

Building Partnership with Mexico



E. Anthony Wayne
Career Ambassador (ret.)

Public Policy Fellow, Wilson Center

wayneea@gmail.com



@EAnthonyWayne

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. The same is true for Mexico.
- An estimated 35 million U.S. citizens are of Mexican heritage.
- Share a 1990-mile border (3,201 km) & adjoining environment.
- In recent years, government-to-government collaboration has been unprecedented.

Managing a Massive Relationship

US-Mexico Trade



Exports

\$271 Billion



Imports

\$340 Billion



2017 Trade in goods and services:



611
Billion

US trades over 1 million
per minute with Mexico.

US-Mexico Trade

Mexico is the US':

- 2nd largest export market
- 3rd largest trading partner
- 3rd largest **Ag** export market: \$18 billion in 2016
- 1st or 2nd export market for 28 U.S. States
- 1st export market for **U.S. Southern Border States**

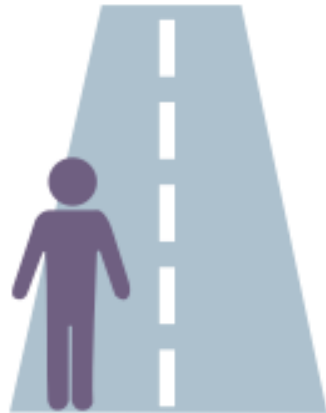


US-Mexico Border Crossings

Each day there are over

1 million

border crossings



North America's Geo-Strategic Situation

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



North American Cooperation

Areas of U.S.-Mexico Bilateral Work



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

Trilateral Work: Canada, Mexico and the U.S.



- Modernizing NAFTA
- Clean Energy and Environment Cooperation
- North America Caucus on regional and global priorities
- Trilateral Trusted Traveler Program
- Dialogue on Countering Illicit Drugs

Serious Challenges to Address

U.S. drug demand and organized
crime violence in Mexico

Illegal immigration

Cross-border criminal networks

Potential Terrorism

Building stronger Mexican law
enforcement institutions and
bilateral cooperation

Negative public perceptions

Modernizing NAFTA

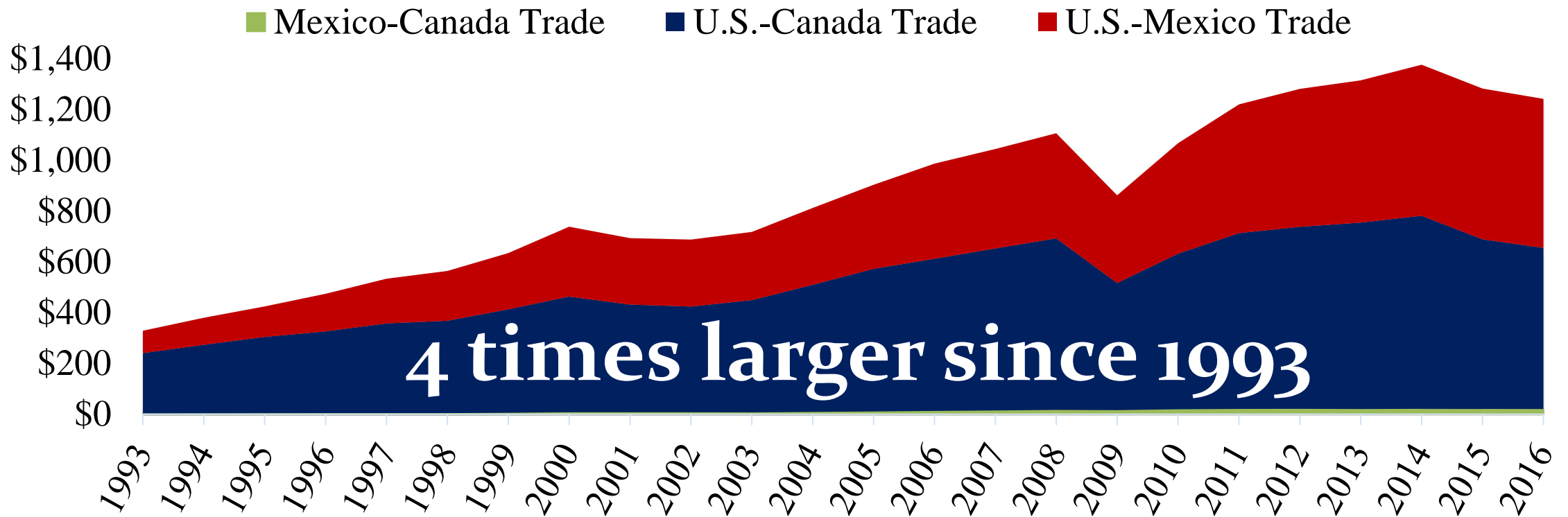
Reducing poverty in
Mexico

Corruption

Regional politics and demographics

Economic Security

North American Trade in Goods and Services



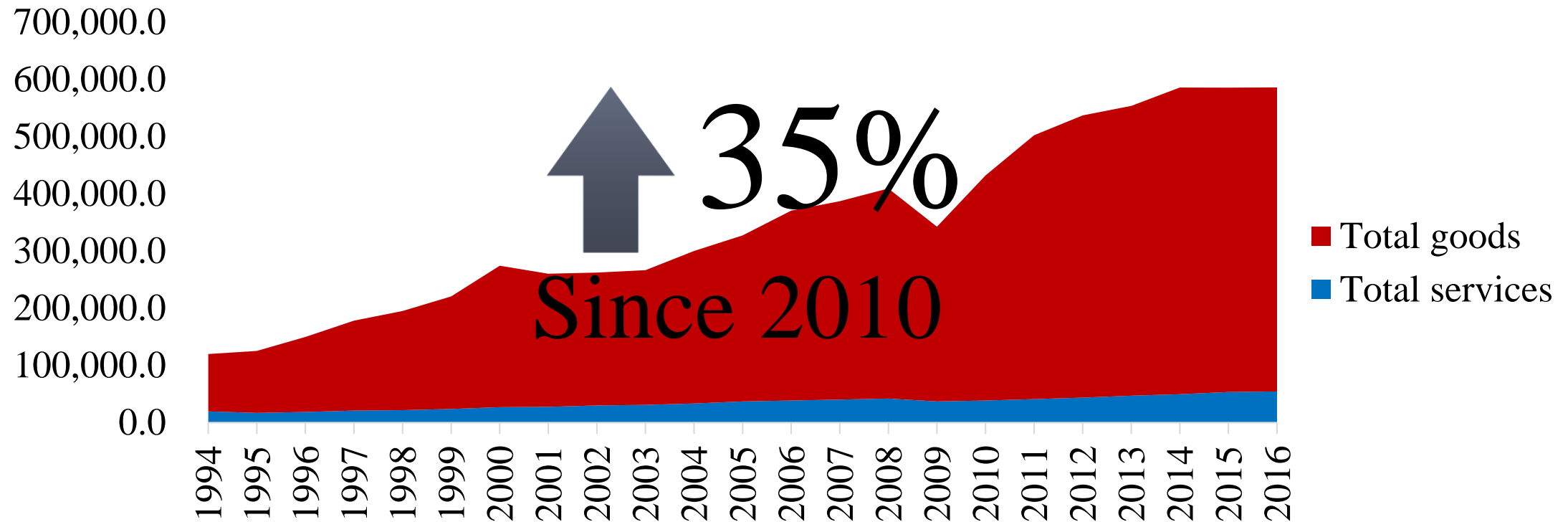


North American Trade

- Canada, Mexico and the US trade **\$1.24 trillion a year, or**
- **\$3.3 billion a day**, reflecting major shared production networks.
- More than US trade with all the **European Union** and **1.9 times** more than with **China**.
- **14 million US jobs** are supported by trade with both neighbors.

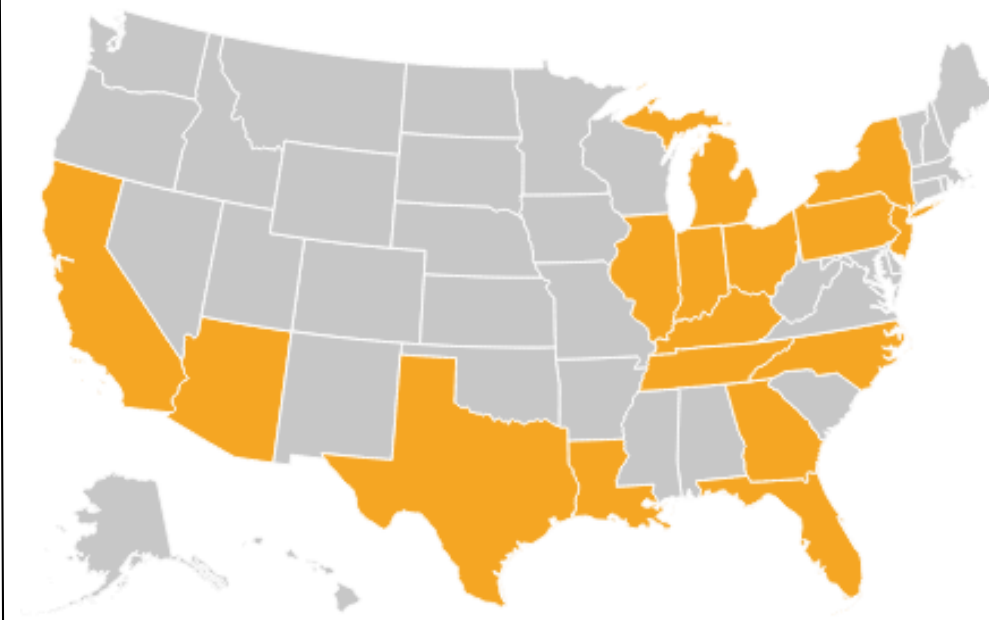
U.S. Trade with Mexico has multiplied by 6 since 1993

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

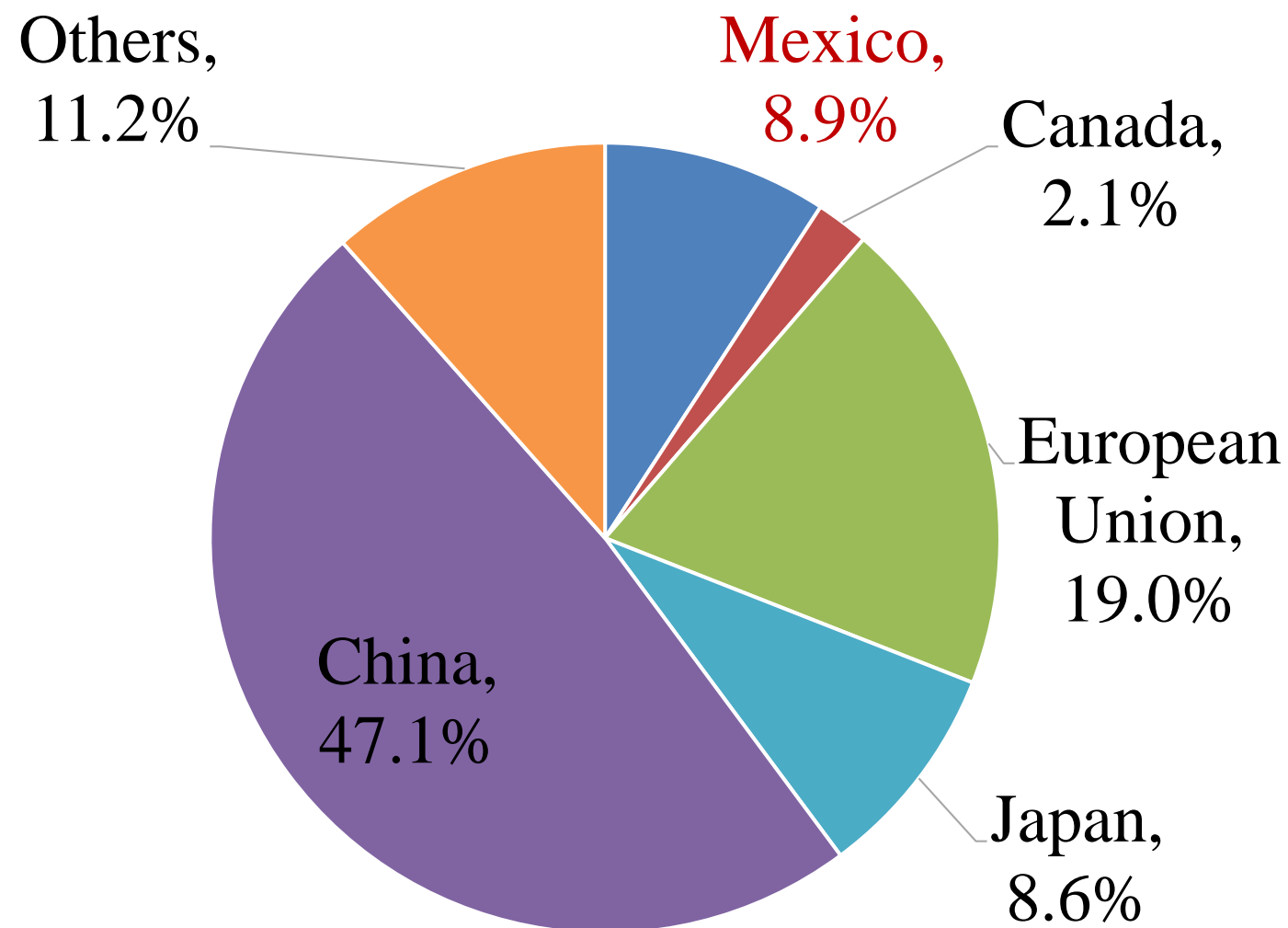


Rank Order: Top US States' Trade with Mexico 2015

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	North Carolina	7.6
Arizona	15.7	Kentucky	7.4
Ohio	14.5	New Jersey	7.3
Tennessee	11.7	Louisiana	6.8
Georgia	9.9	New York	6.4



US Trade in Goods - Deficit

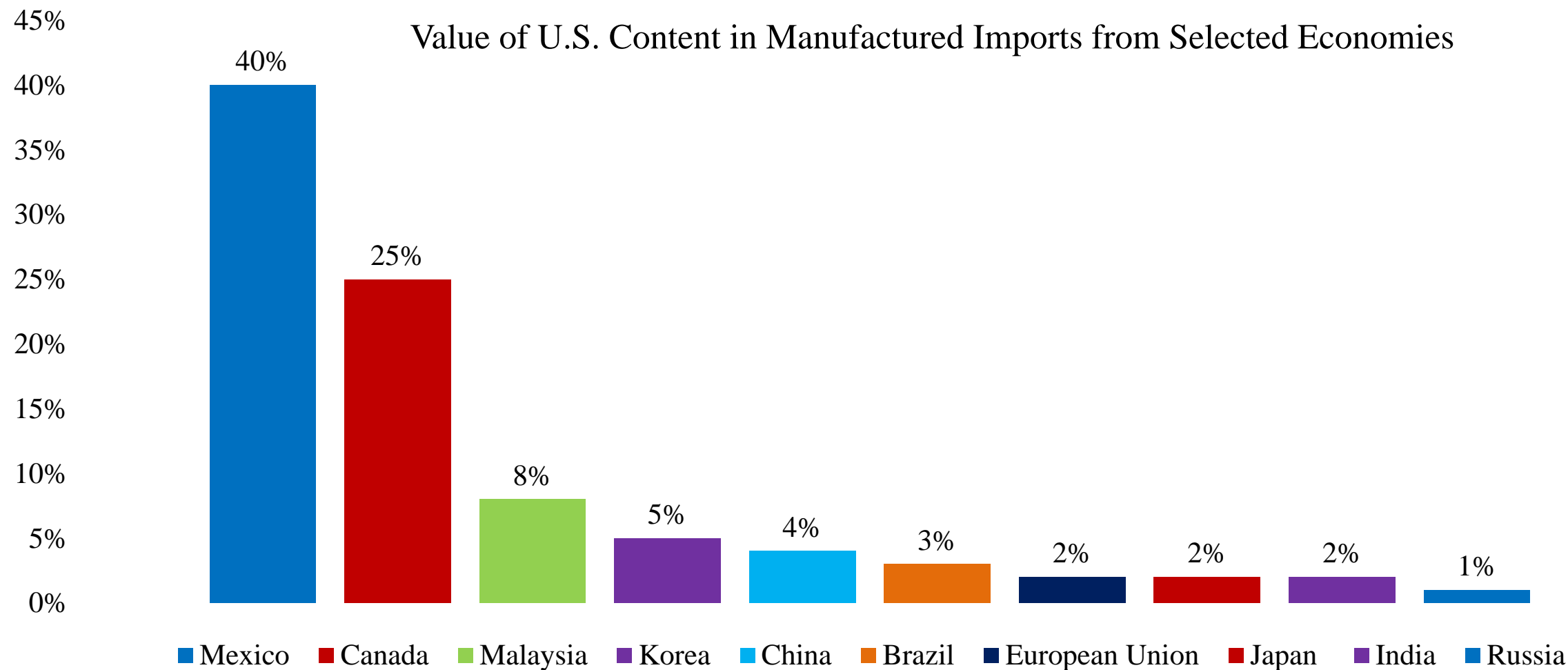


U.S. Trade Deficit with Mexico dropped

2.7%

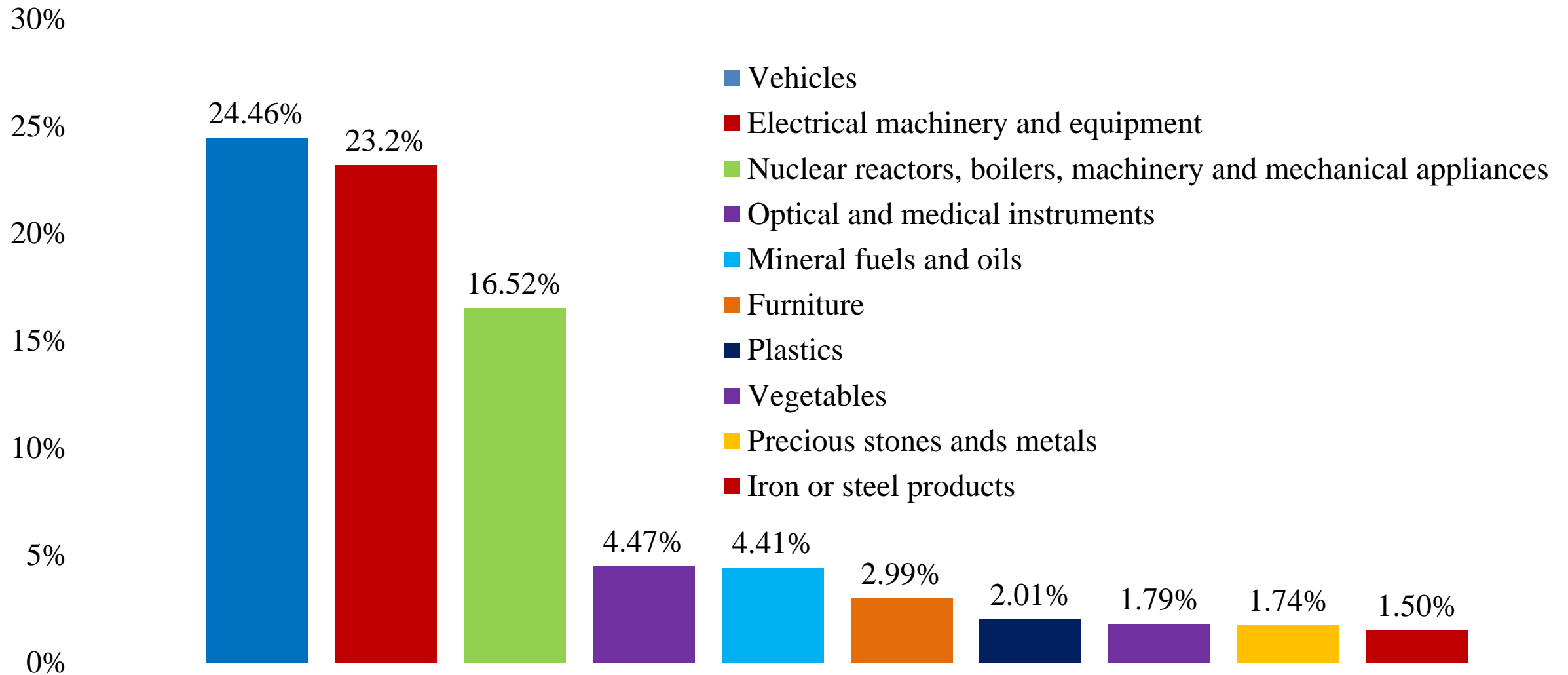
as a portion of Total U.S.-Mexico Trade between 2010-2016

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

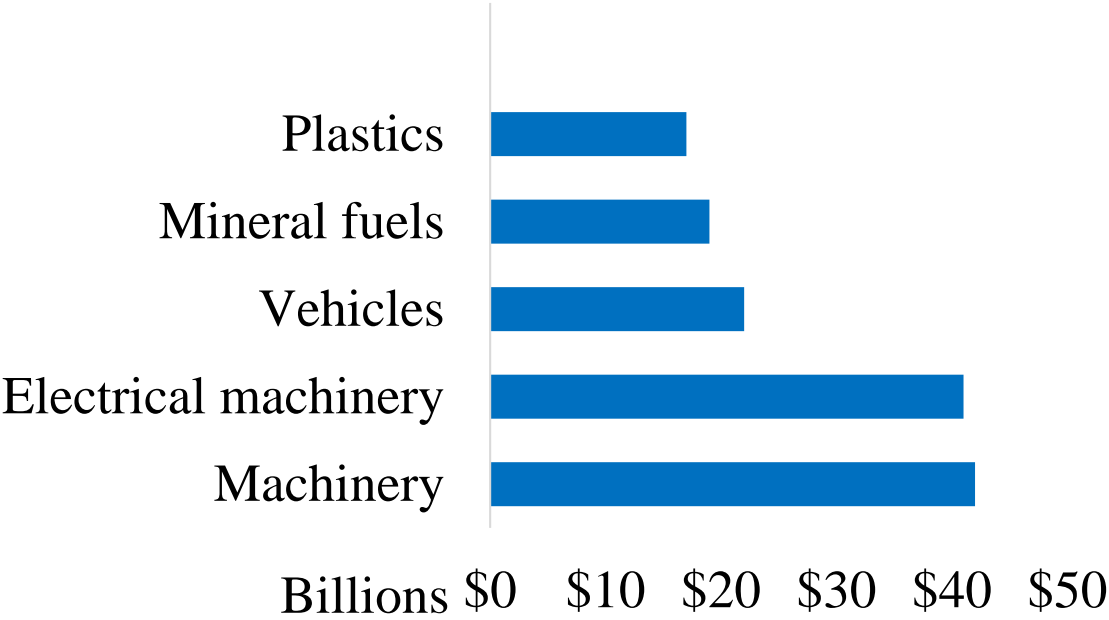


Leading Mexican Products Exported to the US

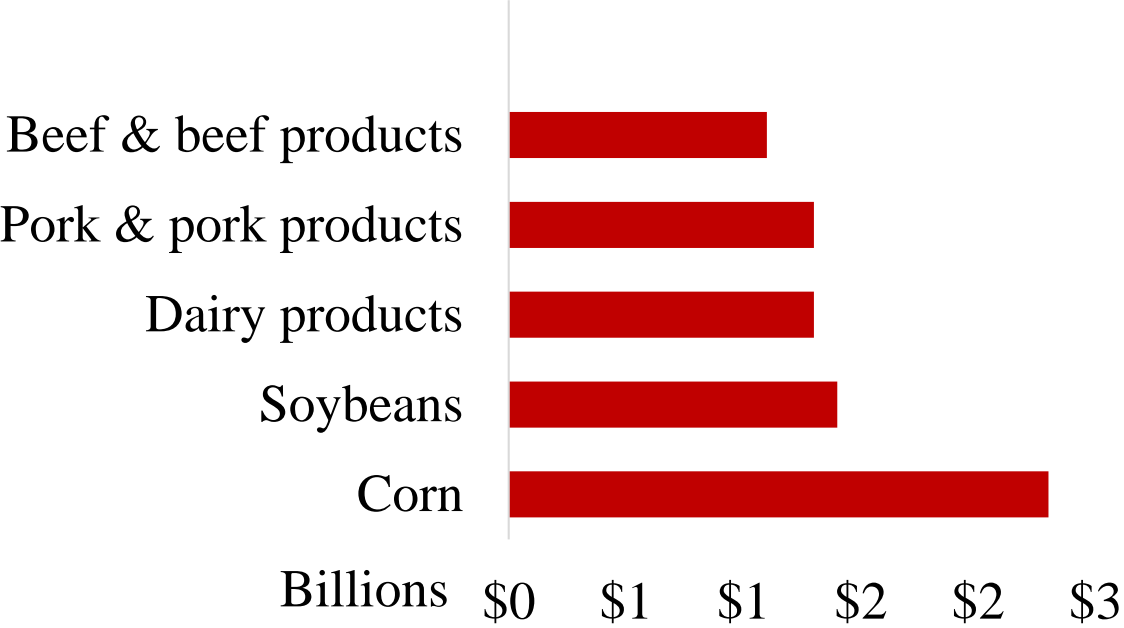
Manufactured Goods Dominate



Leading U.S. Products Exported to Mexico



Leading U.S. Agricultural Products Exported to Mexico



Where have the manufacturing jobs gone?

Competition from China

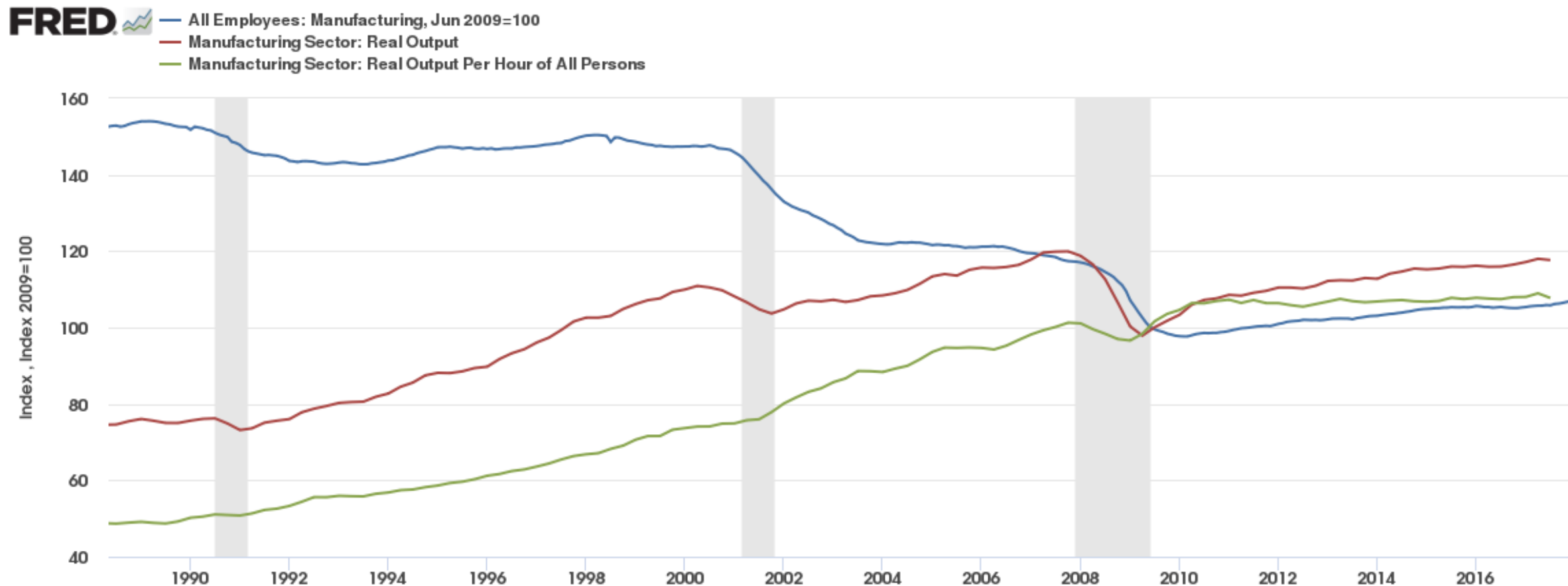
2.4 million

New Technology

4.7 million



U.S. Manufacturing Employment and Output

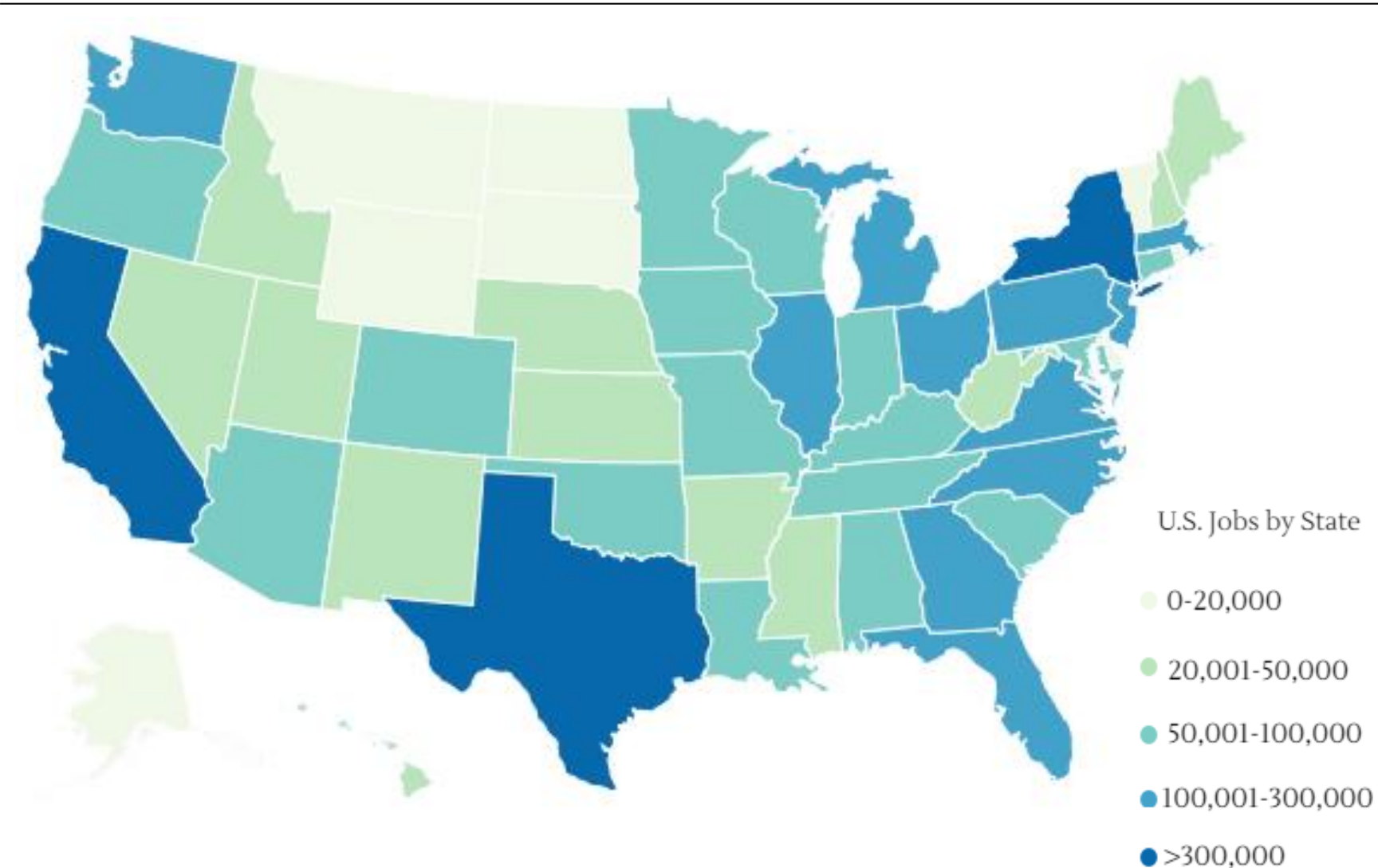


Shaded areas indicate U.S. recessions

Source: U.S. Bureau of Labor Statistics

myf.red/g/hoIO

Mexico trade supports some 5 million jobs



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

U.S.-Mexico and North American Investment



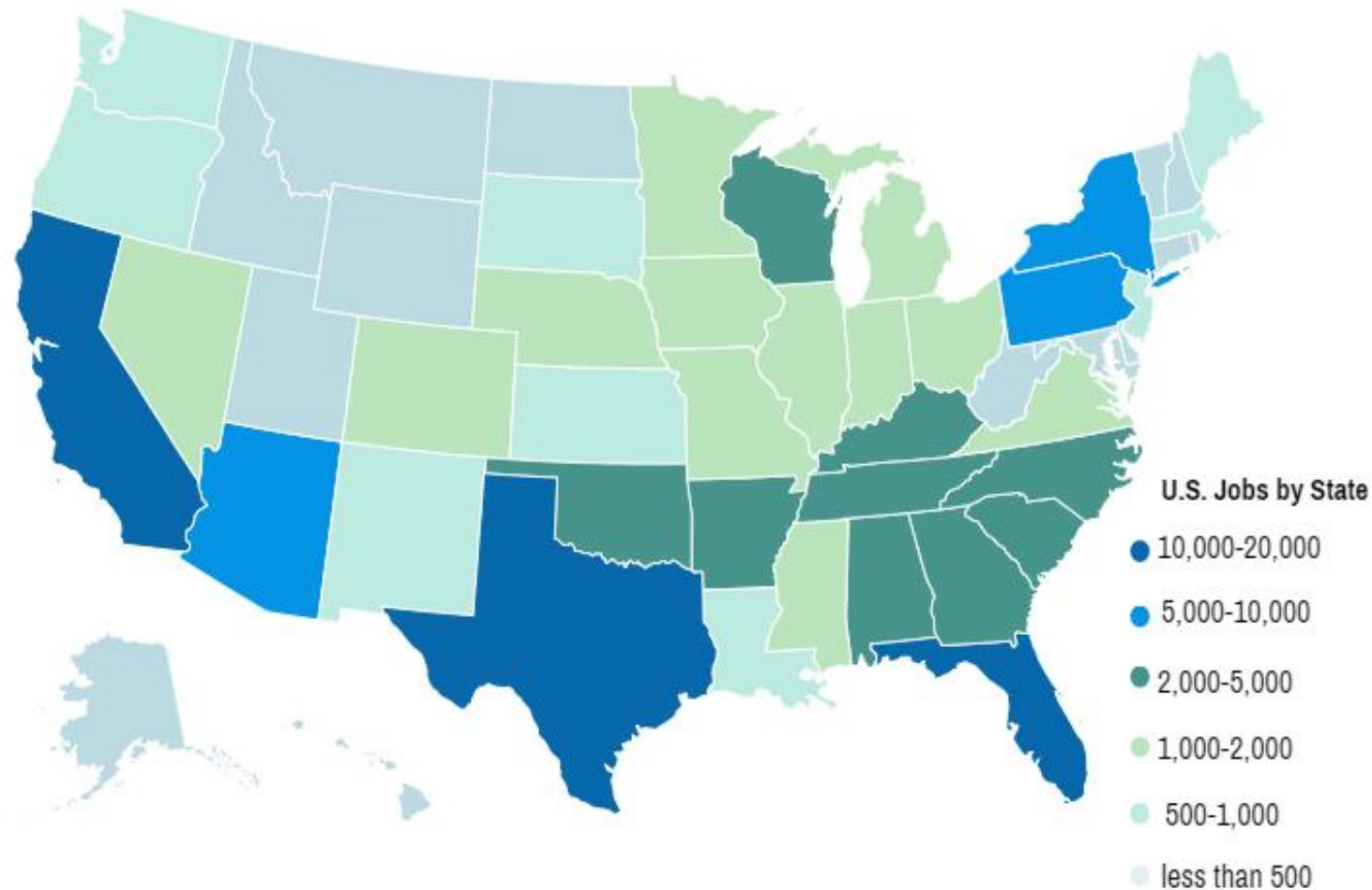
In 2015, Canada's and Mexico's FDI in the US reached **\$285 billion**

The US had **\$445 billion** FDI in Canada and Mexico.



U.S. Jobs Created by Mexican Investment

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



Reforms and Partnership

Mexico's Major Reforms

- Education
- Telecommunications
- Energy
- Judicial and Law Enforcement



More partnership with
the U.S.

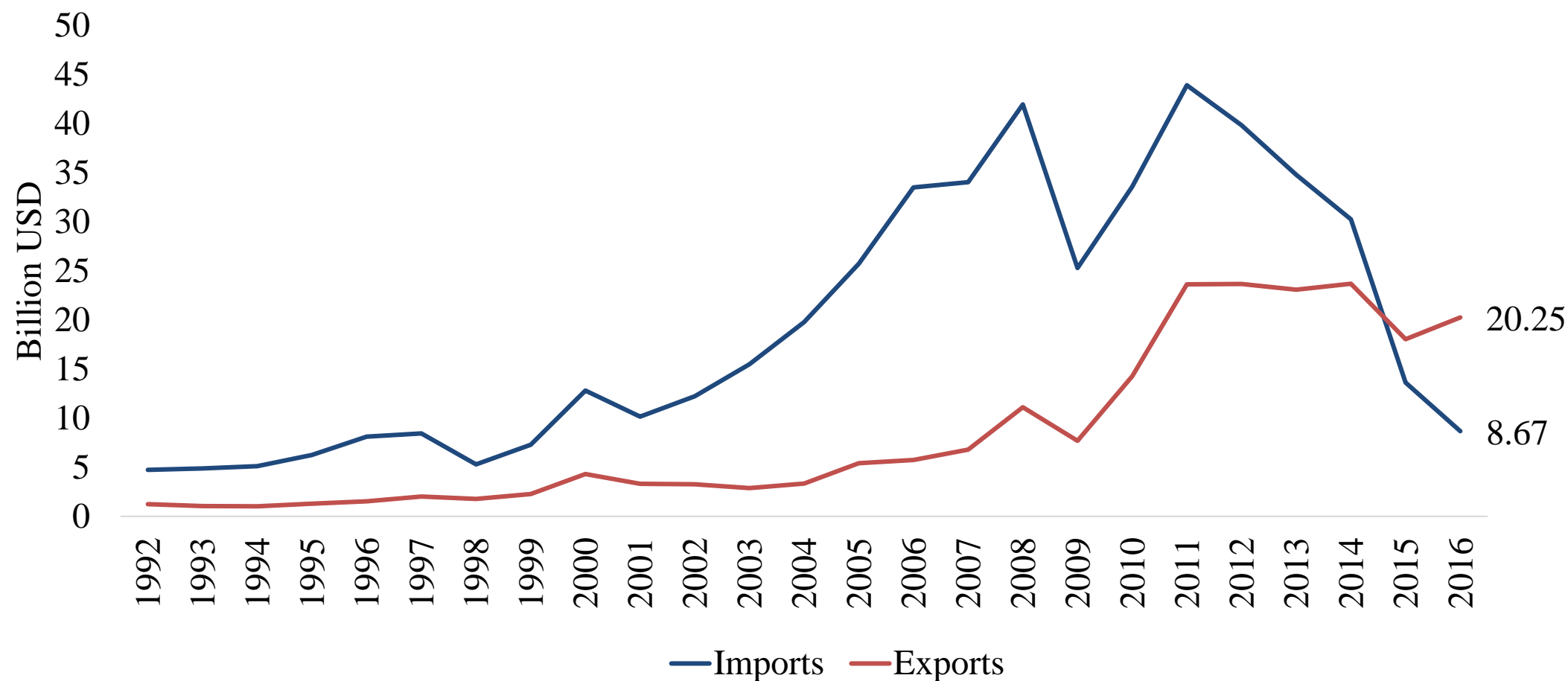


Energy and the Environment

Energy and the Environment

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

U.S. Energy Trade Surplus with Mexico



Note: Calculations include crude oil, gasoline and petroleum products

Source: US Census Bureau, 2016

Investment and Cooperation in the Energy Sector

- Pemex has signed joint operating agreements with Exxon, Chevron, Shell, etc.
- Exxon Mobil plans to invest \$300 million in Mexico over the next 10 years.
- Sempra Energy will invest \$800 million this year: \$500 million will be invested in a pipeline project between Texas and the Mexican Gulf port of Tuxpan.
- U.S. energy equipment exports enhance via new investment.
- Cooperation, investment and trade help ensure reliable low-cost energy to power manufacturing across region.
- In 2017, U.S. and Mexico authorities agreed to work on expanding cross-border energy infrastructure, including in electricity.

Border Management Licit and Illicit Flows

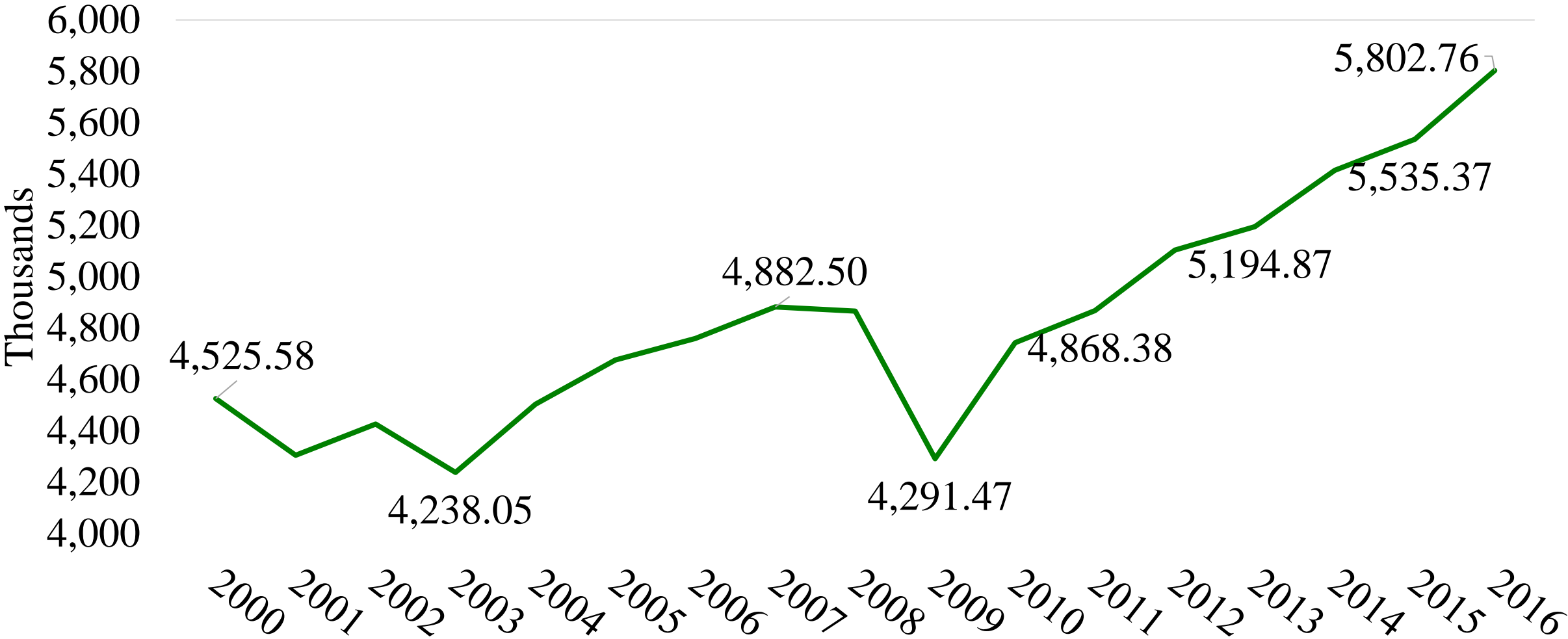
Moving toward Co-Management of the Border



Moving 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.
- 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, including via shared border radio-frequency identification system.
- Working to create a Trilateral Trusted Traveler Program.

Trucks Crossing the US-Mexico Border



Source: Bureau of Transportation Statistics, 2017

Border Poll 2017: Border wall to secure border

% WHO OPPOSE/FAVOR BUILDING A WALL ALONG ENTIRE BORDER WITH MEXICO

■ Oppose ■ Favor



Americans' Views toward Immigration Policy

	Total	Democrat	Republican	Independent
Support building a wall along the US-Mex border	38%	18%	68%	32%
Agree that building a wall along the US-Mex border wastes taxpayer money	60%	81%	35%	57%
Agree that building a wall along the US-Mex border is necessary for national security	35%	20%	61%	29%

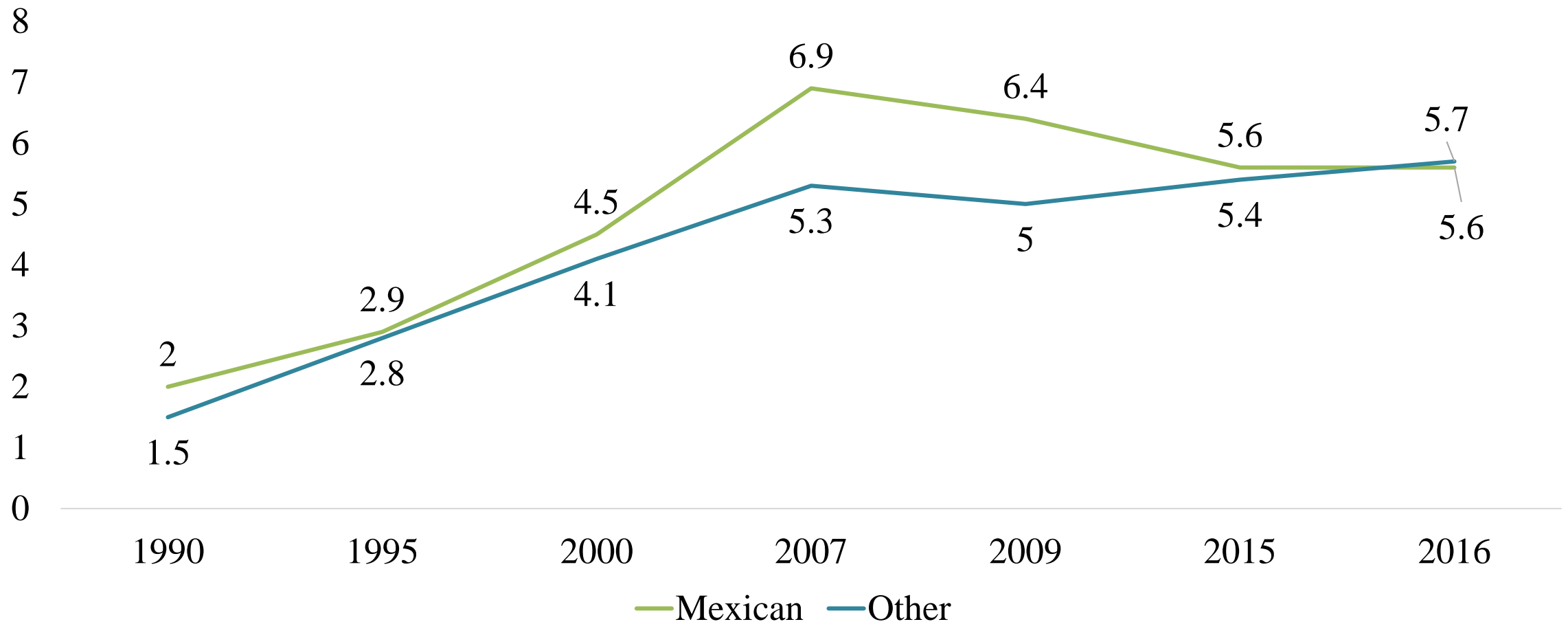
Border: Migrant Flows

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.

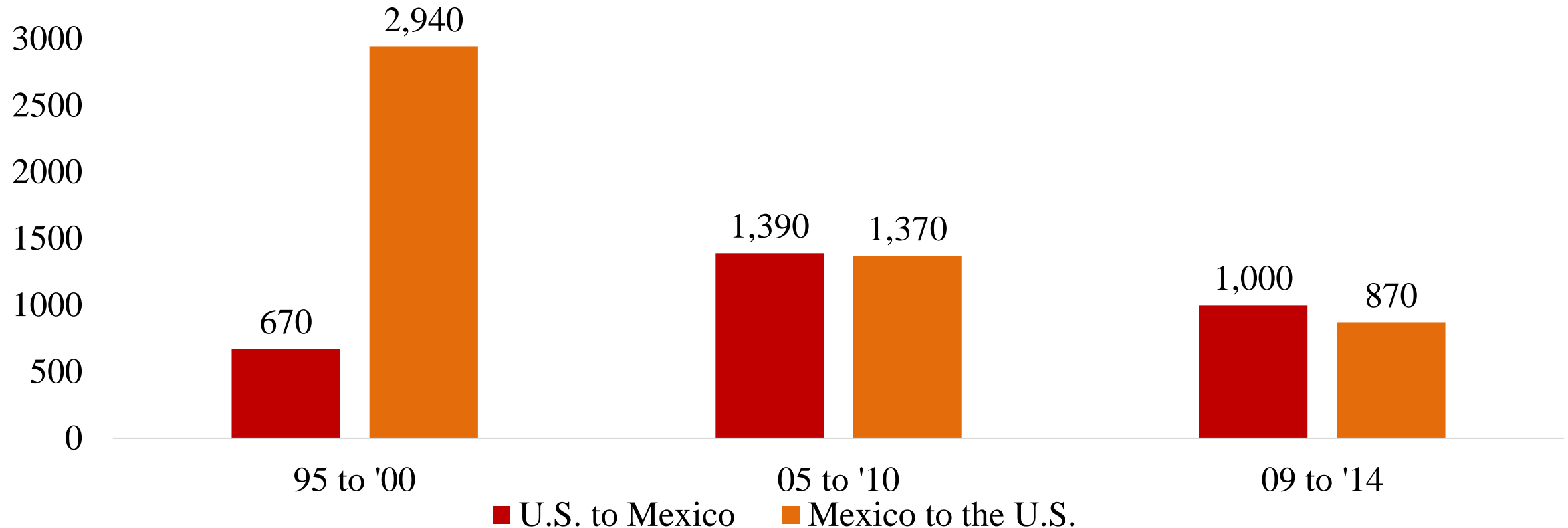


Number of Unauthorized Immigrants in the U.S.



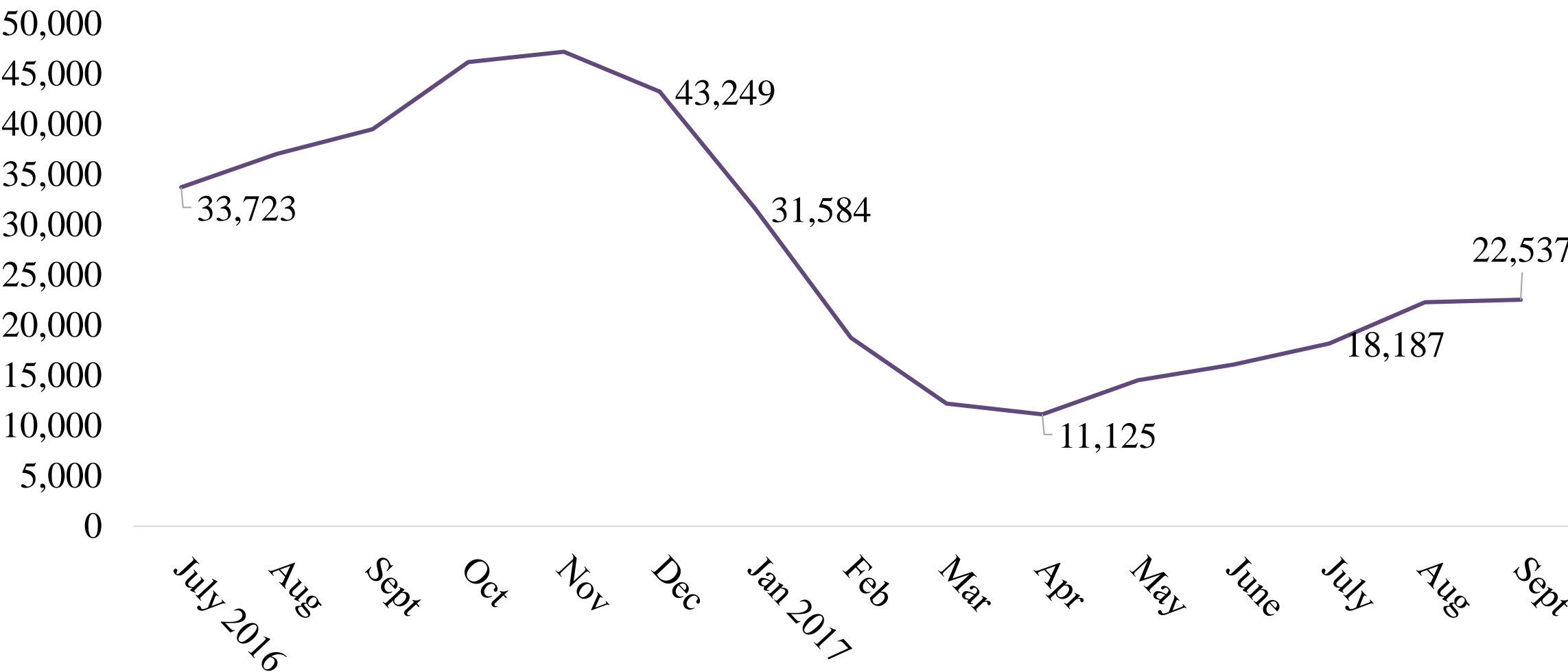
Net Migration from Mexico

- In 2016, there were **1.3 million less** unauthorized Mexican immigrants in the US than in 2007



Recent Apprehensions

USBP Southwest Border Total Apprehensions



Source: U.S. Border Patrol Monthly Apprehensions (FY 2000 - FY 2017)

2017 US-Mexico Migrant Apprehensions



Apprehensions by the U.S.
along the Southwest border
from El Salvador, Guatemala
and Honduras **162,891**

Deportations by Mexico
from El Salvador, Guatemala
and Honduras **80,457**

Source: Unidad de Politica Migratoria, 2017; CBP Border Security Report FY 2017

*Deportations by Mexico from December 2016 through November 2017

Helping Northern Triangle

Addressing Central American Migration

The United States and Mexico enhanced cooperation on Central America in response to the 2014 surge of child and family migrants. This includes work at Mexico's southern border against smuggling of people and drugs.

June 15
2017

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

- U.S. FY 2018 budget request for **\$460 million** to address economic, security, and governance challenges in the Northern Triangle (NT).
- NT support for a **migration observatory** to study and share information on regional migration flows.
- Agreement to **improved information sharing, cooperation and U.S. assistance** to combat transnational criminal organizations.
- **\$53 million from Mexico** for three NT infrastructure projects.

Importance of 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

1. Disrupting the operational capacity of **organized crime**.
2. Institutionalizing reforms to sustain the **rule of law** and respect for **human rights** in Mexico.
3. Creating a “**21st Century Border**”.
4. Building strong and resilient **communities**.

\$2.6 billion appropriated 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.



“Our two countries have one of the most extensive bilateral law enforcement relationships in the world... We’ve enhanced cross-border communications to work more effectively and efficiently together. We share more information related to migration and border security, enabling us to better identify criminal threats, analyze migration trends, and reduce human smuggling ...

We must reduce the demand component of the drug problem here at home in the U.S. As long as we continue to provide a thriving market, TCOs will keep coming to the United States.”

Deputy Secretary of State Sullivan

*2nd U.S.-Mexico Strategic Dialogue on Disrupting TCO’s
December, 2017*

“We had a working session to comprehensively deal with the entire business model of TCOs, from supply and production out in the fields to the financial and distribution retail networks in the United States. Only by attacking this chain at every point along the way will we be successful ...

In the end, the idea is to trust each other in order to deal with a common problem.”

Secretary of Foreign Affairs Videgaray

*2nd U.S.-Mexico Strategic Dialogue on Disrupting TCO's
December, 2017*





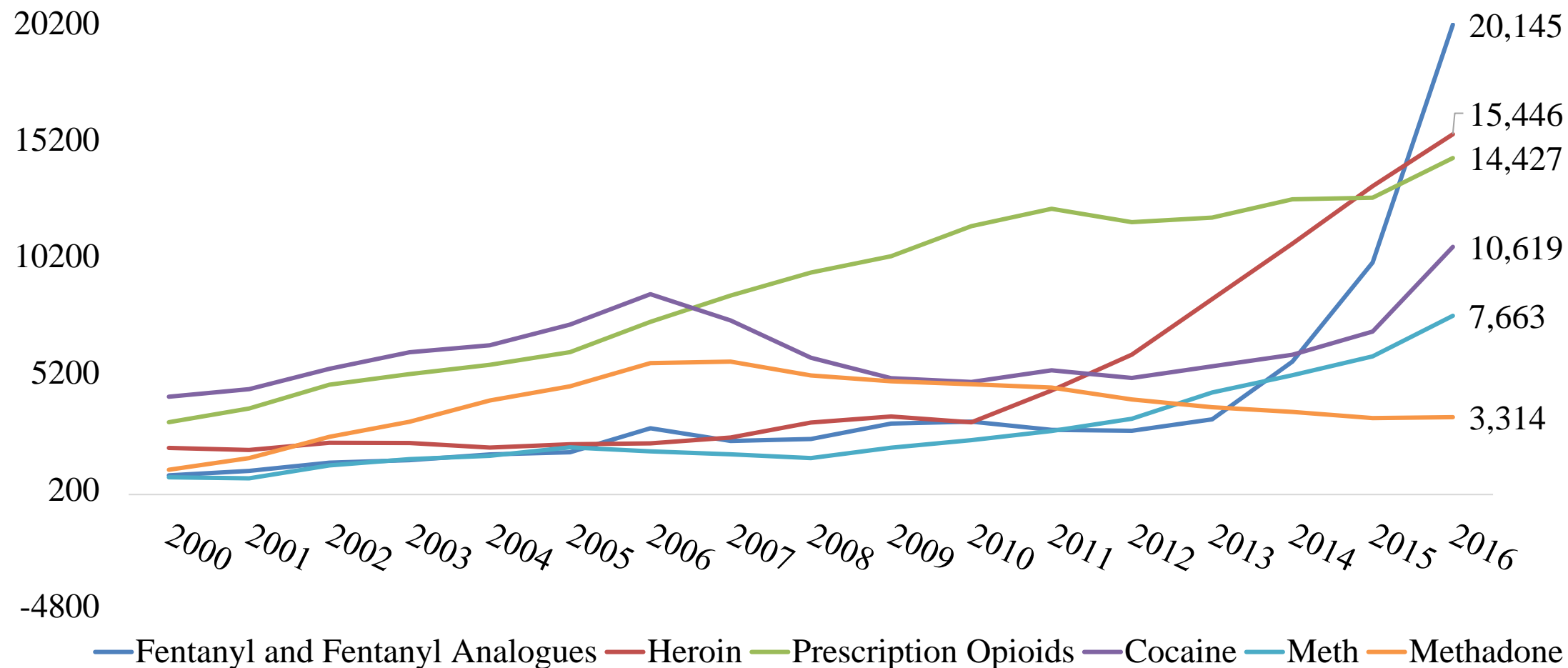
"Secretary Chong and I will sign a memorandum of cooperation to fully implement the Criminal History Information Sharing Program. Through this program, our U.S. Immigration and Customs Enforcement will be able to provide Mexico with the U.S. criminal history of repatriated Mexicans."

By sharing information and resources and increasing detection and the interdiction of illegal goods, we are combatting the TCOs that threaten the security of all of our communities.

*Secretary of Homeland Security Nielsen
2nd U.S.-Mexico Strategic Dialogue on Disrupting TCO's
December, 2017*

Opioids Change the Game

Urgency: US Drug Overdose Deaths 2000-2016



U.S. Opioid Crisis

- Opium derivatives use: over 5% of the U.S. population in 2013.
- Since 1999, overdose deaths involving opioids has quadrupled.
- Opium and heroin production in Mexico has grown substantially, as has transshipment of illicit opioids, e.g., Fentanyl, from China.
- In 2016, the U.S. and Mexico launched a working group on drugs and dismantling criminal networks.

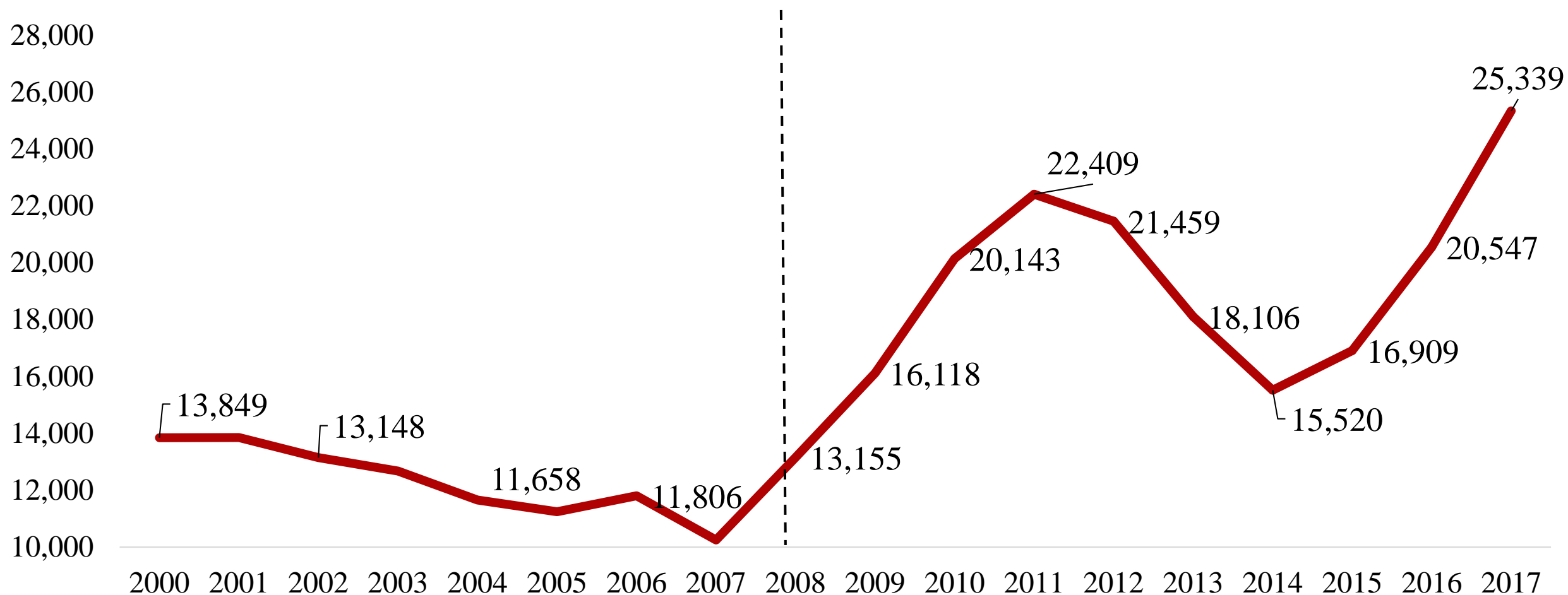
2017 US-Mexico Agreements to Combat Illicit Drugs

“We have one common objective to end the tragic impacts of illicit drug trade on both sides of our border,” Secretary Tillerson

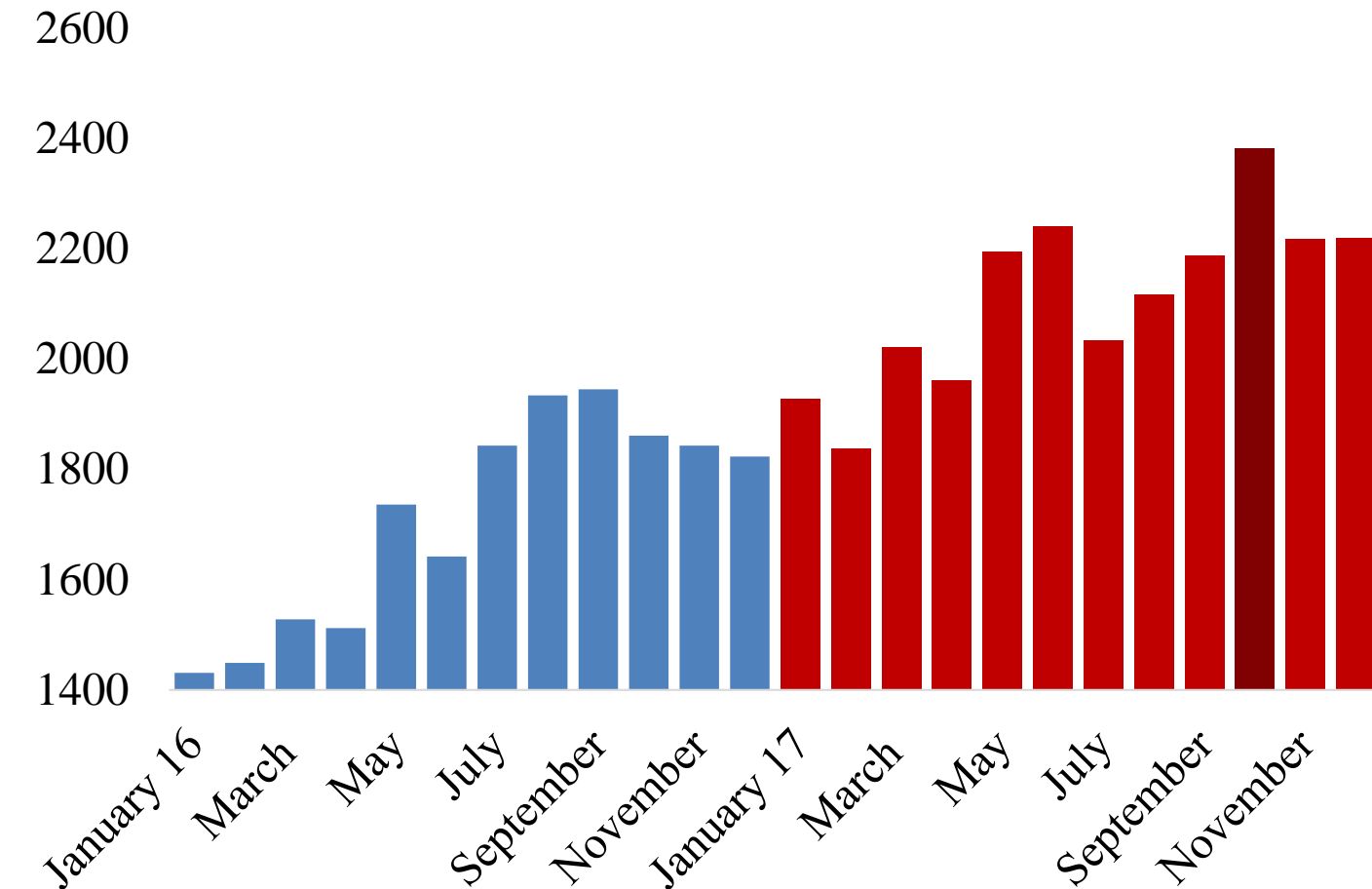
- **Partner** to destroy criminal organizations.
- **Address the demand** for illicit drugs among US citizens.
- **Necessary tools:** physical barriers, technology, patrolling, eradication, enhanced law enforcement and justice actions, and anti-addiction programs.
- Go after **all elements in the chain:** means of production, cross-border distribution networks, flows of cash and profits, weapons procurement.

Violence up in Mexico: Mexican Strategy and Tactics?

Urgency: Homicides in Mexico



Urgency: Homicides in Mexico



25, 339 killings in 2017; surpassing 2011 (22, 855) as most violent year since 1997.

October was most violent month since 1997.

Law enforcement overwhelmed; cartels fighting; types of crime expanded; more states affected.

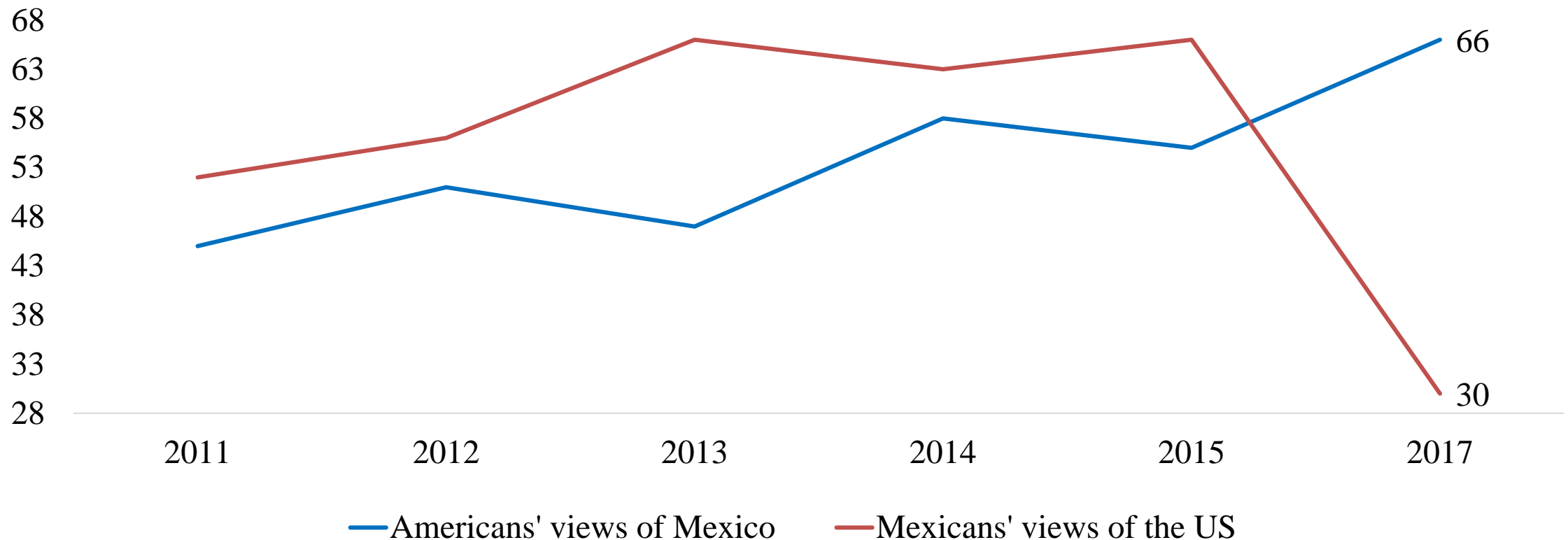
Est. crime cost up to 17.6% GDP.

U.S. travel warning for vacation spots.

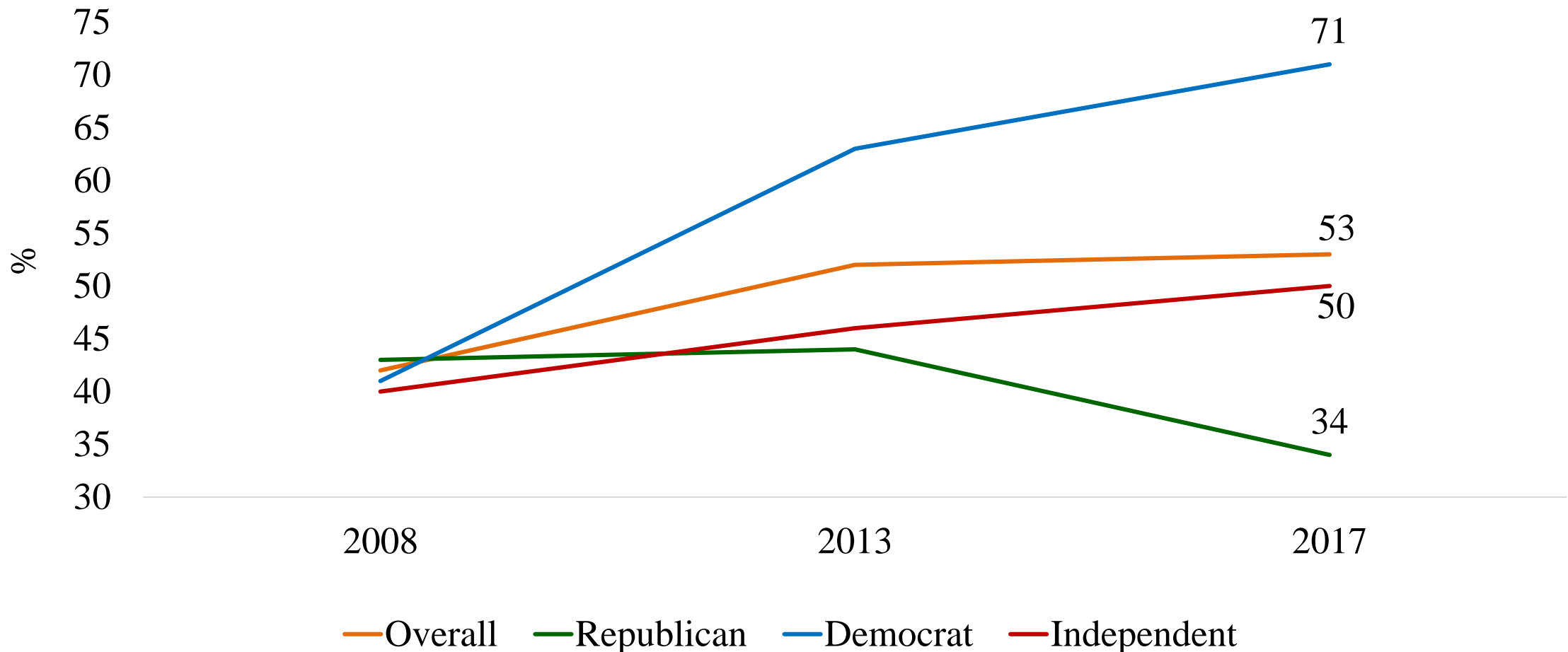
Perceptions of Bilateral Relations and NAFTA

Americans' and Mexicans' Perceptions of each other (per cent favorable)

- In 2017 polling, **66% of Americans** had **positive views of Mexico**; while only **30% of Mexicans** had **positive views of the US**.

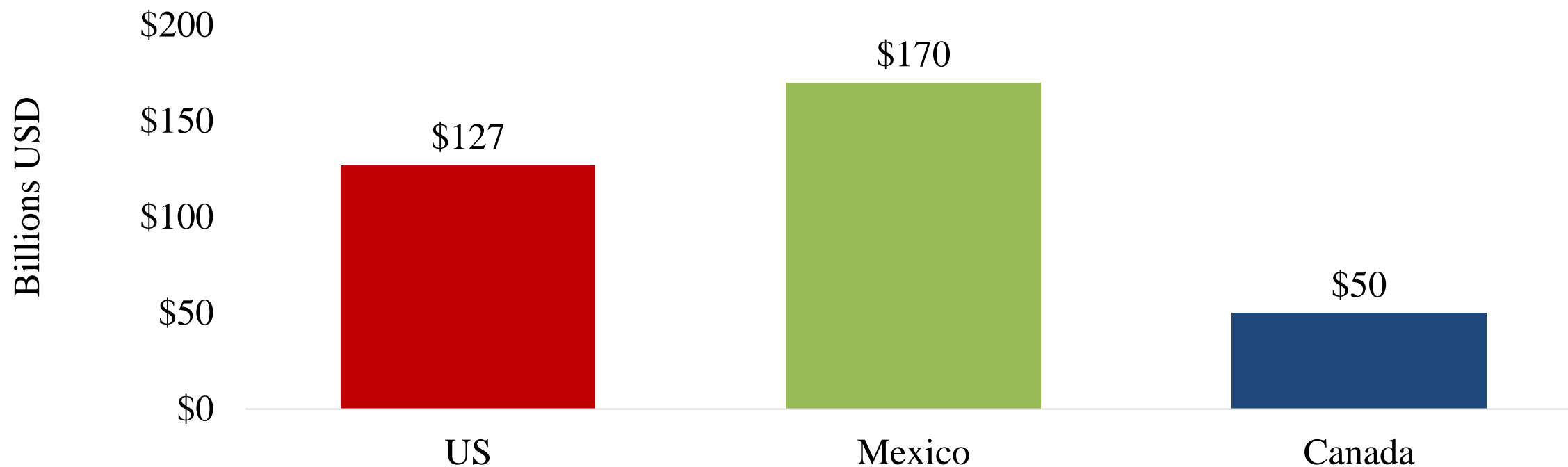


US Opinion: Is NAFTA Good for the US Economy?



NAFTA Negotiations

NAFTA Countries are richer each year due to “extra” trade growth



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

5 WAYS TO IMPROVE NAFTA

U.S. withdrawal from NAFTA would be incredibly costly.

However, these 5 updates to the agreement could favor both U.S. competitiveness and American workers:

1

Account for recent technological advances.

Now that the Internet and smartphones are everyday tools of business and commerce, issues such as cross-border data flows and exports of digital products should be included in updates of the agreement.



2

Revise customs processes and requirements.

Simplifying customs rules and paperwork would make it easier for small U.S. businesses to take advantage of new online platforms, like Amazon and Etsy, that have made it easier to venture into foreign trade and find buyers abroad.



3

Update NAFTA's rules of origin.

NAFTA includes rules about what percentage of a product must be produced within North America in order to enter the U.S., Mexico, or Canada tariff-free. A detailed analysis should be done to determine how these rules could be strengthened to incentivize investment and job growth in the U.S.



4

Strengthen the NAFTA side agreement on labor rights.

While the countries of North America have already agreed to abide by their own labor laws in a NAFTA side agreement, incorporating labor issues into NAFTA itself could better ensure that companies don't leave the U.S. in an effort to avoid the cost of respecting workers' rights.



5

Eliminate obstacles to service exports.

Since the U.S. has an advantage in the high skill industries that make up much of services trade, like financial and educational services, special emphasis should be placed on eliminating obstacles to these exports.



Further protection of U.S. workers requires investment in workforce development:



Improving basic education



Aligning higher education with labor market demand



Strengthening worker retraining programs

Wilson Center

MEXICO INSTITUTE

Trump to Announce Plans for Renegotiation of NAFTA: Five Ways to Improve the Agreement

NAFTA Modernization Controversial Issues

Controversial topics include:

- Focus on reducing US trade deficit
- Eliminate or weaken dispute settlement provisions in Chapter 19 to preserve United States freedom to enforce rigorously its trade laws
- Eliminate or weaken the Investor-to-State Dispute Settlement (ISDS) mechanism
- Proposals to strengthen rules of origin and incentives to ensure greater US sourcing of products
- Five year sunset clause for treaty
- Preserve preferential purchasing programs such as “Buy America” and cap Mexican and Canadian participation

Upcoming Seventh Round of NAFTA Negotiations

- Seventh Round in Mexico City, February 25 – March 5, 2018
- Mexico and Canada presented new ideas and will reportedly do so in Mexico City.

Issues being discussed

- Customs and Trade Facilitation
- Digital Trade
- Good Regulatory Practices
- Intellectual Property
- Services
- Textiles
- State Owned Enterprises
- Telecommunications

Agreed

- Small and medium-sized businesses
- Competition Policy
- Anti-corruption

Tough issues to tackle

- Ways to reduce US trade deficit
- U.S. content in autos
- Dispute resolution mechanisms
- Sunset: Mexico to suggest review
- Government procurement: Mexico considers limits to US access
- Ag. issues: dairy, seasonal limits
- Labor standards and wages

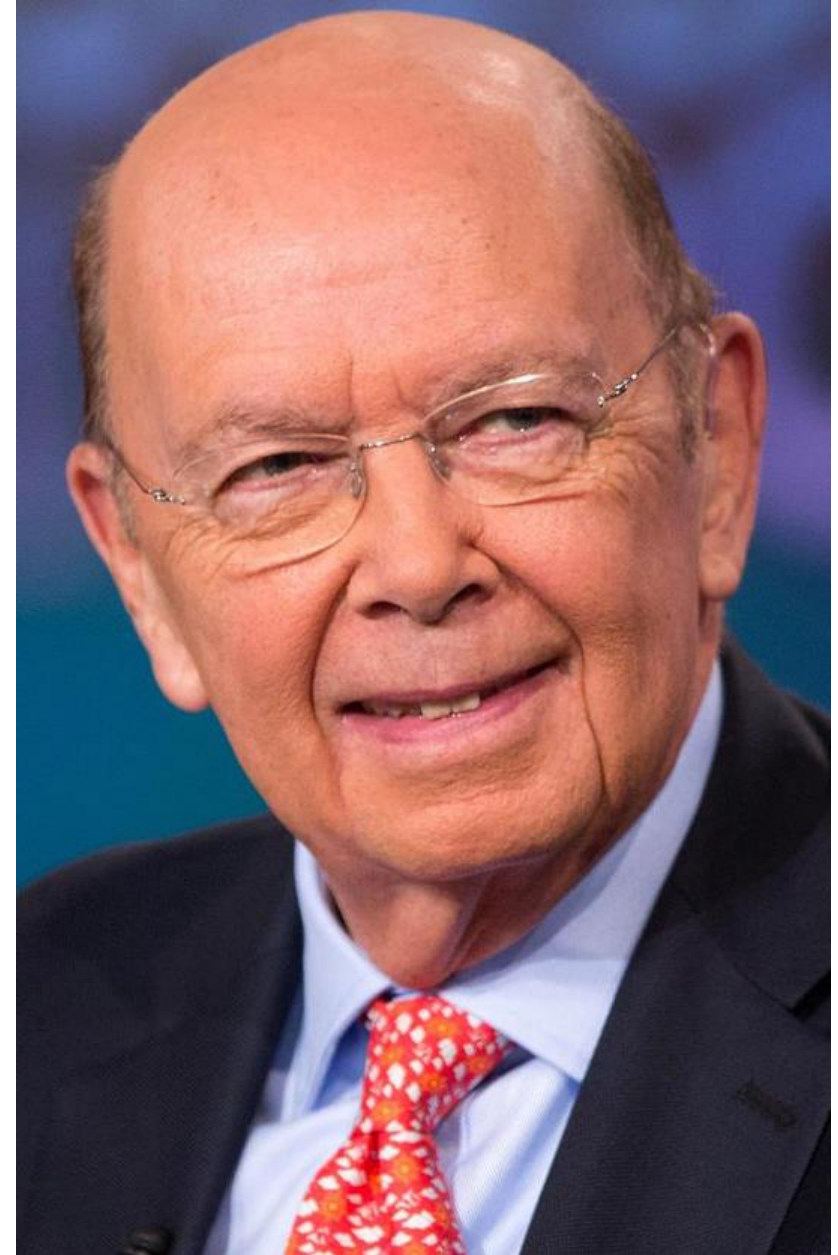
Debate over Rules of Origin

“Based on Trade in Value Added data recently released by the OECD, ... between 1995 and 2011, U.S. content of manufactured goods imported from Canada dropped significantly, ... for Mexico fell even more.”

“If we don’t fix the rules of origin, negotiations on the rest of the agreement will fail to meaningfully shift the trade imbalance. Our nation’s ballooning trade deficit has gutted American manufacturing, killed jobs and sapped our wealth.”

Secretary of Commerce Ross

September, 2017



Arguments on the Other Side of Rules of Origin

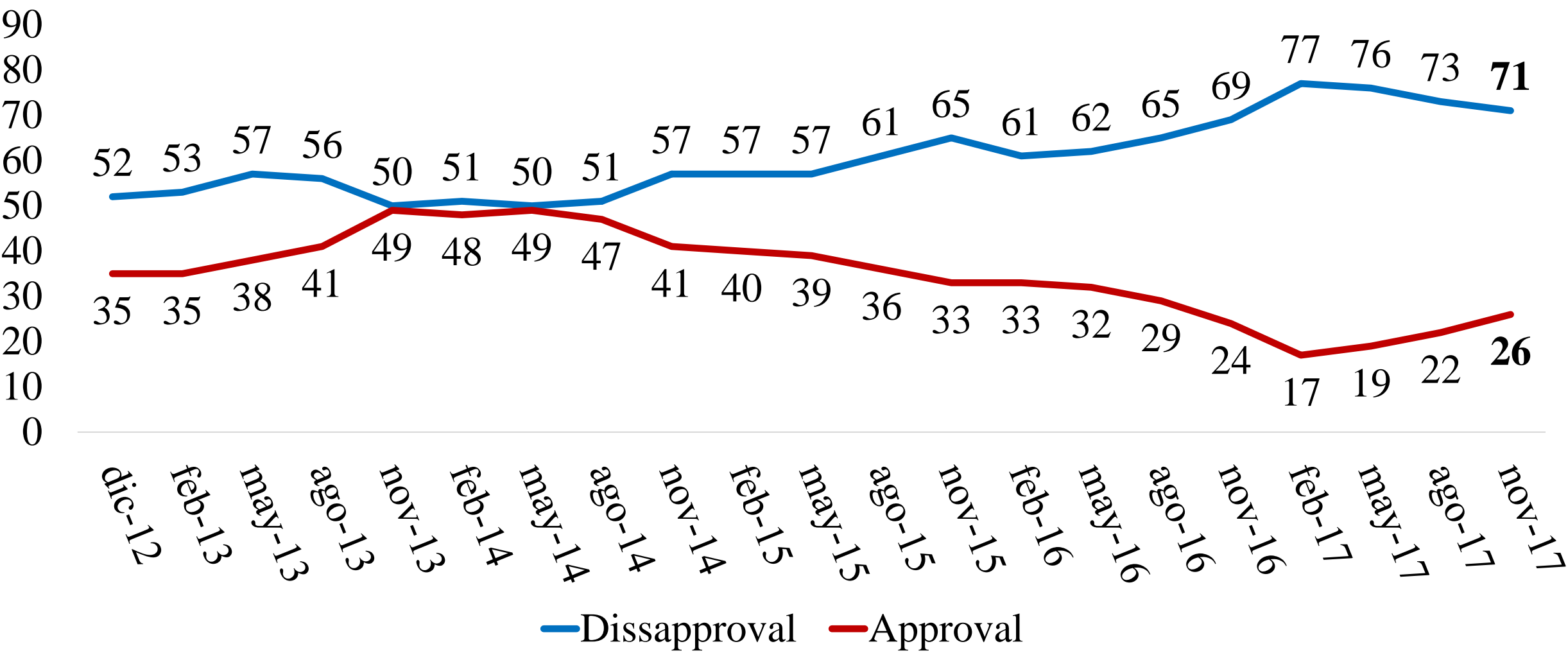
1. An October 2017 study finds that U.S. value added in Mexican exports is higher than figures Secretary Ross used: 38% U.S. value added for autos and 27% U.S. value added for Mexican manufacturing exports to the U.S.
2. North America's decline of value-added in total trade results from China's increasing sales to all three markets, with the U.S. having the most Chinese content in manufactured goods.
3. Yet, U.S. employment in the auto and auto parts sector grew 41% from 2009-2016.
4. Joint production makes the North American auto industry more competitive.
(Germany and Japan do this too.)
5. Canada's and Mexico's exports to the U.S. incorporate more U.S. value added than any other countries in the world! 50% of NAFTA trade is intermediate goods.
6. Boston Consulting Group: changing auto rules of origin could cost 24,000 jobs.

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
- Investors surveyed see U.S. growth slowed and harm to specific sectors and U.S. equity markets.²
- Hard hit sectors: agriculture/livestock/food; motor vehicles; machinery; other manufactured; services; transportation and logistics; and textiles.³
- Strategic dangers: reduced cooperation against drug trafficking and on migration; move back to "*distant neighbors*" with revived anti-Americanism.

Mexico's 2018 Presidential Election

President Peña Nieto Approval Rating



Mexico's 2018 Elections

- Sunday **July 1, 2018**
- Almost **88 million** will vote for **2,787 local positions** and **629 federal level posts** in 30 of the 32 states.
 - **President** (6 year term; no reelection).
 - 128 **Senators** (96 chosen by Majority vote & 32 by Proportional Representation for a 6 year term with possible reelection).
 - 500 **Federal Deputies** (300 by Majority vote & 200 chosen under Proportional Representation for a 3 year term with possible reelection).
 - 9 **Governors** (Chiapas, Guanajuato, Jalisco, Morelos, Puebla, Tabasco, Veracruz, Yucatan and the Mayor of Mexico City for 6 year terms with no reelection).
 - 982 **Local Deputies** in 27 State Congresses (3 year term with reelection).
 - 1,612 **mayors** in 25 states (3 year terms with reelection).

Mexico Presidential Polls

- AMLO (Morena): 30.6%
- Anaya (PAN): 21.5%
- Meade (PRI): 19.7%
- Zavala (Ind): 6.7%
- Will U.S. Actions impact the campaign and election?

Issues that the Mexican Population Care About

Violence and Security

Economic Crisis

Corruption

Poverty

Unemployment

Low Wages

Partnership with Mexico?

U.S.-Mexico: Tasks Ahead to Build Partnership

Trade:

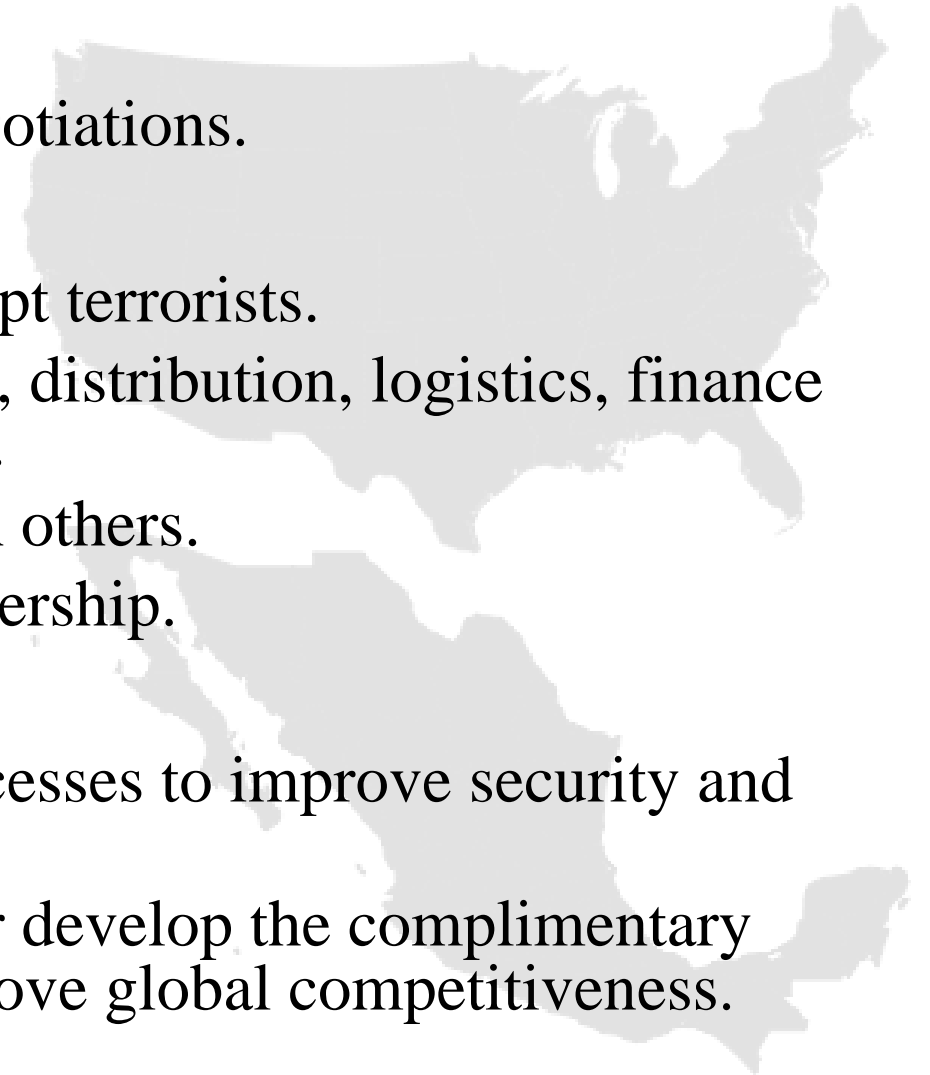
- Successfully complete NAFTA modernization negotiations.

Bilateral Security Cooperation:

- Better manage migration and travel issues; intercept terrorists.
- Better fight organized crime, attacking production, distribution, logistics, finance networks, arms smuggling, and addiction/demand.
- Continue to support Central America; partner with others.
- Deepen military-to-military cooperation and partnership.

Improve Competitiveness:

- Enhance technology, information sharing and processes to improve security and facilitation of legitimate trade and travel.
- Invest in programs, including education, to further develop the complimentary nature of the two economies, create jobs and improve global competitiveness.



Building Partnership with Mexico



E. Anthony Wayne
Career Ambassador (ret.)
Public Policy Fellow at the Wilson
Center

wayneea@gmail.com



@EAnthonyWayne