorists.
- Better fight organized crime, attacking production, distribution, logistics, finance networks, arms smuggling, and addiction/demand; support Mexico 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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