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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

Currency in USD. Source: U.S. Census Bureau 2019
Each day there are over **1 million** border crossings.

Source: Bureau of transportation statistics, 2016
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

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

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

Source: Robert Koopman et al. “Give Credit Where Credit is Due: Tracing Value Added in Global Production Chains”. NBER Working Paper No 16426.
Some 5 million US jobs depend on trade and investment ties with Mexico (2017), compared to an estimated 700,000 jobs in 1993.
### Rank Order: Top US States’ Trade with Mexico 2018

<table>
<thead>
<tr>
<th>State</th>
<th>Volume $USD (Billions)</th>
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<tbody>
<tr>
<td>Texas</td>
<td>174</td>
<td>Indiana</td>
<td>9.3</td>
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<tr>
<td>California</td>
<td>71.6</td>
<td>Florida</td>
<td>8.6</td>
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<tr>
<td>Michigan</td>
<td>61</td>
<td>Pennsylvania</td>
<td>7.7</td>
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<tr>
<td>Illinois</td>
<td>21.2</td>
<td>Louisiana</td>
<td>6.8</td>
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<tr>
<td>Arizona</td>
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<td>North Carolina</td>
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Source: Secretaria de Economía, 2018
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.

Source: Mexico Institute calculations based on the US Bureau of Economic Analysis, 2018 and INEGI, 2018
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**.

Source: Bureau of transportation statistics, 2018; National Travel and Tourism Office, 2018.
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.

Source: U.S. Customs and Border Protection, 2019
Number of Unauthorized Immigrants in the U.S.

Source: PEW Research Center, 2019
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

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

Source: CDC Wonder Database; CDC Provisional Counts of Drug Overdose Deaths, 2019
Urgency: Homicides in Mexico

Source: Secretaria Ejecutiva de Seguridad Nacional, 2000-2019
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.
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).
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.

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.

- 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.
  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.
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

Source: Secretaria de Economia, 2018; BEA, 2018; Census Bureau, 2018; Americas Society/Council of the Americas, 2019
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.

Sources: US Department of Commerce 2019, Mexico Secretaria de Economia 2019.
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

Source: NAFTA 20 Years Later. Petersen Institute for International Economics, 2014
### Rank Order: Top U.S. States’ Trade with Mexico 2017

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<td>Indiana</td>
<td>9.8</td>
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<tr>
<td>California</td>
<td>73.1</td>
<td>Florida</td>
<td>9.7</td>
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<tr>
<td>Michigan</td>
<td>65.5</td>
<td>Pennsylvania</td>
<td>9.5</td>
</tr>
<tr>
<td>Illinois</td>
<td>22</td>
<td>Louisiana</td>
<td>8.6</td>
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<td>6.4</td>
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Source: Secretaria de Economia, 2017
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.

<table>
<thead>
<tr>
<th>Top 10 Trading States</th>
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<tbody>
<tr>
<td>State</td>
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<tr>
<td>Michigan</td>
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<tr>
<td>California</td>
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<tr>
<td>Illinois</td>
</tr>
<tr>
<td>Texas</td>
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<tr>
<td>New York</td>
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## Net Number of U.S. Jobs Related to Trade with Mexico and Canada

### Top 10 states 2017

<table>
<thead>
<tr>
<th>No.</th>
<th>State</th>
<th>Net Number of U.S. Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>California</td>
<td>+ 572.2</td>
</tr>
<tr>
<td>2</td>
<td>Texas</td>
<td>+ 399.5</td>
</tr>
<tr>
<td>3</td>
<td>New York</td>
<td>+ 325.5</td>
</tr>
<tr>
<td>4</td>
<td>Illinois</td>
<td>+ 198.0</td>
</tr>
<tr>
<td>5</td>
<td>Pennsylvania</td>
<td>+ 195.7</td>
</tr>
<tr>
<td>6</td>
<td>Ohio</td>
<td>+ 170.9</td>
</tr>
<tr>
<td>7</td>
<td>Georgia</td>
<td>+ 158.2</td>
</tr>
<tr>
<td>8</td>
<td>North Carolina</td>
<td>+ 150.6</td>
</tr>
<tr>
<td>9</td>
<td>New Jersey</td>
<td>+ 141.2</td>
</tr>
<tr>
<td>10</td>
<td>Virginia</td>
<td>+ 135.3</td>
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### Trade with Mexico: 4.9 million

### Trade with Canada: 7.2 million

<table>
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<tr>
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<tbody>
<tr>
<td>1</td>
<td>California</td>
<td>+ 898.5</td>
</tr>
<tr>
<td>2</td>
<td>Texas</td>
<td>+ 549.4</td>
</tr>
<tr>
<td>3</td>
<td>New York</td>
<td>+ 475.9</td>
</tr>
<tr>
<td>4</td>
<td>Florida</td>
<td>+ 446.3</td>
</tr>
<tr>
<td>5</td>
<td>Illinois</td>
<td>+ 293.7</td>
</tr>
<tr>
<td>6</td>
<td>Pennsylvania</td>
<td>+ 282.3</td>
</tr>
<tr>
<td>7</td>
<td>Ohio</td>
<td>+ 257.5</td>
</tr>
<tr>
<td>8</td>
<td>Georgia</td>
<td>+ 229.2</td>
</tr>
<tr>
<td>9</td>
<td>North Carolina</td>
<td>+ 225.8</td>
</tr>
<tr>
<td>10</td>
<td>Michigan</td>
<td>+ 209.7</td>
</tr>
</tbody>
</table>

Source: Trade Partnership, 2019
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.

Source: Office of the United States Trade Representative, 2018.
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.

- Would increase U.S. Trade.

<table>
<thead>
<tr>
<th></th>
<th>Real GDP</th>
<th>Employment</th>
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<tbody>
<tr>
<td></td>
<td>+$68.2 billion</td>
<td>+176,000 jobs</td>
</tr>
<tr>
<td>(+0.35 percent)</td>
<td>(+0.12 percent)</td>
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<table>
<thead>
<tr>
<th>U.S. Exports</th>
<th>U.S. Imports</th>
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<tbody>
<tr>
<td>to Canada</td>
<td>from Canada</td>
</tr>
<tr>
<td>+$19.1 billion</td>
<td>+$19.1 billion</td>
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<tr>
<td>(5.9 percent)</td>
<td>(4.8 percent)</td>
</tr>
<tr>
<td>to Mexico</td>
<td>from Mexico</td>
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<tr>
<td>+$14.2 billion</td>
<td>+$12.4 billion</td>
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<tr>
<td>(6.7 percent)</td>
<td>(3.8 percent)</td>
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</table>

- 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?

Mexico’s 2018 Elections
Presidential Results: Launches the “4th Transformation”

July 1 voter turnout: 63.5%

Andres Manual 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.

Source: Instituto Nacional Electoral; Consulta Mitofsky, 2018
Issues that Influenced Votes

Violence and Security
Corruption
Unemployment

Poverty and Low Wages
Public Health
Inflation

Source: Edelman, 2018; GEA/ISA poll, 2018
AMLO’s Popularity High But!

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

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 wont 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.

Source: Wilson Center’s Mexico Institute, 2018
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.

Source: Wilson Center’s Mexico Institute, 2018
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.

Source: Wilson Center’s Mexico Institute, 2019
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.
- 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.
  - 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

<table>
<thead>
<tr>
<th>STUDY</th>
<th>IMPACT ON EMPLOYMENT &amp; GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Perryman Group 2018 Study</td>
<td><strong>US Border States</strong>&lt;br&gt;Employment: +702, 421 to +1.4 million jobs&lt;br&gt;GDP: +$69 billion to +$140 billion&lt;br&gt;Largest impact in California</td>
</tr>
<tr>
<td></td>
<td><strong>Mexico Border States</strong>&lt;br&gt;Employment: +95, 948 to +193, 526 jobs&lt;br&gt;GDP: +$4.8 billion to +$9.7 billion&lt;br&gt;Largest impact in Nuevo Leon</td>
</tr>
</tbody>
</table>
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.

Source: Manpower Group, 2018 Talent Shortage Study
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.

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.

Source: various news reports, 2019
Leading U.S. Products Exported to Mexico 2018

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

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

Leading U.S. Agricultural Exports to Mexico 2018

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

Billions $0 $1 $2 $3 $4

Source: Office of the U.S. Trade Representatives, 2018
Agricultural Exports (2016-2018)

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

- **New Mexico**: $1.4 billion exports to Mexico, 38% of the total value of exports.
- **Arizona**: $7.6 billion exports to Mexico, 34% of the total value of exports.
- **California**: $30.7 billion exports to Mexico, 17.2% of the total value of exports.
- **Texas**: $109.7 billion exports to Mexico, 35% of the total value of exports.

Source: United States Census Bureau, 2018
U.S. Jobs Created by Mexican Investment

- Mexican investment supports 123,000 US jobs.

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.

Source: Center for Automotive Research, 2019
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

<table>
<thead>
<tr>
<th>Trilateral/Bilateral</th>
<th>United States</th>
<th>Mexico</th>
<th>Canada</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreeing on the panelists for the Dispute Settlement mechanism.</td>
<td>February 2020 USMCA Implementing Bill</td>
<td>Legislative Changes:</td>
<td>Amending certain Acts to bring them into conformity with Canada’s obligations.</td>
</tr>
<tr>
<td>Implementing the new Rules of Origin for vehicles.</td>
<td>Creation of 4 Interagency Panels to monitor auto, environmental, and labor obligations in USMCA countries.</td>
<td>• Reform the Penal Code to account for <em>camcording</em>.</td>
<td>• Competition Act</td>
</tr>
<tr>
<td>Setting up the new competitiveness committee.</td>
<td>As of now:</td>
<td>• New law on industrial property.</td>
<td>• Copyright Act</td>
</tr>
<tr>
<td>Implementing labor dispute provisions (Bilateral)</td>
<td>• Formation of Environmental Enforcement Panel and Trade in Auto Goods Committee by Executive Order.</td>
<td>• Reform Federal Law on Copyrights to strengthen copyrights.</td>
<td>• Excise Tax Act</td>
</tr>
<tr>
<td></td>
<td>Mexico Labor Attachés</td>
<td>• New Law on Infrastructure and Quality related to Standardization and Conformity Assessment.</td>
<td>• Export and Import Permits Act</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Implementation of the Labor Reform</td>
<td>So far:</td>
</tr>
<tr>
<td></td>
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<td></td>
<td>• Bill C-69 - improvement of federal environmental assessment of infrastructure projects.</td>
</tr>
</tbody>
</table>
## 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.)

<table>
<thead>
<tr>
<th>Country</th>
<th>Welfare gain USMCA ($US millions)</th>
<th>Removal of steel and aluminum tariff ($US millions)</th>
<th>Removal of reciprocal surtaxes ($US millions)</th>
<th>Total USMCA + Steel and surtax reforms ($US millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>$734</td>
<td>$1,428</td>
<td>- $933</td>
<td>$1,229</td>
</tr>
<tr>
<td>USA</td>
<td>- $794</td>
<td>- $1,609</td>
<td>$3,701</td>
<td>$1,297</td>
</tr>
<tr>
<td>Mexico</td>
<td>$597</td>
<td>$597</td>
<td>- $614</td>
<td>$550</td>
</tr>
<tr>
<td>Total Region</td>
<td>$538</td>
<td>$386</td>
<td>$2,153</td>
<td>$3,076</td>
</tr>
</tbody>
</table>

## Costs of Withdrawing from NAFTA: Net Job Losses

<table>
<thead>
<tr>
<th>STUDY</th>
<th>IMPACT ON EMPLOYMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact Econ</td>
<td><strong>Unskilled Workers:</strong> auto, ag/food, textiles, services sectors suffer most (3-5 years)</td>
</tr>
<tr>
<td></td>
<td>U.S.: loss of 256,000 jobs, with 95K more workers that would have to relocate</td>
</tr>
<tr>
<td></td>
<td>Mexico: loss of 951,000</td>
</tr>
<tr>
<td></td>
<td>Canada: loss of 125,000</td>
</tr>
<tr>
<td></td>
<td><strong>Skilled and Unskilled Workers</strong> (3-5 years)</td>
</tr>
<tr>
<td></td>
<td>U.S.: loss of 1.4 million jobs</td>
</tr>
<tr>
<td></td>
<td>Mexico: loss of 1.5 million</td>
</tr>
<tr>
<td></td>
<td>Canada: loss of 497,000</td>
</tr>
<tr>
<td>PIIE</td>
<td>U.S.: 180,000 exporting jobs lost, most affected: auto, ag/food, &amp; manufacturing sector</td>
</tr>
<tr>
<td>Oxford Economics</td>
<td>U.S.: 300,000 fewer jobs</td>
</tr>
<tr>
<td>Trade Partnership Worldwide</td>
<td>U.S.: 1.8 to 3 million jobs lost (3-5 years)</td>
</tr>
<tr>
<td></td>
<td>U.S.: 200,000 to 700,000 fewer jobs over the longer term</td>
</tr>
<tr>
<td></td>
<td>Canada: 1.2 million jobs lost</td>
</tr>
<tr>
<td></td>
<td>Mexico: 2.3 to 10.3 million jobs lost</td>
</tr>
</tbody>
</table>
# Main Chapters of USMCA

<table>
<thead>
<tr>
<th>Revised Chapters</th>
<th>New Chapters</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Initial Provisions and General Definitions</strong></td>
<td><strong>12. Sectoral Annexes</strong></td>
</tr>
<tr>
<td><strong>5. Original Procedures</strong></td>
<td><strong>16. Temporary Entry</strong></td>
</tr>
<tr>
<td><strong>7. Customs and Trade Facilitation</strong></td>
<td><strong>18. Telecommunications</strong></td>
</tr>
<tr>
<td><strong>10. Trade Remedies</strong></td>
<td><strong>21. Competition Policy</strong></td>
</tr>
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<td></td>
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</tr>
</tbody>
</table>
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
$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

Source: Autor et. Al, 2016; Hicks and Devaraj, 2015
U.S. Manufacturing Employment and Output

Shaded areas indicate U.S. recessions

Source: U.S. Bureau of Labor Statistics

myFRED/g/k51D
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.

Sources: 1) Impact Econ; 2) Trade Leadership Council Survey; 3) ImpactEcon, Trade Leadership Council Survey, Food and Agricultural Letter, Atlantic Council, MEMA/BCG.
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 planned 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

<table>
<thead>
<tr>
<th>Support building a wall along the US-Mex border</th>
<th>Total</th>
<th>Democrat</th>
<th>Republican</th>
</tr>
</thead>
<tbody>
<tr>
<td>40%</td>
<td>6%</td>
<td>82%</td>
<td></td>
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</tbody>
</table>

Agree that building a wall along the US-Mex border would reduce illegal immigration

<table>
<thead>
<tr>
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<th>Democrat</th>
<th>Republican</th>
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<tbody>
<tr>
<td>54%</td>
<td>29%</td>
<td>87%</td>
<td></td>
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Believe the U.S. would ultimately pay for a border wall (rather than Mexico).

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<thead>
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<th>Total</th>
<th>Democrat</th>
<th>Republican</th>
</tr>
</thead>
<tbody>
<tr>
<td>70%</td>
<td>87%</td>
<td>46%</td>
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</tr>
</tbody>
</table>

Source: Pew Research Poll, 2019
Southwest Border Apprehensions by State

Source: U.S. Border Patrol FY2000 - FY2017
Visa overstays exceeds illegal border crossing in 2017

Source: U.S. Border Patrol FY 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.