Building a Partnership with Mexico

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• 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

Currency in USD
Source: USTR, 2016
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
Each day there are over 1 million border crossings.

Source: Bureau of transportation statistics, 2016
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.

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

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 Competitiveness Score Card

Key Comparisons

North America (B+)

APEC (B)

European Union (B)

Mercosur (D-)

Pacific Alliance (C+)

Source: George W. Bush Presidential Center at SMU North America Competitiveness Score Card, 2016
United States Trade with Mexico

US-Mexico trade has multiplied by 6 since 1993

Since 2010

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

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

Twice more than the average European.

Source: US Census Bureau, 2016
US Trade in Goods - Deficit

Canada 1.5%
Others 15.1%
Mexico 8.4%
Japan 9.2%
European Union 19.5%
China 46.3%

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

Source: United States Census Bureau, 2016
Current Account Deficits (% of GDP)

Source: IMF, 2016
More U.S. Content in Imports from Mexico than Other Countries

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

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

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

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

Leading U.S. Agricultural Products Exported to Mexico

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

Source: Office of the U.S. Trade Representatives, 2015
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

Source: Autor et. Al, 2016; Hicks and Devaraj, 2015
Manufacturing employment as a % of the level when NAFTA was implemented

Source: Federal Reserve Bank of St. Louis, 2016
U.S. Manufacturing Employment and Output

Fred.stlouisfed.org
Nearly 5 million jobs depend on trade with Mexico

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

Source: Wilson Center, Growing Together: Economic Ties between the US and 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

- Innovation
- Trade and Investment
- Worker Retraining
- Education
- Government Deficits
- Regulation
- Corporate Taxes
- Transportation Infrastructure
- Immigration Reform
Investment
Mexico's FDI in the US
$17 billion
15th largest investor

US FDI in Mexico
$93 billion
Largest investor

U.S. Jobs created by Mexican Investment

Mexican Investment supports 123,000 US jobs

North America’s Inward Stock of FDI

318% increase in real terms

Source: Bush Institute, 2016
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
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: 62%
- Favor: 35%

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

- US: 70%
- Mexico: 16%

Source: Pew Research Center Poll, 2017
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

- Not have much impact: 43%
- Major reduction: 29%
- Minor reduction: 25%
- DK: 3%

Source: Pew Research Center Poll, 2017
Migrant Flows
Since 2007, the number of unauthorized Mexican immigrants has dropped by 1.3 million.
In FY 2016, the number of apprehensions of Mexican unauthorized immigrants declined 15% from FY 2014.

Source: U.S. Border Patrol Apprehensions From Mexico and Other Than Mexico (FY 2000-2016)
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.
Efforts to address Central American migration

June 15 2017

The Conference on Prosperity and Security in Central America was hosted by the U.S. and Mexico

Commitments

• 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

Drug overdose deaths involving opioids, by type of opioid, United States, 2000-2014

SOURCE:
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., Fenantyl.

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

Sources: The Globalist, The White House, CDC.
# Addressing Opioid and Drug Trafficking

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>March 29, 2017</td>
<td>Executive Order established the President's Commission on Combating Drug Addiction and the Opioid Crisis</td>
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<tr>
<td>May 18, 2017</td>
<td>Meeting between Secretary Rex W. Tillerson, John Kelly, Luis Videgaray Caso and Miguel Angel Osorio Chong in Washington</td>
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<tr>
<td>July 5, 2017</td>
<td>DHS Kelly &amp; CIA Director Pompeo visit Mexico, meeting with President Peña Nieto and visiting Guerrero, with military Secretaries Cienfuegos and Soberon</td>
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<tr>
<td>August 10, 2017</td>
<td>President Trump announces intention to declare the opioid crisis a national emergency</td>
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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]
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

Source: Secretaria Ejecutiva de Seguridad Nacional, 2016; El financiero, 2017
NAFTA
NAFTA Countries are richer each year due to “extra” trade growth

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

Source: NAFTA 20 Years Later. Petersen Institute for International Economics, 2014
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 eBay, 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 service 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)

Source: The Chicago Council on Global Affairs
Do You Think the Following Countries Practice Fair or Unfair Trade with US? (% Fair)

<table>
<thead>
<tr>
<th>Country</th>
<th>Independent</th>
<th>Democrat</th>
<th>Republican</th>
<th>Overall</th>
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<tbody>
<tr>
<td>Canada</td>
<td></td>
<td></td>
<td>75</td>
<td>79</td>
</tr>
<tr>
<td>Mexico</td>
<td></td>
<td></td>
<td>28</td>
<td>47</td>
</tr>
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</table>

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

Source: The Chicago Council on Global Affairs
A 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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