

Building a Partnership with Mexico

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Building a Partnership with Mexico



- U.S.-Mexico ties touch more lives daily than any other country in the world, via trade, border connections, tourism, and family ties.
- There are an estimated 35 million U.S. citizens of Mexican heritage.
- We have a common 1990-mile border (3,201 km) and a shared environment.
- Until January, government-to-government collaboration was unprecedented.

U.S.-Mexico Trade



US trades over 1 million per minute with Mexico



Exports
\$ 262 billion



Imports
\$ 317 billion

US trade goods and services with Mexico

\$ 579 billion

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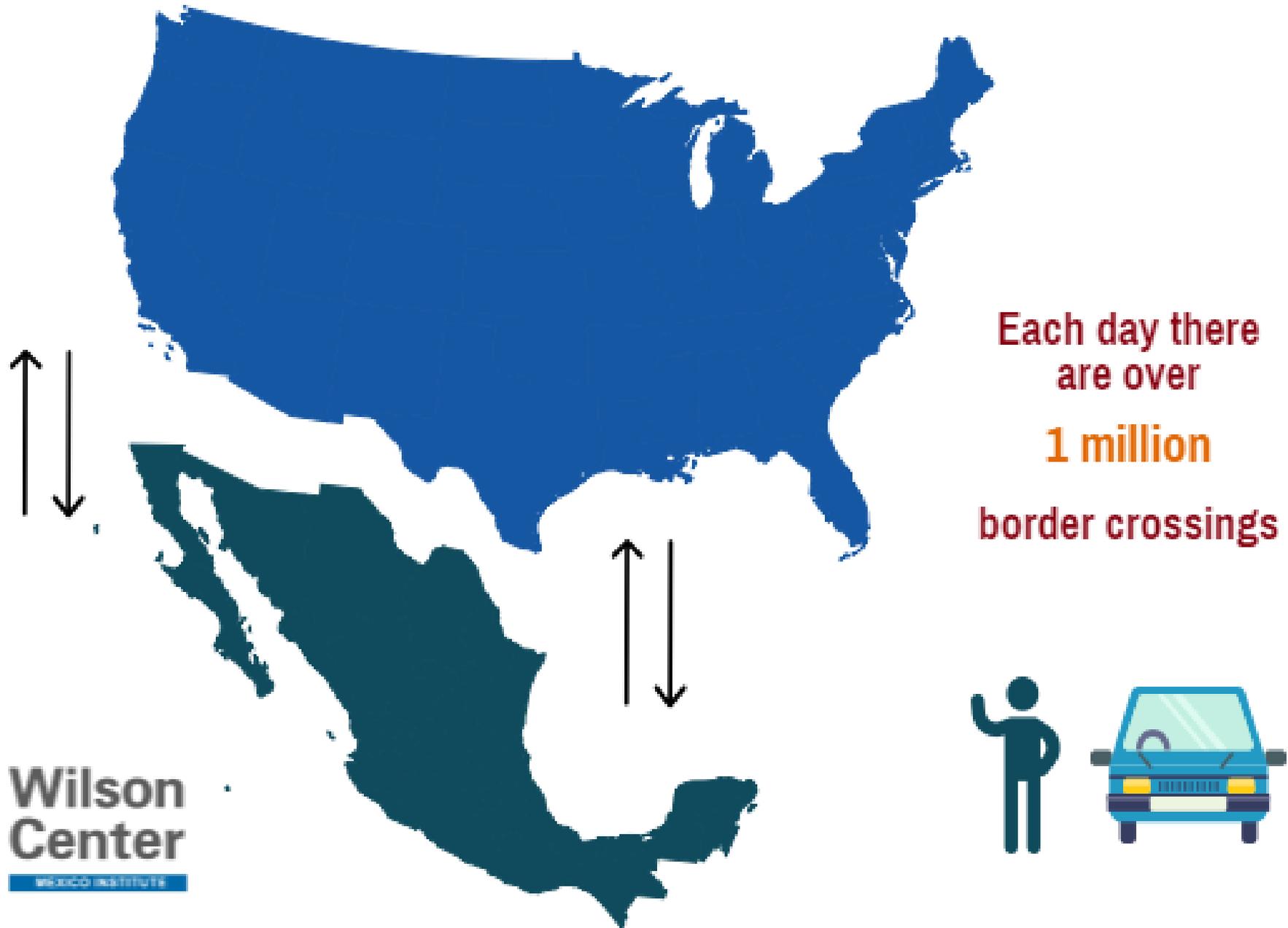
Mexico

3rd largest trading partner and 2nd largest export market

**3rd largest export market for agricultural products
(\$18 billion in 2016)**

1st or 2nd export market for 29 U.S. States

1st export market for U.S. Border States





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

25 million



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

18 million

Together they spent over

\$ 34 billion

Currency in USD

Source: North American Transportation Statistics, 2016; National Travel & Tourism Office, 2016

North America's Geo-Strategic Situation

- Mexico and Canada provide **extra layers of defense** against threats like terrorism and pandemics.
- Mexico and Canada provide a **continental economic foundation** for global economic competition.
- The countries could **re-conceptualize borders** to enhance security and prosperity.

North American Cooperation

Areas of U.S.-Mexico Bilateral Work



- Economic competitiveness
- Education
- Energy
- Environment
- Border management
- Public security and justice collaboration
- Fighting drug trafficking
- Counter-terrorism
- Health issues
- Human rights
- Central America and the region
- Joint work in the UN, G20, OECD and OAS
- Consular issues

Trilateral Work with Canada



- 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 drug gang violence in Mexico

Criminal networks

Terrorism

Social inequality and poverty in Mexico

Illegal immigration

Corruption

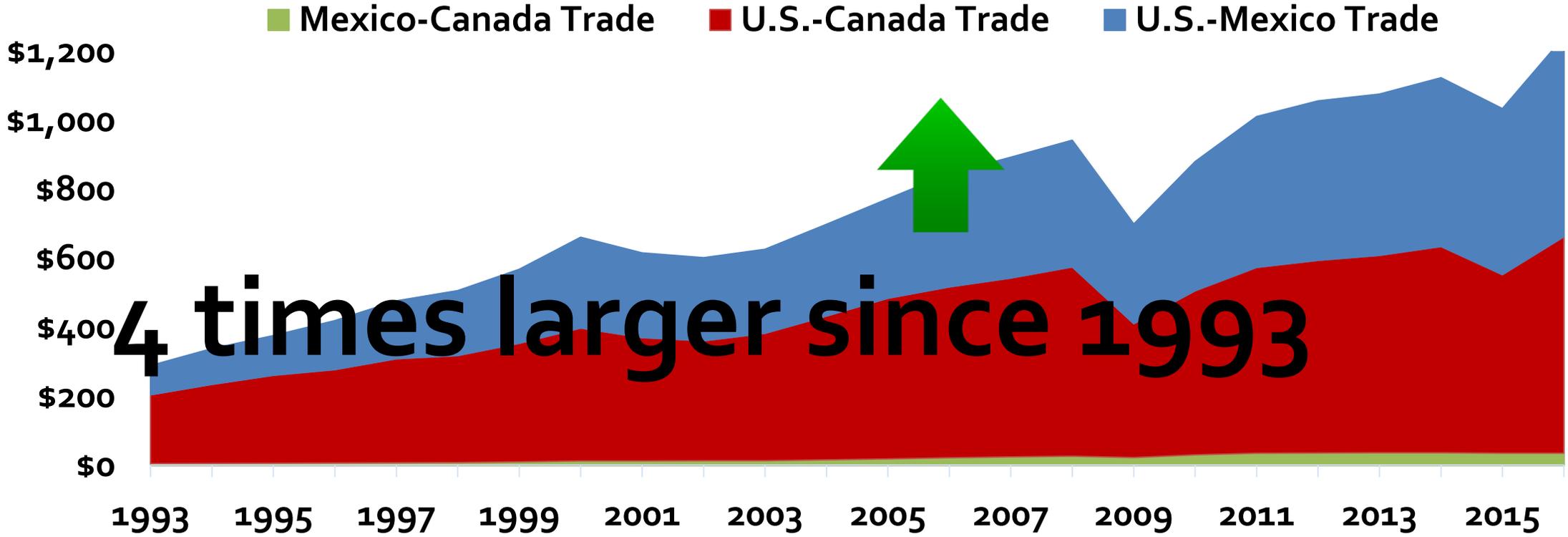
Building stronger justice and law enforcement institutions

Negative public perceptions

Economic Security



North America's Trade in Goods and Services



4 times larger since 1993

Over **13 million U.S. jobs** are estimated to be supported by **U.S.-MEX-CAN** trade and investment

Source: SE with import data from Statistics Canada, Banxico, USDOC, and World Bank.

U.S. trades **\$3.3 billion** a day with
Canada and Mexico



More than with all the **European Union**
1.9 times more than with **China**

Bush Center: North America Competiveness Score Card

Key Comparisons



North America (B+)

APEC (B)



European Union (B)

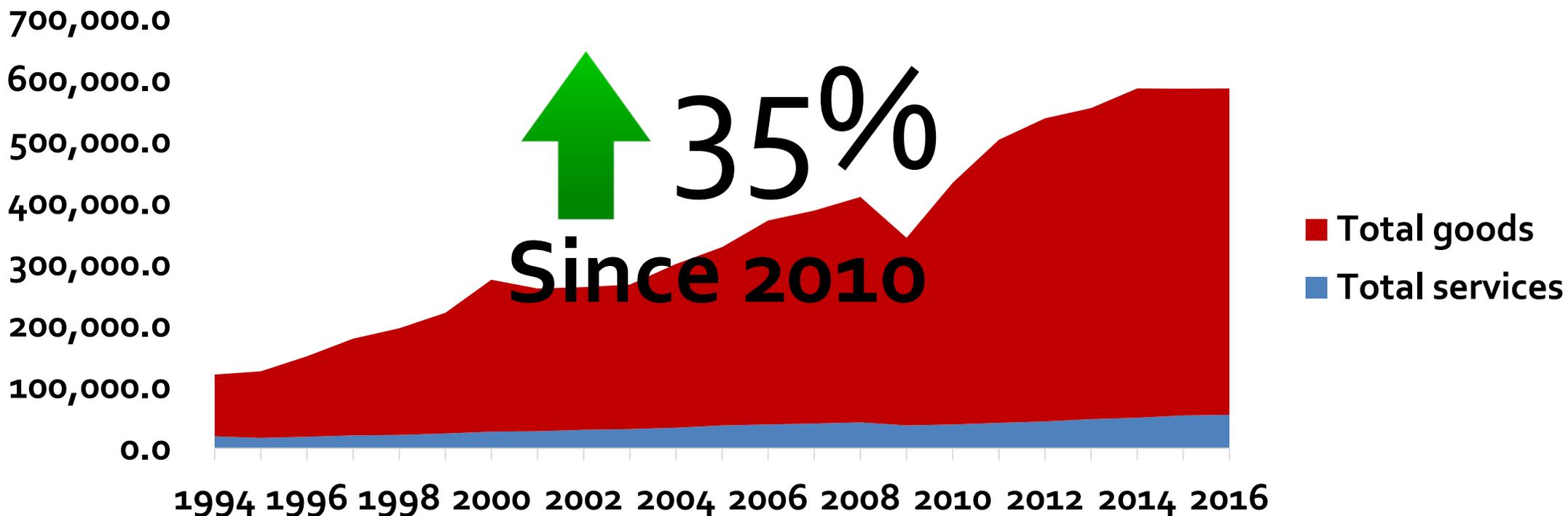
Mercosur (D-)



Pacific Alliance (C+)

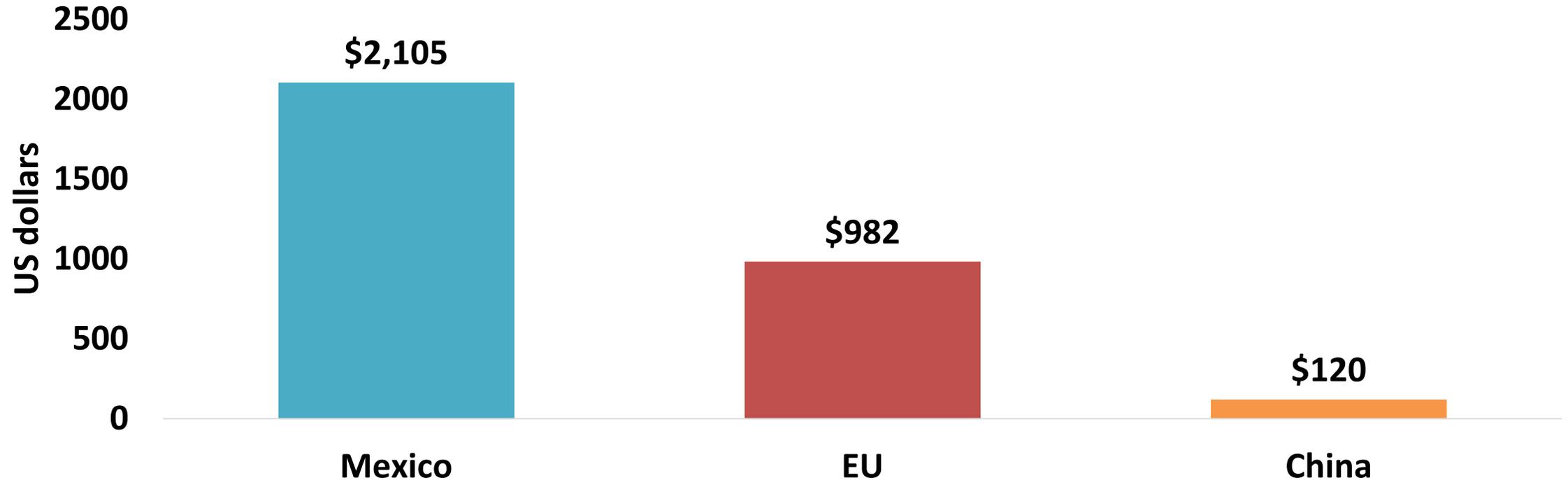
United States Trade with Mexico

US-Mexico trade has multiplied by 6 since 1993



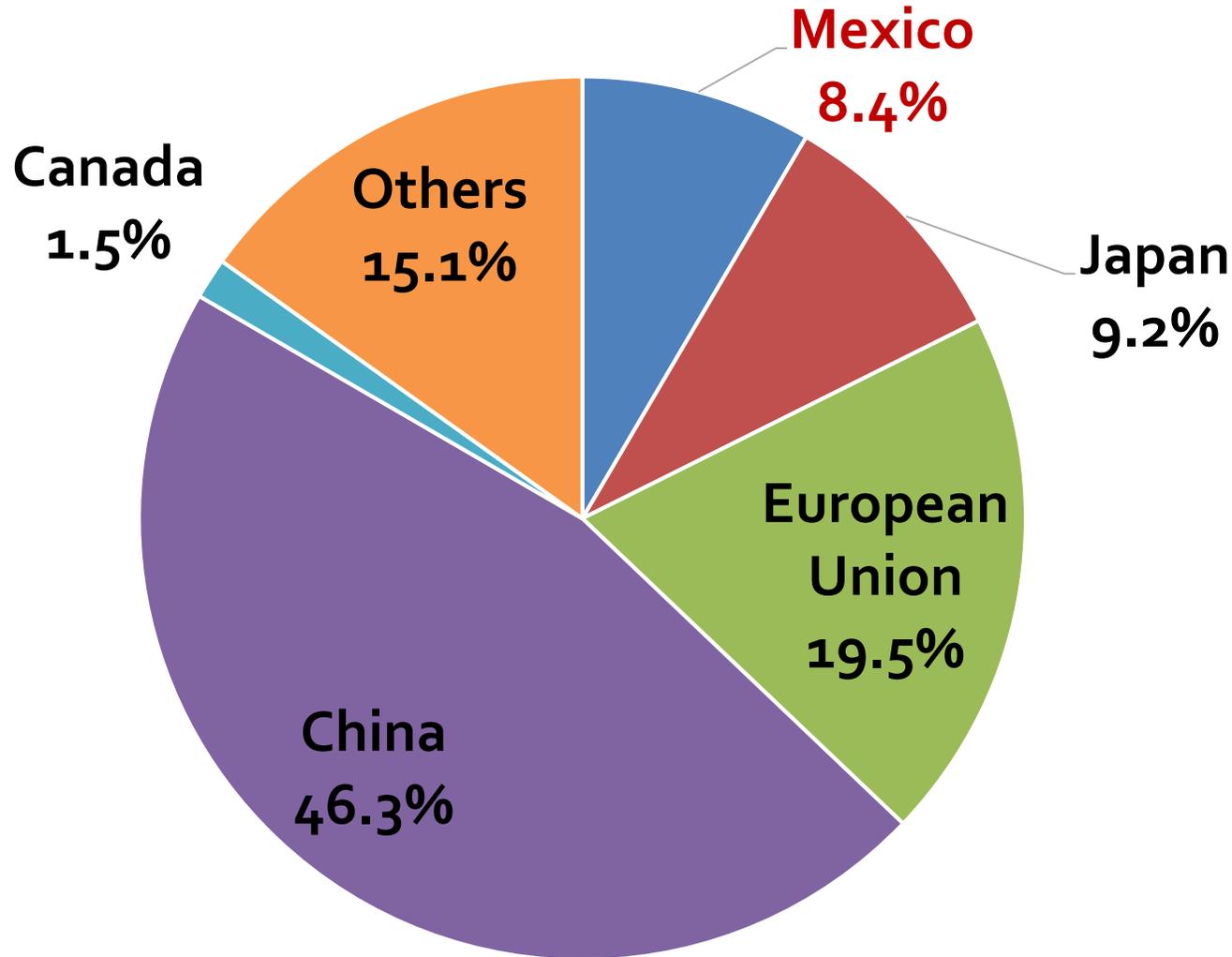
The U.S. sells **more** to Mexico than to all the **BRICS** countries together

Imports of U.S. Goods per capita



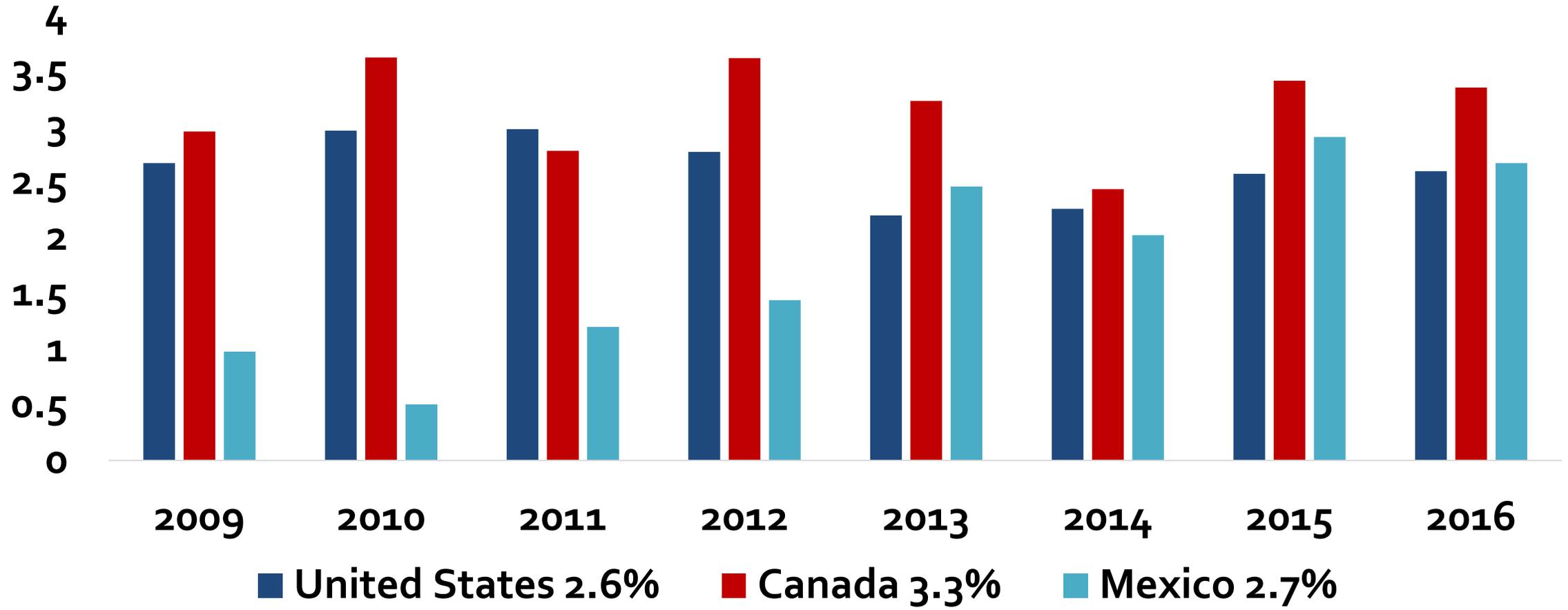
Mexicans spend a lot of their money in U.S. goods
17 times more than the average **Chinese**
Twice more than the average **European**

US Trade in Goods - Deficit

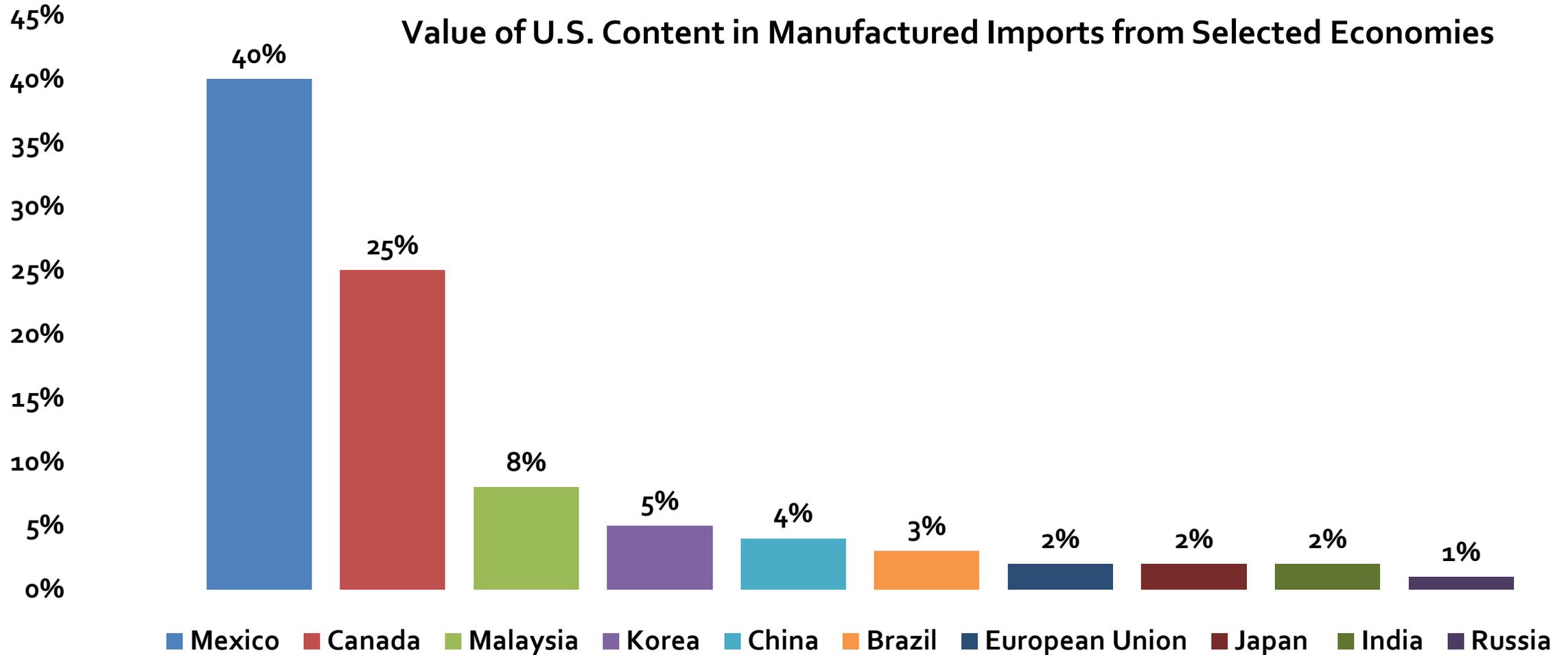


U.S. Goods Trade Deficit with Mexico dropped **43%** as compared to total trade during 2010-2015

Current Account Deficits (% of GDP)



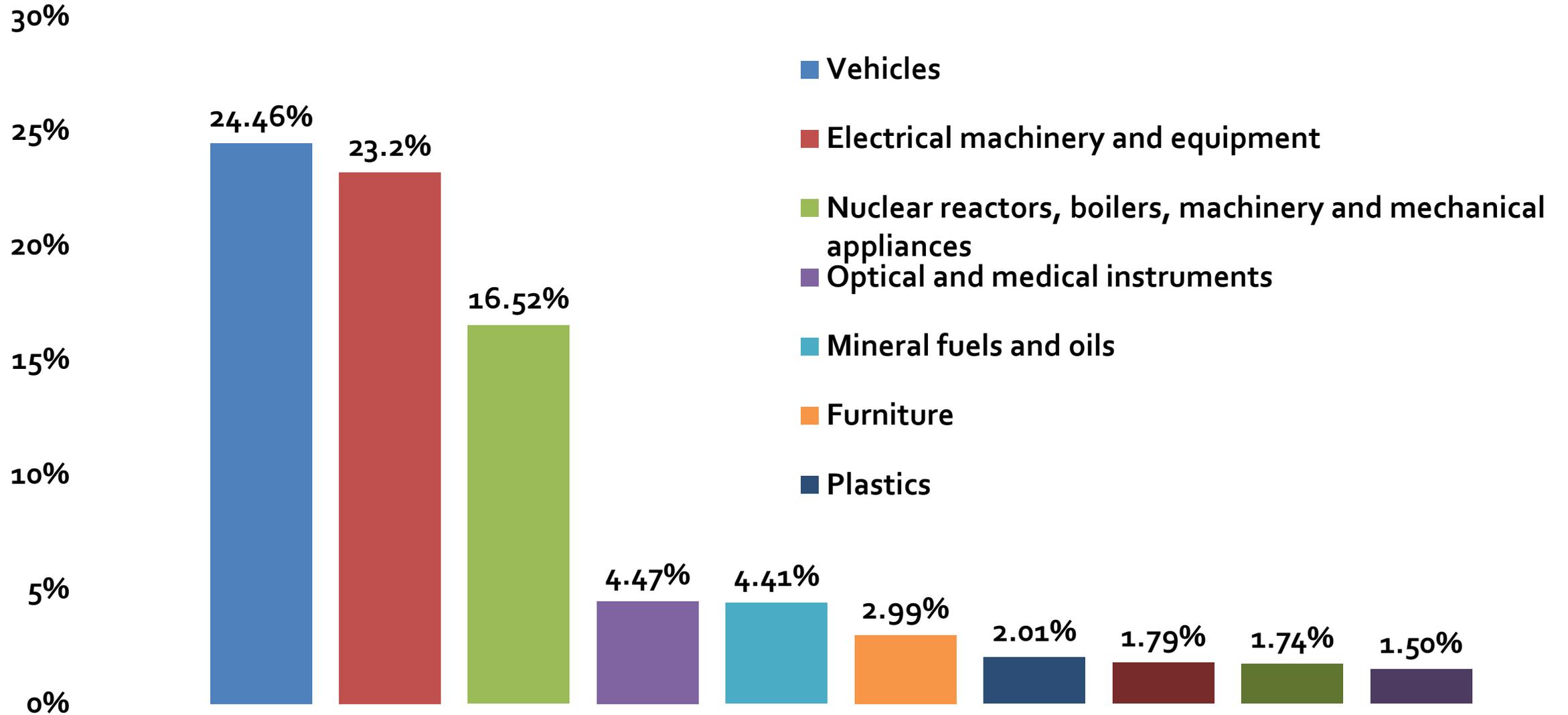
More U.S. Content in Imports from Mexico than Other Countries



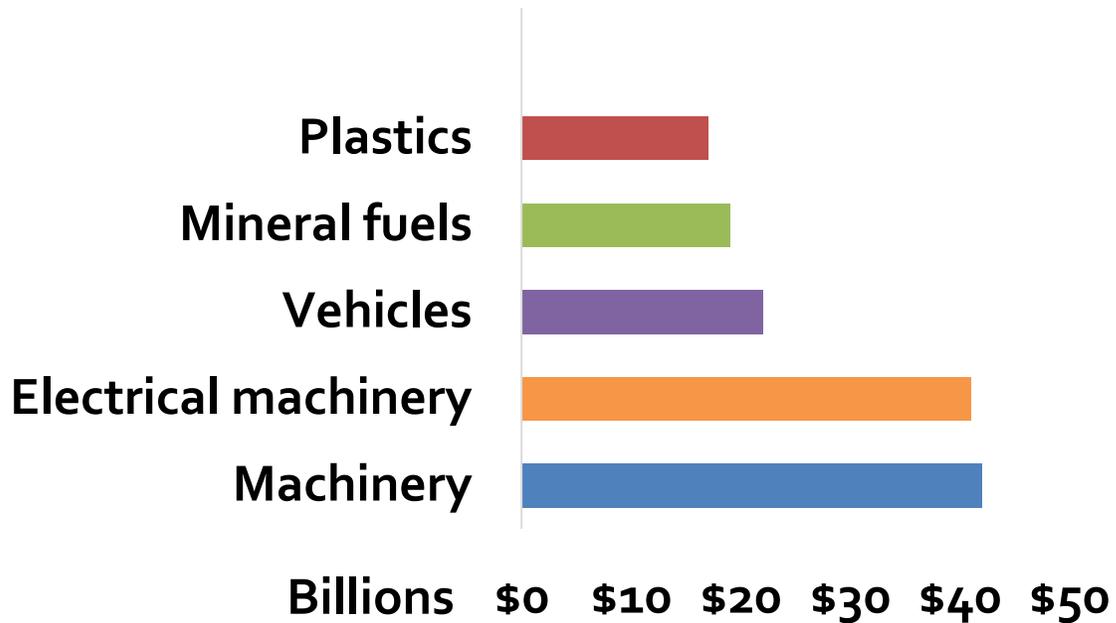


Leading Mexican Products Exported to the US

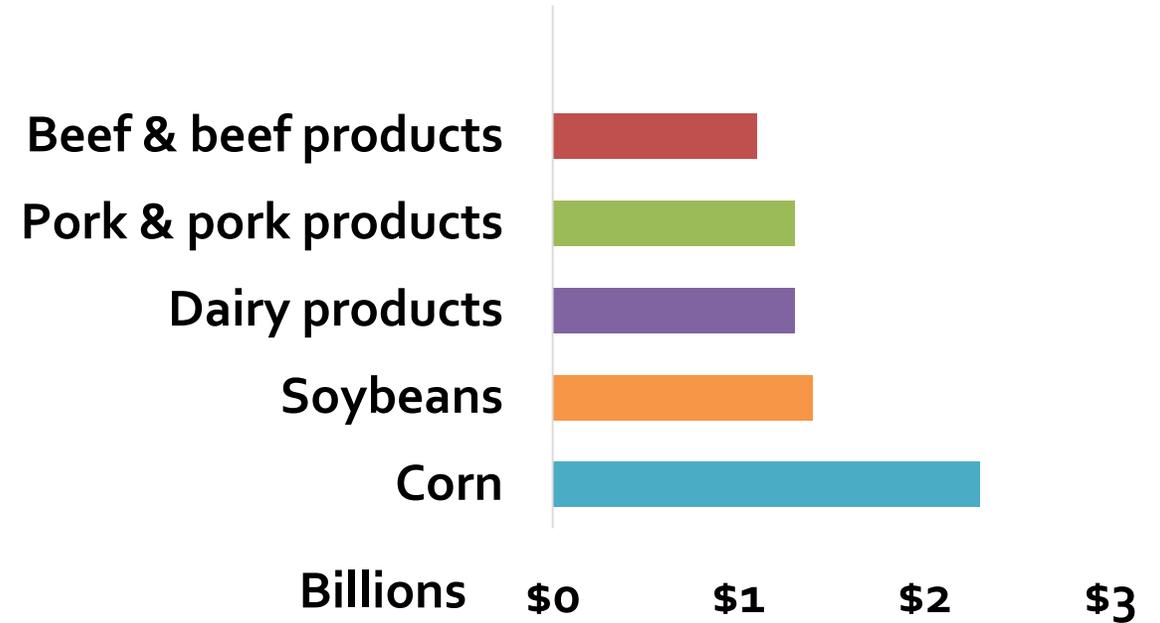
Manufactured Goods Dominate



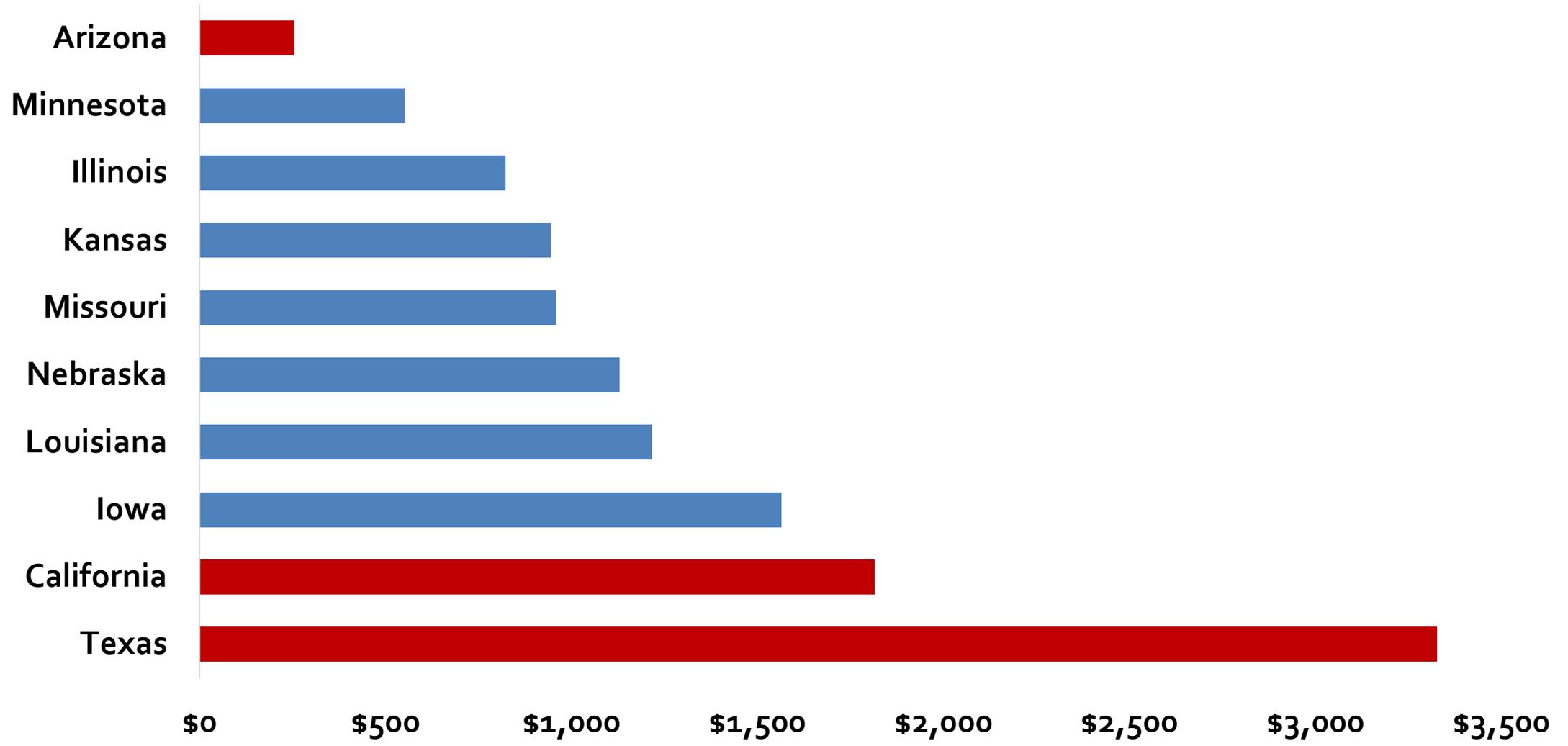
Leading U.S. Products Exported to Mexico



Leading U.S. Agricultural Products Exported to Mexico



Leading U.S. States Exporting Agricultural Products to Mexico



Source: United States Department of Agriculture, 2015

Where have the jobs gone?

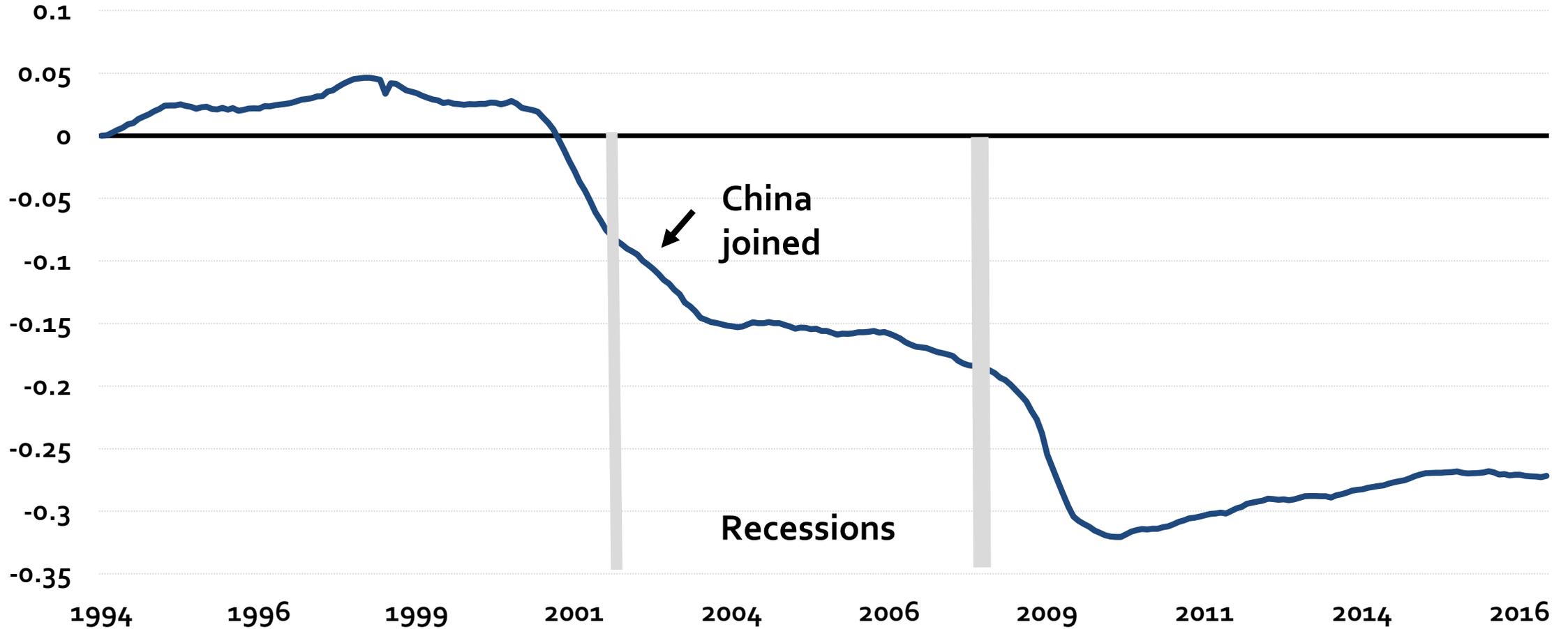
Competition from China

2.4 million

New Technology

4.7 million

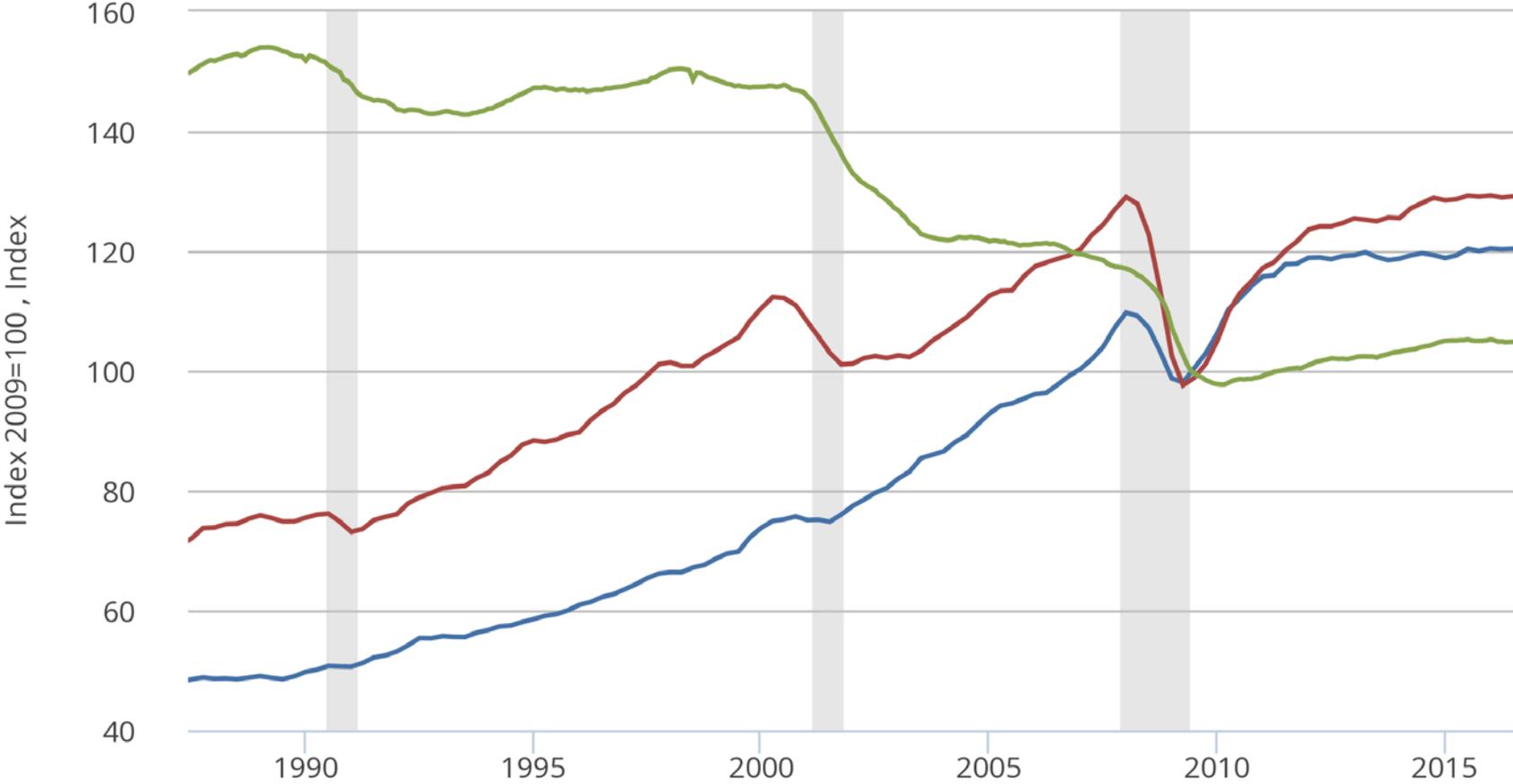
Manufacturing employment as a % of the level when NAFTA was implemented



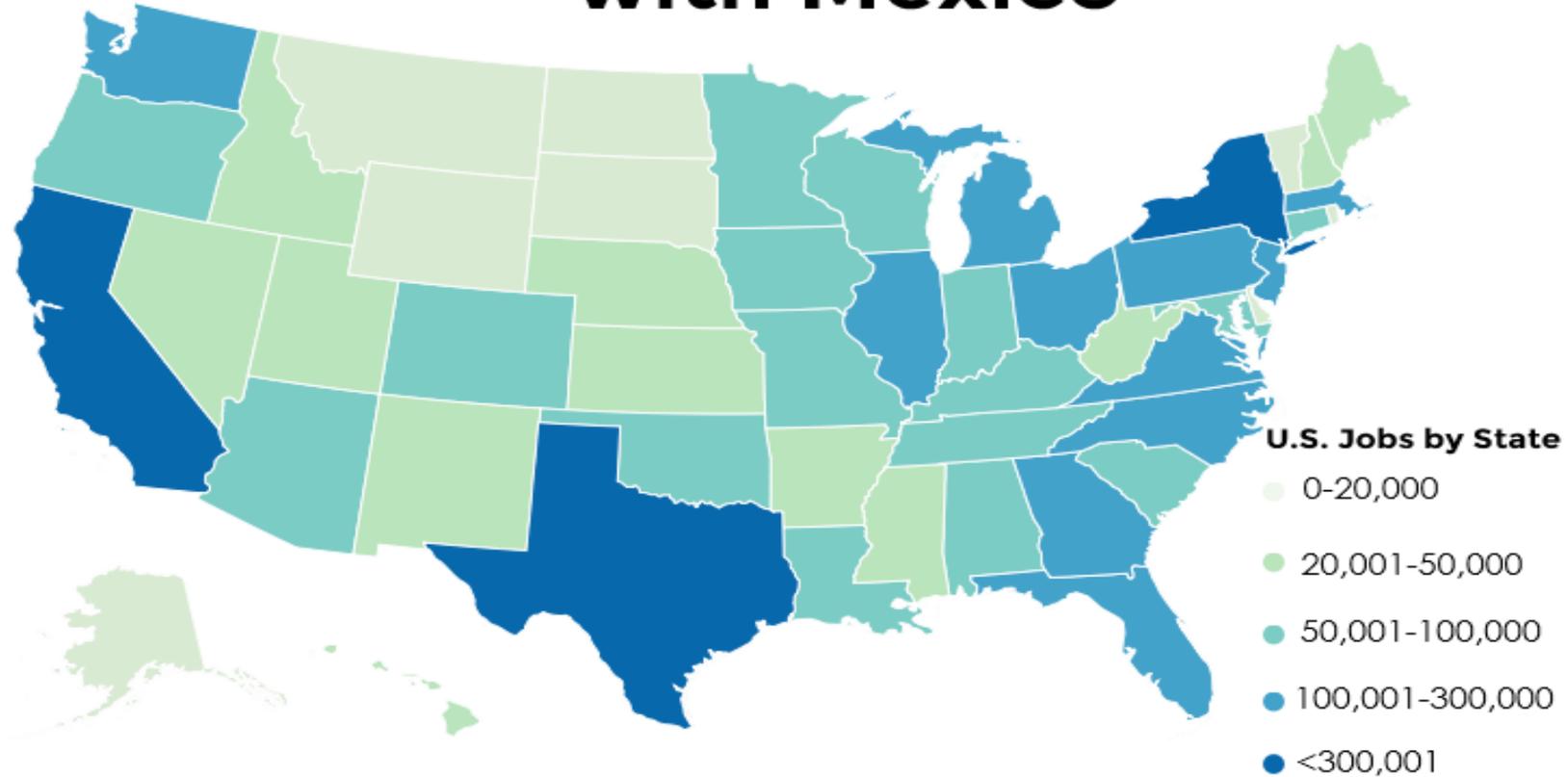
U.S. Manufacturing Employment and



- Manufacturing Sector: Real Output Per Hour of All Persons
- Manufacturing Sector: Real Output
- All Employees: Manufacturing, Jun 2009=100



U.S. Jobs that Depend on Trade with Mexico



**Nearly 5 million jobs
depend on trade
with Mexico**



Over 1 million U.S. Border States jobs depend on trade with Mexico

**In 1993, 700,000 U.S. Jobs
depended on Trade with
Mexico**

**Compared with 4.9 million in 2014 &
over 1 million in the Border States**

Making America more Competitive

Immigration Reform

Innovation

Government Deficits



Trade and Investment

Regulation

Worker Retraining

Corporate Taxes

Education

Transportation Infrastructure

Investment



Mexico's FDI in the US

\$ 17 billion

15th largest investor



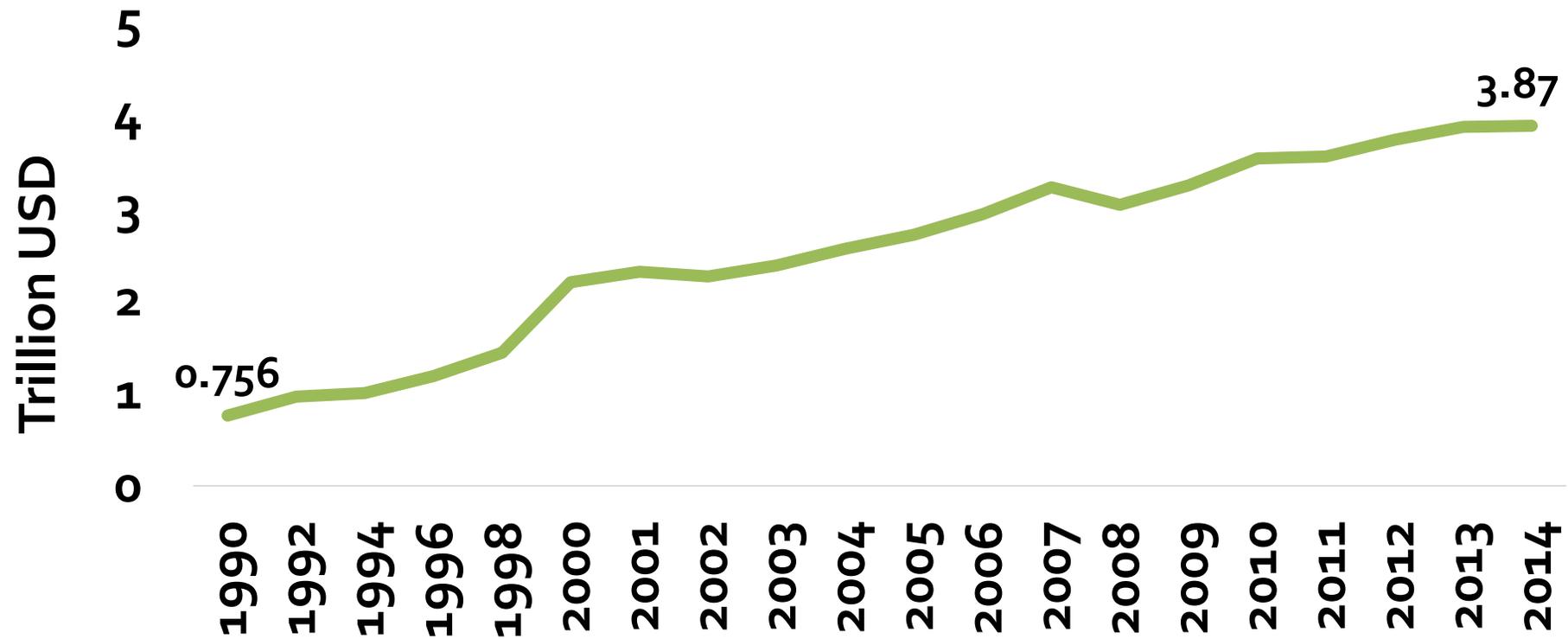
US FDI in Mexico

\$ 93 billion

Largest investor

North America's Inward Stock of FDI

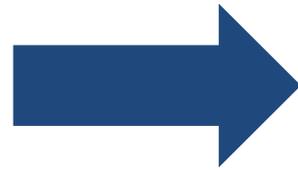
318% increase in real terms



Reforms and Partnership

Mexico's Reforms

- Education
- Telecommunications
- Energy
- Judicial and Law Enforcement



More partnership with
the U.S.



U.S.-Mexico High Level Economic Dialogue (HLED)

Agenda Items



- Improving border infrastructure, processes and waiting times
- Planning for transportation routes
- Energy standards and regulations
- More student and researcher exchanges
- Encouraging innovation
- Protecting the environment
- Involving border communities

Accomplishments



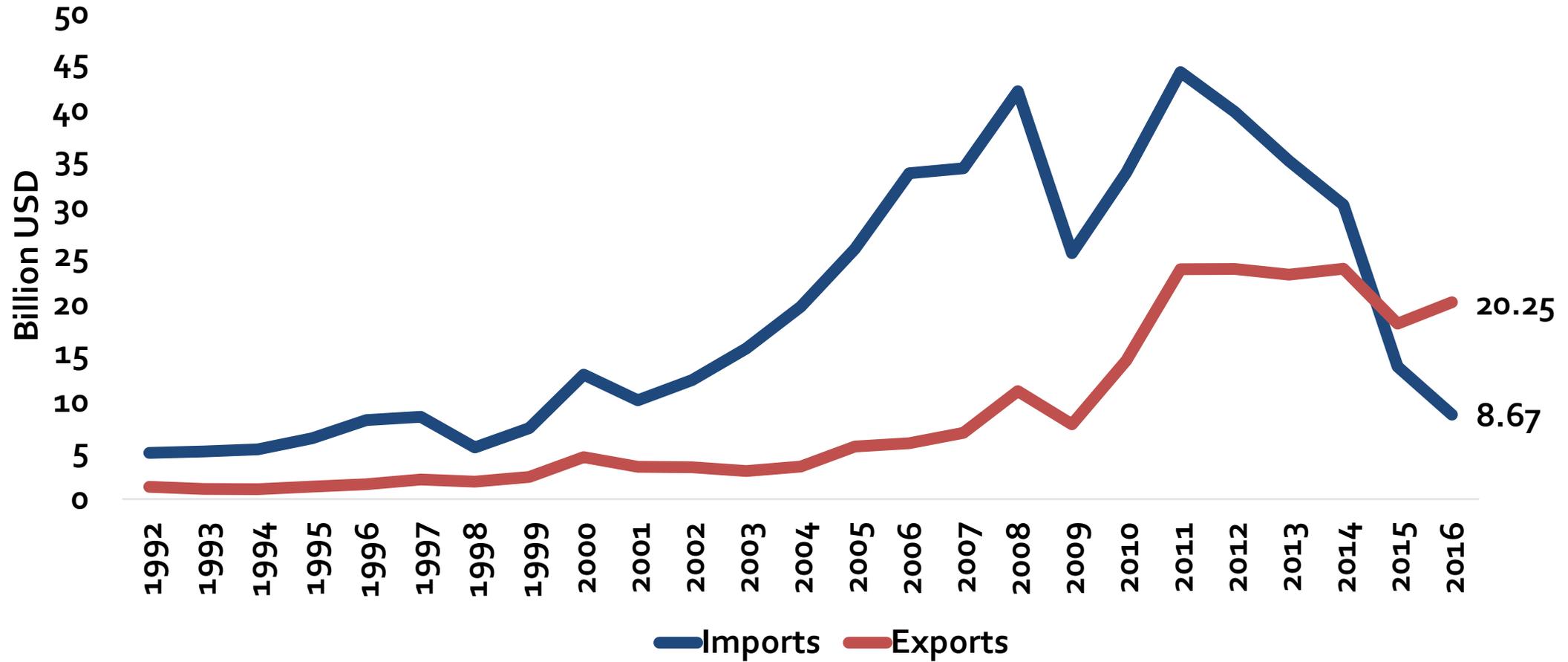
- Civil aviation agreement
- Infrastructure on the border
- Prioritizing future border infrastructure projects
- Pilot pre-inspection facilities for cargo
- Industry and business cluster maps
- Cooperation among Regulatory Authorities
- Energy Working Group
- Process for stakeholder input



Energy and the Environment

- Increased US investment in Mexico's energy sector
- Increased US natural gas and gasoline sales to Mexico
- New dialogues between energy regulators
- **North American Clean Energy and Environment Partnership:**
 - ✓ Set shared goal of 50% clean power generation by 2025
 - ✓ Committed to reduce 40% - 45% methane emissions by 2025
 - ✓ Promoting energy efficiency standards for vehicles and appliances
- **U.S. and Mexico work to protect border environment, river basins, and endangered species**

U.S. Energy Imports from and Exports to Mexico



Note: Calculations include crude oil, gasoline and petroleum products

Source: US Census Bureau, 2016



Investment in the Energy Sector

- Since Mexico's Energy Reform, Pemex has signed **joint operating agreements** with Exxon Mobil, Chevron, Shell, etc.
- Exxon Mobil plans to **invest \$300 million in Mexico** over the next 10 years.
- Sempra Energy will invest **\$800 million** this year: \$500 million will be invested in a pipeline project between Texas and the Mexican Gulf port of Tuxpan.

Efforts to Strengthen the Energy Sector

- In July 2017, **Secretary Rick Perry** met with **Secretary Coldwell** to promote cross-border electricity trade and investment with Mexico.
- US and Mexico agreed to work on **expanding cross-border energy infrastructure** and to **encourage the use of nuclear energy**.

Border Management

Licit and Illicit Flows



Moving from blame to “shared responsibilities”

- Making the border more open to **legitimate trade and commerce**
- Working to **harmonize and align** the three countries’ customs regulatory framework to move towards a North American single customs platform
- **New mechanisms to communicate and coordinate** about countering illicit trade and travel
- Steps to increase security and **reduce cross-border violence**
- New program to **share information on border crossers** via shared radio-frequency identification system
- Working to create a **Trilateral Trusted Traveler Program**



Border Poll 2017: Border wall to secure border

% who oppose/favor building a wall along entire border with Mexico

■ Oppose ■ Favor



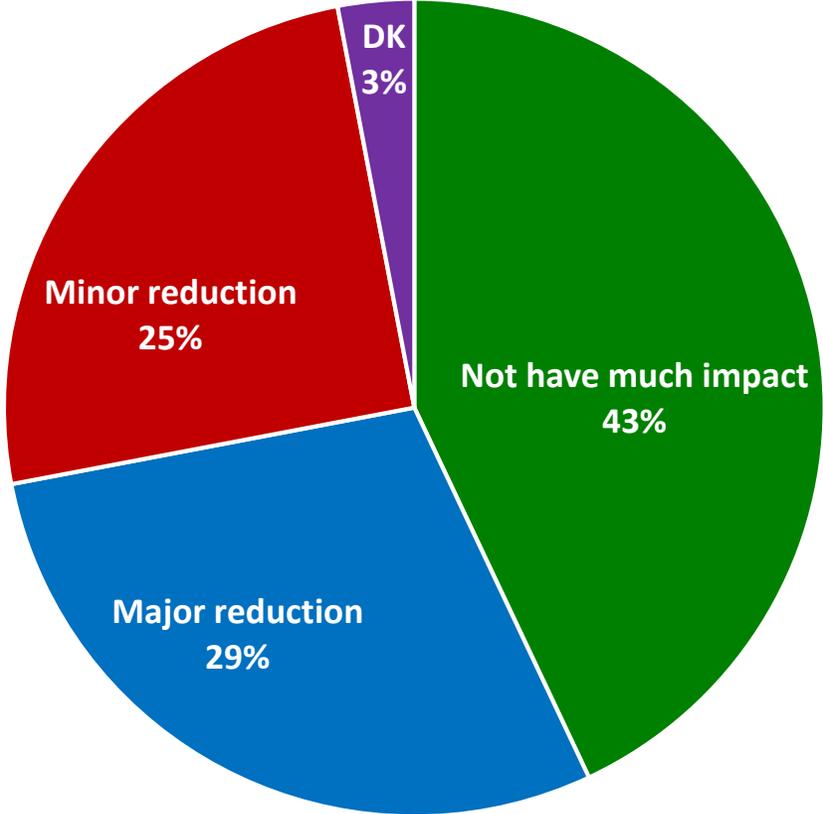
% who say US/Mexico would ultimately pay if the us builds a wall along the entire border with Mexico

■ US ■ Mexico



Border Poll 2017: Border Wall Impact on Illegal Immigration

% who say a wall along the entire border with Mexico would lead to ____ in illegal immigration into the US

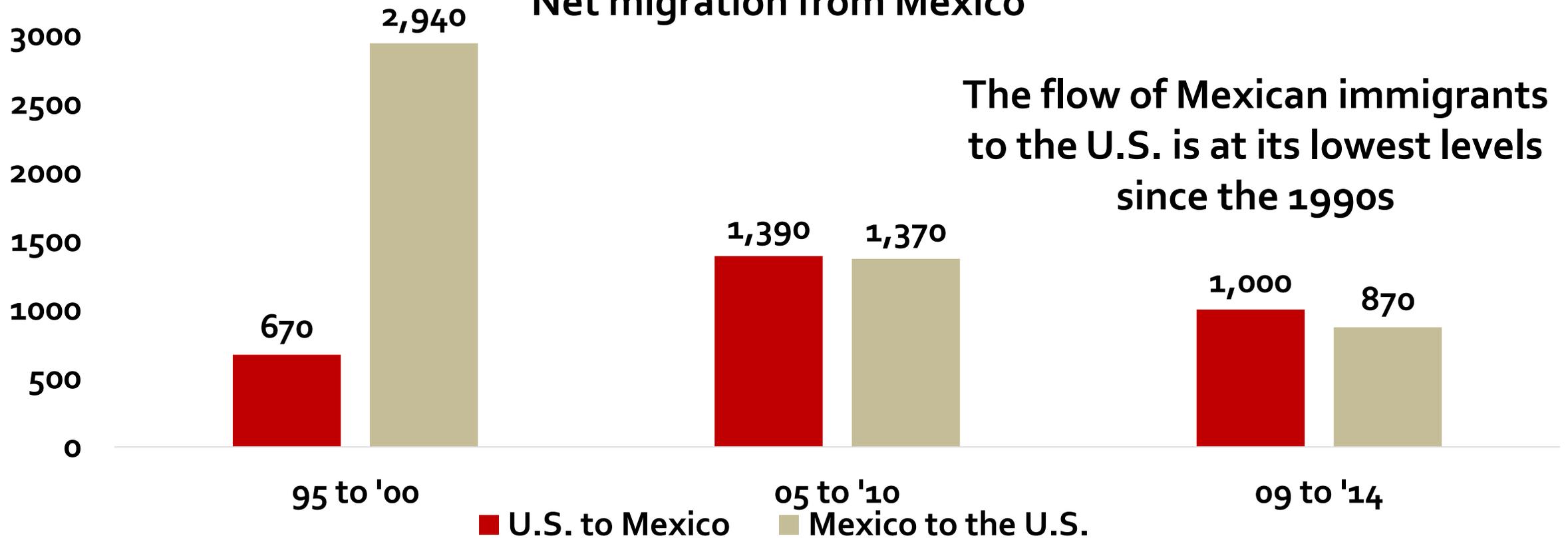


Source: Pew Research Center Poll, 2017

Migrant Flows

Mexican Migration

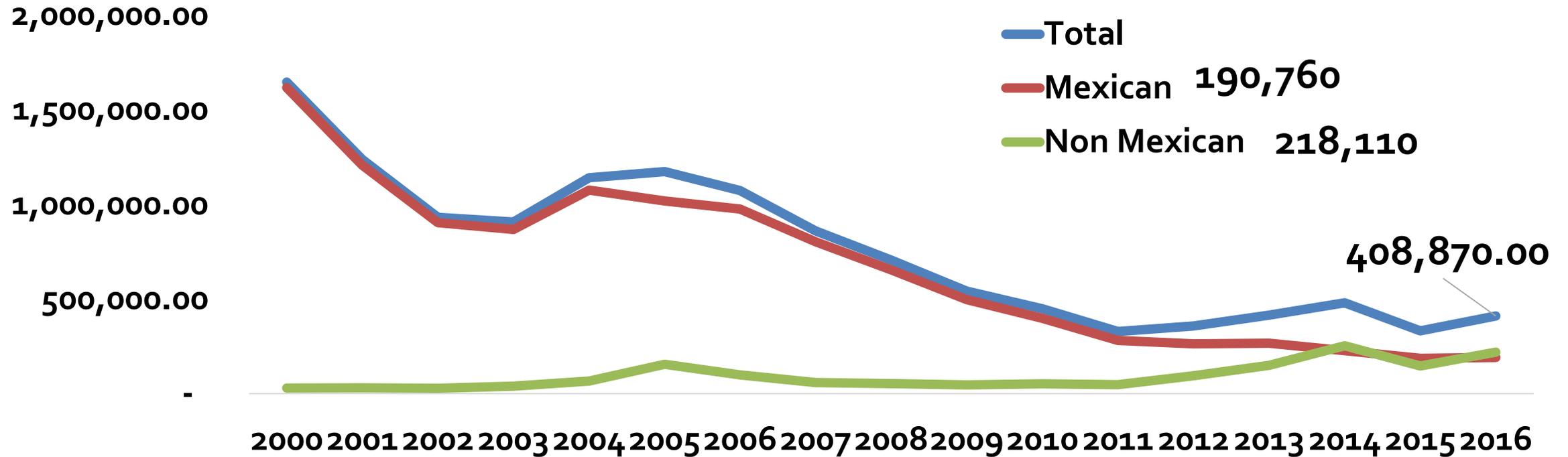
Net migration from Mexico



Since 2007, the number of unauthorized Mexican immigrants has dropped by **1.3 million**

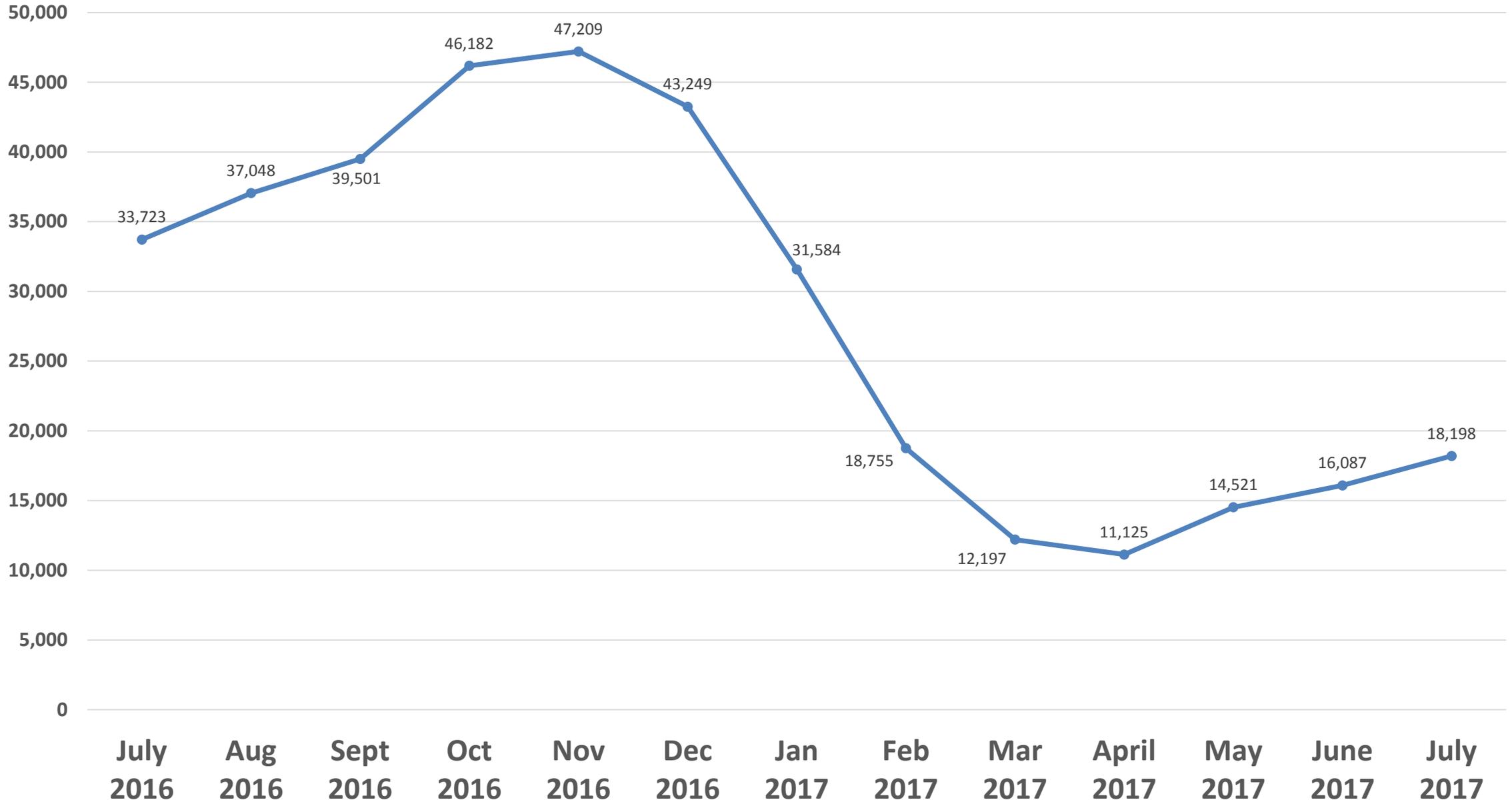


Migrant Apprehensions



In FY 2016, the number of apprehensions of Mexican unauthorized immigrants declined 15% from FY 2014

USBP FY Southwest Border Total Apprehensions

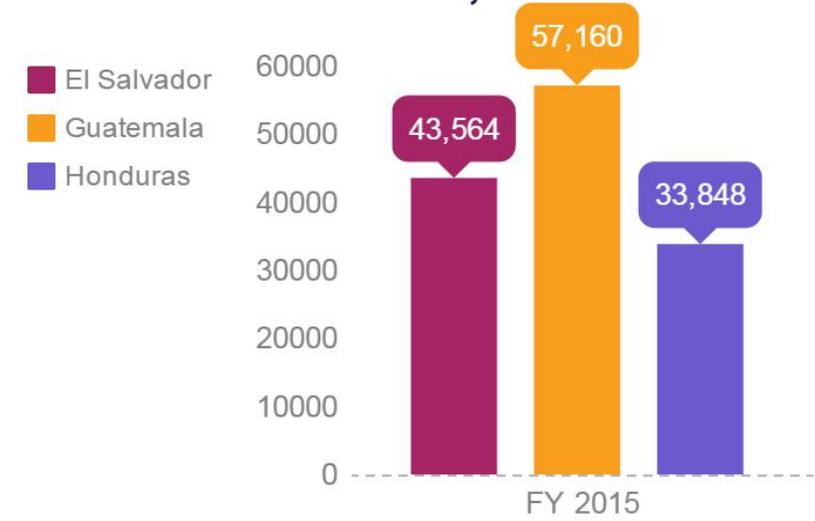




2015

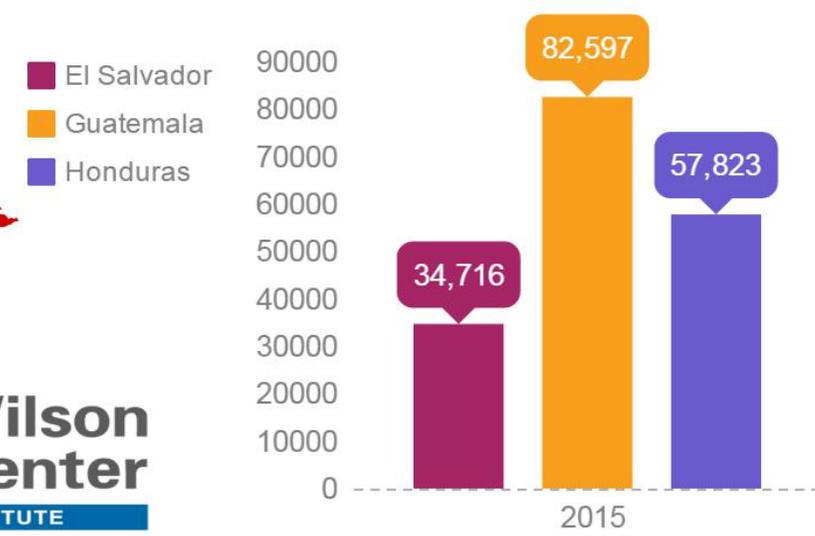
Apprehensions by the U.S.

134,572



Deportations by Mexico

175,136



Sources:
 Unidad de Política Migratoria 2015.
 CBP Border Security Report. Fiscal Year 2015.





Efforts to address Central American migration

The [Conference on Prosperity and Security in Central America](#) was hosted by the U.S. and Mexico

Commitments

June 15
2017

- The U.S. Administration's FY 2018 budget request includes **\$460 million** to address economic, security, and governance challenges in the Northern Triangle (NT).
- The NT committed to support a **migration observatory** supported by the U.S. to study and share information on regional migration flows.
- The NT and the US agreed to **improve information sharing** and **local capacity building** to combat transnational criminal organizations.
- Mexico has approved **\$53 million** for three **NT infrastructure projects**.
- The U.S., Mexican, and NT governments agreed to follow up these commitments.

Security and Justice

Law Enforcement and Justice Cooperation

Mérida Initiative

U.S.-Mexican Defense Dialogue

Bilateral Security Coordination Group

Mérida Initiative: The Four Pillars

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**

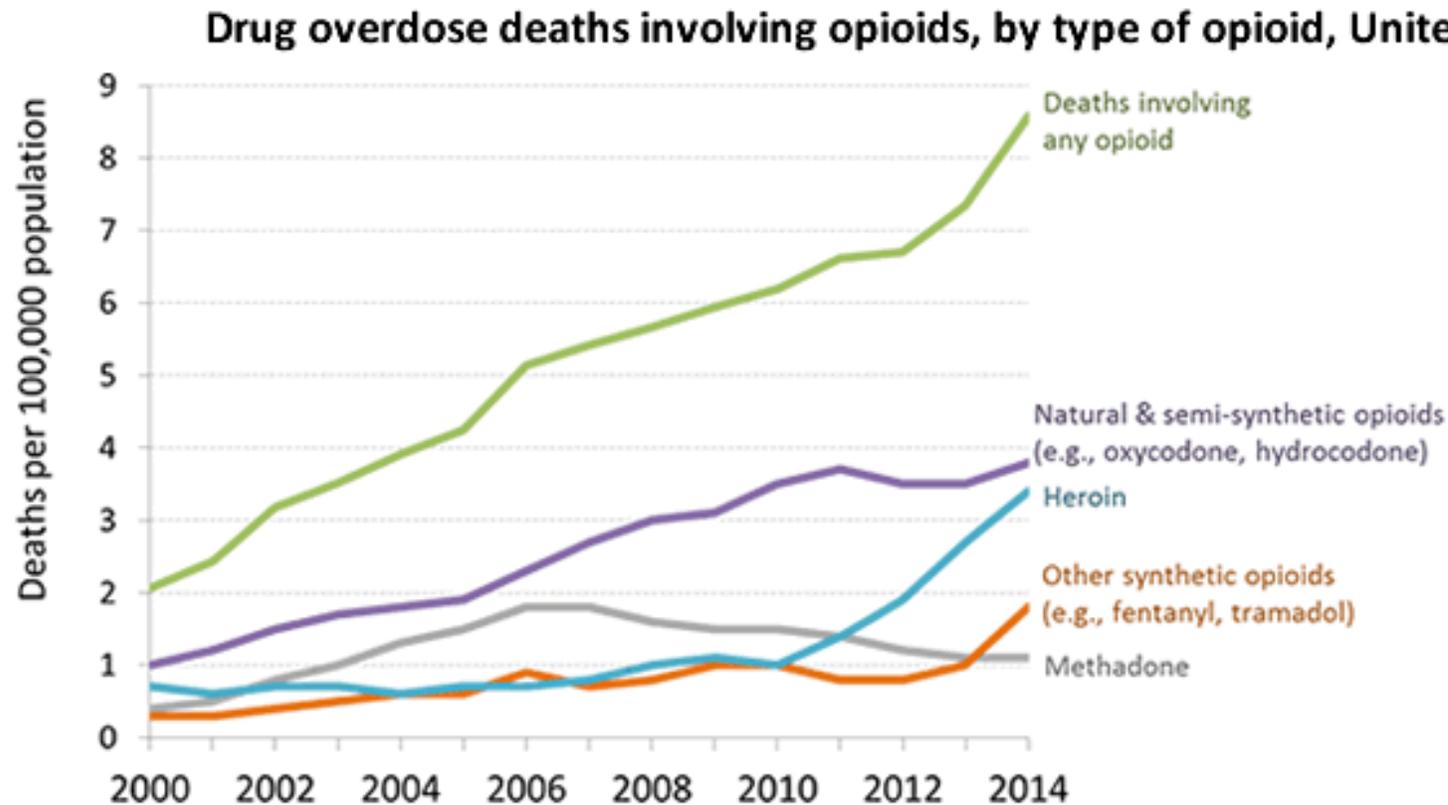
\$2.6 billion appropriated since 2008.

\$1.5 billion already spent on training and equipment.

Mexico spends over **10** times more

U.S. Opioid Crisis

Opioid overdoses driving increase in drug overdoses overall



SOURCE:
Centers for Disease Control and
Prevention. Increases in Drug and
Opioid Overdose Deaths –
United States, 2000 to 2014.
MMWR 2015.
www.cdc.gov/drugoverdose



U.S. Opioid Crisis

- Users of opium derivatives included over 5% of the U.S. population in 2013.
- Since 1999, the number of overdose deaths involving opioids has quadrupled.
- Mexican opium and heroin production has grown substantially, as has production of illicit opioids, e.g., Fentanyl.

In June 2016, Presidents Peña Nieto and Obama launched a working group on drug priorities and dismantling criminal networks.



Addressing Opioid and Drug Trafficking

March 29, 2017

Executive Order established the President's **Commission on Combating Drug Addiction and the Opioid Crisis**

May 18, 2017

Meeting between **Secretaries Rex W. Tillerson, John Kelly, Luis Videgaray Caso and Miguel Angel Osorio Chong** in Washington

July 5, 2017

DHS Kelly & CIA Director Pompeo visit Mexico, meeting with **President Peña Nieto** and visiting Guerrero, with military **Secretaries Cienfuegos and Soberon**

August 10, 2017

President Trump announces intention to declare the opioid crisis a national emergency

Agreements for Combating Illicit Drug Trade

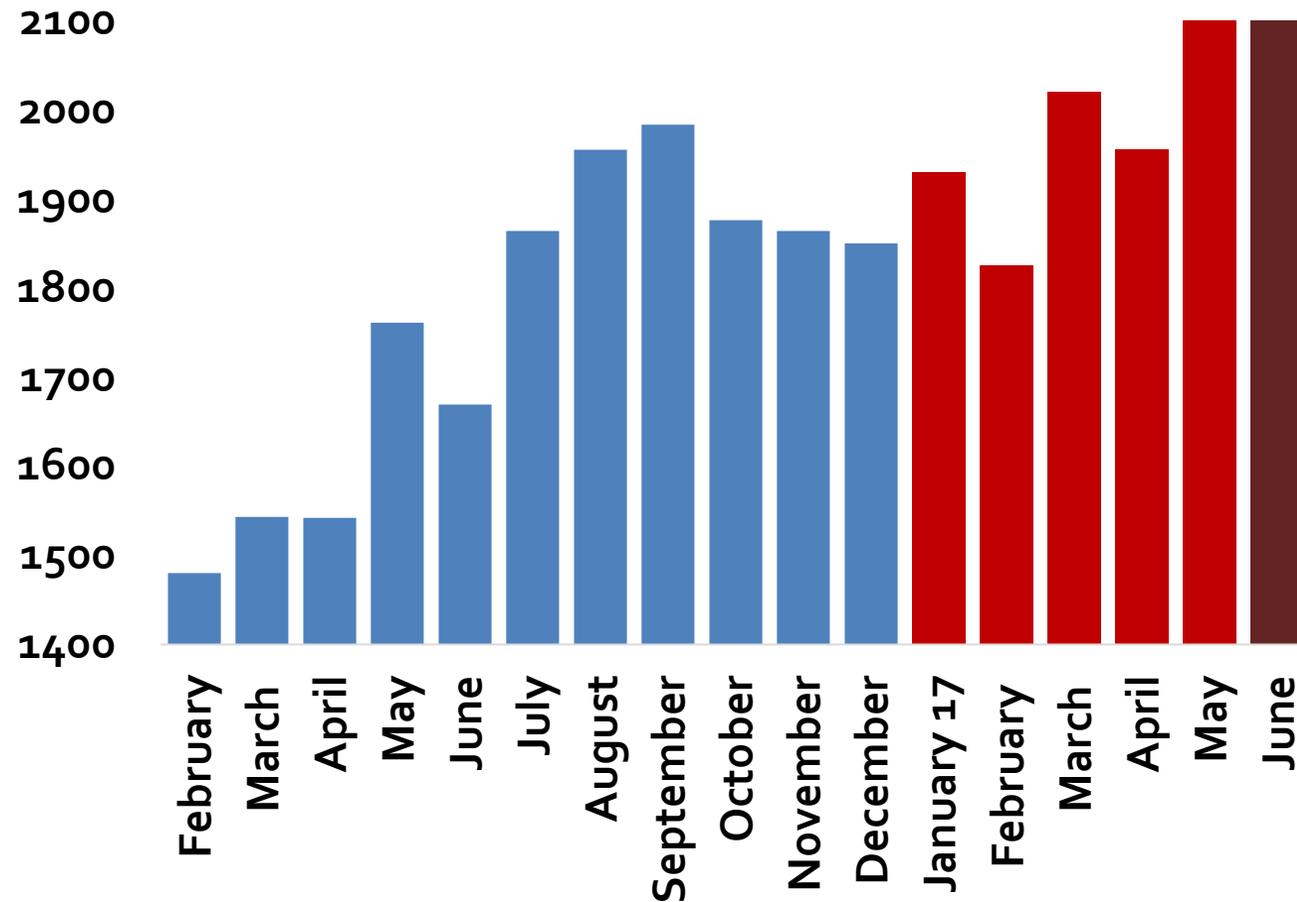
- Continue to **partner with Mexico** to destroy criminal organizations
- **Address the demand** for illicit drugs among US citizens

"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, and police actions
- Go after **all of the elements in the production chain:** means of production, cross-border distribution networks, cash flow and weapons procurement

"It's a multifaceted problem and it needs multifaceted solutions"
[Secretary Kelly]

Homicide Cases in Mexico

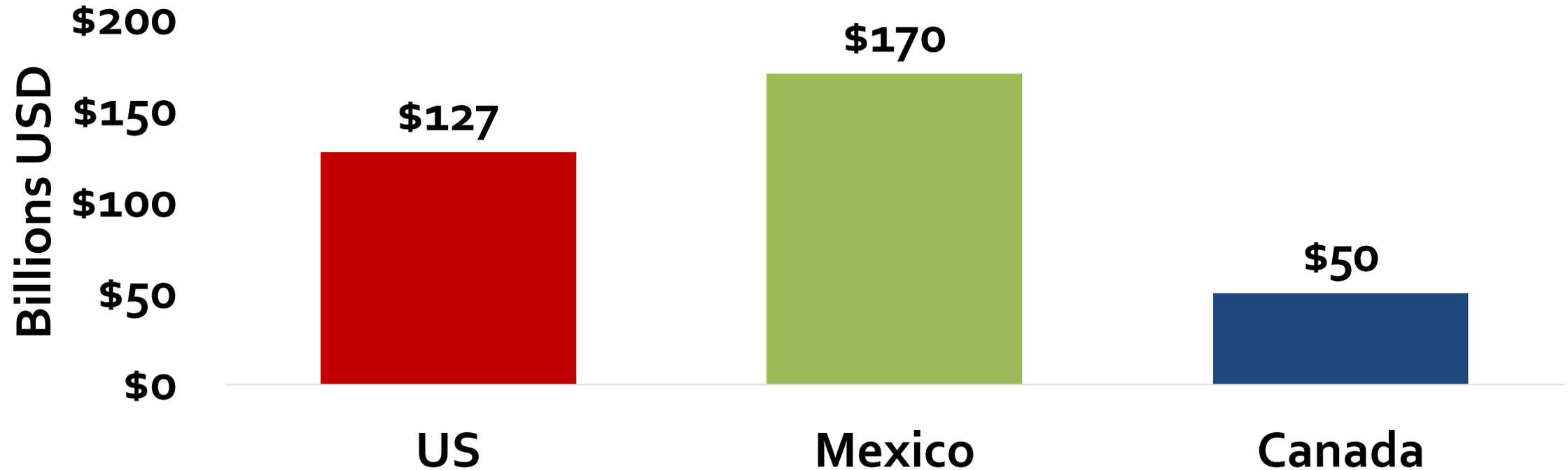


For January through June 2017, there were **12,155 killings** (up 30.7% from the same period in 2016)

June 2017 was the **most violent month** on record

NAFTA

NAFTA Countries are richer each year due to "extra" trade growth



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

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 cost 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. Business on NAFTA Modernization

- Address **Digital Commerce** including free cross-border data flows
- Stronger, **modern intellectual property rights and enforcement**
- **Eliminate any tariffs** for agriculture; update **sanitary and phytosanitary** (SPS) standards
- **Streamline Customs clearance process** and ensure more transparency
- Improve treatment of **express delivery services** with **higher de minimis shipment value**
- Address distortionary practices regarding **State Owned Enterprises**
- Increased fairness and transparency in **antitrust regulations**
- Reduce **regulatory and technical barriers**; improve on-going regulatory cooperation and coordination
- **Protect investments** by maintaining investor-to-state dispute settlement (ISDS) mechanism
- Keep **reciprocal access to public procurement** markets
- Ensure **rules of origin** and related paperwork don't discourage trade

U.S. Labor on NAFTA Modernization

- Disciplinary measures for **currency manipulation**
- Add **stronger labor rules and enforcement** mechanisms
- Add **stronger environmental** protections
- **Stricter rules of origin** on a range of manufactured goods
- **Eliminate Investor-to-State Dispute Settlement** (ISDS) mechanism

USTR NAFTA Renegotiation Objectives

Notable Additions

- Focus on **reducing trade deficit**
- **Eliminate chapter 19 dispute settlement mechanism**, and otherwise preserve the ability of the United States to **enforce rigorously its trade laws**
- Keep in place **domestic preferential purchasing programs** such as “**Buy America**” requirements on Federal assistance

Notable Exclusions/Ambiguities

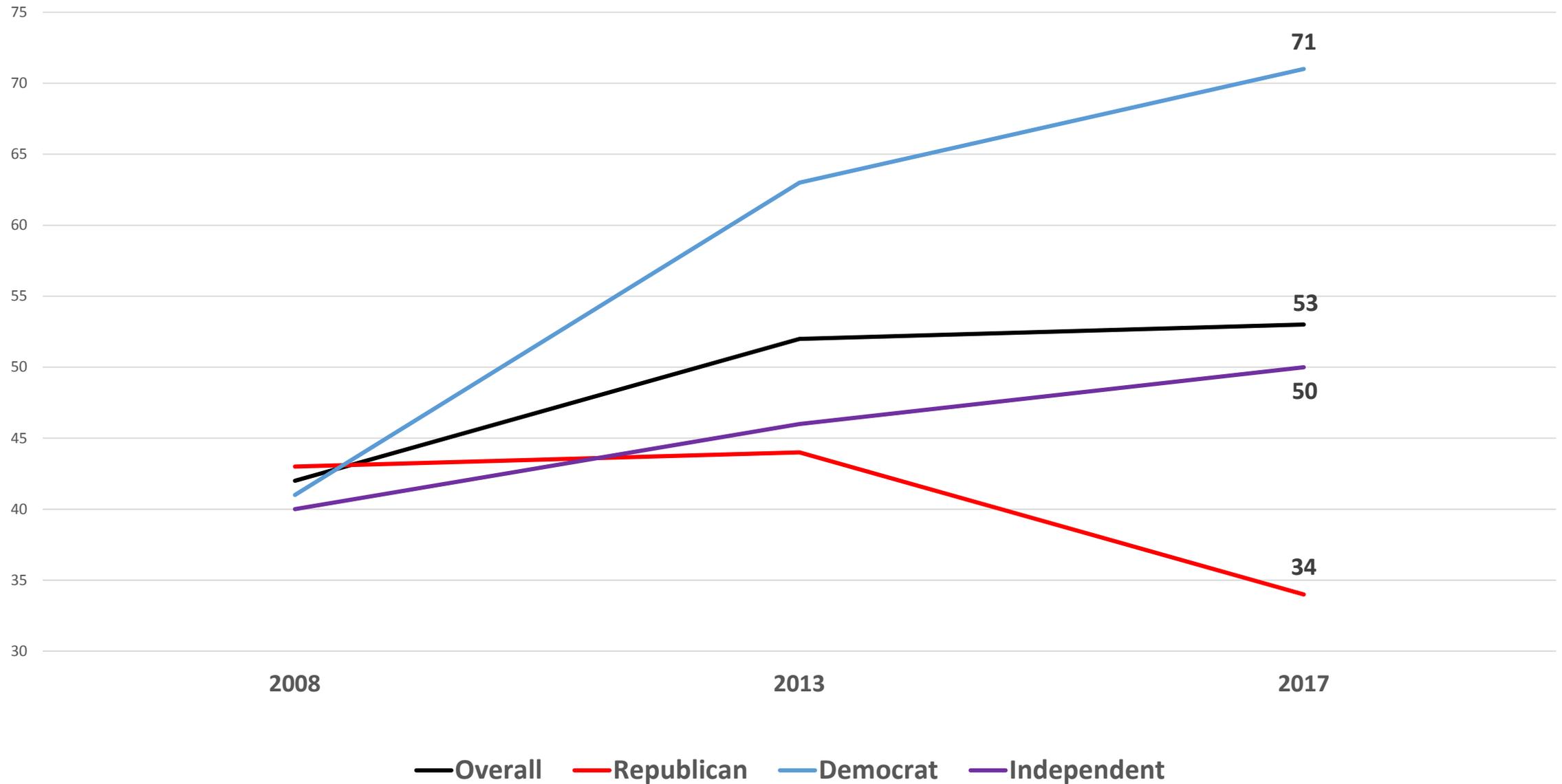
- **Does not eliminate Investor-to-State Dispute Settlement (ISDS)** mechanism
- Vague promise to **strengthen rules of origin “as necessary”** and add **incentives to ensure greater sourcing of products in US and North America**

Border Trade Alliance NAFTA Modernization Recommendations

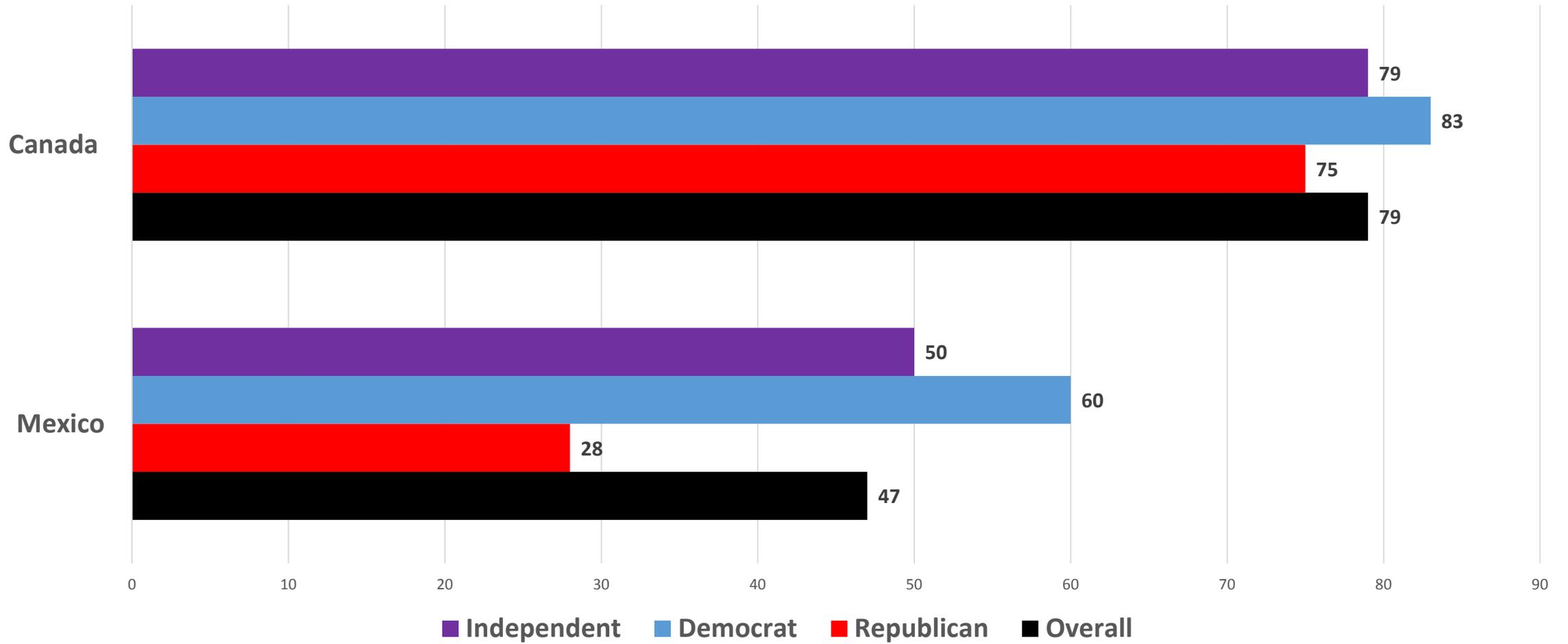
- Eliminate **rules of origin loopholes** to stop non-regional components being imported duty-free
- Improve customs processing via a future **North American Single Window**
- **Regional tariff numbering system** for easier classification of goods and improved dispute settlement tool to resolve differences in goods classification
- Facilitate cross-border movement for **business and professional** purposes
- Improve **cross-border trucking** regime
- Develop **coherent import-export system** for maquiladoras
- Develop a **NAFTA-wide single identifier** for trading firms
- Establish a mechanism to improve cross-border, **inter-agency coordination**
- Provide North American **private sector** entities a **forum** for discussing emerging challenges
- **Trilateral** framework for developing **border infrastructure**
- **Unified Cargo processing** where US and Mexican customs personnel work side by side
- Improved cross-border **financial transactions**

Perceptions of NAFTA

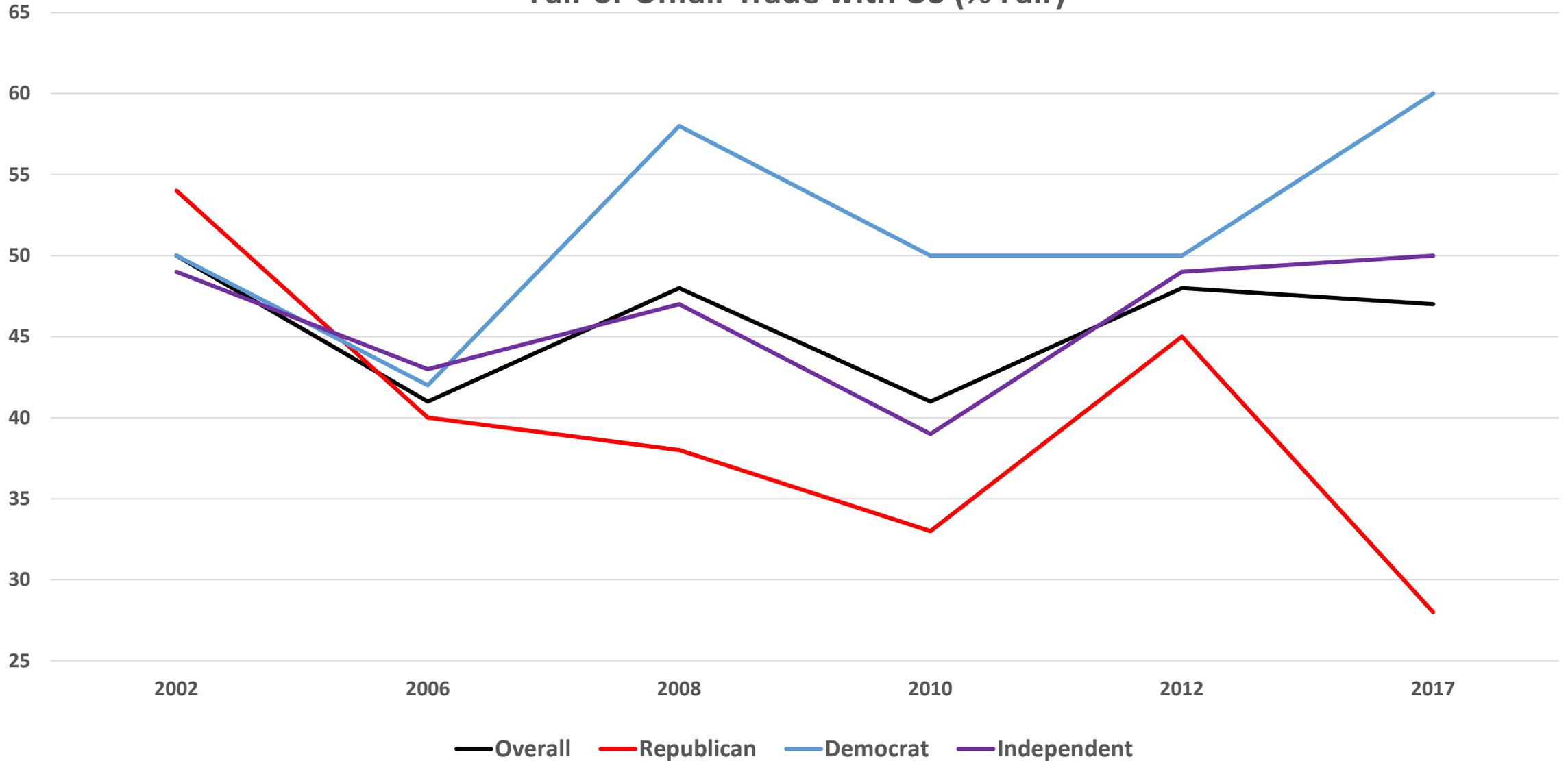
Overall, Is NAFTA Good for the US Economy? (% Good)



Do You Think the Following Countries Practice Fair or Unfair Trade with US? (% Fair)



Do You Think Mexico Practices Fair or Unfair Trade with US (% Fair)



A Stronger Partnership with Mexico

Tasks Ahead

- **Update NAFTA:** Serious, fact-based talks to agree on improvements
- **Bilateral Security Cooperation:**
 - Better manage migration from all countries
 - Better fight organized crime, including drug, money and arms flows
- **Bilateral Economic Cooperation**
 - Create a more efficient and secure border
 - Create institutions to further develop the complimentary nature of the two economies, creating jobs and improving global competitiveness

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