Building Partnership with Mexico

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Building a Partnership with Mexico

• U.S.-Mexico ties touch more U.S. lives daily than any other country via trade, border connections, tourism, and family ties as well as illicit flows. Also true for Mexico.
• An estimated 35 million U.S. citizens are of Mexican heritage.
• The shared 1990-mile border (3,201 km) creates overlapping security, economic and environmental interests.
• In recent years, government-to-government collaboration has been unprecedented, including on public security.
A Massive Relationship
US-Mexico Trade

2017 Trade in goods and services:

$616 Billion

US trades over 1 million per minute with Mexico.

Currency in USD. Source: BEA 2017
US-Mexico Trade

Mexico is:

- 2nd largest export market
- 3rd largest trading partner
- 3rd largest Ag export market: $19 billion in 2017
- 1st or 2nd export market for 28 U.S. States
- 1st export market for U.S. Southern Border States
US-Mexico Border Crossings

Each day there are over 1 million border crossings.

Source: Bureau of transportation statistics, 2016
<table>
<thead>
<tr>
<th>Areas of U.S.-Mexico Bilateral Work</th>
<th>Trilateral Work: Canada, Mexico and the U.S.</th>
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<tbody>
<tr>
<td>• Trade Facilitation</td>
<td>• Finalizing USMCA</td>
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<td>• Economic competitiveness</td>
<td>• Energy &amp; Environment Cooperation</td>
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<td>• Energy</td>
<td>• Regional and global priorities</td>
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<td>• Border management and migration</td>
<td>• Trilateral Trusted Traveler Program</td>
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<td>• Public security and justice collaboration</td>
<td>• Countering Illicit Drugs</td>
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<td>• Fighting drug trafficking &amp; organized crime</td>
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<td>• Counter-terrorism</td>
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<td>• Central America, the region, international</td>
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<td>• Consular Issues for US and Mexican citizens</td>
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<td>• Health issues</td>
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<td>• Education, Innovation</td>
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<td>• Environment</td>
<td></td>
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<td>• Human rights</td>
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Serious Challenges to Address

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

Finalizing USMCA

Strengthening Mexican law enforcement institutions and bilateral cooperation

Central American migrants

Migration & border Management

Surging Criminal Violence in Mexico

Negative public perceptions

Potential Terrorism

Countering Corruption

Reducing poverty in Mexico
Economic Security
North American Trade in Goods and Services

Source: Secretaria de Economia, 2017; BEA, 2017; Census Bureau, 2017.
North American Trade

• Canada, Mexico and the US 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 1.9 times more than with China.
• Up to 14 million US jobs supported by trade with neighbors.
• 50 percent of NAFTA trade is intermediate goods.

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

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

## Rank Order: Top US States’ Trade with Mexico 2017

<table>
<thead>
<tr>
<th>State</th>
<th>Volume $USD (Billions)</th>
<th>State</th>
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</thead>
<tbody>
<tr>
<td>Texas</td>
<td>187</td>
<td>Indiana</td>
<td>9.8</td>
</tr>
<tr>
<td>California</td>
<td>73.1</td>
<td>Florida</td>
<td>9.7</td>
</tr>
<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>
</tr>
<tr>
<td>Arizona</td>
<td>15.5</td>
<td>North Carolina</td>
<td>8.3</td>
</tr>
<tr>
<td>Ohio</td>
<td>14.7</td>
<td>Kentucky</td>
<td>7.7</td>
</tr>
<tr>
<td>Tennessee</td>
<td>11.7</td>
<td>New Jersey</td>
<td>7.4</td>
</tr>
<tr>
<td>Georgia</td>
<td>10.4</td>
<td>New York</td>
<td>6.4</td>
</tr>
</tbody>
</table>

Source: Secretaria de Economia, 2017
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.
Mexico trade supports some 5 million jobs

Some 5 million US jobs depend on trade and investment ties with Mexico (2015), compared to an estimated 700,000 jobs in 1993.

In 2015, Canada’s and Mexico’s FDI in the US reached $388 billion.

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

U.S. Jobs Created by Mexican Investment

- Mexican investment supports 123,000 US jobs.
Energy
Energy and the Environment

- Increased U.S. investment in Mexico’s energy sector following reform
- Increased U.S. natural gas and gasoline sales to Mexico
- New dialogues between energy regulators
- U.S. and Mexico work to protect border environment, river basins, and endangered species
- AMLO bringing changes, e.g. bigger role for PEMEX, reduce exports of crude oil?
U.S. Energy Trade Surplus with Mexico

Source: US Census Bureau, 2017
Border Management Licit and Illicit Flows
Moving toward Co-Management of the Border
2008-2016 from blame to “shared responsibilities”

• Making the border more open to legitimate travel and commerce.
• Working to align customs regulatory frameworks; increase joint use of customs facilities on the border; improve infrastructure.
• New mechanisms to communicate, coordinate and more effectively counter illicit trade and travel: drugs, guns, money and people.
• Steps to increase security and reduce cross-border violence.
• New programs to share information on potential border crossers.
• Working to create a Trilateral Trusted Traveler Program.
• Cooperation slowed in 2018
Trucks Crossing the US-Mexico Border

Source: Bureau of Transportation Statistics, 2017
Border: Migrant Flows
Migrant Flows

- The flow of Mexican immigrants to the U.S. is at the **lowest levels** since the 1990s.
- The number of Mexican immigrants in the U.S. **has been dropping** since 2007.
- In FY 2017, apprehensions of Mexican unauthorized immigrants declined **31.22%** from FY 2015.
Net Migration from Mexico

- In 2016, there were **1.3 million fewer** unauthorized Mexican immigrants in the U.S. than in 2007

Source: Pew Research, 2017
Recent Apprehensions
U.S. Southwest Border Apprehensions from countries other than Mexico & Mexican Apprehensions from Latin America and the Caribbean

Unidad de Política Migratoria (2008-2017)
Helping Northern Triangle
The US and Mexico enhanced cooperation in response to 2014 surge of child and family migrants, including work at Mexico’s southern border against smuggling of people & drugs.

In June 2017, the US and Mexico hosted a Conference on Prosperity and Security in Central America. Commitments include:

- U.S. FY 2018 budget request for $460 million for the Northern Triangle (NT).
- Create a migration observatory to study and share information on regional migration flows.
- Improved cooperation to combat transnational criminal organizations.
- $53 million from Mexico for three NT infrastructure projects.

A second conference in Washington took place October 11-12, 2018.

Mexico’s Senate condemned U.S. border migration policies in June and called for the government to end security and immigration cooperation.
Bilateral Cooperation Against Crime
US-Mexico Law Enforcement/Security Cooperation

Mérida Initiative Programs & Agency-to-Agency Cooperation

Defense Dialogues & Cooperation

Security Coordination Group
# US-Mexico Mérida Initiative: Evolving

<table>
<thead>
<tr>
<th>1. Disrupting the operational capacity of organized crime.</th>
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<tbody>
<tr>
<td>2. Institutionalizing reforms to sustain the rule of law and respect for human rights in Mexico.</td>
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<tr>
<td>3. Creating a “21st Century Border”.</td>
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<tr>
<td>4. Building strong and resilient communities.</td>
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<tr>
<th>$2.9 billion appropriated by the US since 2008.</th>
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<td>$1.6 billion already spent on training and equipment via over 100 programs to bolster Mexican capacity.</td>
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</table>

Mexico has spent over 10 times more.
Opioids Change the Game

Source: CDC Wonder Database; CDC Provisional Counts of Drug Overdose Deaths as of 8/6/2017
2017 US-Mexico Agreements on Illicit Drugs

- Partner against criminal organizations – “Unprecedented” cooperation.
- Address the demand for illicit drugs among US citizens.
- Necessary tools: physical barriers, technology, patrolling, eradication, enhanced law enforcement cooperation, anti-addiction programs.
- Go after all elements in the chain: means of production, cross-border distribution networks, flows of profits, weapons procurement.
- AMLO ordered a review of Mexican policies & cooperation with the U.S.
Violence up in Mexico
Urgency: Homicides in Mexico

Source: Secretaria Ejecutiva de Seguridad Nacional, 2000-2017
Homicides in Mexico: Criminal Insurgencies?

29,168 killings in 2017; the most violent year since 1997.


Law enforcement and judicial process overwhelmed.

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

Crime cost up to 17.6% GDP.

U.S. travel warnings for resorts.

Percent of Mexico’s population that feels unsafe

Source: INEGI, 2017
Perceptions of Bilateral Relations and NAFTA
• In 2017 polling, 66% of Americans had positive views of Mexico; while only 30% of Mexicans had positive views of the US.

US Opinion: NAFTA is Good for the US Economy?

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

NAFTA/USMCA Negotiations
What’s at Stake?

$1.3 trillion of North American Trade

Nearly 14 million U.S. jobs & millions more in Mexico and Canada

$452 billion U.S. investment in NAFTA partners & their $388 billion in the U.S.

46,000 U.S. trucking jobs supported by cross-border trade; $137 billion in annual vehicle and parts exports to neighbors and the world.

$43 billion worth of food and ag goods exported to Mexico and Canada

$88 billion in U.S. services exports & $31.5 billion services trade surplus

Main elements of the USMCA (T-MEC)

- **Rules of Origin for Vehicles**
  - 75% of the value of a vehicle to be produced in the region (up from 62.5%).
  - 40%-45% percent of auto content produced by workers earning over $16 per hour.

- **Dispute Settlement**
  - Keeps NAFTA’s dispute-settlement provision (Chapter 19) for private companies; keeps state to state (Ch. 20).
  - Limits investor dispute (ISDR) to key sectors and in scope for U.S.-Mexico, eliminates them for U.S.-Canada.

- **Intellectual Property Rights, Modernization, Labor**
  - Expanded IPR Protections and internet coverage toward U.S. objectives.
  - Achieved or exceeded most of modernization goals sought in TPP, including labor rights provisions.

- **Sunset Clause:**
  - 16-year lifetime for the agreement, with a review every six years and possible 16 year renewal.

- **Dairy**
  - Allows U.S. dairy farmers to export the equivalent of 3.6% of Canada’s dairy market into Canada.
  - Eliminates Canada’s Class 6 and Class 7 milk categories and associated pricing schedules.
Next Steps: United States

- Presidential signature before **December 1st**

- The U.S. International Trade Commission (ITC) must complete a study of the agreement’s economic impact.

- Congress will have to pass legislation to implement the USMCA.

- President provides Congress with the final legal text and implementation plan.

- After Congress receives the final bill, it has 90 days in session to approve it.
Questions about the new Rules of Origin

1. Will measuring wage rates and content in the supply chain be workable? How costly and accurate will it be? Who will enforce it?

2. How much will the new rules raise the prices of North American vehicles for U.S. consumers and for export?

3. Will manufactures move production out of North America?

4. Will some manufacturers forgo the NAFTA benefit and pay a tariff instead?

5. Will the U.S. auto industry be less competitive?

6. Will the new rules create or destroy jobs?

Steel and Aluminum Tariffs
Still in place
Costs of Steel and Aluminum Tariffs

- Over 400,000 U.S. jobs lost\(^1\)
- GDP decline of 0.2% ($36 billion)\(^1\)
- 16 U.S. jobs lost for every 1 gained\(^1\)
- Decline of 2% in all imports and 1% in all exports\(^1\)
- Costs to U.S. Consumers: $7.5 billion a year, before retaliation from the European Union, Mexico and Canada\(^2\)

Sources: 1) Peterson Institute for International Economics & Trade Partnership Worldwide, 2018; 2) American Action Forum, 2018
Mexico’s 2018 Presidential Election
Presidential Results

Voter turnout: 63.5%

Over 60% of the Mexican population is satisfied with the election’s results.

Over 65% of the Mexican population believe the security, economic and political situation will improve in the short-term under AMLO’s Presidency.

Source: Instituto Nacional Electoral; Consulta Mitofsky, 2018
Chamber of Deputies – November 2018

- Morena: 307 seats
- PAN: 128 seats
- PRI: 63 seats
- No party: 2 seats

Source: Wilson Center’s Mexico Institute, 2018
Senate – November 2018

55% Morena
70 seats

30% PAN
38 seats

15% PRI
20 seats

Source: Wilson Center’s Mexico Institute, 2018
Issues that Mexicans care about & influenced their votes

- Corruption
- Violence and Security
- Unemployment
- Poverty and Low Wages
- Public Health
- Inflation

Source: Edelman, 2018; GEA/ISA poll, 2018
AMLO’s Policy Proposals

Poverty:
- Increase minimum wage.
- Launch new youth jobs programs.
- Subsidize inputs for small farmers.
- Guarantee free universal health coverage.

Corruption:
- Better supervision of public spending.
- Cut public-officials salaries, perks and reduce staff.
- Name new independent Anti-Corruption prosecutor. Absolute autonomy of the General Attorney’s office.
- Legal reforms to increase penalties for officials who use public money for personal gain.

Trade:
- Conclude the trade negotiation with U.S. Focus on expanding trade with others.

Economic Policy:
- Focus on developing Mexico’s internal market
- Infrastructure projects (for example, railway line)
- Redirect government spending to social programs; won’t raise taxes or increase debt
- Lower taxes in border cities with the US

Education:
- Eliminate teacher's evaluation.
- Launch new youth scholarships, universities.
AMLO’s Policy Proposals

Energy:
• Review of contracts. **Postpone new auctions** (for at least 2 years).
• **Strengthen the role of PEMEX** for exploration and choosing partnerships.
• Limit **gasoline price** increases.
• **Build new refineries** to supply gasoline; aim to reduce crude exports.

Security:
• Create an independent **Secretariat of Public Security**.
• Centralize command of police forces (*mando único*); set up geographic security districts.
• Put intelligence agency CISEN under Public Security Secretary.
• Return of the military to the barracks in a 3-year framework.
• Police professionalization: better trained and better paid police
• Social investment: more youth **job and educational opportunities**.
• Review security **cooperation with the U.S.**
• **Amnesty** for lower-level offenders; support for victims, use redistributive justice approaches.
• **De-criminalize marihuana** and, possibly, **growing opium poppy**.
## AMLO’s Proposals to Trump – July 12 Letter

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<thead>
<tr>
<th>TRADE</th>
<th>SECURITY</th>
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<tr>
<td>Finish NAFTA renegotiation.</td>
<td>Establish development plans between the U.S., Mexico, and Central America to finance economic development. Allocate 25% of investments to security and border control.</td>
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<tr>
<td>Relocate Mexican customs inland from the border.</td>
<td>Each government will control its borders and combat trafficking of drugs and weapons.</td>
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<tr>
<td>Establish a free trade zone on the northern border of Mexico: decrease the VAT rate, the income tax rate &amp; energy prices, and increase minimum wage.</td>
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## AMLO’s Proposals to Trump – July 12 Letter

### MIGRATION

- Improve economic opportunities to keep Mexicans in Mexico.
- Migration cooperation based on the respect for human rights.
- Development plans to *mitigate poverty and avoid migration*.

### DEVELOPMENT

- Encourage *tourism* with high-speed train from Cancun to Palenque.
- Create an *economic and commercial corridor* in the Isthmus of Tehuantepec.
- Reactivate Mexico’s agricultural sector.
- Urban development plan in border cities.

Source: Wilson Center’s Mexico Institute, lopezobrador.org.mx, Politico.mx
AMLO’s early months: Signposts

1. Taking the reigns of the government
2. Tackling on public security and corruption
3. Working with the private sector
4. Setting energy strategy
5. Maintaining budget prudence
6. Managing U.S. relations (trade, migration, crime)
Maintaining a Partnership with Mexico?
U.S.-Mexico Relations: Early Months Set Tone

Trade:
- Complete USMCA ratification; end metal tariffs; begin cooperative implementation.
- Enhance facilitation of trade and travel with focus on border.

Bilateral Security Cooperation:
- Avoid further deterioration in cooperation.
- Better manage together migration; integrate AMLO’s development ideas.
- Deepen support for Central America to address root causes of migration.
- Review cooperation against organized crime (attacking production, distribution, logistics, finance networks, arms smuggling, and addiction/demand), and support Mexico’s efforts to reduce crime and violence.
- Continue close cooperation against terrorism.

Improve Competitiveness:
- Identify and revive a bilateral and North American agenda to enhance economic competitiveness.
- Invest in programs, including workforce development and education, to further develop the complimentary nature of the two economies, to create jobs for the Fourth Industrial Revolution, and to outperform global competitors.

Rebuilding Confidence:
- Take steps to rebuild deteriorating trust, or risk becoming “Distant Neighbors” again.