

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 **36.6 million U.S. citizens are of Mexican heritage**.
- From the year 2000 to 2017, the Mexican-origin population increased by 76%.
- 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.



Serious Challenges to Address

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

Strengthening law
enforcement cooperation

Negative public perceptions

Addressing Causes of
Central American migration

Implementing USMCA

Migration & border
Management

Surging Criminal Violence in Mexico

Countering Corruption

Potential Terrorism



Importance of U.S.-Mexico Trade

Mexico is the U.S.’:

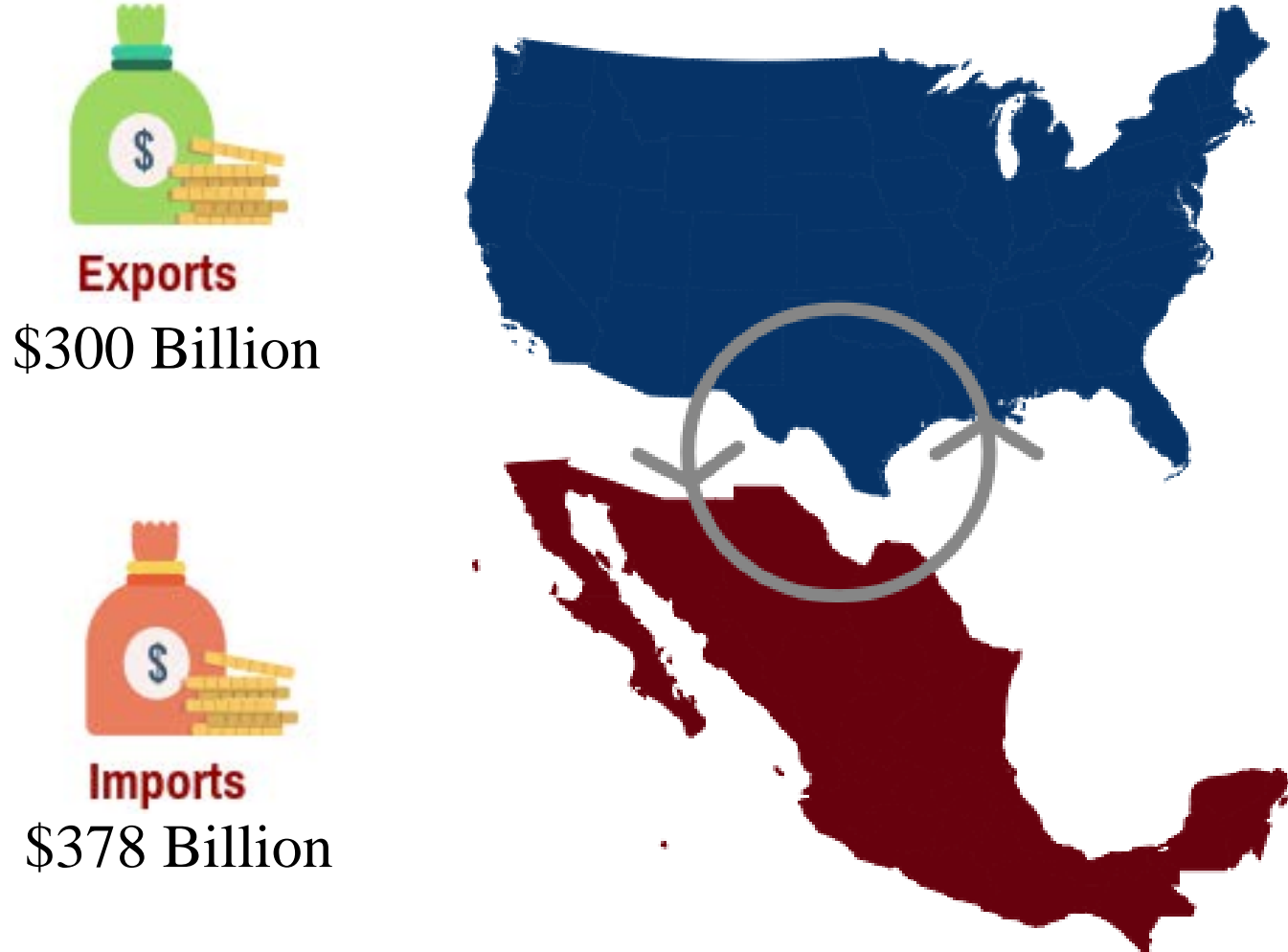
- 2nd largest export market
- 2nd largest Ag export market: \$19 billion in 2018
- 1st or 2nd export market for 28 U.S. States
- 1st export market for U.S. Southern Border States

For the first time in 2019, Mexico became the U.S.’ largest trading partner, ahead of Canada and China.





US-Mexico Trade



2018 Trade in goods and services:

\$ 678 Billion

US and Mexico trade over **1 million dollars per minute**

US-Mexico Border Crossings

Each day there are over

1 million

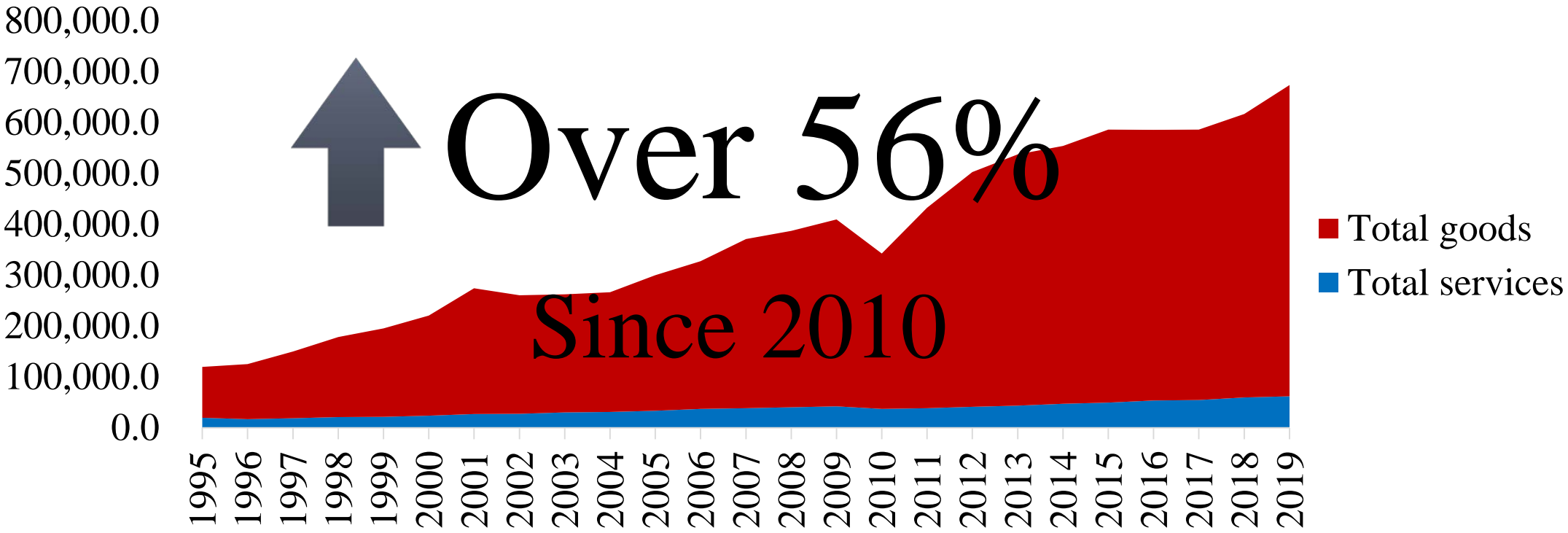
border crossings





U.S. Trade with Mexico has multiplied by 6 since 1995

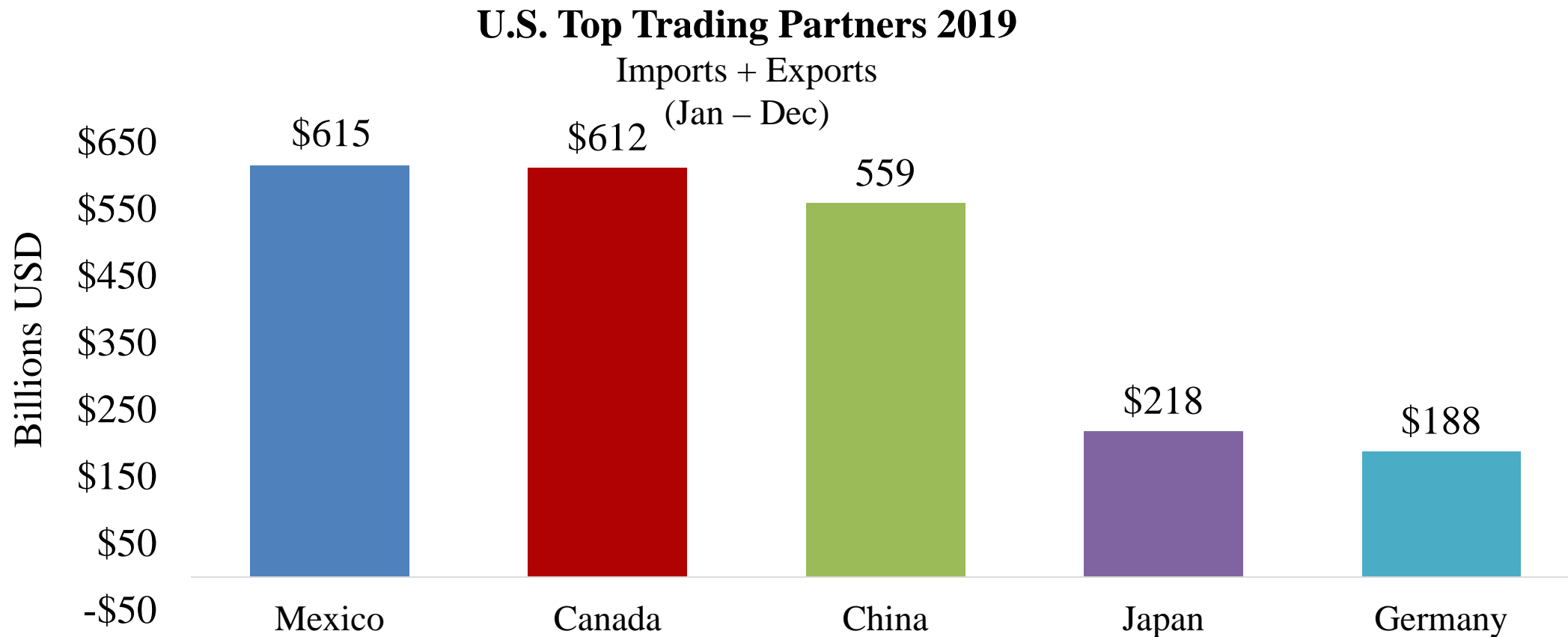
- The U.S. sells **more** to Mexico than to all the **BRICS** countries together



Source: The Wilson Center, "Charting a new course", 2017; US Census Bureau, 2019.

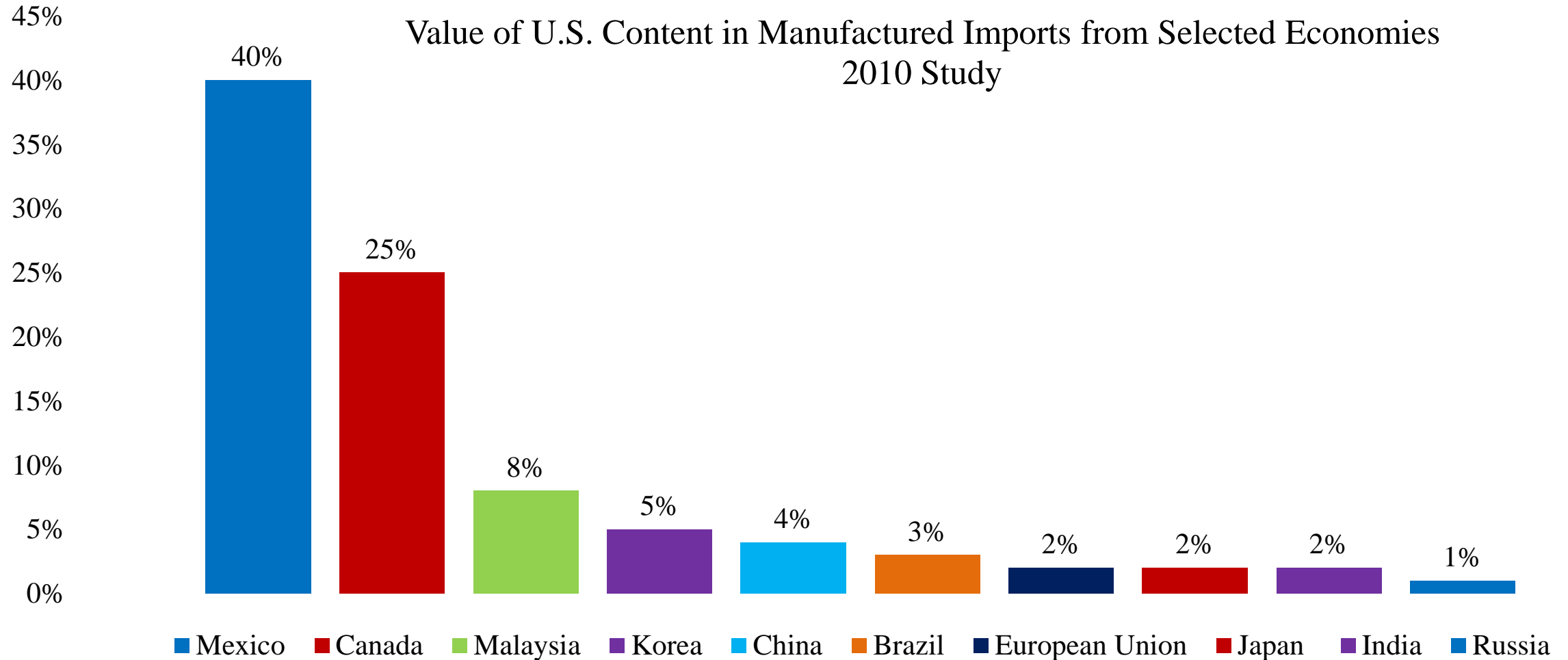


Mexico & Canada: Top Trading Partners in 2019

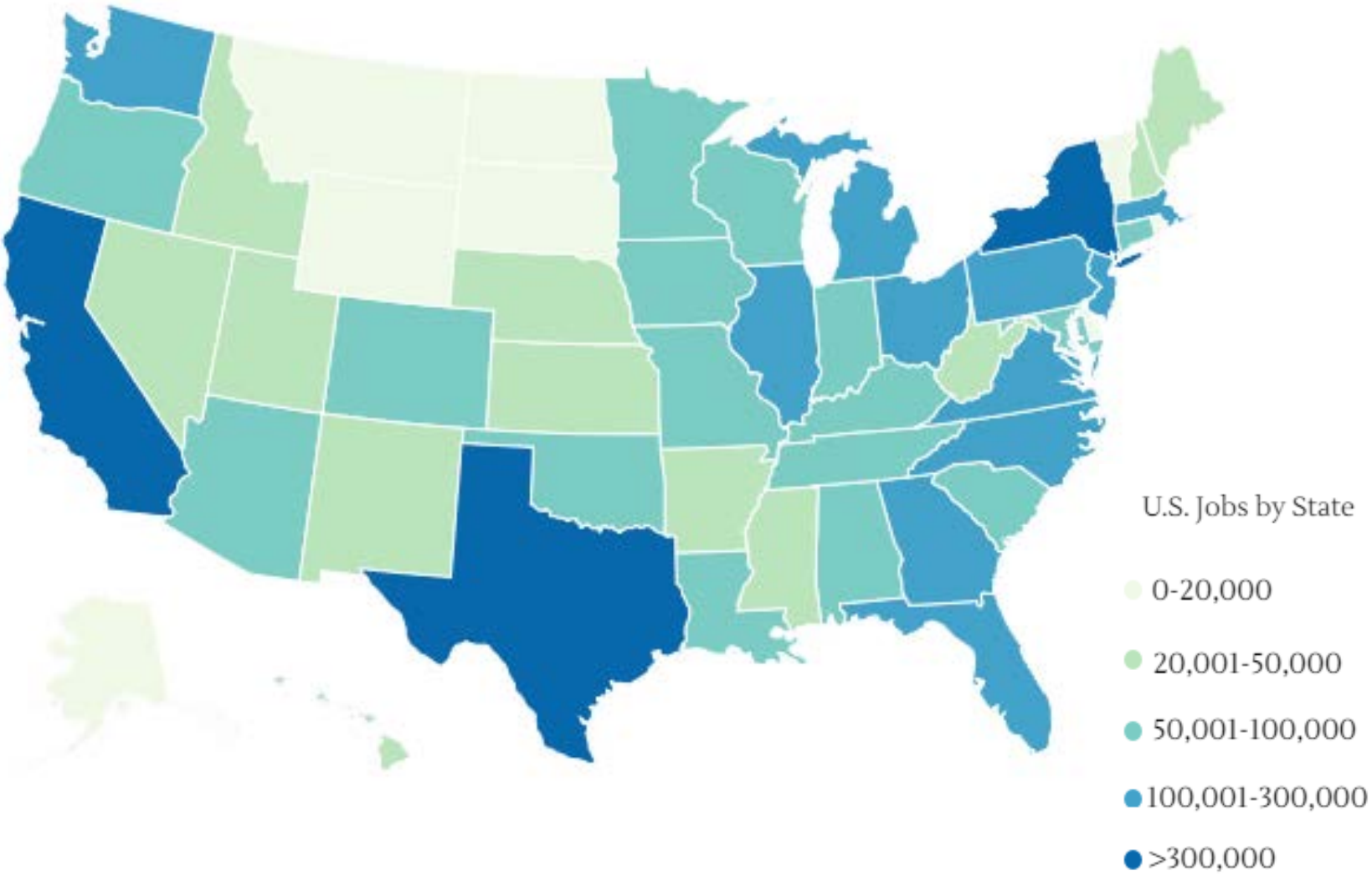


For the first time, trade with Mexico exceeds Canada and China.

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



Mexico trade and investment supports over 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.



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

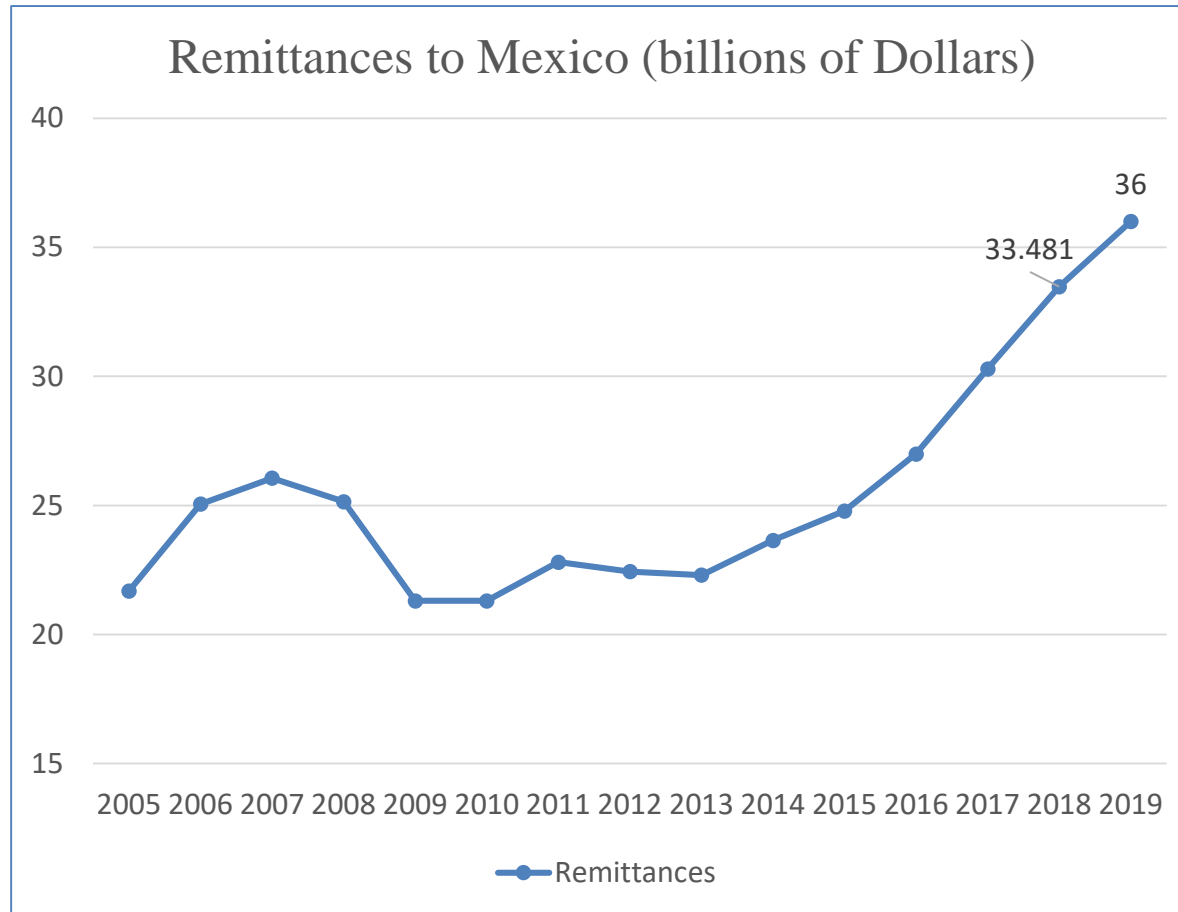
- In 2017, the U.S.-Mexico Border States' GDP reached **\$5.07 trillion**
- GDP from both sides of the border would constitute the **3rd largest economy in the world.**



Largest economies in the world (2017)

	United States: \$19.49 trillion
	China: \$12.01 trillion
	Japan: \$4.87 trillion
	Germany: \$3.7 trillion

Big Jump in Remittances to Mexico (2005-19)



- Mexico's Central Bank estimates that **94% of the remittances** to Mexico come **from the United States**.
- In **2019**, remittances set a historic record of **US \$36 billion**. This represents a **7%** increase from 2018.

Border Management: Licit and Illicit Flows

Moving toward Co-Management of the Border





US-Mexico Visitors

In 2018, the number of overnight visitors from the **U.S to Mexico** was **36.9 million**, which represented **39.7% of U.S. overseas tourism.**

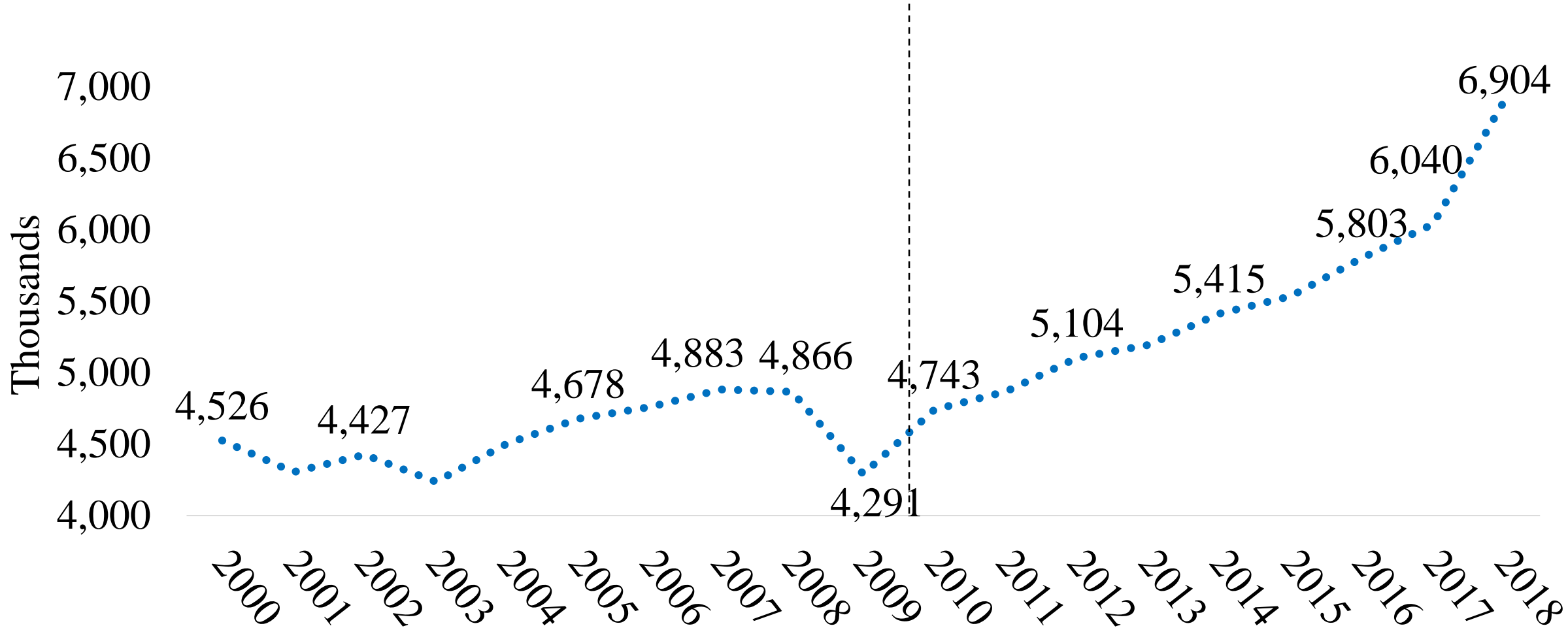
The number of overnight visitors from **Mexico to the U.S.** was **18.4 million** in 2018.

Together, these **55 million visitors** spent over **\$41 billion.**





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.
- Worked to align customs regulations; started joint customs facilities.
- New mechanisms to communicate, coordinate and more effectively counter illicit trade and travel: drugs, guns, money and people.
- Steps to reduce cross-border violence.
- New programs to share information on potential border crossers.
- Worked to create a Trilateral Trusted Traveler Program.
- Coordinated to manage immigrant surge from Central America 2014-15.
- **Cooperation complicated 2017-19.**
- **2019 agreed to reduce migrant flows.**

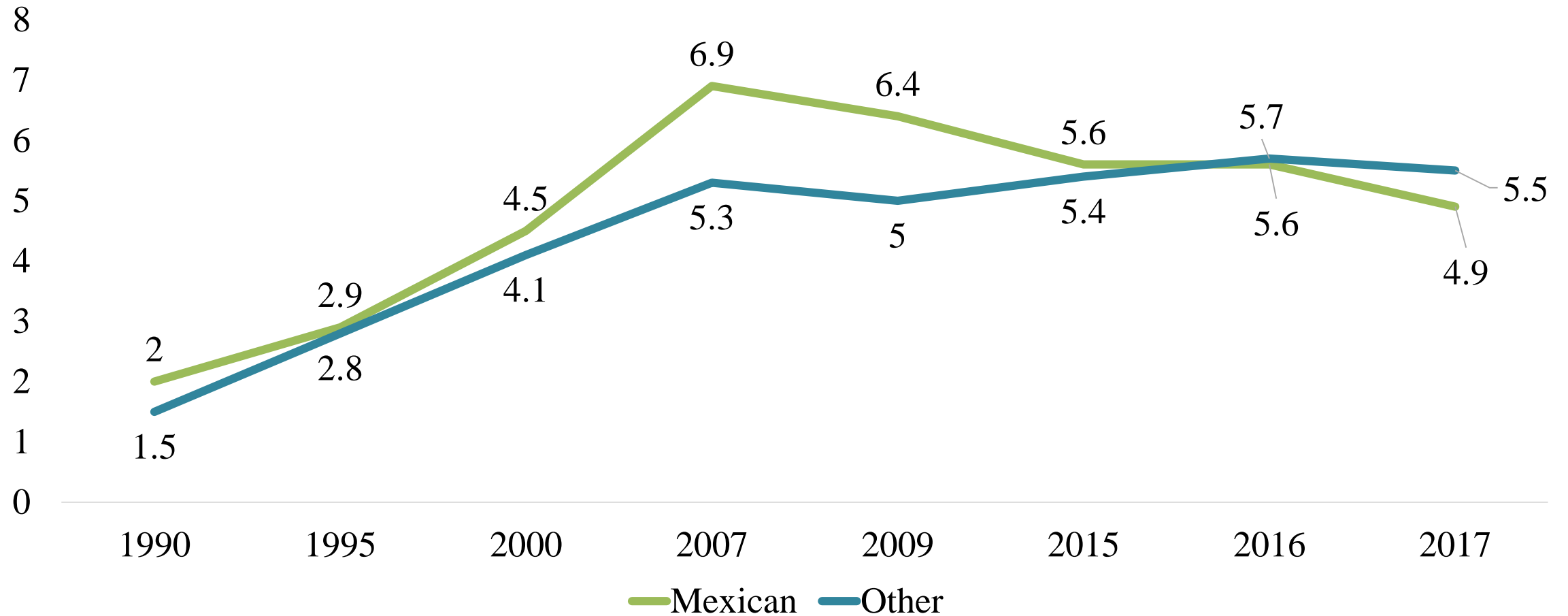
Mexican Migrant Flows Net-Zero, but Continue

- 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, but Mexicans still enter illegally.





Number of Unauthorized Immigrants in the U.S.





Addressing Central American Migration: 2014-2020

In 2014, The US and Mexico **enhanced cooperation** in response to a surge of child and family migrants.

In 2017, the US and Mexico co-hosted a **Conference on Prosperity and Security in Central America**.

- U.S. sought for **\$460 million in aid** for the Northern Triangle; Mexico offered \$53 million for infrastructure.
- **Improved cooperation** against **transnational criminal organizations**.

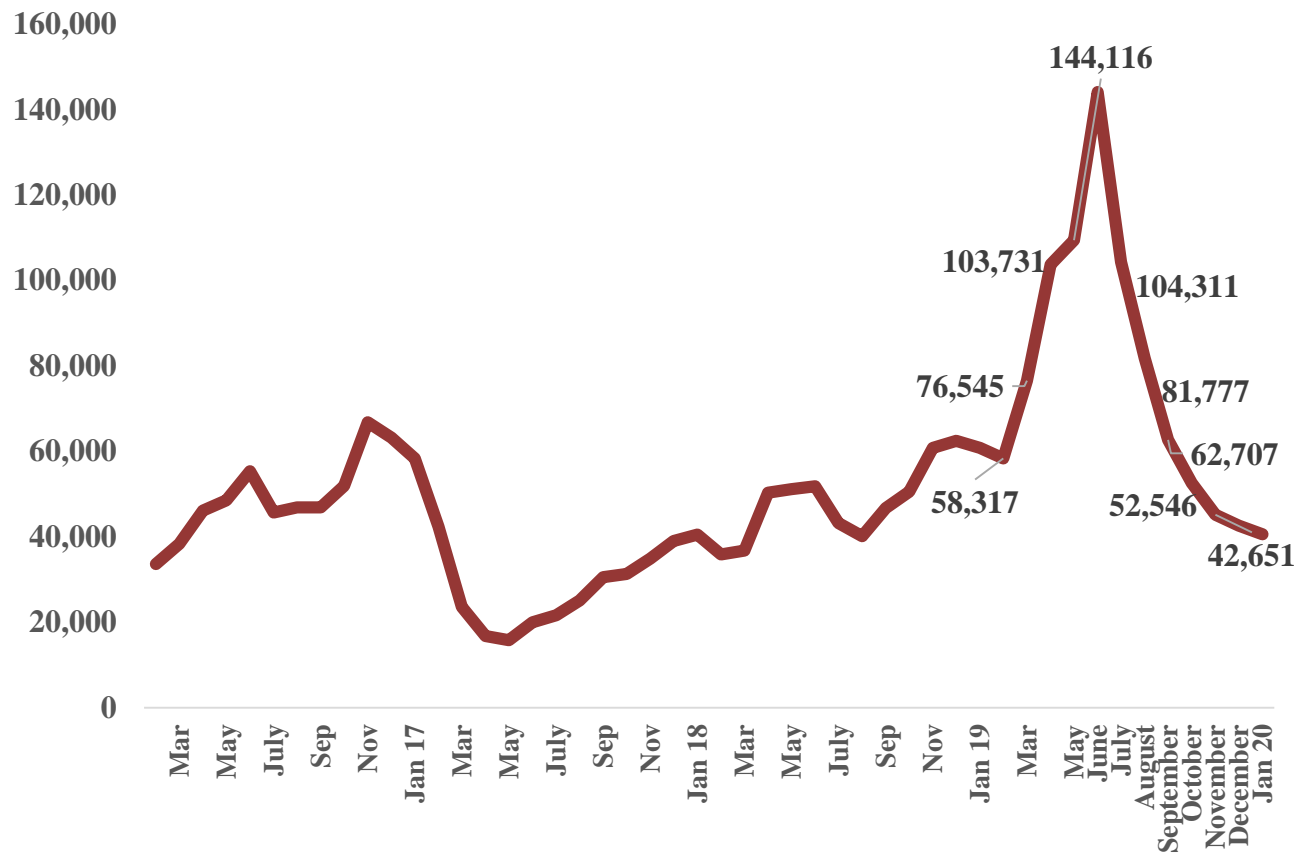
In 2018, Mexico's **Senate condemned U.S. border policies** and called to end cooperation.

In 2018-19, Mexico proposed **addressing root causes** (42.5% of migrants had experienced the murder, disappearance or kidnapping of a relative); **U.S. threatened tariffs** on Mexican exports over rising migrant numbers and cut aid to Central America.

In June, agreement reached for **Mexico to reduce numbers reaching the U.S. and allow some to wait for U.S. decisions in Mexico**. **In January 2020**, Mexican authorities stopped a new “Caravan” of migrants from Central America. 800 migrants were detained, and some 2,300 were deported.

Sharp Rise in U.S.-Mexico border apprehensions

Apprehensions at the southwestern border 2016 - 2019

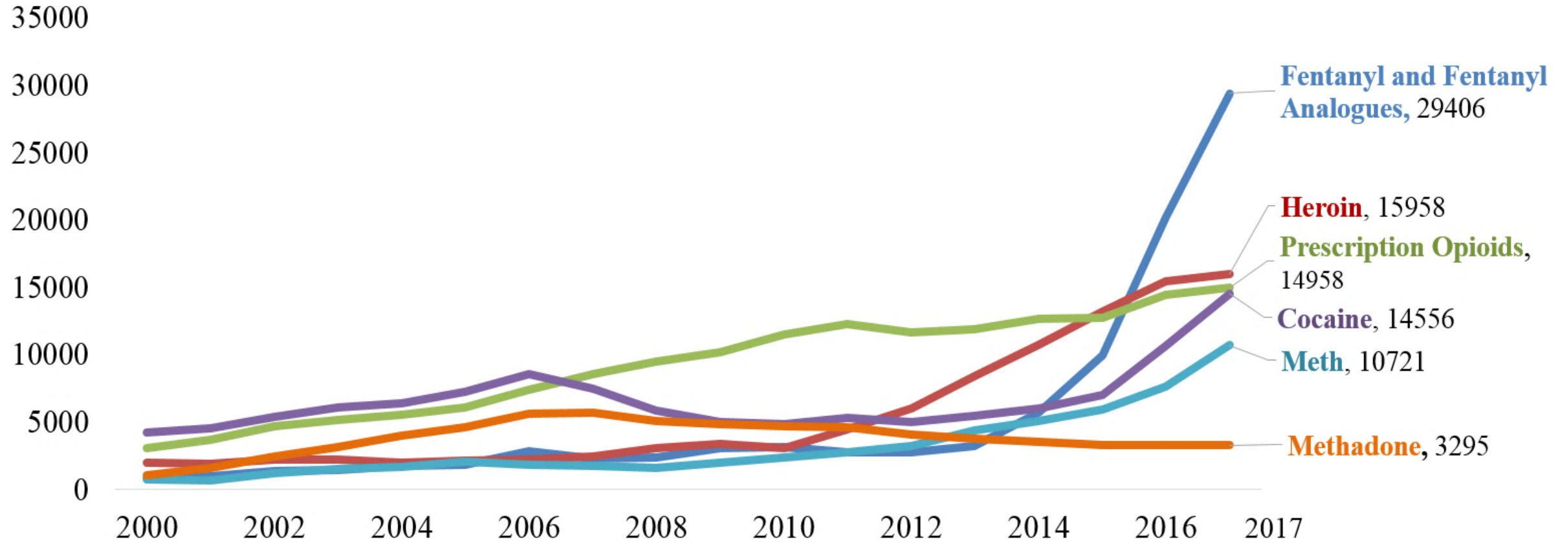


- FY **2019**, there were **851,508 border apprehensions**, most since 2012.
- Over **144,000 apprehensions in May**.
- After U.S.-Mexico agreement in June, Mexico stepped up its enforcement.
- **Apprehensions dropped to 40,620 in December: 70% drop from May.**
- **Mexico detained 179,000 migrants; deported 84,300; 70,000 seek asylum**
- **In January**, apprehensions dropped to **36,679: 75% from May.**
- **Adults taken into custody climbed by 32%, including many Mexicans.**

Bilateral Cooperation
Against Crime: Pending
Review

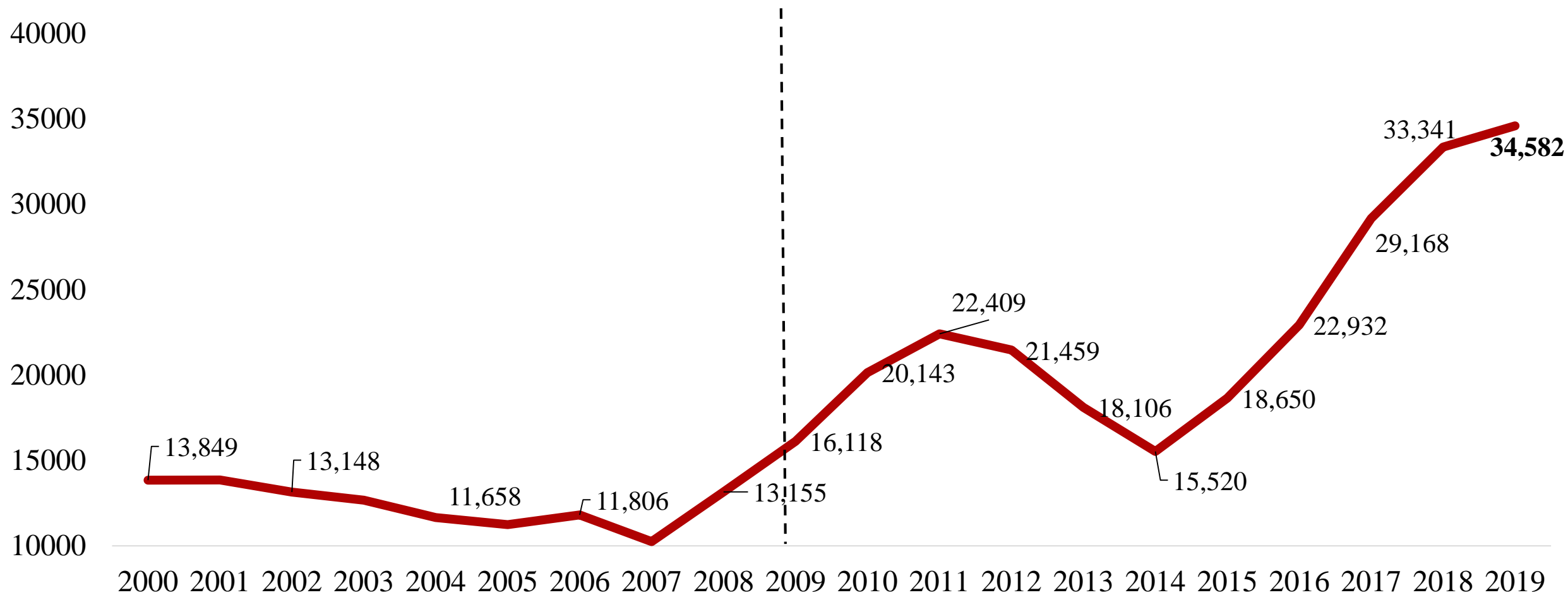


Driver: US Drug Overdose Deaths 2000-2017



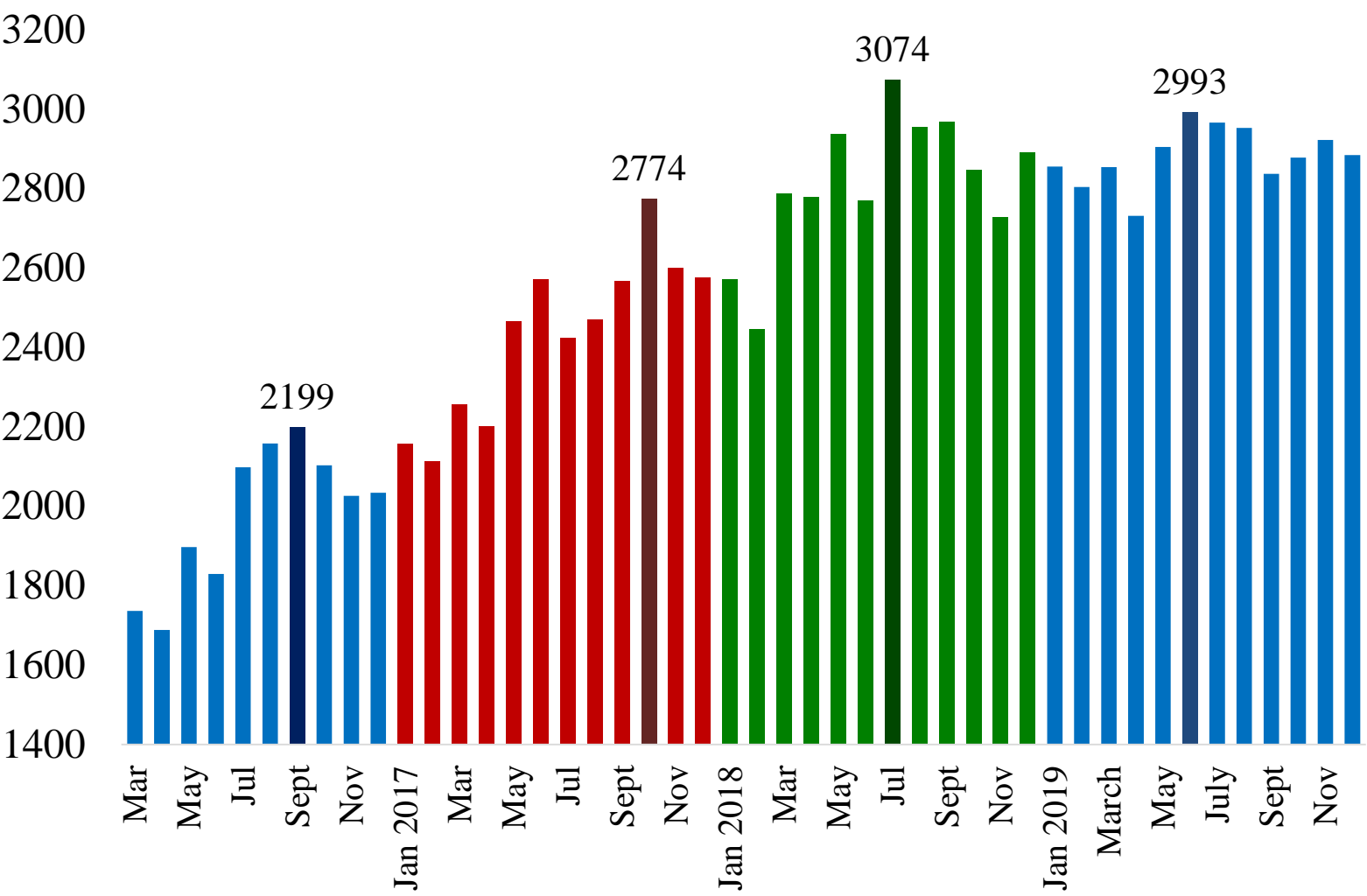


Urgency: Homicides in Mexico





Homicides in Mexico: Crisis Levels



34,582 homicides in **2019**, setting a new record; average **90** homicides a day. **July 2018: most violent month** since 1997.

Violence cost up to 24% GDP.

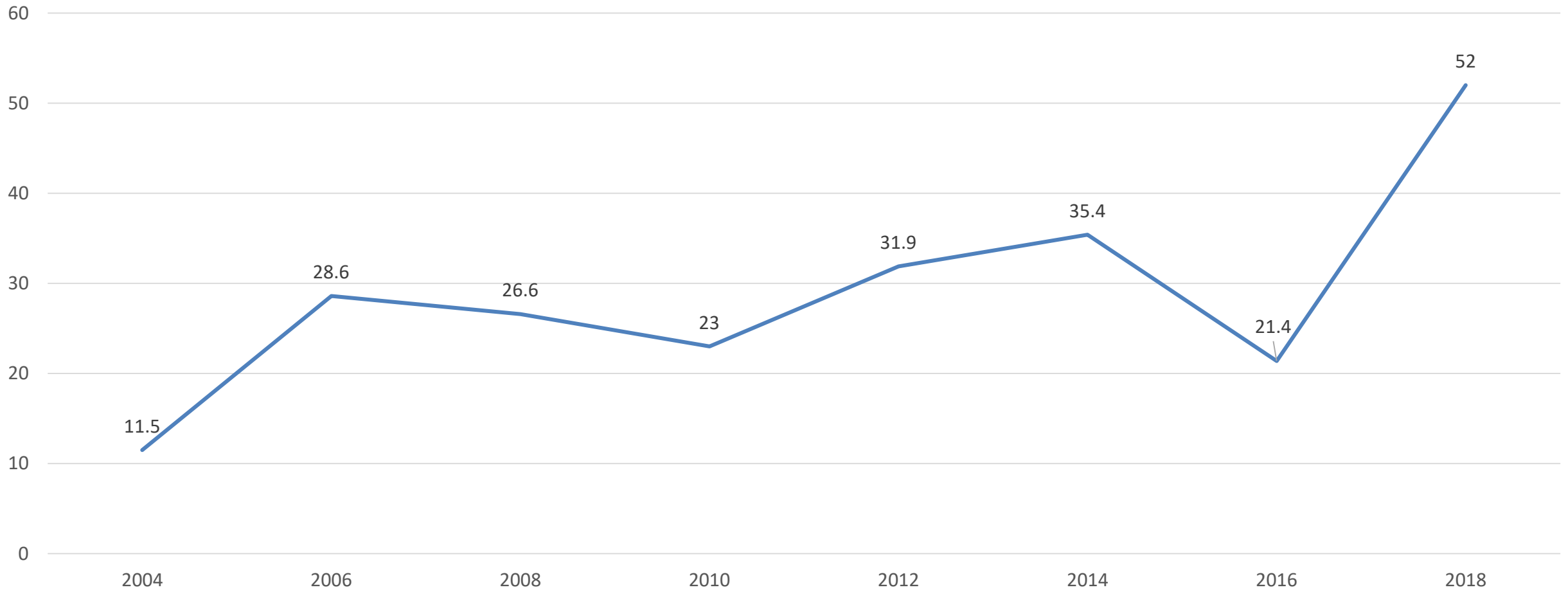
Cartels fighting for territory and routes; types of crime expanded and affects more states.

\$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.

Percent who See Security as the most Important Issue

Dec. 2019 poll: 73% say they feel unsafe in their cities



Source: LAPOP Americas Barometer Pulse of Democracy, 2019; December 2019 INEGI poll.

Mexico's Peace Index 2018-19



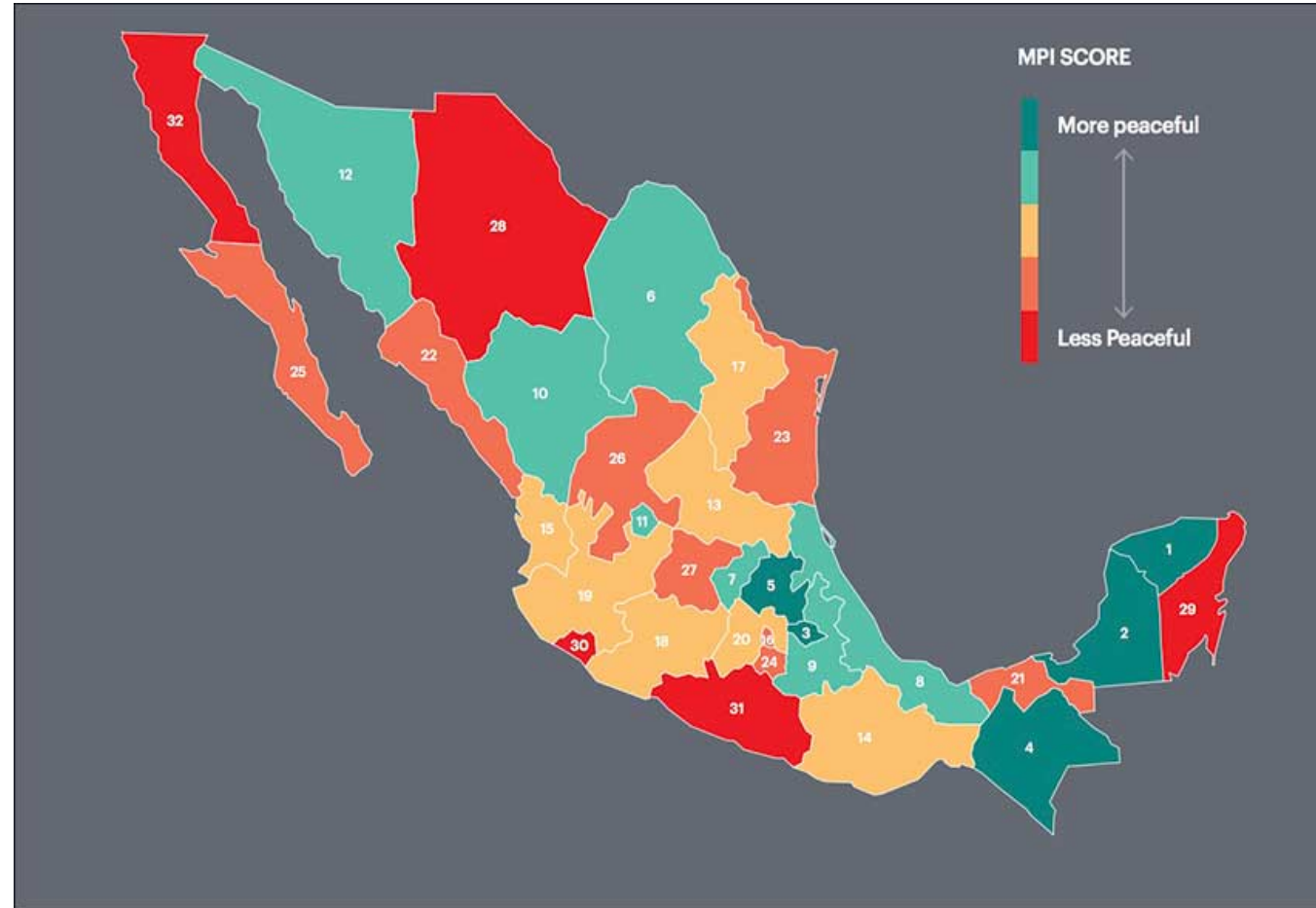
Least Peaceful States

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 reluctant, 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 and Security Cooperation: 2008-2020

Mérida Initiative Programs &
Agency-to-Agency Cooperation

Defense Dialogues & Cooperation

Security Coordination Group (est. 2014)

High-Level Security Group (est. 2019)

2017-2020 Challenges in Addressing Illicit Drugs

- 2017 agreement to partner on supply and demand for illicit drugs.
- **Necessary tools:** physical barriers, technology, patrolling, eradication, enhanced law enforcement cooperation, anti-addiction programs.
- Attack **entire criminal business network from** means of production, cross-border distribution networks, to profit flows and weapons procurement.
- In 2018, AMLO ordered **a review of Mexican cooperation with U.S.** Had not agreed to a **new U.S.-Mexico strategy & action plan** as of late 2019.
- **U.S. concern grows as drugs flows increase;** LeBaron and Langford families massacre in Sonora; **Trump threat to designate cartels as Foreign Terrorist Organizations sparks progress since December.**

Early 2019 Suggestions for Cooperation (2018-2024)

- An alignment of key security objectives is essential.
 1. Create a **bilateral coordination group** to reconcile the priorities of both nations.
 2. Build **cooperation with the National Guard** and at sub-national levels.
 3. Training to **improve the Mexican criminal justice system**; launch **joint investigative work**; enhance the quality and capacity of Mexico's law enforcement and justice operations.
 4. Establish/re-activate **international liaison units** to help with investigations, information-sharing, evidence gathering, etc.
 5. Create a joint U.S.-Mexico **task force** on countering **fentanyl trafficking**.
 6. Exchange best **practices** on **drug abuse prevention** and harm reduction strategies.
 7. Enhance cooperation to strengthen **local policing and justice approaches** in Mexico.
 8. Enhance cooperation regarding **criminal groups** working through and from **Central America**.
 9. Separate cannabis regulation from security cooperation.

Persistent Challenges



- “Chronic irritants” to bilateral security cooperation.

1. Corruption (undermines confidence).
2. Human rights violations.
3. Weapons trafficking.
4. Illicit money flows.

Trade: Moving from NAFTA to USMCA



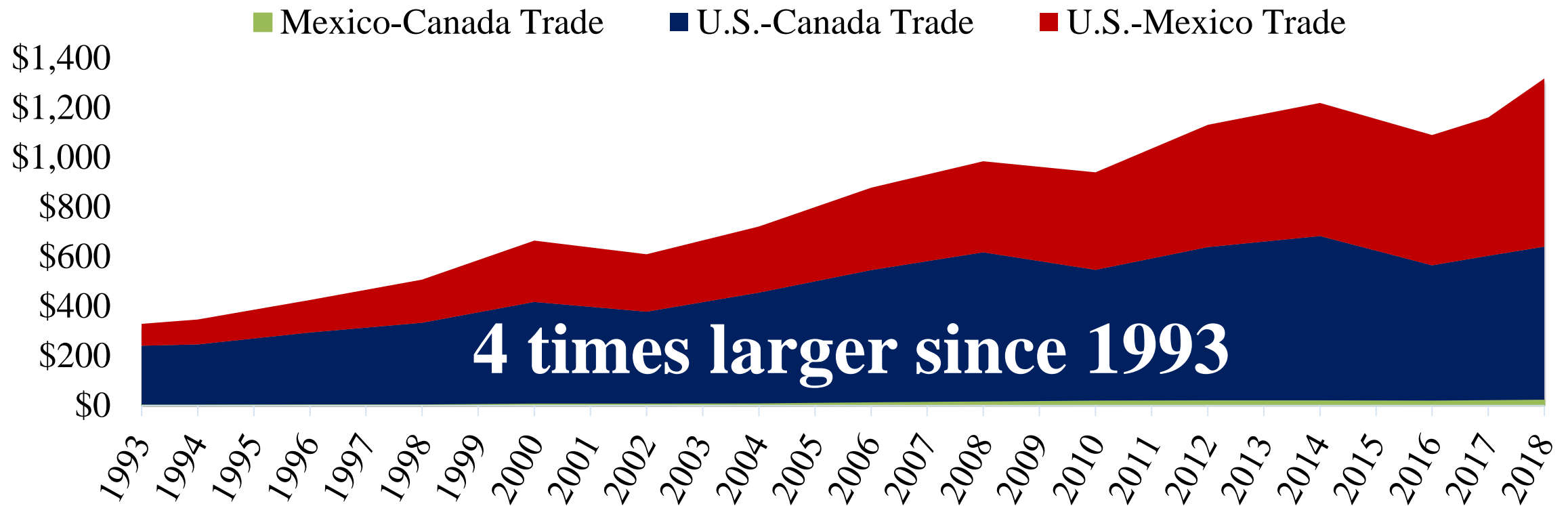
North American Trade

- Canada, Mexico and the U.S. trade **\$1.3 trillion a year.**
- **\$3.6 billion a day**, reflecting **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 2018, Canada's and Mexico's FDI in the U.S. reached **\$625 billion**

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



US FDI in Canada
\$401 billion

Mexico's FDI in Canada*
\$2 billion



Mexico's FDI in the US
\$37.2 billion

Canada's FDI in the US
\$588 billion

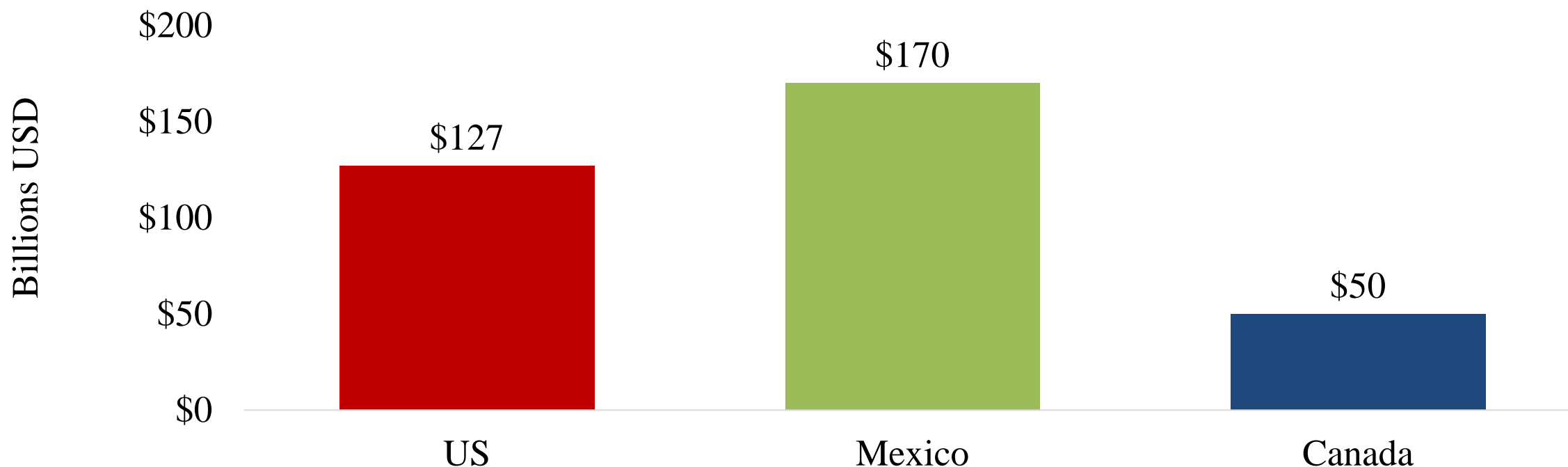


US FDI in Mexico
\$114.8 billion

Canada's FDI in Mexico
\$3.2 billion

* Latest available data from 2017

NAFTA Countries were richer each year due to “extra” trade growth (2014 estimate)



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



Rank Order: Top U.S. States' Trade with Mexico 2017

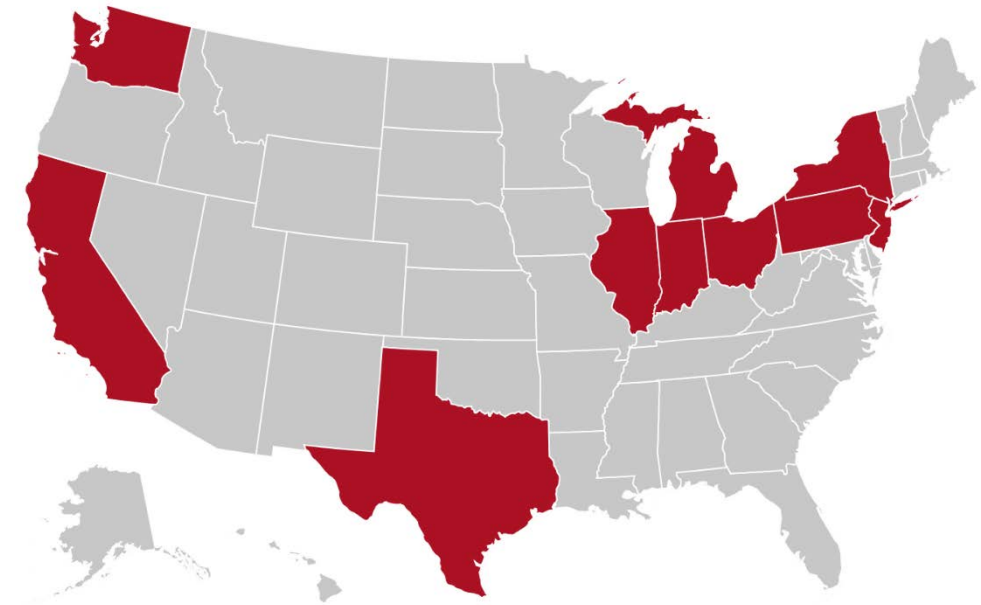
State	Volume \$USD (Billions)	State	Volume \$USD (Billions)
Texas	187	Indiana	9.8
California	73.1	Florida	9.7
Michigan	65.5	Pennsylvania	9.5
Illinois	22	Louisiana	8.6
Arizona	15.5	North Carolina	8.3
Ohio	14.7	Kentucky	7.7
Tennessee	11.7	New Jersey	7.4
Georgia	10.4	New York	6.4



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)**.
- Leaders of the three countries signed the new agreement on **November 30, 2018**.
- A revised agreement was reached on **December 10, 2019**.
- U.S. Senate approved and President Trump signed USMCA in January 2020.
- Mexican Senate approved earlier.
- Canada's parliament now moving to approve.





Main elements of the USMCA (T-MEC)

- **Rules of Origin, wages and steel 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%); 70% of steel and aluminum.
 - 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. **New “rapid” dispute settlement for labor enforcement.** Eliminated ability of a government to block a dispute settlement panel.
- **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; review every six years; possible 16-year renewal.
- **Dairy:** Addressed some U.S. concerns over Canada's dairy policies and restrictions.



Approval of USMCA

Canada: Parliament needs to approve.

Mexico: U.S. unions and democrats will focus on implementation of labor reforms. Some U.S. Unions will likely file complaints early. Mexico's reforms implemented over 4 years.

Biggest gain from approving USMCA: reduced uncertainty that had hindered additional investment by businesses and farmers across North America.

Once Canada approves, the three states will move to implement which includes systems to monitor rules of origin for vehicles, setting up the dispute settlement systems, and much more.



Optimistic View on USMCA impact



- **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.
- 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.**

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



Canadian Government: better than no deal

- Canadian government assessment to parliament: Benefits to the Canadian economy are positive when compared to the effects if U.S. withdraws from NAFTA and imposes tariffs on Canada's steel and aluminum sectors.
- “CUSMA” (USMCA) **preserves Canada's access** to the U.S. and Mexican markets and **protects Canadian economic gains, jobs, and income that could otherwise have been lost.**
- **USMCA implementation will preserve a Canadian GDP gain of CA\$6.6 billion** (\$5.1 billion), which could have been lost if NAFTA ended. CUSMA will **secure jobs** that would otherwise be lost.
- **Real wages** will likely also **appreciate by 0.504 percent**. New **auto rules** will likely increase auto-part production in North America but also lead to **higher production costs.**

A respected Canadian think tank argues that **all three countries will be worse off** under USMCA or CUSMA, with **Canada's GDP losing \$15 billion a year in value terms.**

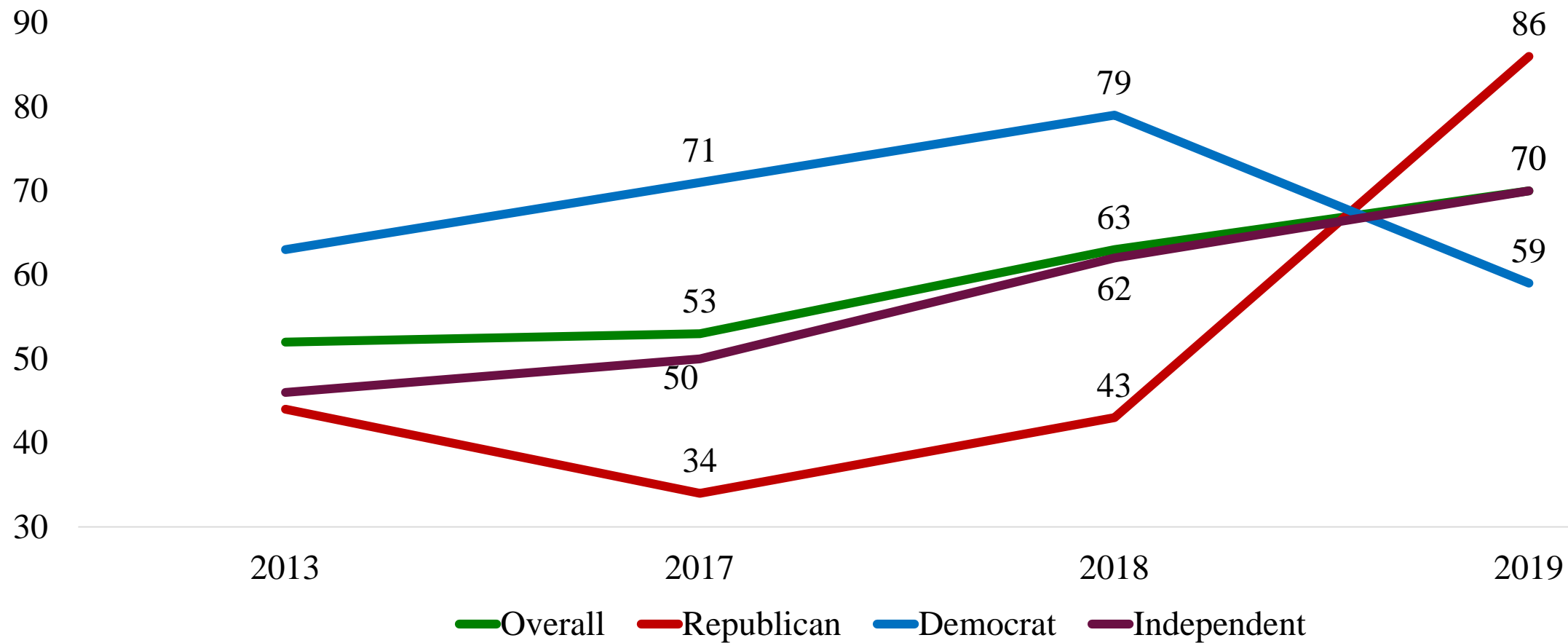


US Opinion:

Is NAFTA/USMCA Good for the US Economy?

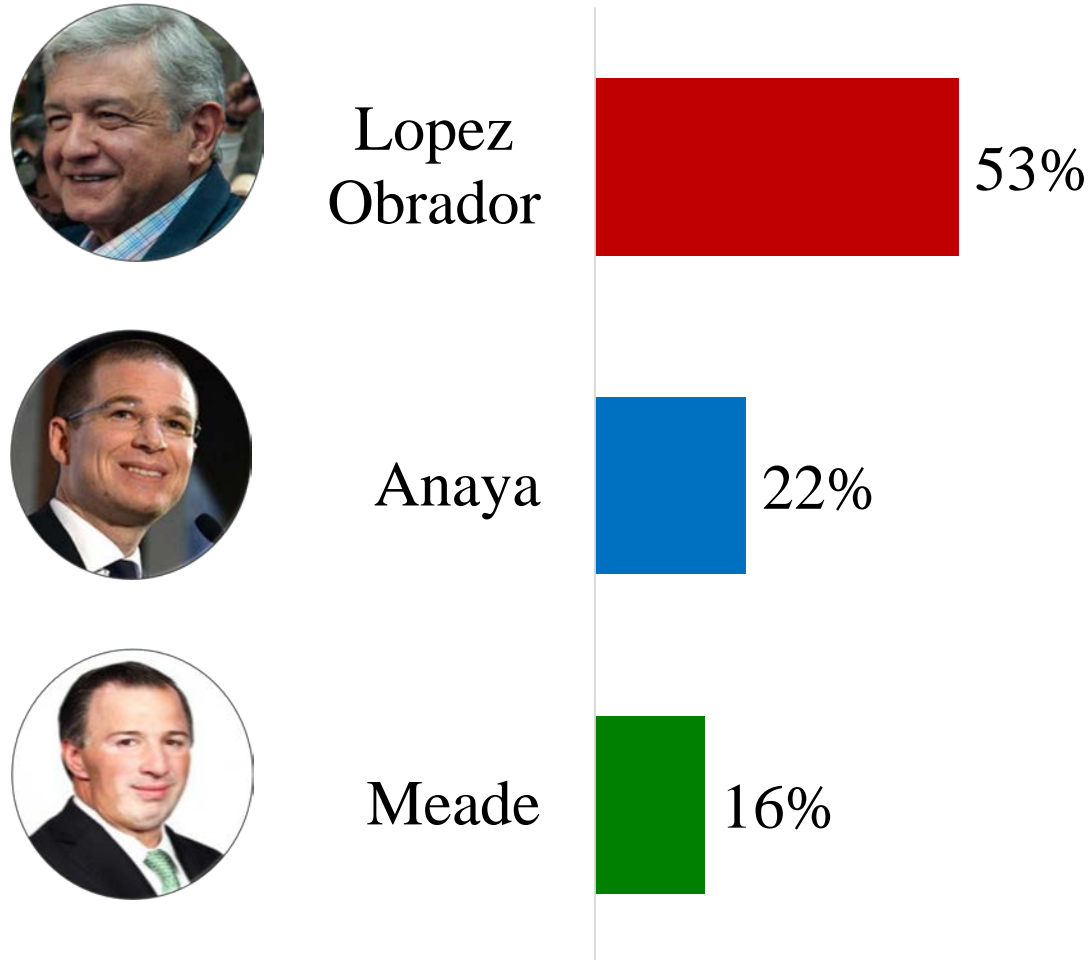


Overall, Is NAFTA Good for the US Economy? (% Good)



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.



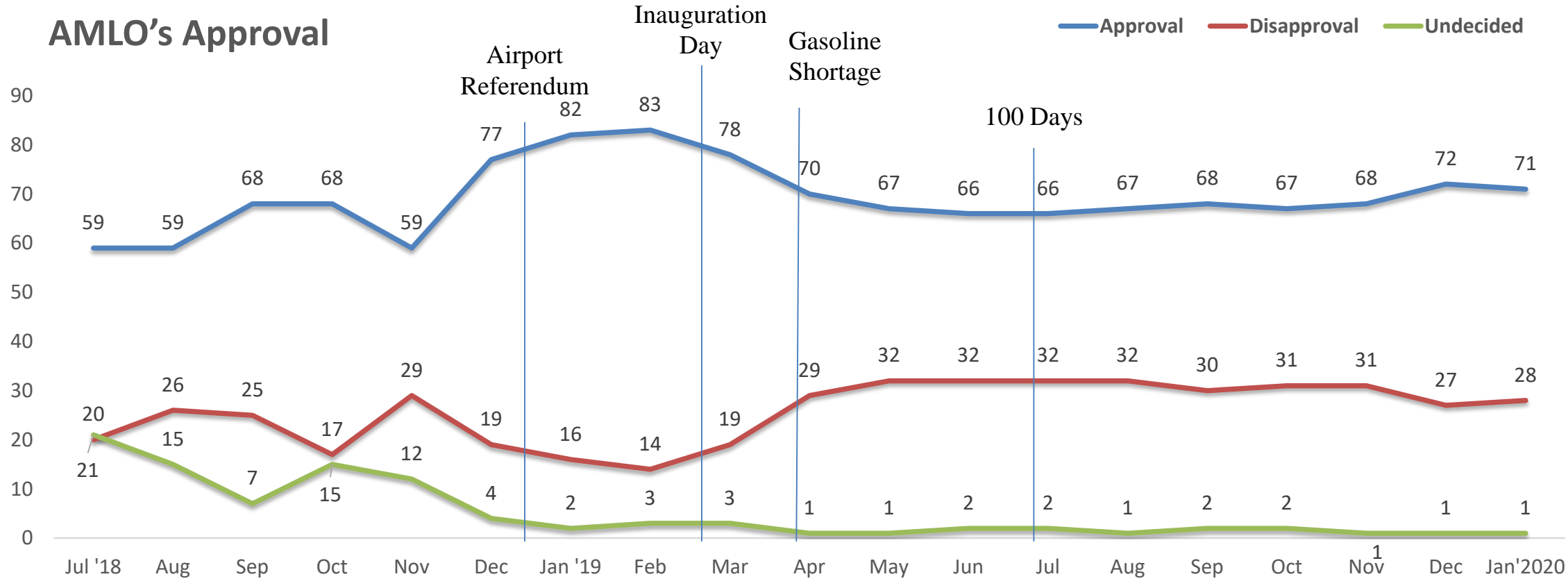
Issues that Influenced Votes

Violence and Security
Corruption
Unemployment

Poverty and Low Wages
Public Health
Inflation



AMLO's Popularity High But!

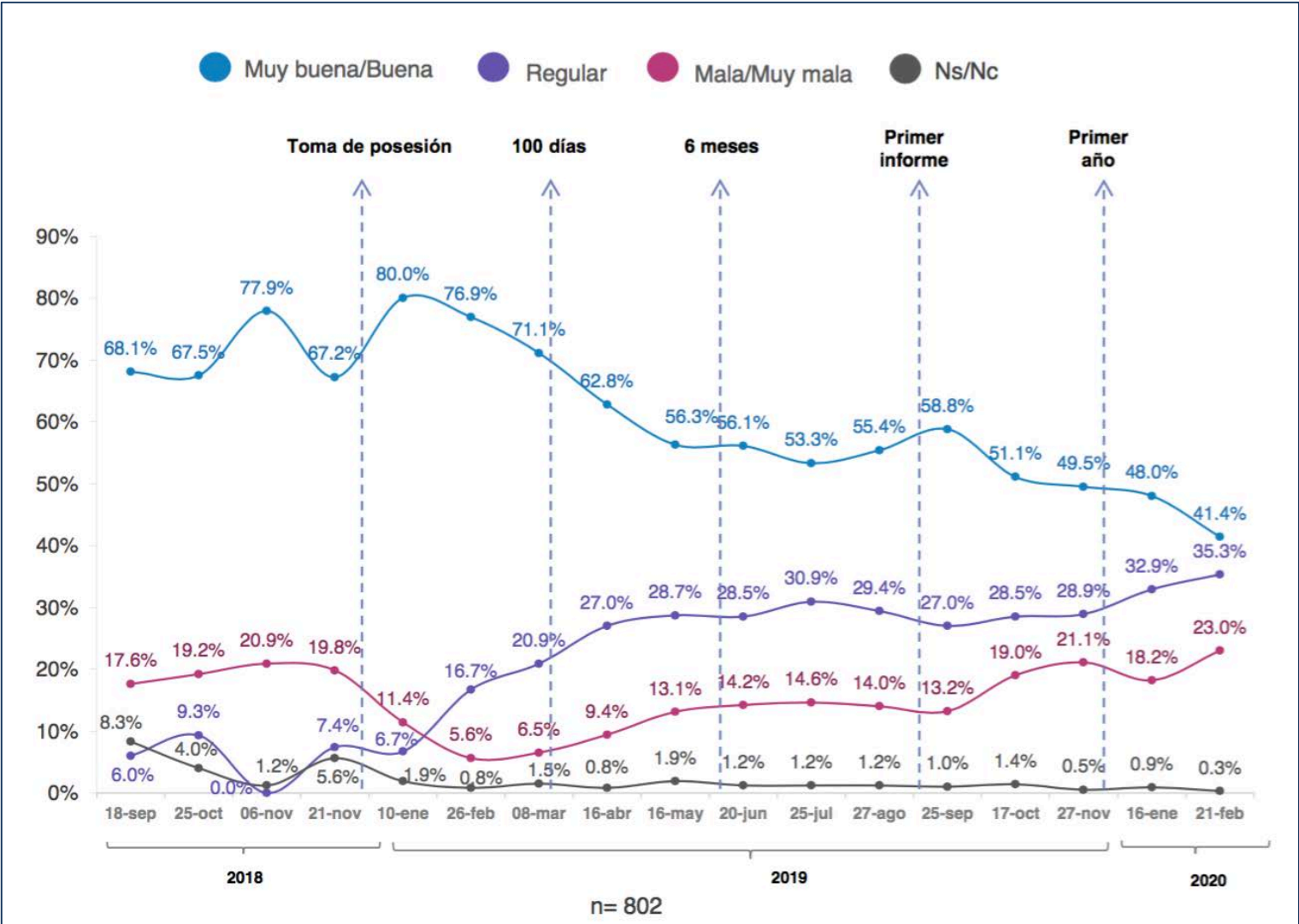


February polls have AMLO's popularity dropping to 57-63%

Source: El Financiero, 2019.

Clear Decline Good Ratings – February 2020

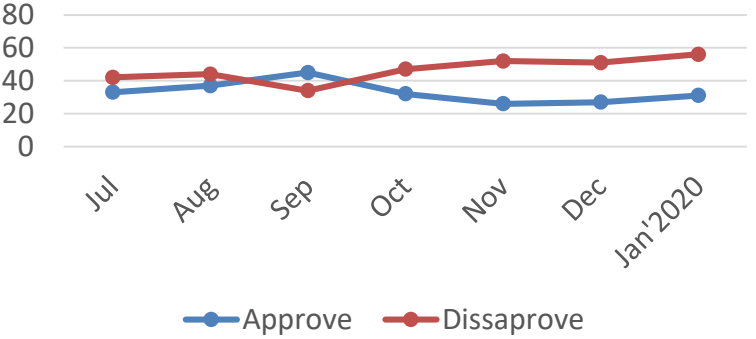
What is your opinion on President Lopez Obrador: very good, good, regular, bad, or very bad?



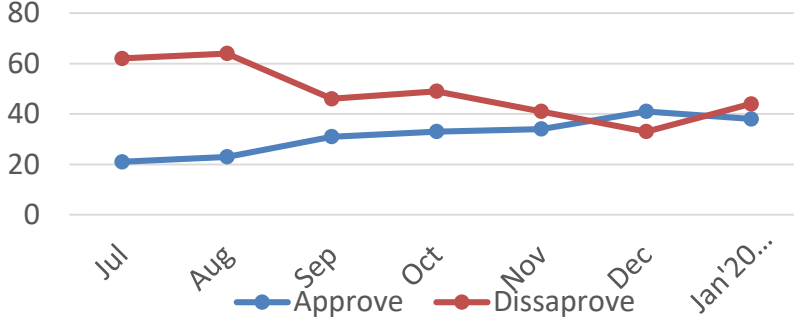


AMLO's Approval Ratings by Issue – Jan 2020

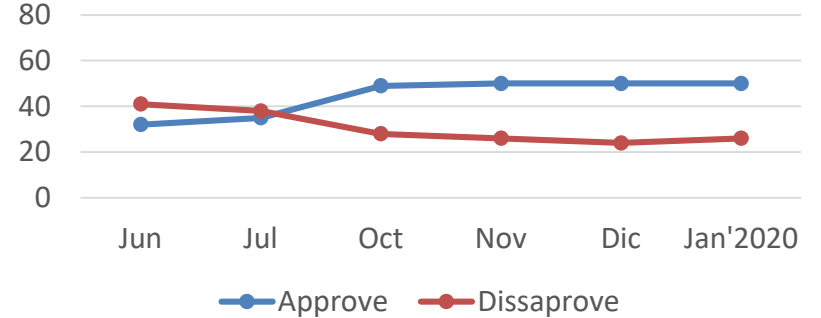
Security



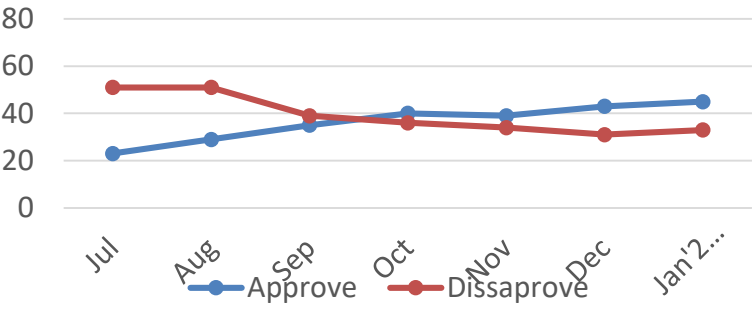
Corruption



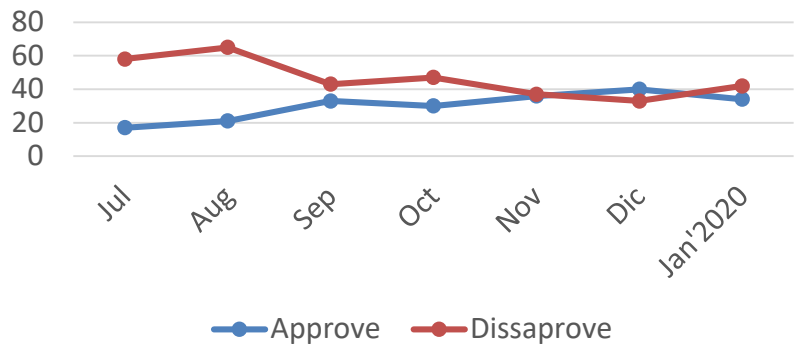
Education



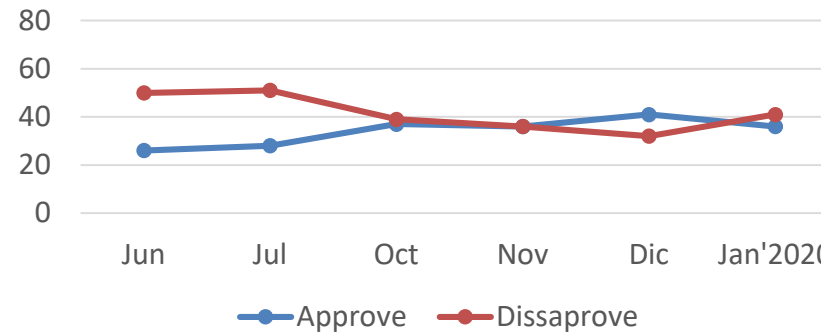
Economy



Poverty



Public Health



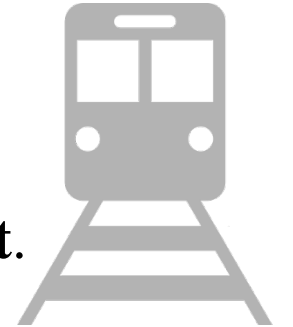
Source: El Financiero

AMLO's Policy Proposals and Actions



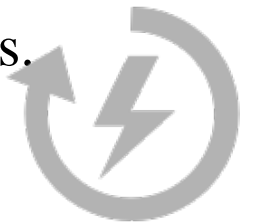
Economic Policy: Reducing Inequality

- Focus on developing Mexico's internal market; **encourage investment.**
- **Build Infrastructure** (e.g. railways).
- Redirect spending to **social programs to poor but won't raise taxes or increase debt.**
- **Lower taxes along U.S. border.**
- **Aim to achieve 4% average GDP growth** over his six-year term; 2% year one;
- **Develop south** of country.



Energy: Strengthen energy independence and public sector role

- Strengthen national oil company **PEMEX** & electricity authority, **CFE** vice private cos.
- Limit gasoline price increases; decrease prices in several years.
- Build **new refineries.**
- Contain previous energy reform.



AMLO's Policy Proposals and Early Actions



Reduce Poverty:

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



Attack Corruption and Government Inefficiency:

- Better supervision of public spending; increase legal penalties for corruption.
- **Cut officials' salaries, perks. Reduce staff and existing programs.**
- Named new independent "Fiscal General"; active Financial Crime Unit, pursue corruption investigations.
- Use **direct means to consult** "the people."

Trade with US as source for economic growth, jobs and funds for reform

- Secure trade with US, implement **USMCA**, attract new investment.

Education expanded for less fortunate:

- Eliminated key parts of Education Reform that alienated teachers' unions.
- Launched new youth scholarships, promised new 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.



AMLO after a year: Mixed Results



- After a year, AMLO's Fourth Transformation has mixed results.
- He claimed that **89 of his 100 promises** have been fulfilled by December and **asked for one more year of support** to carry forward his transformative government programs.
 - **Crime:** mixed bag; claims 94% reduction in fuel theft but violent homicides set a record in 2019.
 - **Austerity:** senior government salaries, staff, sending reduced, but at cost to government efficiency.
 - **No increase in debt, inflation reduced, big min. wage increase, but economic growth 0% and decline in FDI.**
 - **New Programs:** Claims over 1 million **jobs** created; new **scholarships** given, 600,000 participants in a workplace training program, other social reforms underway with **direct funds to poor**, but critics question results.
 - **Infrastructure Projects:** Dos Bocas oil refinery, Maya & Isthmus trains and new Mexico City Airports, **questioned.**
 - **National Guard created** and being deployed but **impact unclear.**
 - National Guard's **first major mission was to intercept Central American migrants; not stop crime: criticized.**
 - Overcame U.S. crisis through **immigration agreement with U.S.** but much work still needed on migrants.
 - **Tensions** with U.S. high over **organized crime**; criticized at home too.
 - Ratification of the **USMCA, trade up** slightly.
 - **Wages up but job creation worst in 10 years.**
 - **Popularity still high.**



Criticisms of the “Fourth Transformation”

- **Power centered around President: reduced role of cabinet and checks and balances.**
- **Fiscal Responsibility, Austerity: reduced government effectiveness & growth.**
- **Education and social programs: critics say buying political support, not improving results.**
- **Energy: PEMEX losses 92% higher than in 2018; Bonds downgraded.**
- **Corruption: Financial Intelligence Unit active; less transparency; more sole source govt. contracts.**
- **Public Security: Approach not yet producing results; critics say no clear strategy; proposed judicial reforms criticized.**
- **US-Mexico Bilateral relationship: need to implement trade deal; Avoid clashes over migration, crime & drug policy.**
- **Democracy: Critics see a diminishing of independent voices in government and civil society, e.g. steps to weaken the independence of the National Electoral Institute.**
- **Countervailing powers: Markets; investors; economic performance; Senate; public opinion.**



Economic Slowdown in Mexico



- AMLO maintained **strong fiscal and monetary fundamentals**, with **inflation down**, winning IMF kudos.
- But the Fund raised **warning flags about downside risks** ahead.
- **Economy shrank 0.1% in 2019**: first economic contraction in a decade; **IMF trimmed its growth forecast for 2020 to 1%**.
- **Banco de Mexico lowered its growth outlook to between 0.5% and 1.5%**.
- **In 2019, construction and manufacturing activity declined; job creation was the worst in ten years, business confidence and domestic investment dropped, and FDI declined 5.3%**.
- **On the positive side, the average wage increased 3.8%; trade with the US grew (0.5%), as did remittances.**
- 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** such as reducing **labor informality**, combatting **corruption** and enhancing **law enforcement**.

Government & private sector launched a \$44 billion 5-year infrastructure program in November. AMLO established new economic cabinet in January.

Maintaining a Partnership with Mexico?



U.S.-Mexico Migration Cooperation?



- In **June**, President Trump threatened a 5% or higher tariff on Mexico's exports unless **migrant numbers dropped**.
- After negotiations, the two governments reached agreement:
 - Mexico **deployed National Guard troops** to its southern & northern border & actions against **migrant smugglers**.
 - **The U.S. implemented Migrant Protection Protocol:** asylum-seekers **wait for U.S. decisions in Mexico**.
 - Mexico **refused to become a "Third Safe Country;"** prefers **enhanced regional cooperation/assistance**.
- As of **early 2020**:
 - Some **25,000 Mexican National Guard troops** and immigration officers **detaining/deporting record numbers**.
 - Drop **of over 75% in the number of migrants** arriving at U.S. SW border by end of January.
 - Up to **54,000 migrants were reported waiting in Mexico** for U.S. asylum decisions.
 - Mexico and US agreed to new cooperation to **stop illegal guns flowing into Mexico**.
 - U.S. got migration agreements with Guatemala, Honduras and El Salvador.
 - No U.S.-Mexico long term strategy or aid plan for those three countries.

Key Work Areas for U.S.-Mexico Relations

Trade:

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

Border, Migration, Security, Anti-Crime Cooperation:

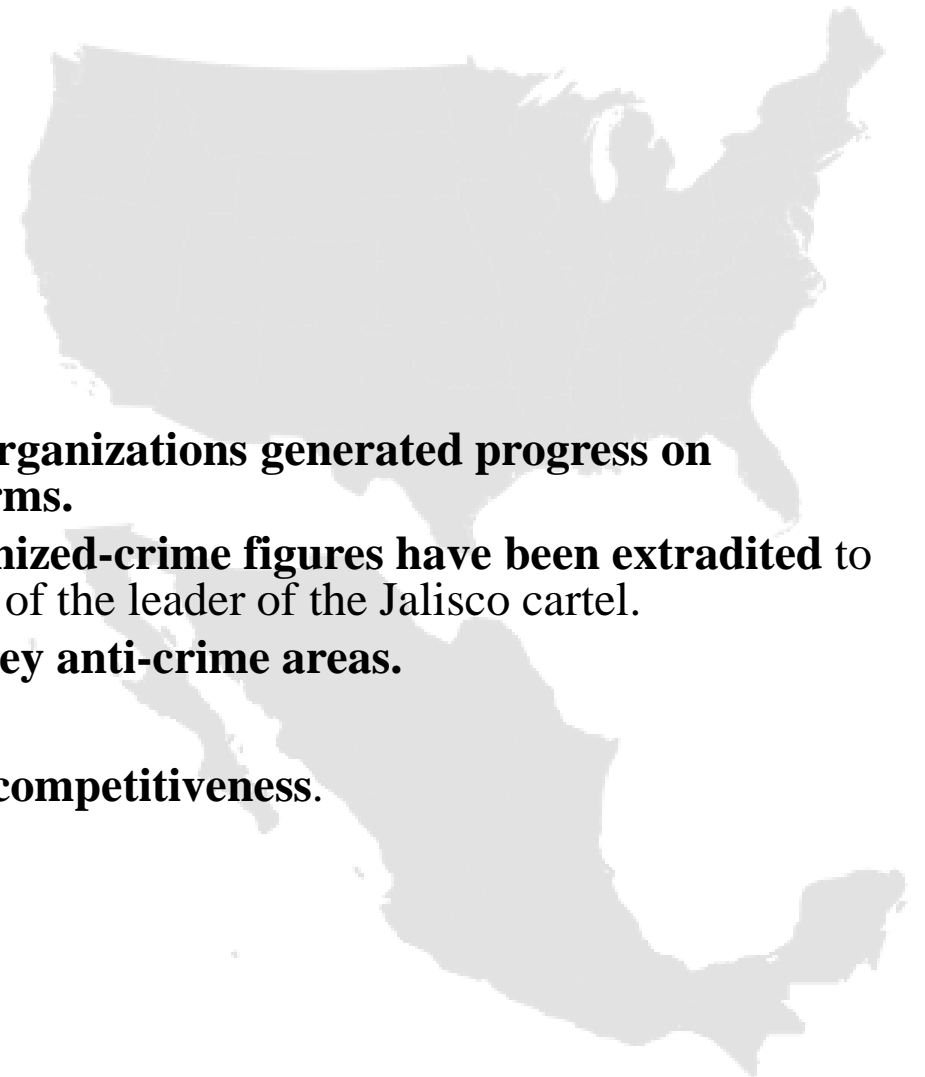
- Better manage **migration**; strengthen migrant services.
- Deepen support for addressing root causes of migration.
- **Strengthen cooperation against cross-border crime.**
- **Trump threat to designate Mexican cartels as Foreign Terrorist Organizations generated progress on extraditions, navy back fighting drug groups, proposed legal reforms.**
 - Since Attorney Barr's visit to Mexico in December, over **40 organized-crime figures have been extradited** to the United States. Latest: **"El Menchito,"** second-in-line and son of the leader of the Jalisco cartel.
- **Progress needed: bilateral action plan with specific objectives in key anti-crime areas.**

Improve Competitiveness:

- Revive a bilateral and North American agenda to **enhance economic competitiveness.**

Rebuilding Confidence:

- **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



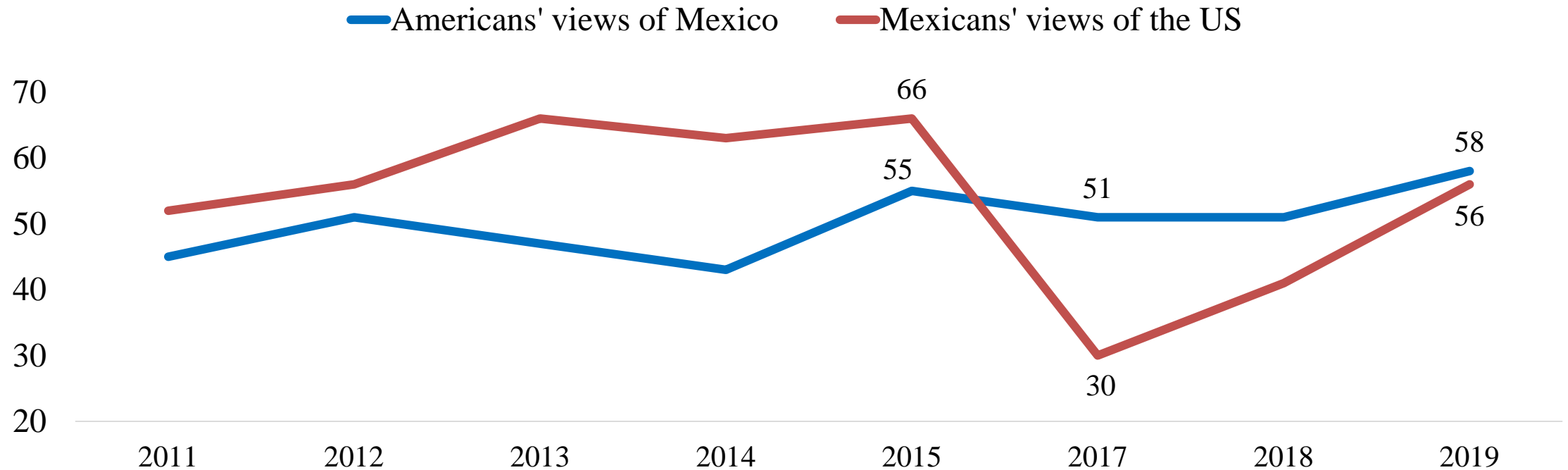
41% of employers are having difficulty filling jobs.

- Hardest roles to fill:

Skilled Trades, Drivers, Sales Representatives and Technicians.

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**.
- However, **three-quarters (77%)** of Mexicans have a **bad opinion of Trump**.
- **Mexicans** now **view bilateral relations as stable**.



Working with Mexico



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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

U.S.-Mexico Migration Issues



Migration remains an urgent area as U.S. pushes for lower numbers at the border.

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

- December 2019, the Mexican and U.S. governments announced an ambitious strategy to address the root causes of Central American migration by attracting investment.
- No significant action to implement this.

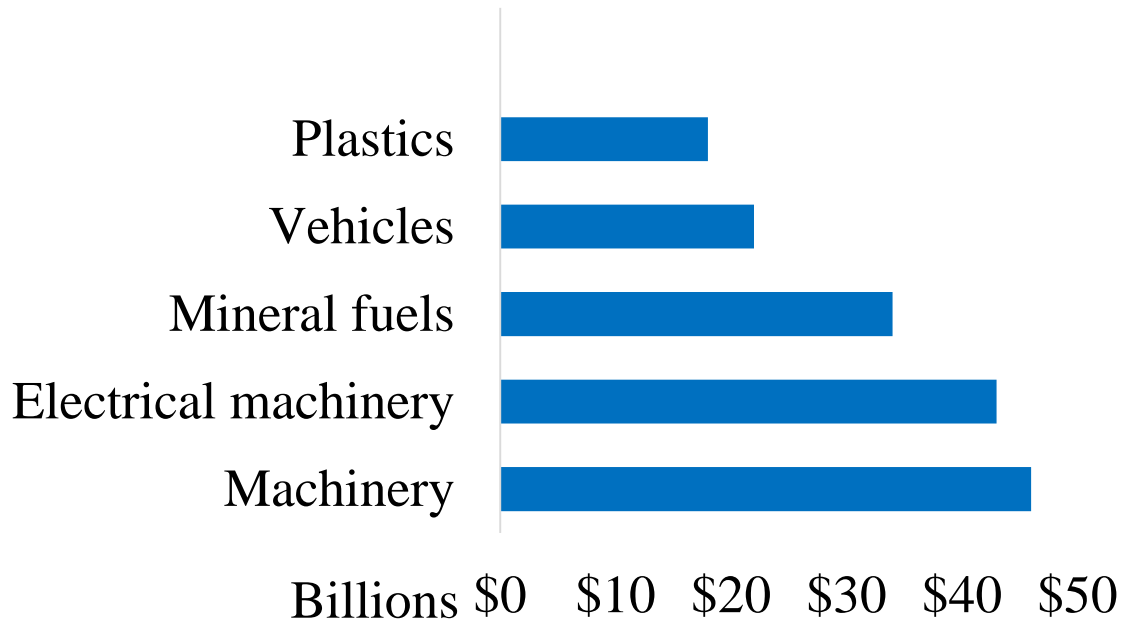
Short Term: Managing better flows of families

- Facilities and tools to manage still lack needed capacity.

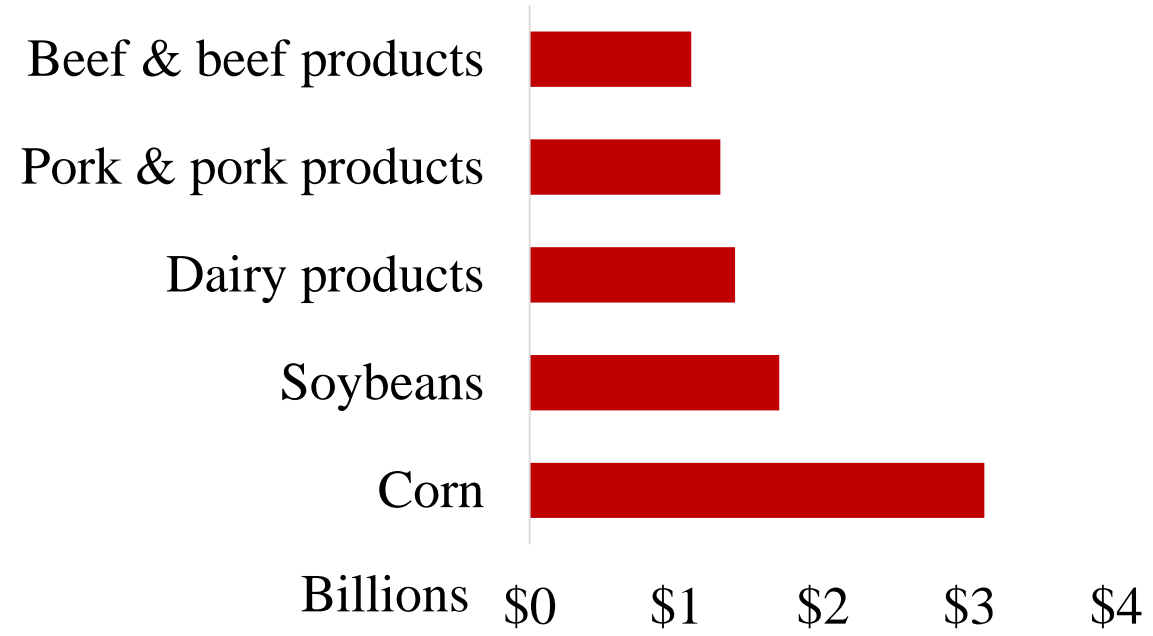
Controversy continues in both countries.



Leading U.S. Products Exported to Mexico 2018



Leading U.S. Agricultural Exports to Mexico 2018

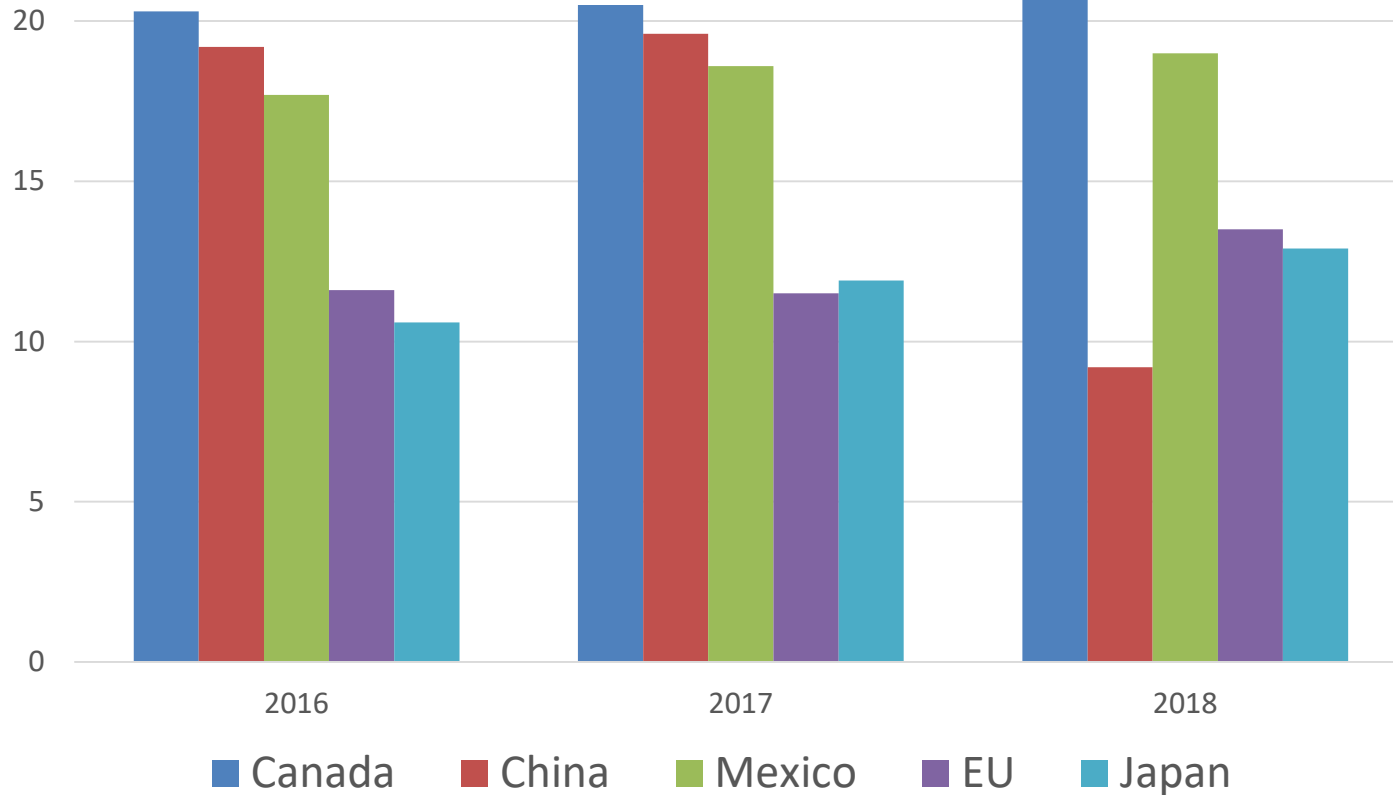


Source: Office of the U.S. Trade Representatives , 2018



Agricultural Exports (2016-2018)

Agricultural Exports (Billions of Dollars)

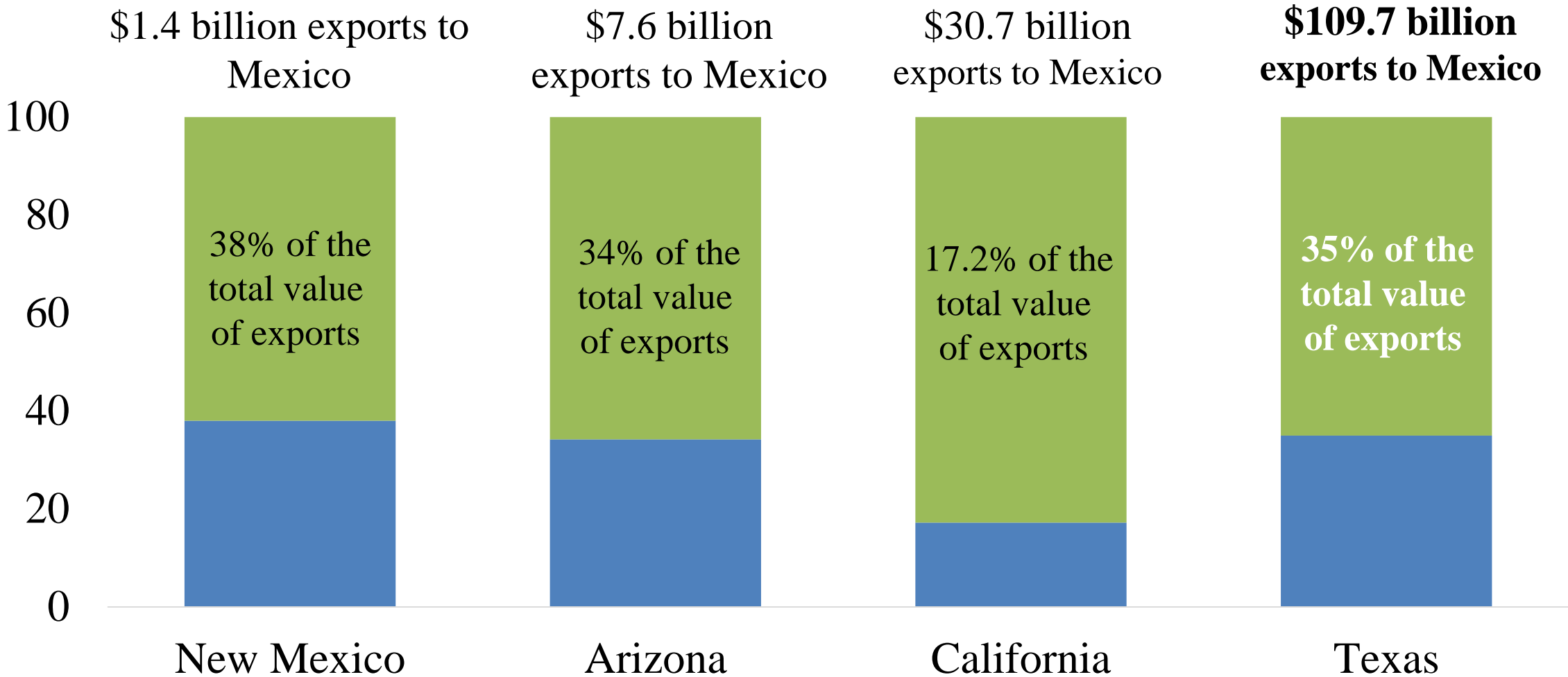


- 2018: Canada (\$20.7), Mexico (\$19.0), EU (\$13.5), Japan (\$12.9), China (\$9.2)
- China was the United States' second destination in 2016; it dropped to be #5 in 2018.



US Border States Exports to Mexico

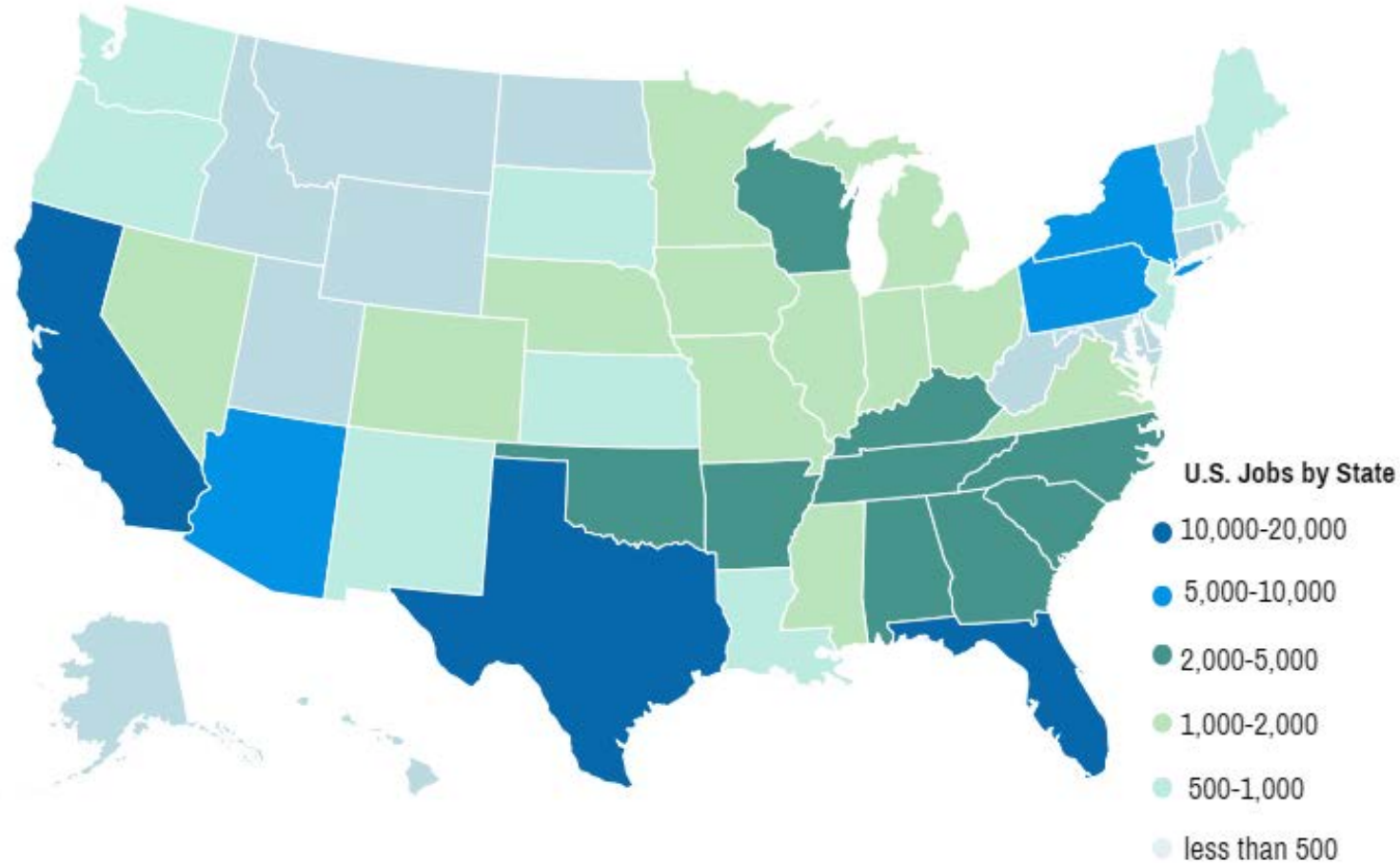
Texas is the top exporting U.S. state to Mexico (2018)



Source: United States Census Bureau, 2018

U.S. Jobs Created by Mexican Investment₂₀₁₆

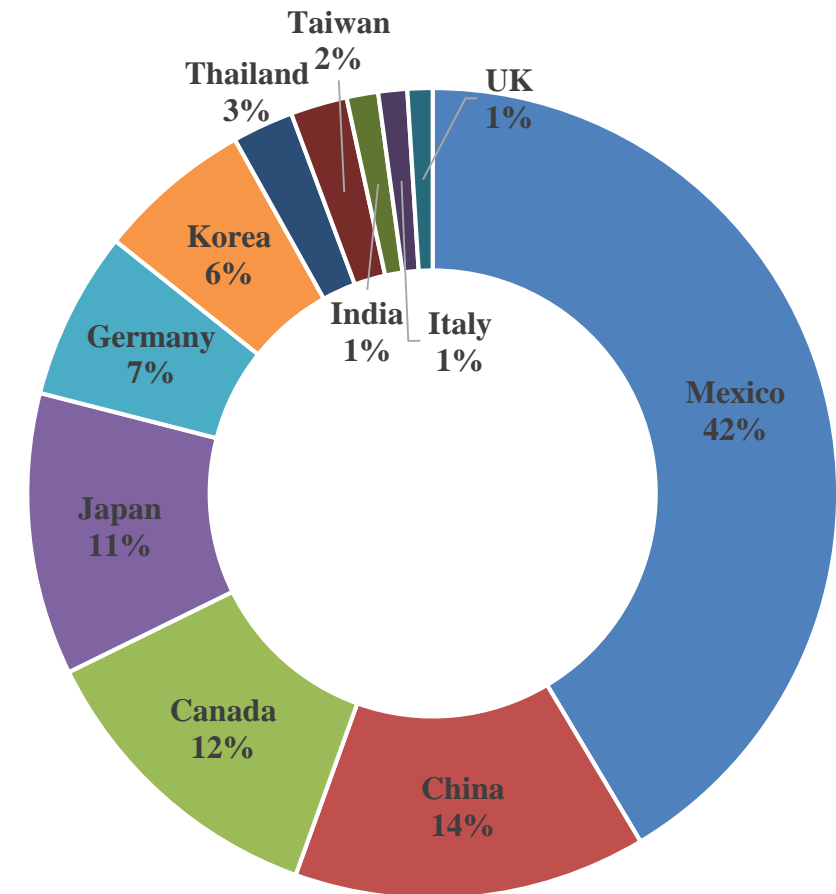
- Mexican investment supports **123,000 US jobs.**



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.



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?

Several studies conclude USMCA will have marginal or negative impact on auto sector, including higher vehicle prices. Congressional Budget Office says some companies will choose to pay tariffs rather than comply with new requirements (will pay up to \$3 billion in tariffs over next 10 years.)

Mexico's Labor Reform



- In April, Mexico's Congress passed a reform which **meets USMCA commitments**.
- In November, it **boosted funding to implement** reforms to signal serious commitment.
- **Key elements:**
 1. Establishes the Federal Labor Conciliation and Registration Center.
 2. Independent Labor Courts will replace existing Dispute Settlement boards.
 3. Guidelines to guarantee union elections are via a “personal, free, and secret” vote.
 4. Recognizes the right to join the union of choice, to bargain collectively, & 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 added rapid response mechanisms for complaints of labor rights violations.**

USMCA Implementation Issues

Trilateral/Bilateral	United States	Mexico	Canada
<ul style="list-style-type: none"> • Agreeing on the panelists for the Dispute Settlement mechanism. • Implementing the new Rules of Origin for vehicles. • Setting up the new competitiveness committee. • Implementing labor dispute provisions (Bilateral) 	<p style="text-align: center;">February 2020 USMCA Implementing Bill</p> <ul style="list-style-type: none"> • Creation of 4 Interagency Panels to monitor auto, environmental, and labor obligations in USMCA countries. <p style="text-align: center;">As of now:</p> <ul style="list-style-type: none"> • Formation of Environmental Enforcement Panel and Trade in Auto Goods Committee by Executive Order. <p style="text-align: center;">Mexico Labor Attachés</p>	<p style="text-align: center;">Legislative Changes:</p> <ul style="list-style-type: none"> • Reform the Penal Code to account for <i>camcording</i>. • New law on industrial property. • General export and import taxes. • Reform Federal Law on Copyrights to strengthen copyrights. • New Law on Infrastructure and Quality related to Standardization and Conformity Assessment . <p style="text-align: center;">Implementation of the Labor Reform</p>	<p style="text-align: center;">Amending certain Acts to bring them into conformity with Canada’s obligations.</p> <ul style="list-style-type: none"> • Competition Act • Copyright Act • Excise Tax Act • Export and Import Permits Act <p style="text-align: center;">So far:</p> <ul style="list-style-type: none"> • Bill C-69 - improvement of federal environmental assessment of infrastructure projects.

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** (negative for U.S.) .

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>

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>

Main Chapters of USMCA



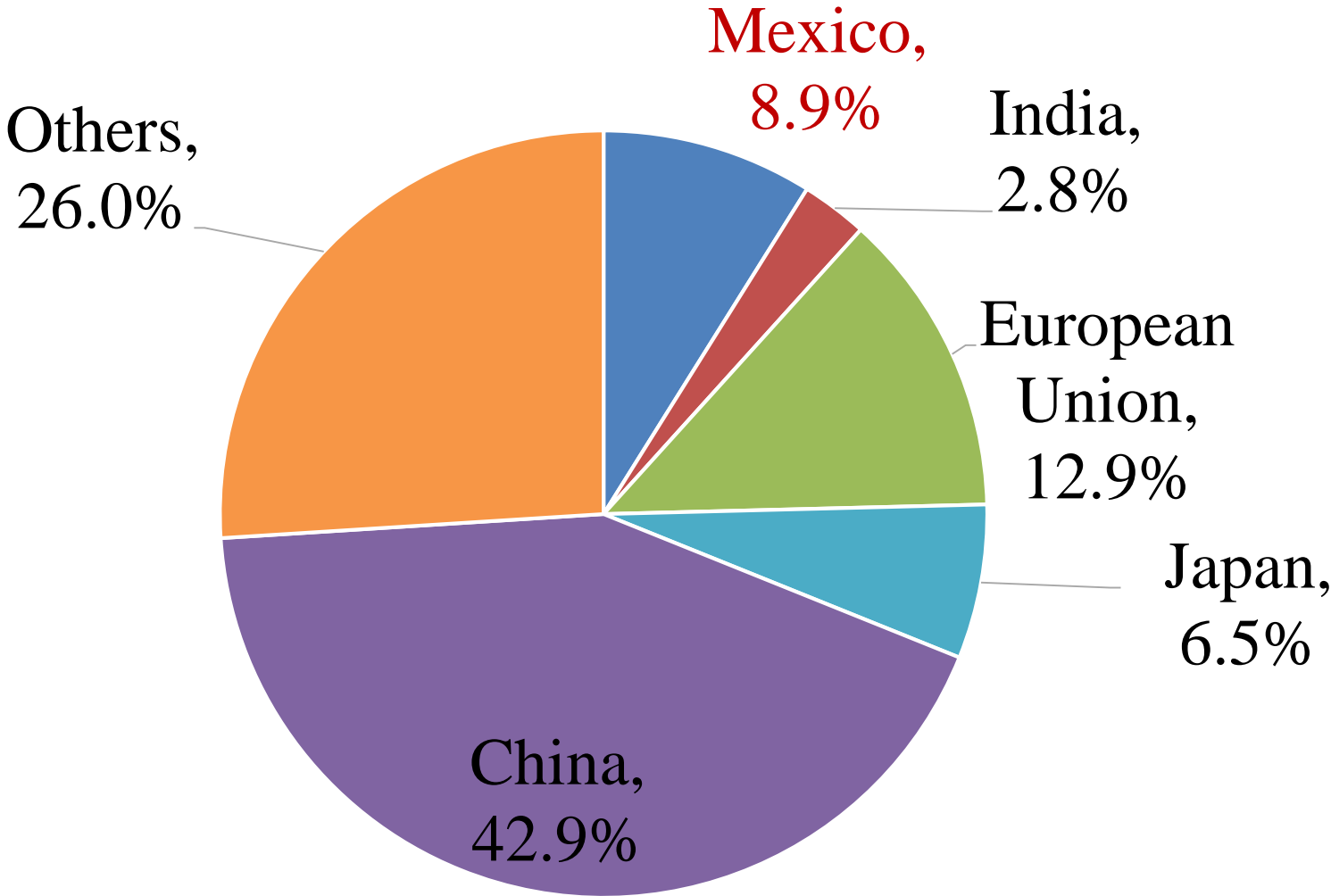
Revised Chapters



New Chapters

1. Initial Provisions and General Definitions	12. Sectoral Annexes	23. Labor
2. National Treatment and Market Access for Goods	13. Government Procurement	24. Environment
3. Agriculture	14. Investment	25. Small and Medium-Sized Businesses
4. Rules of Origin	15. Cross-Border Trade in Services	26. Competitiveness
5. Original Procedures	16. Temporary Entry	27. Anticorruption
6. Textiles & Apparel	17. Financial Services	28. Good Regulatory Practices
7. Customs and Trade Facilitation	18. Telecommunications	29. Publication and Administration
8. Energy/Recognition of Mexico's Right to Hydrocarbons	19. Digital Trade	30. Administration and Institutional Provisions
9. Sanitary and Phytosanitary Measures	20. Intellectual Property	31. Dispute Resolution
10. Trade Remedies	21. Competition Policy	32. Exceptions and General Provisions
11. Technical Barriers to Trade	22. State-Owned Enterprises	33. Macroeconomic Policies and Exchange Rate Matters
		34. Final Provisions

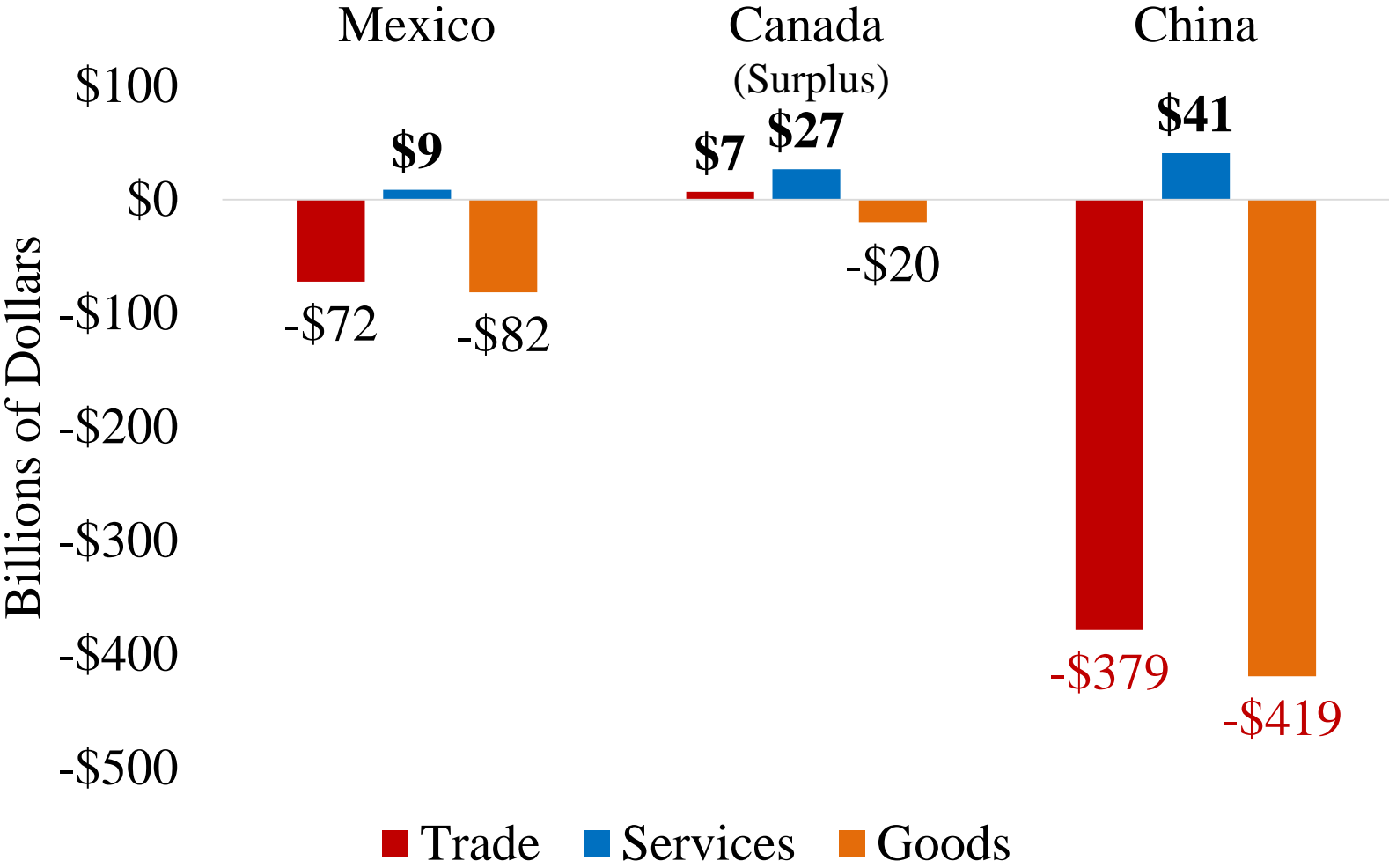
US Trade in Goods Deficit but Service Surplus



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

Where have the manufacturing jobs gone?

Competition from China

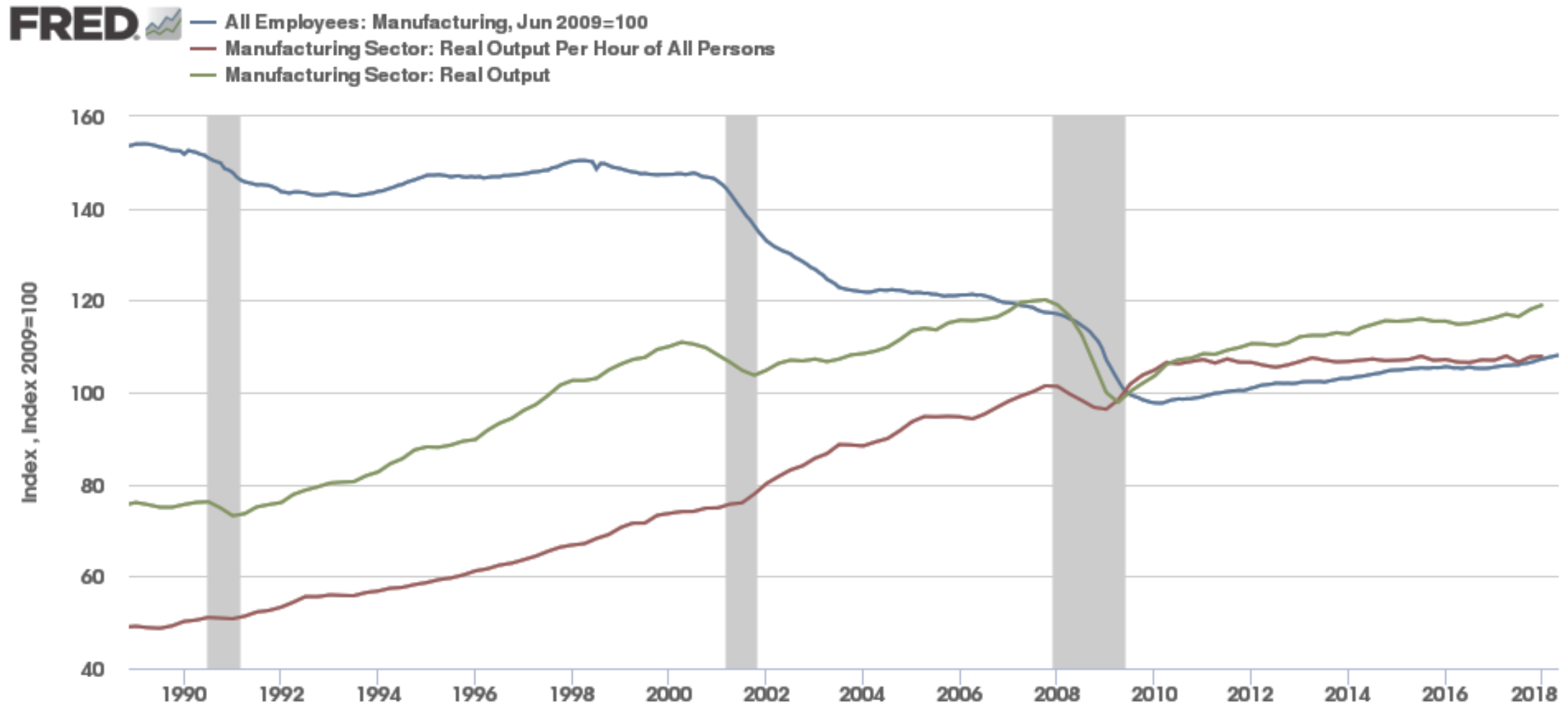
2 - 2.4 million

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

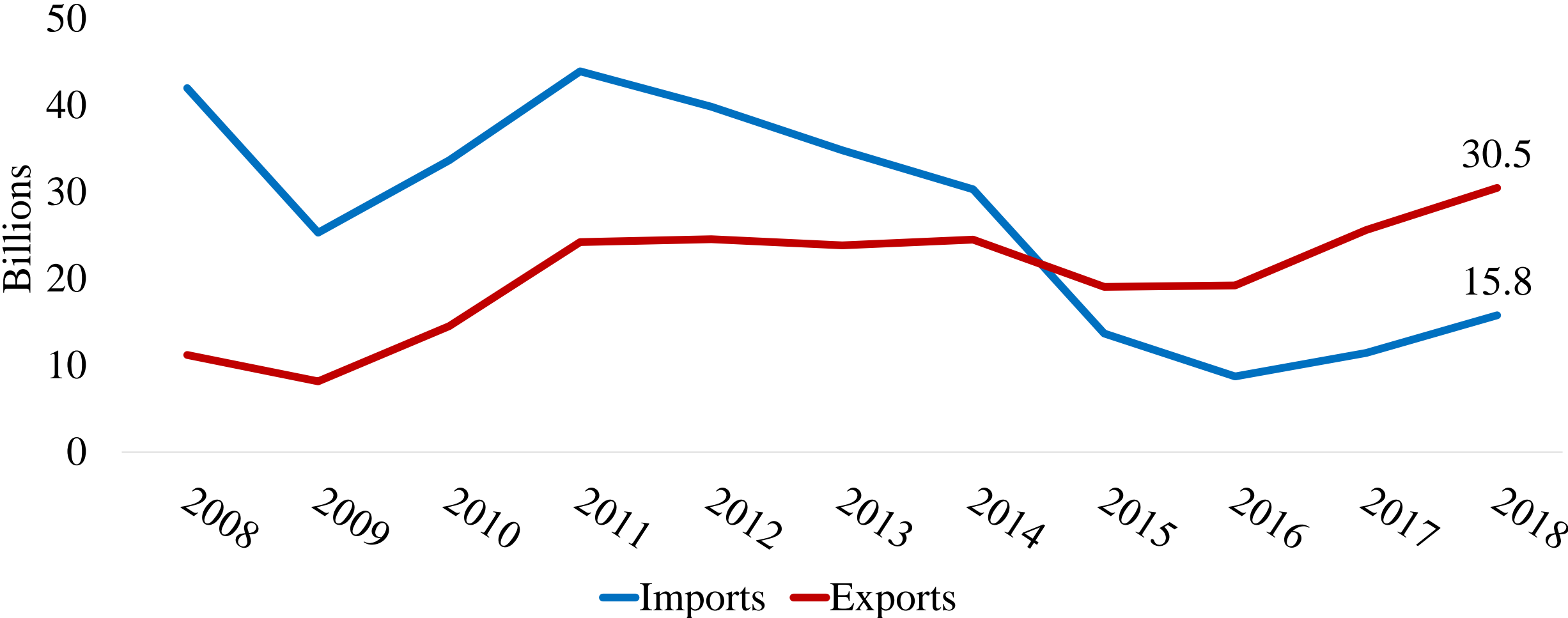
Hard hit sectors: agriculture/livestock/food; motor vehicles; machinery; other manufactured; services; transportation and logistics; textiles.³

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.

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

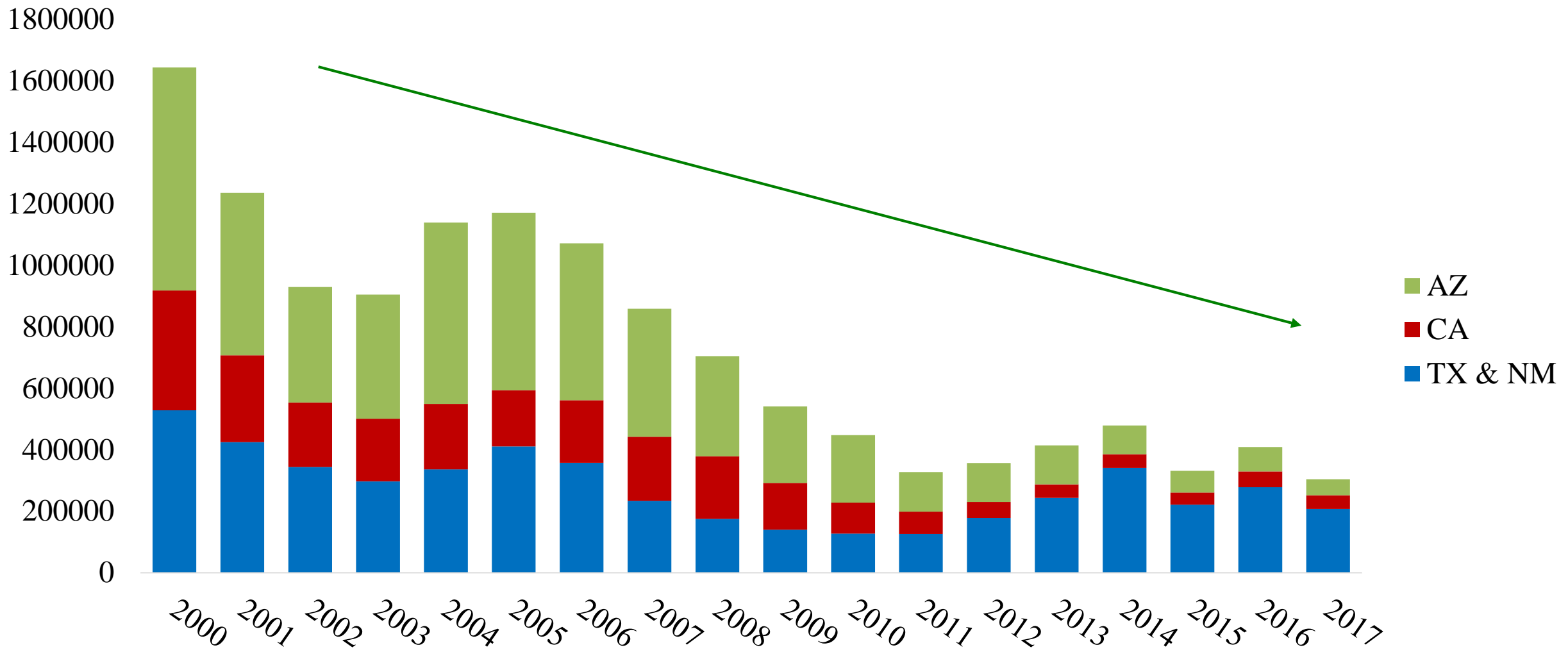


Americans' Views towards Border Wall

	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%



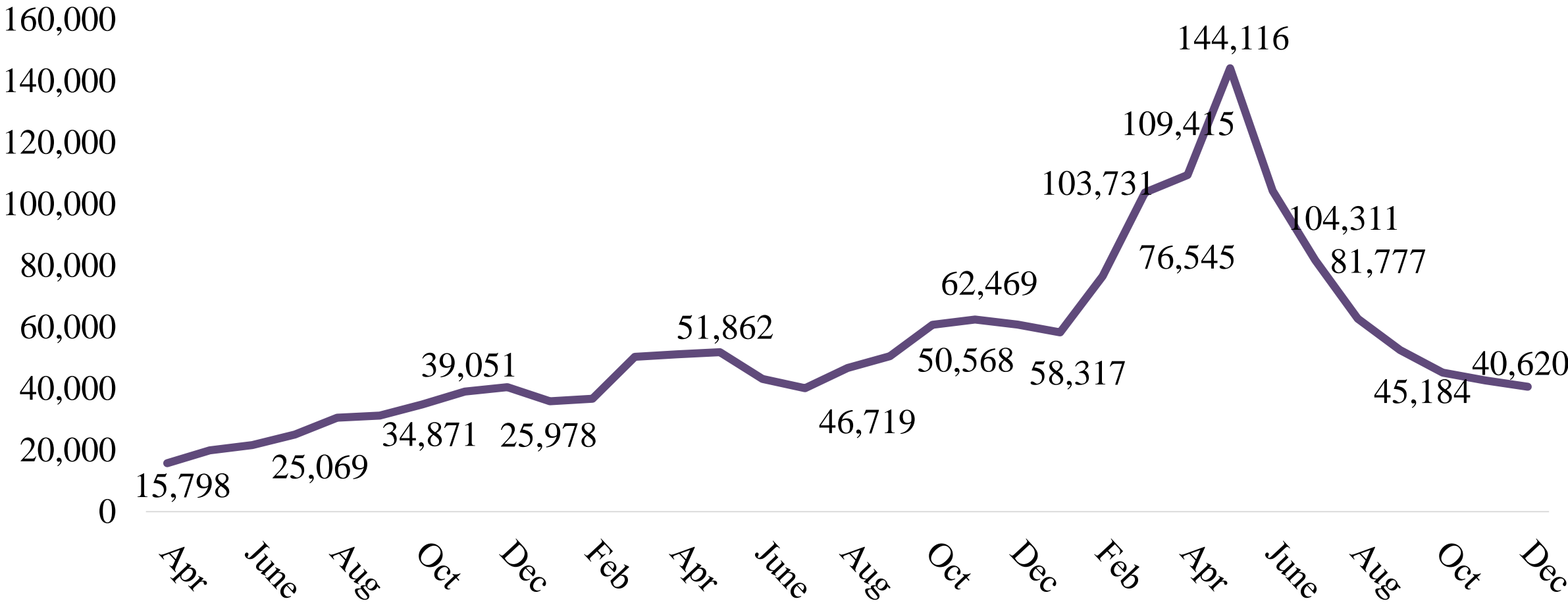
Southwest Border Apprehensions by State



Source: U.S. Border Patrol FY2000 - FY2017

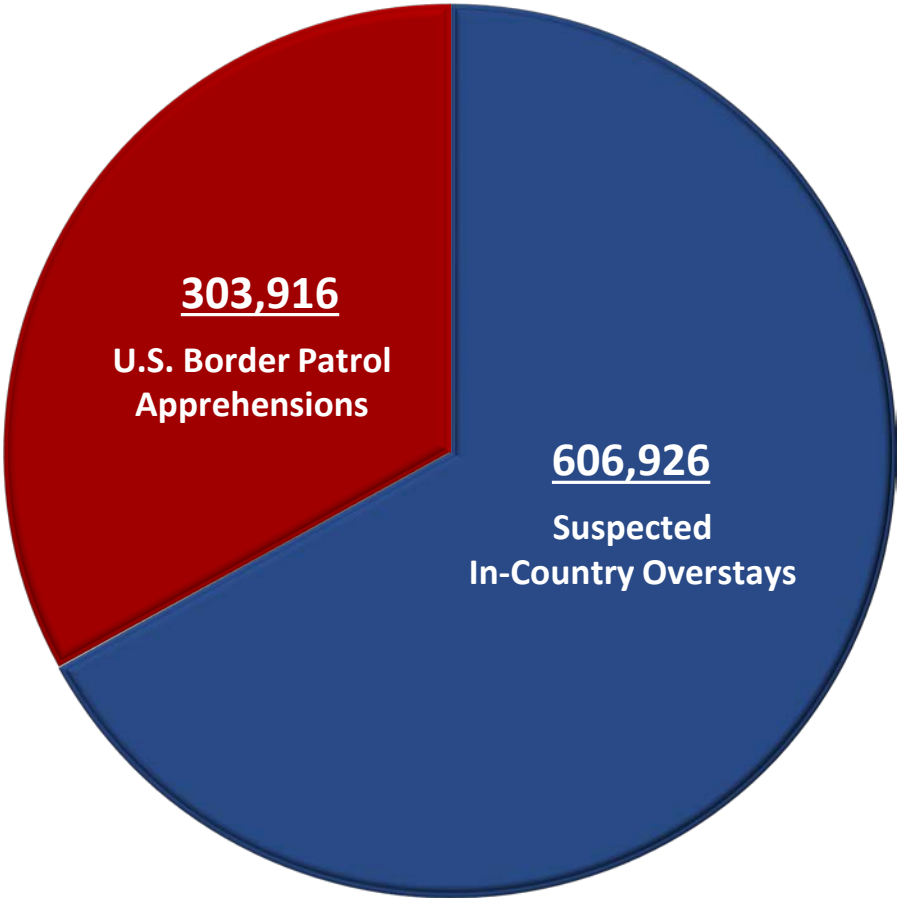


USBP Southwest Border Monthly Apprehensions



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

Visa overstays exceeds illegal border crossing in 2017





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.**

