

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.
- As of 2018, the estimated 37 million Mexican-Americans made 11.3% of the United State's population.
- The shared **1990-mile border** (3,201 km) creates overlapping security, economic, family and environmental interests.
- 2010-2016, government-to-government collaboration, including against crime, was unprecedented.

Serious Challenges to Address

Managing COVID-19 Effects

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

Law enforcement cooperation

Surging Criminal Violence in Mexico

Negative public perceptions

Implementing USMCA

Border Management

Central American and
Mexican migration

Countering Corruption

Potential Terrorism

Importance of U.S.-Mexico Trade

Mexico is the U.S.'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



Exports

\$300 Billion



Imports

\$378 Billion



2018 Trade in goods and services:

\$ 678 Billion

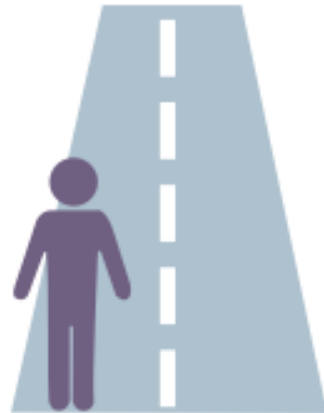
US and Mexico trade over
1 million dollars per minute

US-Mexico Border Crossings

Each day there are over

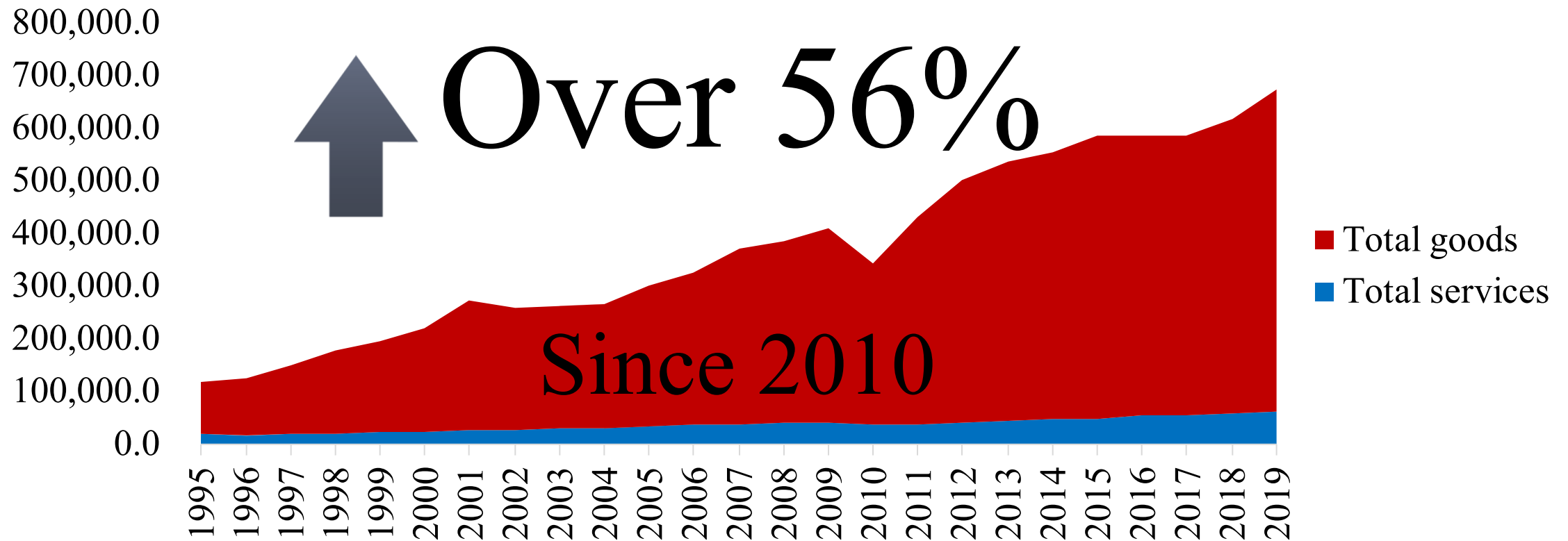
1 million

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

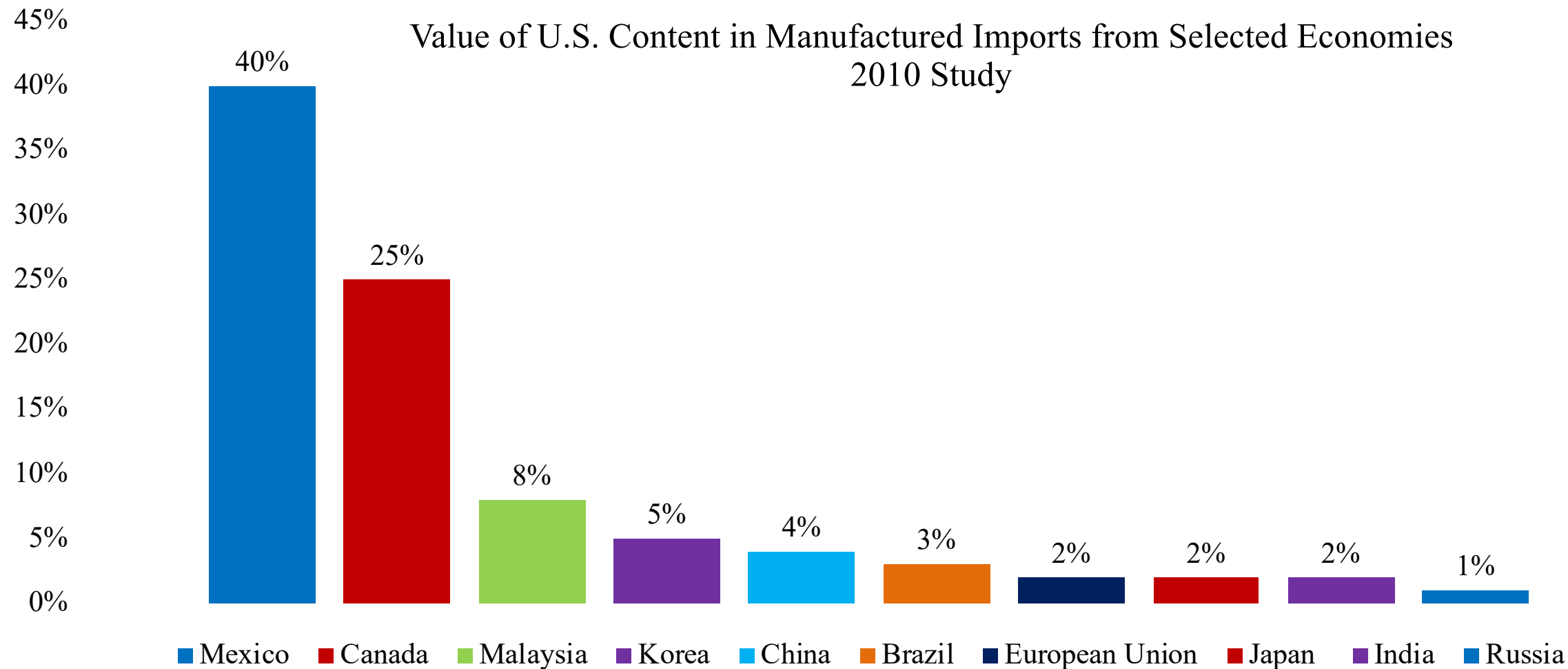


Mexico & Canada: Top Trading Partners

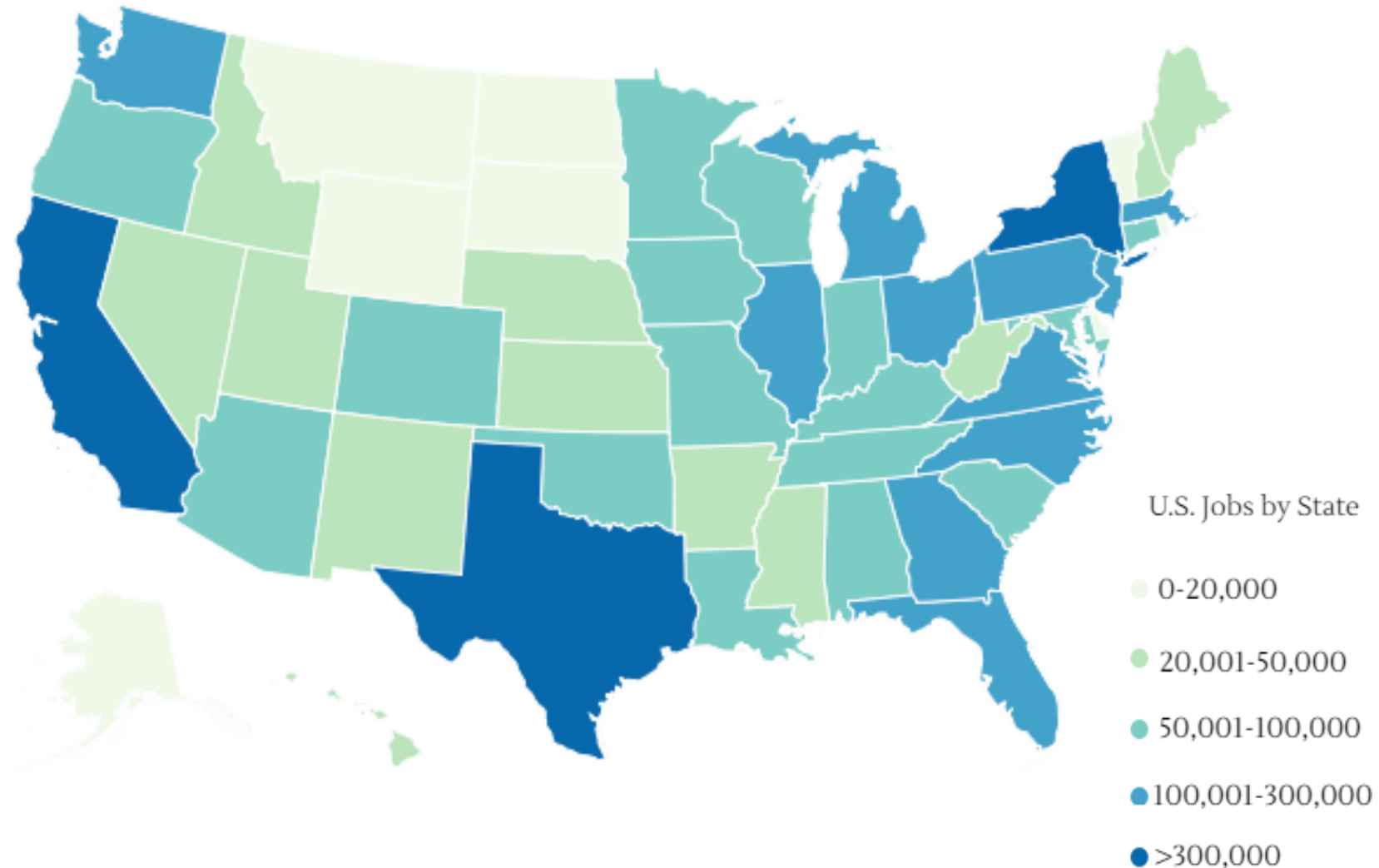


In 2019 for the first time, Mexico was the U.S.' #1 trade partner.

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



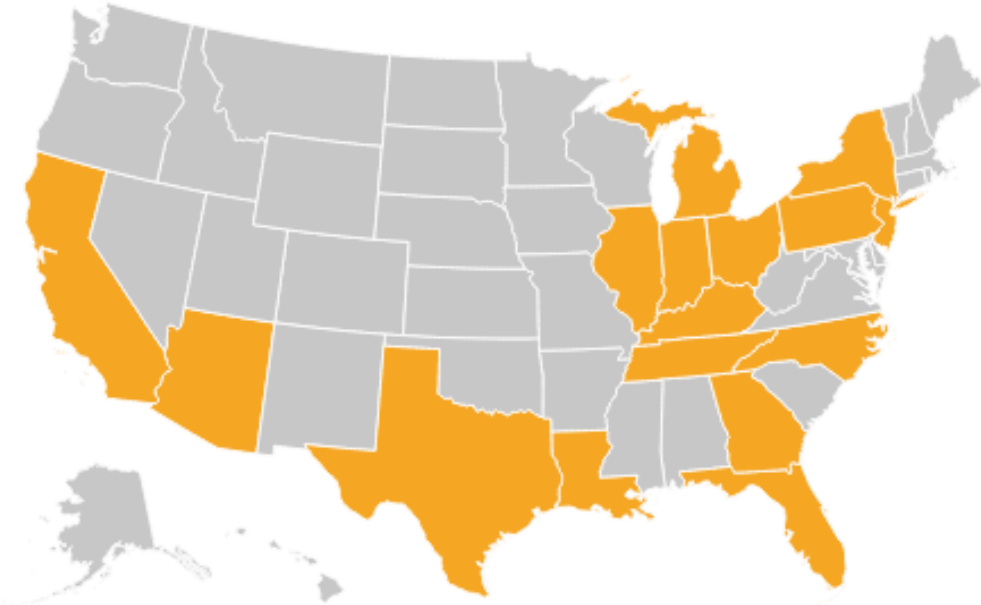
Mexico trade and investment supports over 5 million US jobs



Some 5 million US jobs depend on trade and investment ties with Mexico (2017), compared to an estimated 700,000 jobs in 1993.

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 **\$5.3 trillion**
- GDP from both sides of the border would constitute the **3rd largest economy in the world.**



Largest economies in the world (2019)



United States: \$21.43 trillion



China: \$14.14 trillion

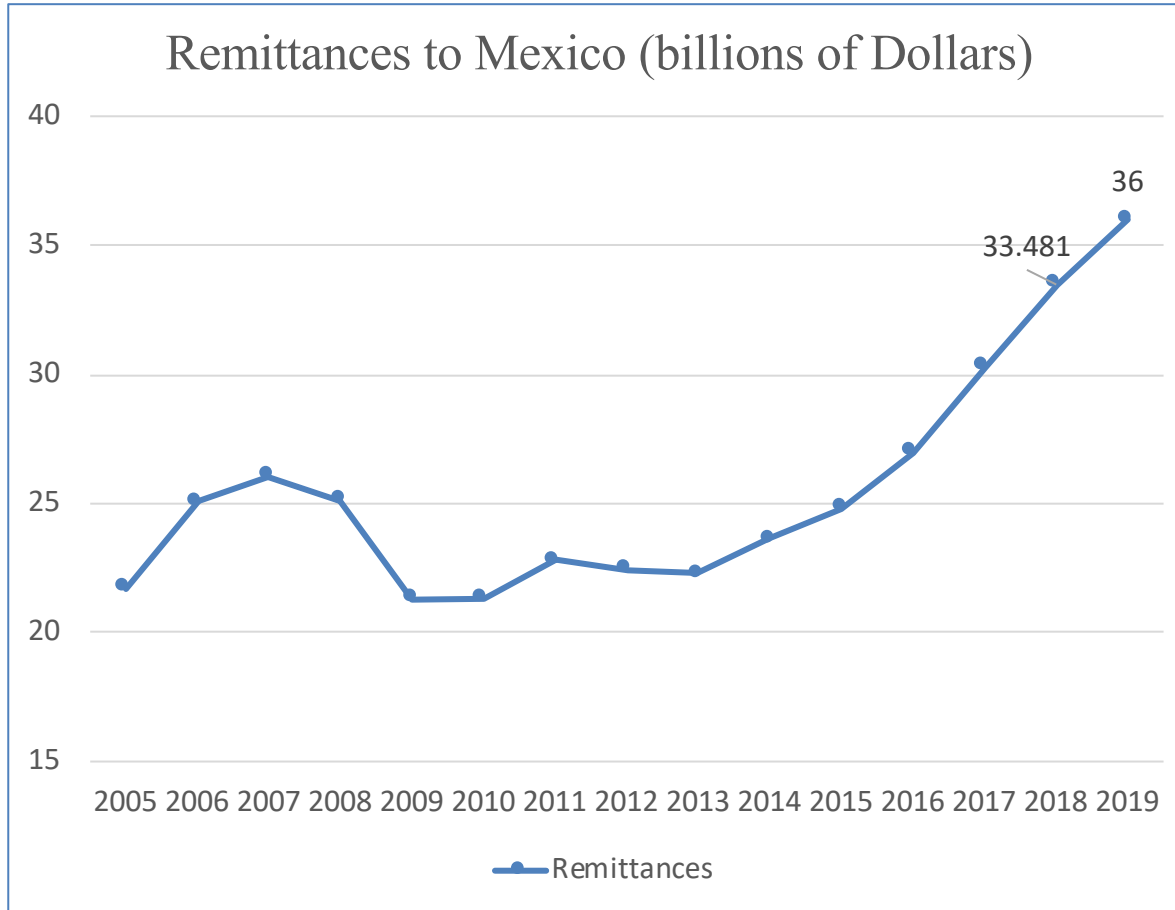


Japan: \$5.15 trillion



Germany: \$3.8 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

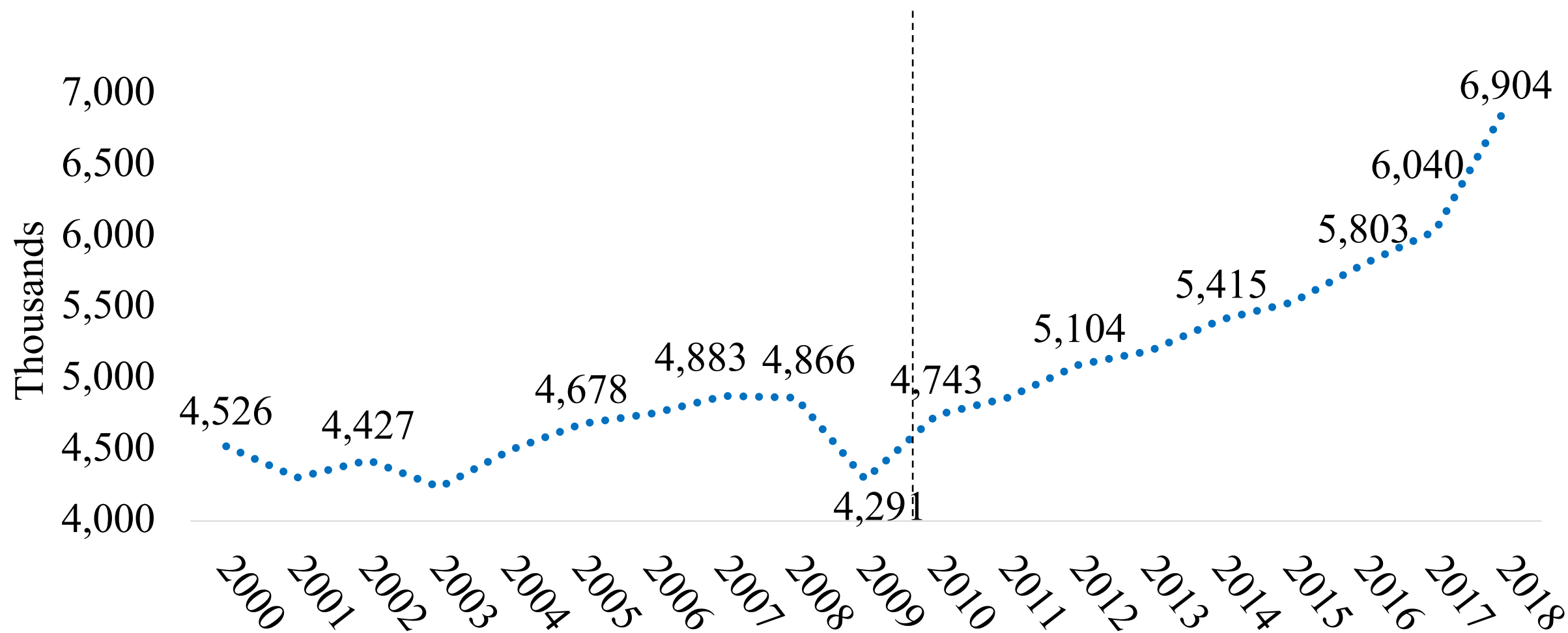
In 2018, the number of overnight visitors from the **U.S to Mexico** was **36.9 million**, which represented **39.7% of U.S. overseas tourism.**

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”

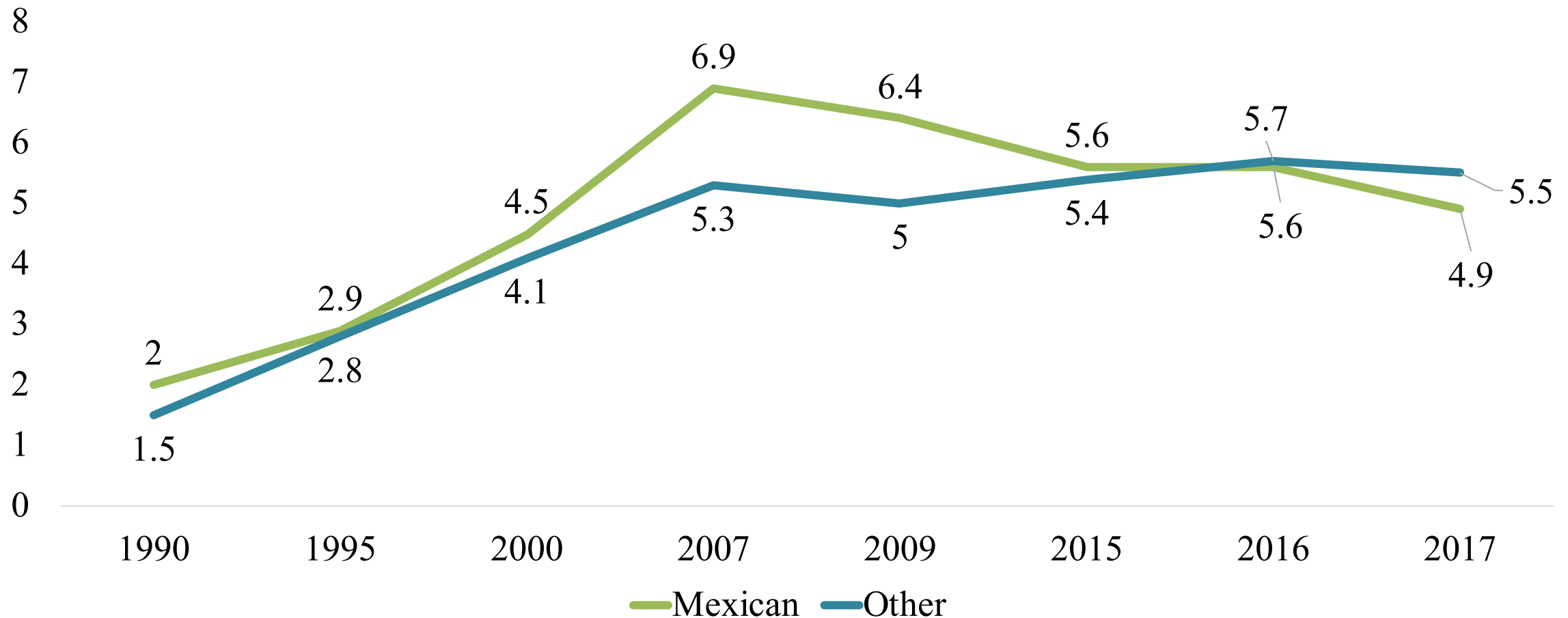
- Making the border more open to **legitimate travel and commerce**.
- **Worked to align customs** regulations; started joint customs facilities.
- **New mechanisms to** communicate, coordinate and **more effectively counter** illicit trade and travel: **drugs, guns, money and people**.
- Steps to **reduce 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 more complicated 2017-19**.
- **2019 agreed to reduce migrant flows; numbers dropped**.

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 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.
- **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 reported the murder, disappearance or kidnapping of relative); **U.S. threatened tariffs** on Mexican exports; **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.

Addressing Central American Migration: 2014-2020

Since the early 2000s, the Mexican immigration system has evolved in response to changing migration flows and pressure from the United States:

In **2014**, when the number of Central American unaccompanied children rose sharply, Mexico implemented the **Southern Border Program** (Programa Frontera Sur), consolidating efforts to protect vulnerable 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.
- **Improved cooperation** against **transnational criminal organizations**.

During his initial months in office after **December 2018**, President López Obrador adopted a policy framework focused on **two pillars**: 1) a focus on human rights, creating legal entry pathways for migrants; and 2) economic investments in Central America to address the root causes of irregular migration.

In response to large caravans of migrants travelling across Mexico, the Mexican government issued over 18,000 humanitarian visas by the end of **February 2019**; as irregular migration continued to increase through **March 2019**, Mexico's capacity to process new arrivals was overwhelmed; this, coupled with pressure from the U.S., made the López Obrador administration adopt a new strategy focused on containing migrants at Mexico's border with Guatemala.

Despite these efforts, irregular migration continued to grow in the following months, further straining the U.S.-Mexico relationship. In **May 2019**, U.S. apprehensions of unauthorized migrants along the U.S.-Mexico border reached its highest level in 13 years, and President Trump threatened to impose tariffs of up to 25 percent on Mexican goods.

Addressing Central American Migration: 2014-2020

After three rounds of negotiations, the U.S. and Mexican government signed the **U.S.-Mexico Joint Declaration** on **June 7, 2019**, vowing to work together to reduce irregular migration from Central America. This joint declaration contained **five key commitments**:

1. Mexico agreed to **deploy its newly created National Guard** to strengthen migration controls at the Mexico-Guatemala border.
2. Mexico agreed to **accept more non-Mexican asylum seekers** returned by the United States as part of the expansion of the Migration Protection Protocols (MPP, a.k.a ‘Remain in Mexico’), making a commitment to provide access to employment, health care, and education while they wait for their U.S. asylum cases to be solved.
3. The United States agreed to **expediting the processing of asylum** cases.
4. Mexico and the United States maintained their commitment to cooperate to **dismantle human-smuggling networks**.
5. Both governments agreed to addressing the root causes of migration through **development investment in Southern Mexico and Central America**, such as through the **Comprehensive Development Plan** (Plan de Desarrollo Integral).

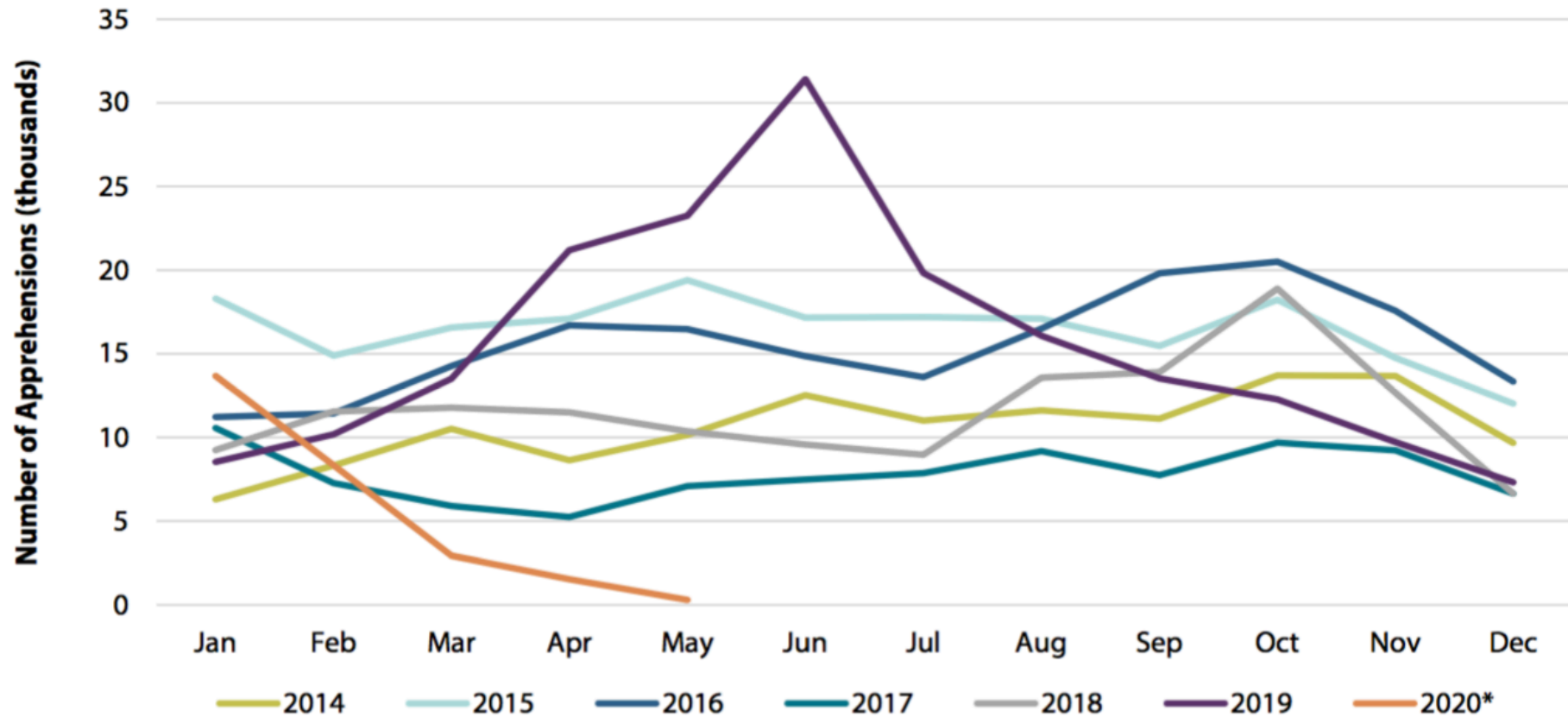
By **April 2019**, apprehensions by Mexican authorities had begun to increase steadily, peaking around the time when the declaration was signed. In **June 2019**, Mexican authorities made 31,000 apprehensions and 22,000 returns.

By **September 2019**, roughly 10,000 National Guard troops patrolled the Mexico-Guatemala border and 15,000 the U.S.-Mexico border. Figures through September 2019 demonstrate a dramatic increase in enforcement:

- Mexican migration authorities apprehended 81,000 migrants from June through September—a 76-percent increase over the 46,000 migrants apprehended during the same four-month period in 2018.
- Migrant returns rose by 69 percent—from 37,000 to 62,000—between the same two periods.
- In all of 2019, Mexico made 187,000 apprehensions of migrants and 141,000 returns.

Addressing Central American Migration: 2014-2020

Migrant Apprehensions by Mexican Authorities, by Month, 2014–20*

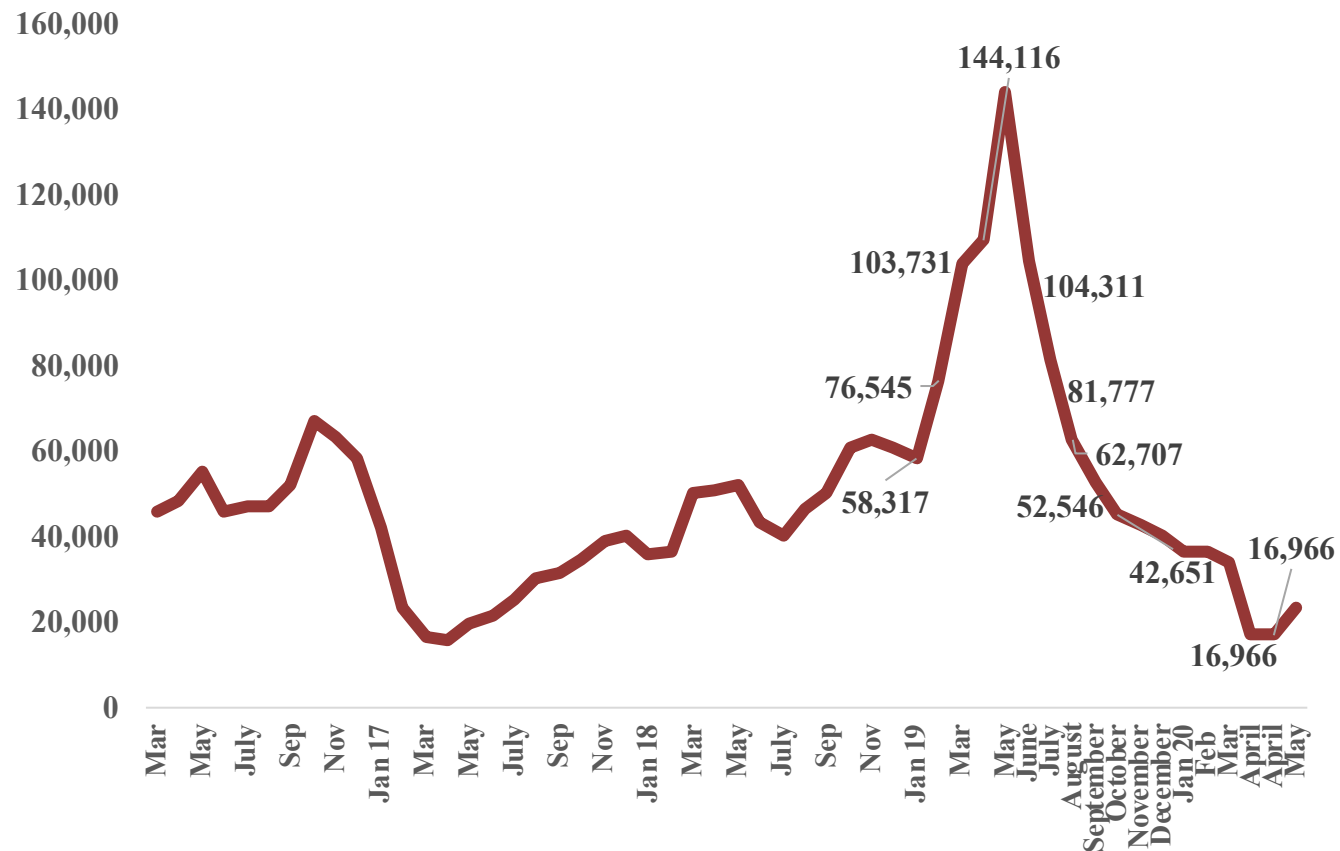


* Data for 2020 are through May.

Sources: Mexican Interior Ministry (SEGOB), "Boletín Mensual de Estadísticas Migratorias, 2014-2020," accessed May 17, 2020; SEGOB, "Da Instituto Nacional de Migración seguimiento a medidas cautelares de la CNDH," updated May 29, 2020.

Sharp Rise in U.S.-Mexico border apprehensions

Apprehensions at the southwestern border 2016 – April 2020



Source: The New York Times based on U.S. Customs and Border Protection, 2020

- FY **2019, 851,508 U.S. border apprehensions**, most since 2012.
- Over **144,000 apprehensions in May 2019**.
- After U.S.-Mexico agreement in June, Mexico stepped up enforcement.
- **Mexico detained 179,000 migrants; deported 84,300; 70,000 sought asylum in 2019.**
- **In March 2020 (Covid-19)**, apprehensions dropped to **34,298**: a 76% drop from May 2019.
- **Fewer families, more adults, many Mexicans.**
- **In April 2020, only 16,966 migrants arrested; a 50.5% decline** from March.
 - Tougher U.S. policies and the pandemic.
- **Apprehensions jumped by 36% during May to 23,118 apprehensions.**
 - Mexican single adults account for the largest share of those taken into custody.
 - 82% of migrants apprehended during May were Mexican nationals, while just 13 percent were from Central America's Northern Triangle.

Addressing Central American Migration: 2019-2020

As enforcement has increased, Mexico has faced **detention capacity limitations**, and criticism for **human right violations**:

Increased apprehensions have overwhelmed Mexican detention centers and generated reports of human rights violations by Mexican forces.

In **January 2020**, a confrontation broke out between migrants and the National Guard, as a “new caravan” of 2,000 migrants sought to cross the Mexico-Guatemala border illegally. 800 migrants were detained, and some 2,300 were deported.

The COVID-19 pandemic has led to further restrictions notably a temporary **restriction on nonessential travel**, defined as “all travel except what is related to providing critical services such as food, fuel, health care, and life-saving medicines.”

In **March 2020** President Trump announced blocked entry of all unauthorized migrants and asylum seekers due to public health concerns.

Since the implementation of these emergency orders in late March, nearly 43,000 migrants have been subjected to the rapid-expulsion proceedings. During **May 2020**, 19,707 migrants were expelled, including minors and asylum seekers. The Trump administration also extended the policy indefinitely.

With many Central American migrants living in cramped tenements, there are concerns about COVID-19 transmission.

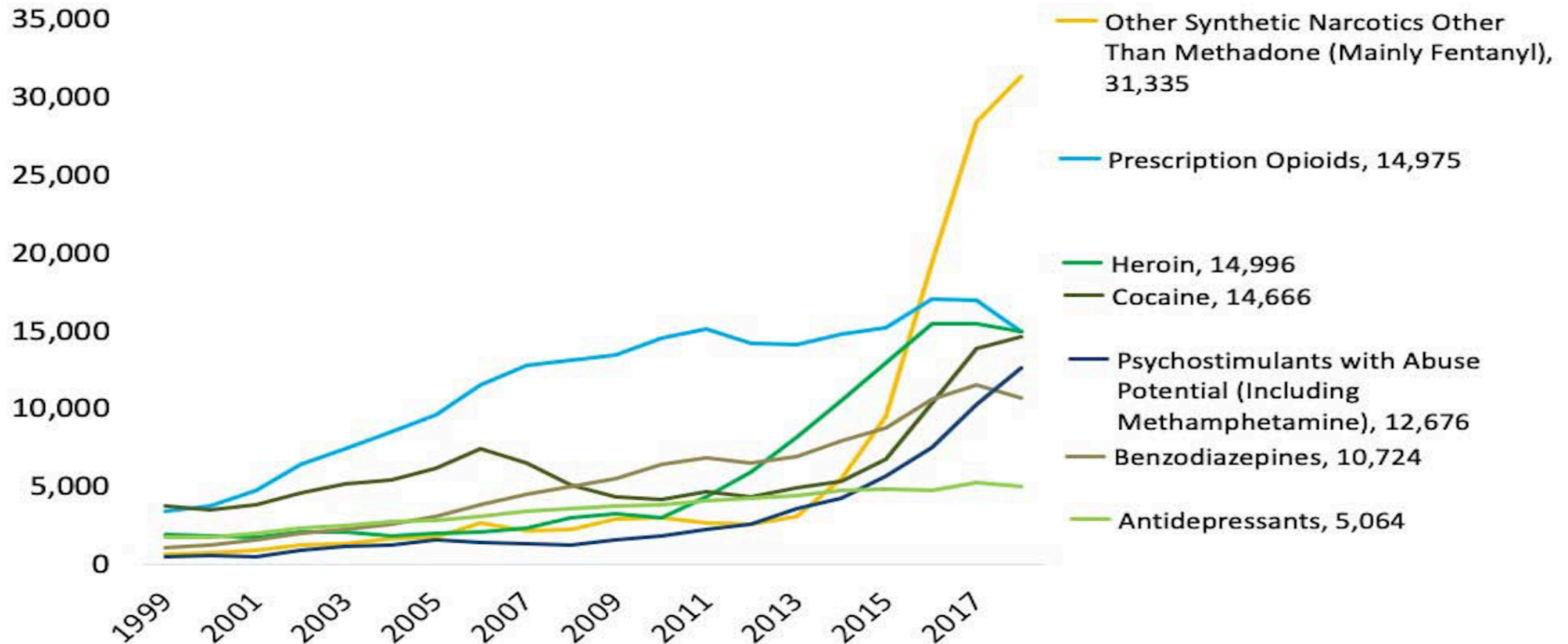
Border closures in the North Triangle have reduced irregular migration; Central American migrant apprehensions by Mexican authorities dropped from 8,000 in February to 3,000 in March, and further to less than 2,000 in April.

The number of Mexicans apprehended crossing into the U.S. is increasing, however.

Bilateral Cooperation Against Crime: Pending Review

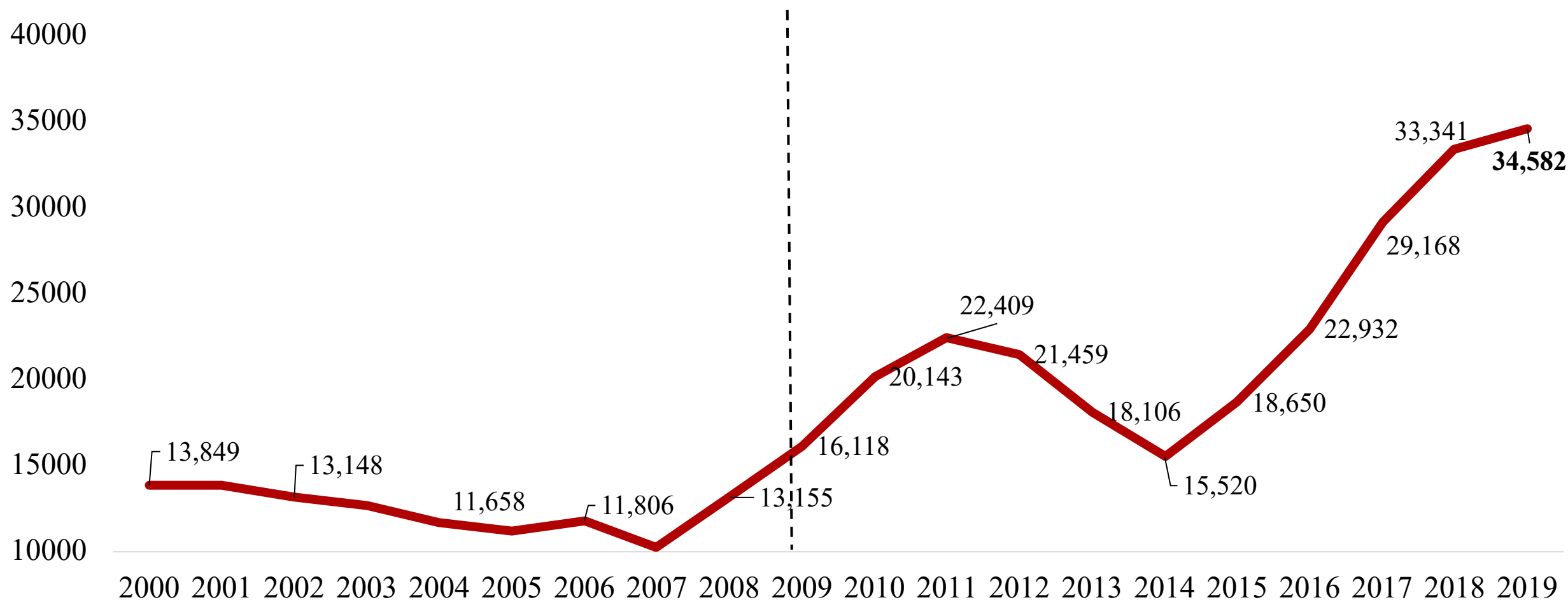
Driver: US Drug Overdose Deaths 2000-2018

National Drug Overdose Deaths Number Among All Ages, 1999-2018

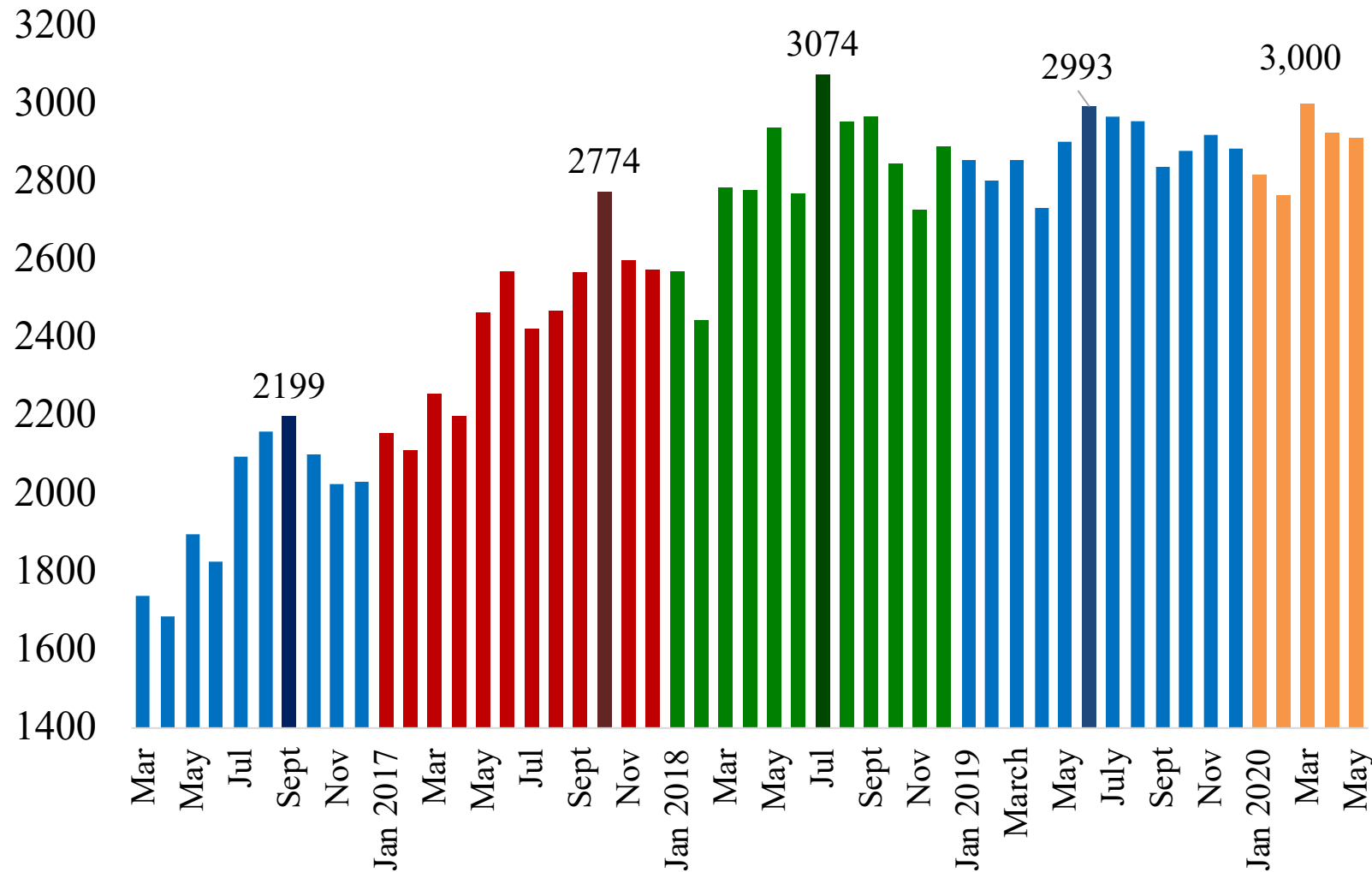


Source: CDC Wonder Database; CDC Provisional Counts of Drug Overdose Deaths, 2019

Urgency: Homicides in Mexico



Homicides in Mexico: Crisis Levels



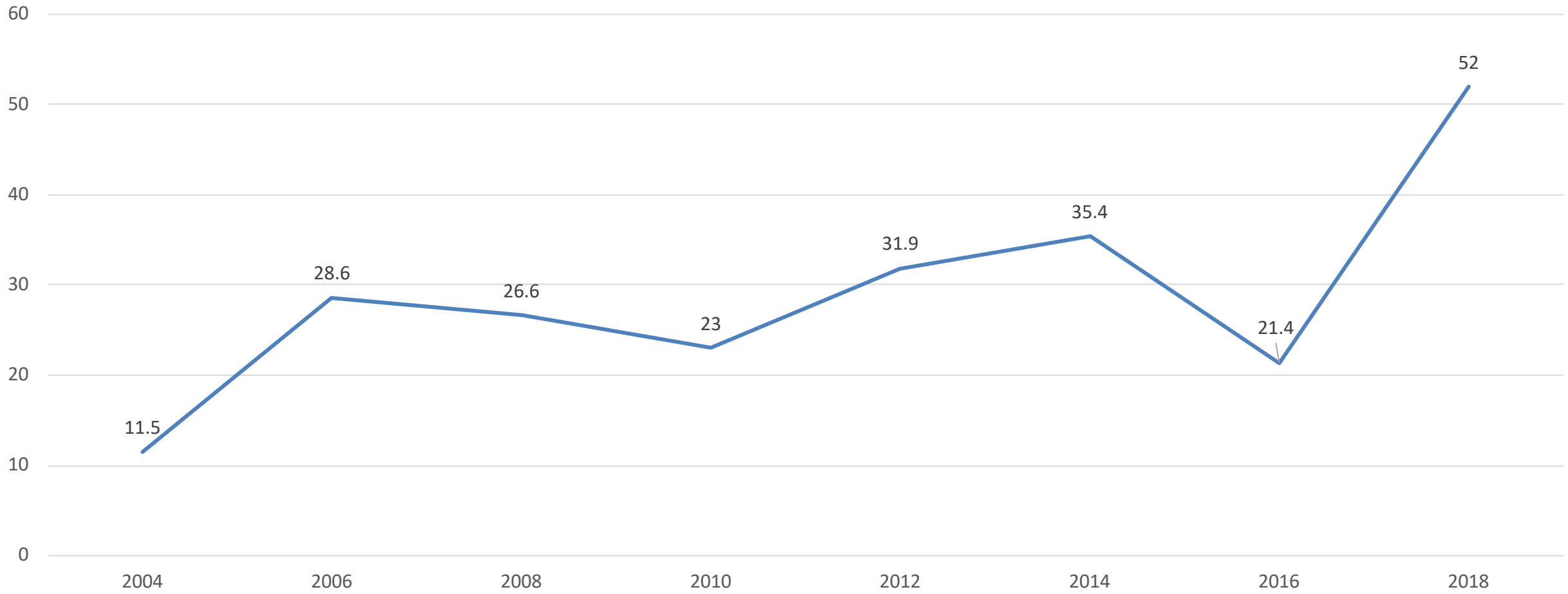
34,582 homicides in **2019**, a record; average **90 homicides a day**. **Jan-April 2020 set another record.**

Violence cost an estimated 21.3% GDP in 2019.

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

\$19-30 billion to criminal groups from US illegal drug sales

52 % see Security as the most important issue. 12/19 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



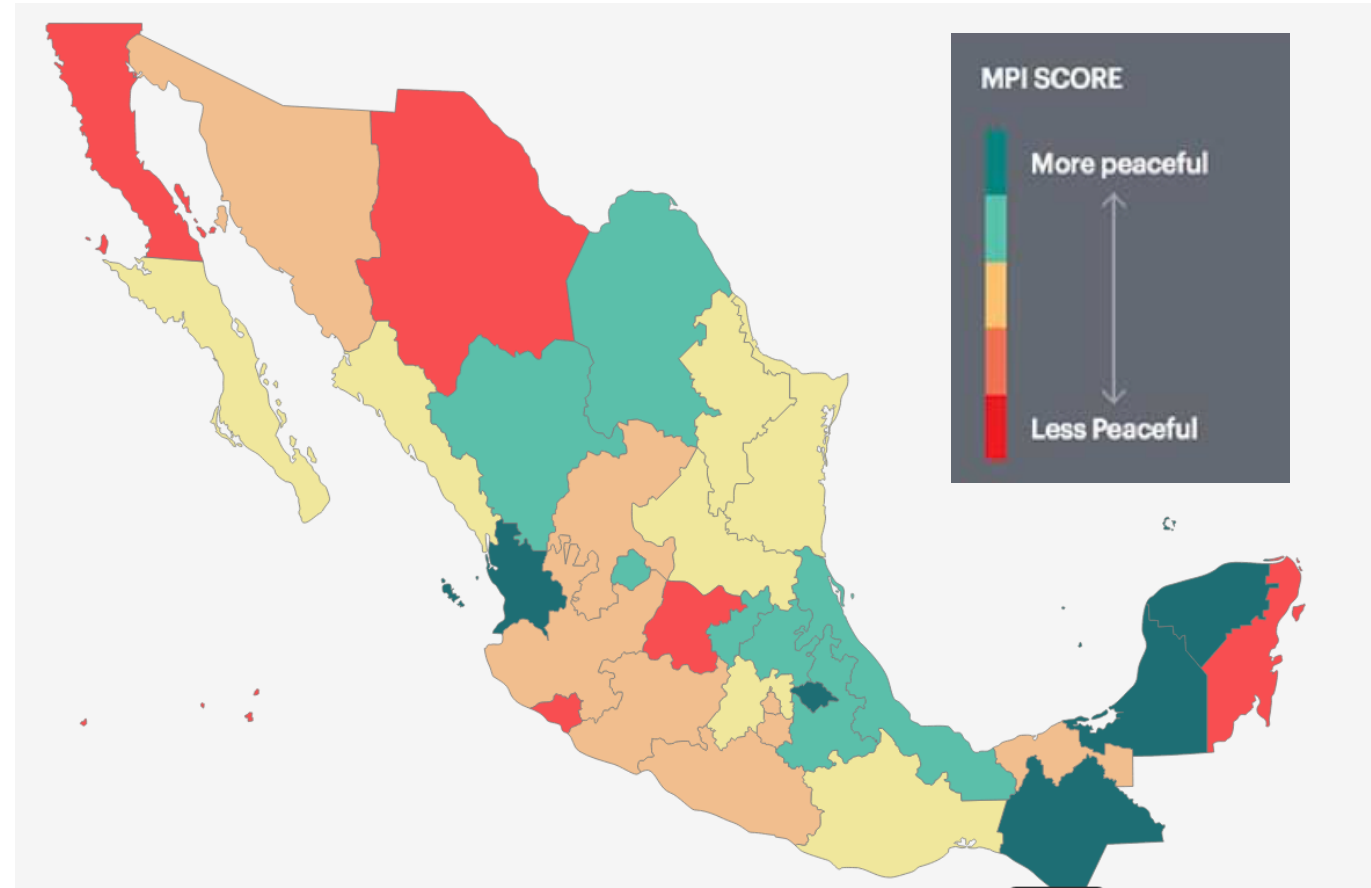
Least Peaceful States

1	Baja California
2	Colima
3	Quintana Roo
4	Chihuahua
5	Guanajuato

More Peaceful States

1	Yucatan
2	Tlaxcala
3	Chiapas
4	Campeche
5	Nayarit

- Peacefulness Mexico declined 4.3% in 2019, 4th consecutive decline.
- Estimated economic impact of violence up 21.3% last year to 4.57 trillion pesos (US\$ 238 billion).



Mérida Initiative: AMLO reluctant, U.S Concerned

U.S.-Mexico Merida Program Goals Established 2007

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 massive and criminal violence still high.

Congress provided **\$139 million** in FY2019 for the Mérida Initiative aimed at addressing the flow of U.S.-bound opioids.

For FY2020, Congress provided **\$150 million**.

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; December 2019 LeBaron and Langford families massacred in Sonora; Trump threat to designate cartels as Foreign Terrorist Organizations sparks progress since December.

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 including on illicit finance](#); 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.

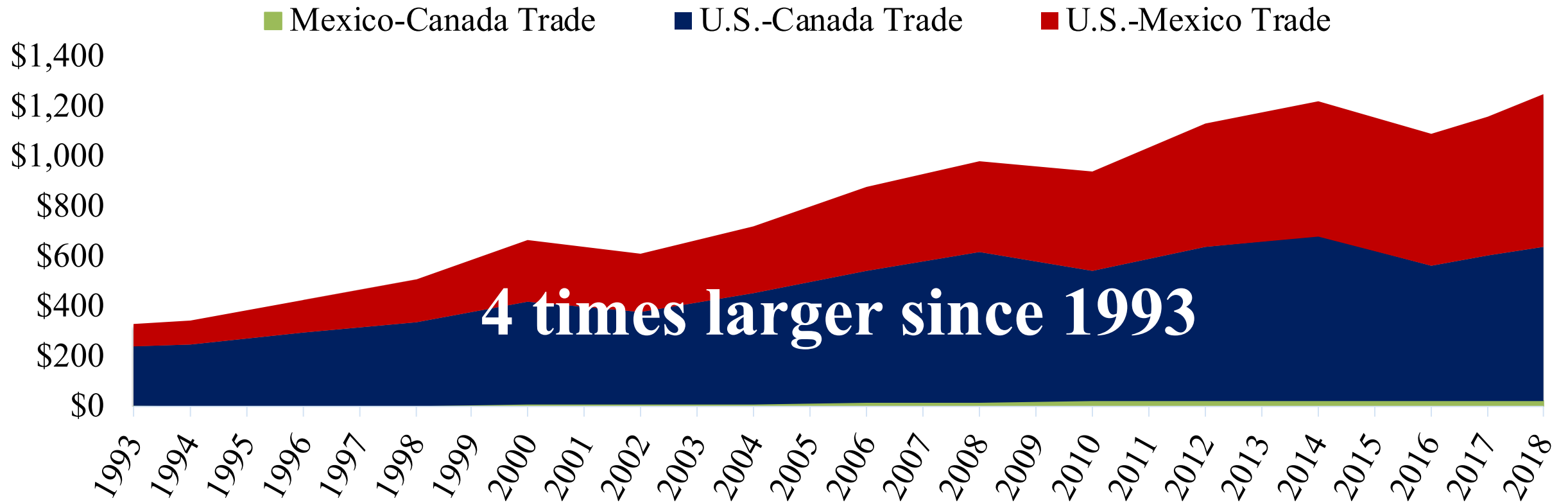
Trade: Moving from NAFTA to USMCA



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

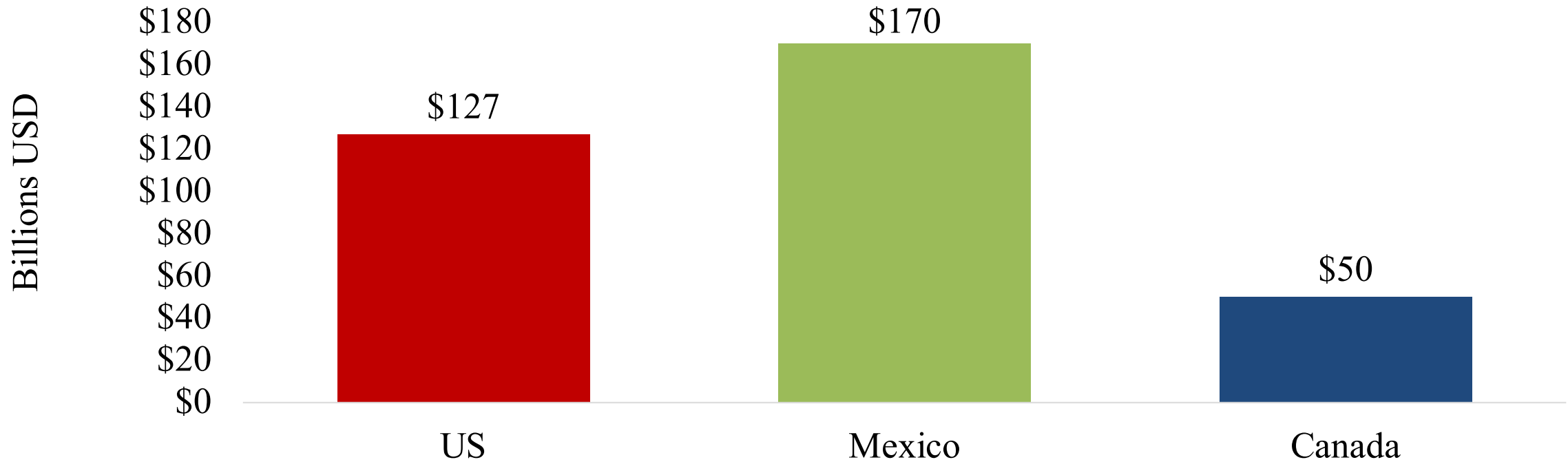


US FDI in
Mexico
\$114.8 billion

Canada's FDI
in Mexico
\$3.2 billion

* Latest available data from 2017

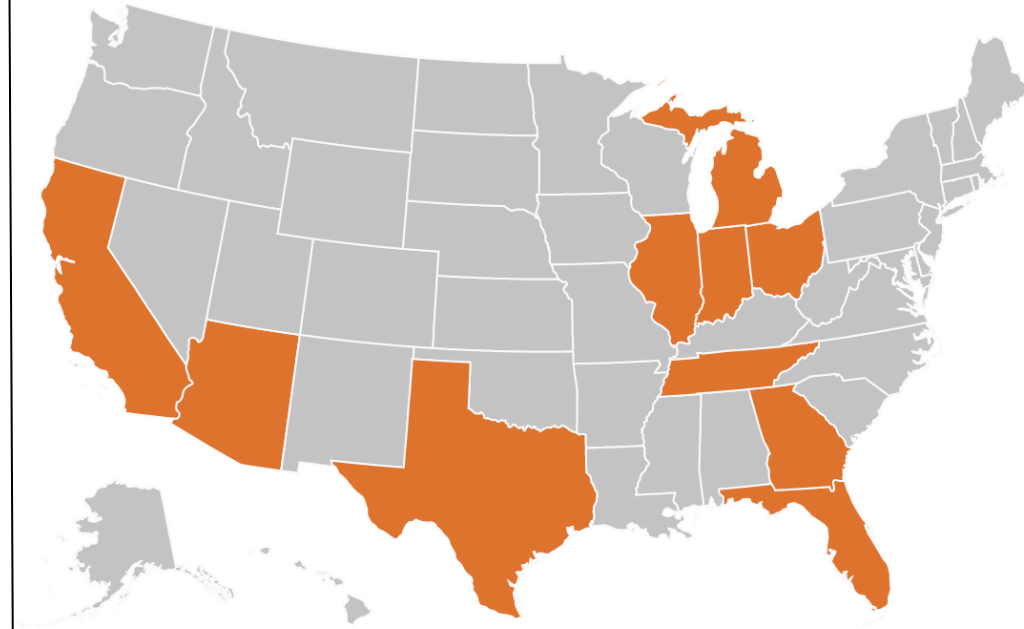
NAFTA Countries were richer each year due to “extra” trade growth (2014 estimate)



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

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

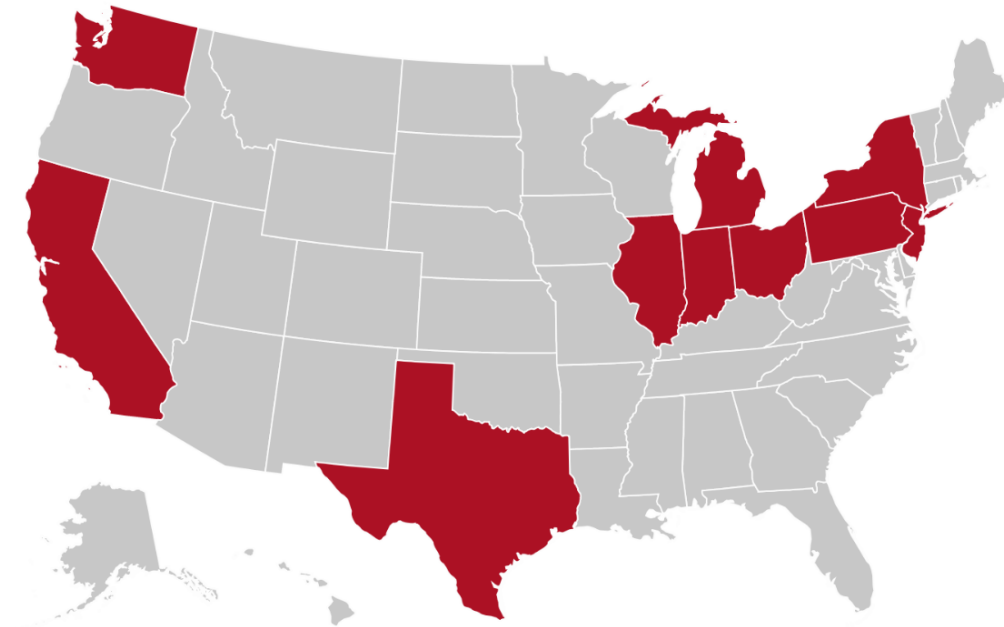
State	Volume \$USD (Billions)	State	Volume \$USD (Billions)
1. Texas	187	6. Ohio	14.7
2. California	73.1	7. Tennessee	11.7
3. Michigan	65.5	8. Georgia	10.4
4. Illinois	22	9. Indiana	9.8
5. Arizona	15.5	10. Florida	9.7



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.
- Mexico's Senate approved earlier. Canada's parliament approved in May.
- All countries have issued their “entry-into-force notifications.”
- USMCA will enter into force the **1st of July**.



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% 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.



Implementing USMCA



To implement USMCA, the three governments **must agree on procedures to monitor rules of origin for vehicles, set up the dispute settlement systems, and much more.**

The **corona virus** has added **new concerns and diverted officials from preparation.** Auto companies seek a delay in implementing new rules.

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.



Optimistic View on USMCA impact



- **International Trade Commission:** if fully implemented and enforced, USMCA would have a **positive impact on U.S. real GDP and employment** over 6 years.

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

- 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.

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.

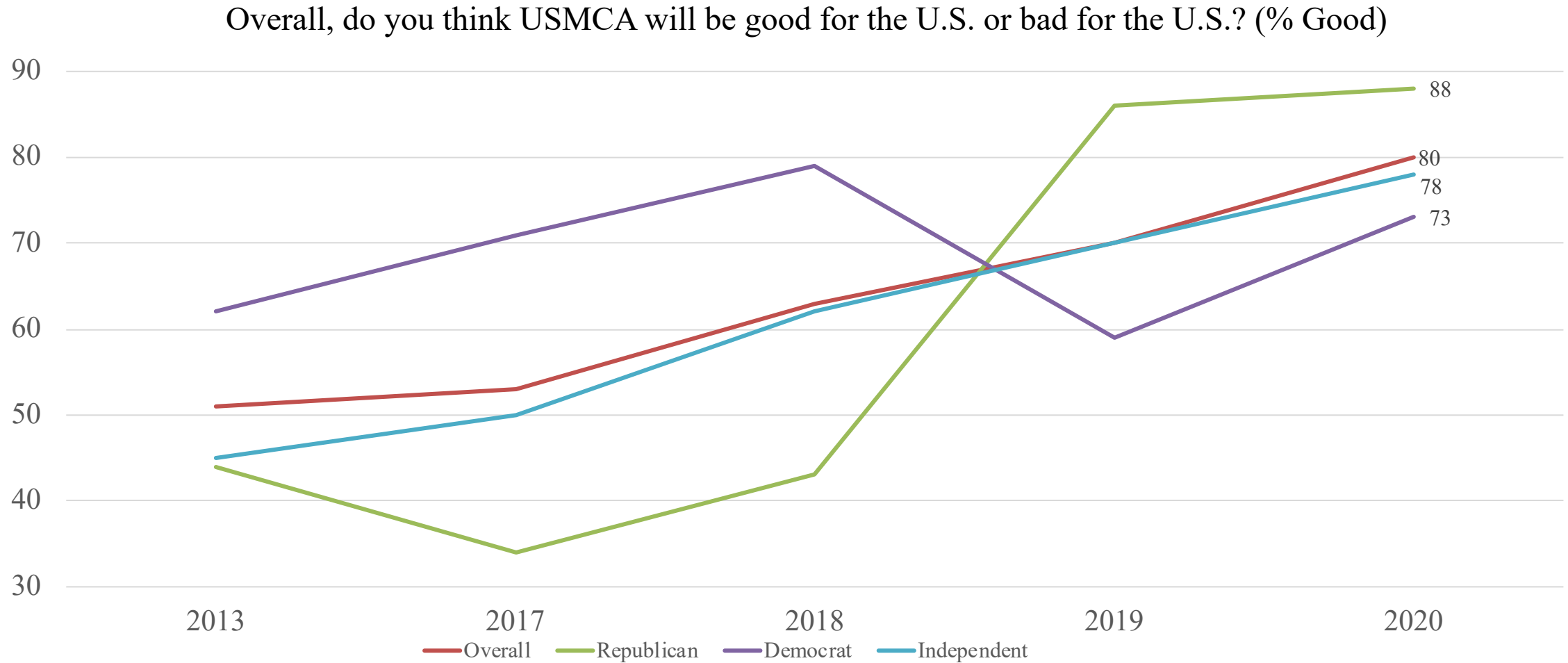
Canadian Government: better than no deal



- Canadian government to parliament: Benefits to the Canadian economy are **positive when compared to the effects if U.S. withdrew from NAFTA** and imposed 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.**

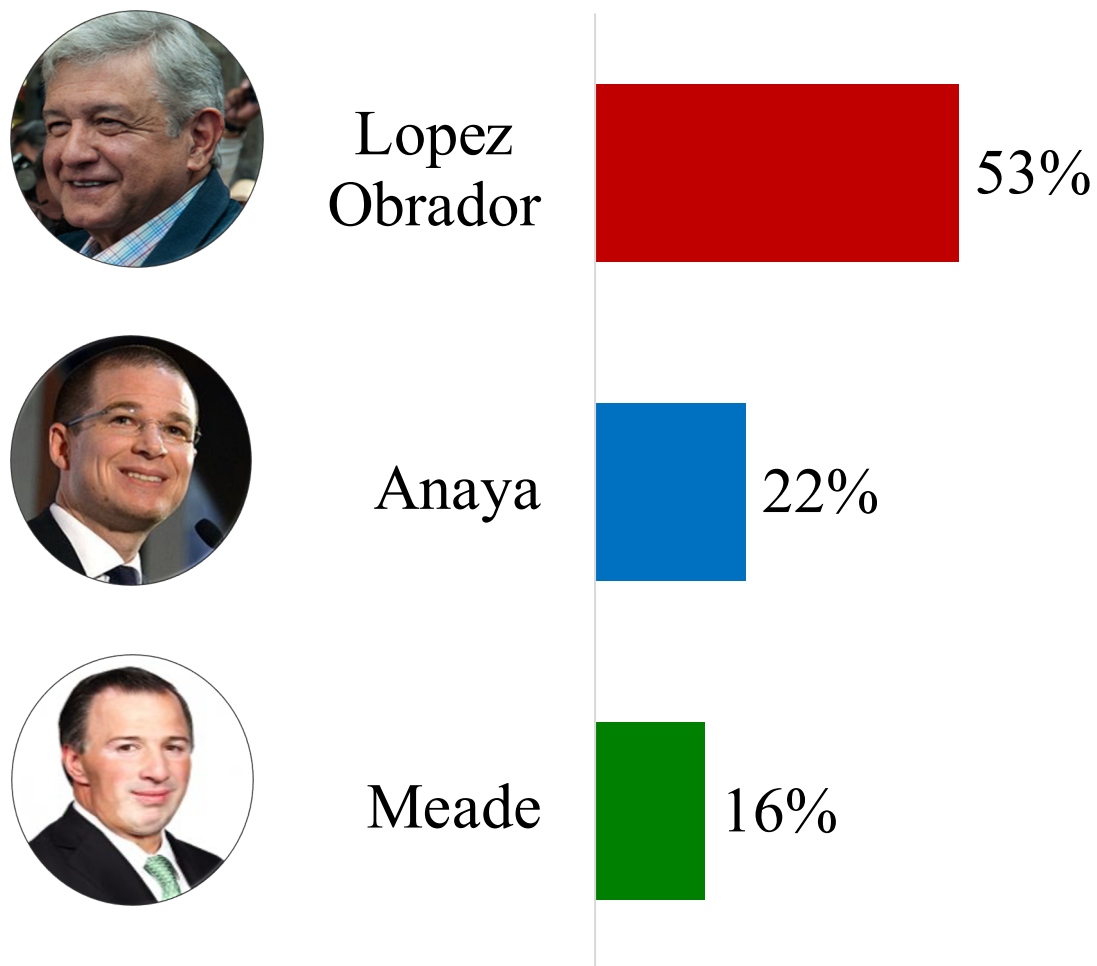
A respected Canadian think tank argues at that **all three countries will be worse off** under USMCA or CUSMA, with **Canada's GDP losing \$15 billion a year in value terms.**

US Opinion: Is NAFTA/USMCA Good for the US Economy?



Mexico's 2018 Elections

Presidential Results: Launches the “4th Transformation”



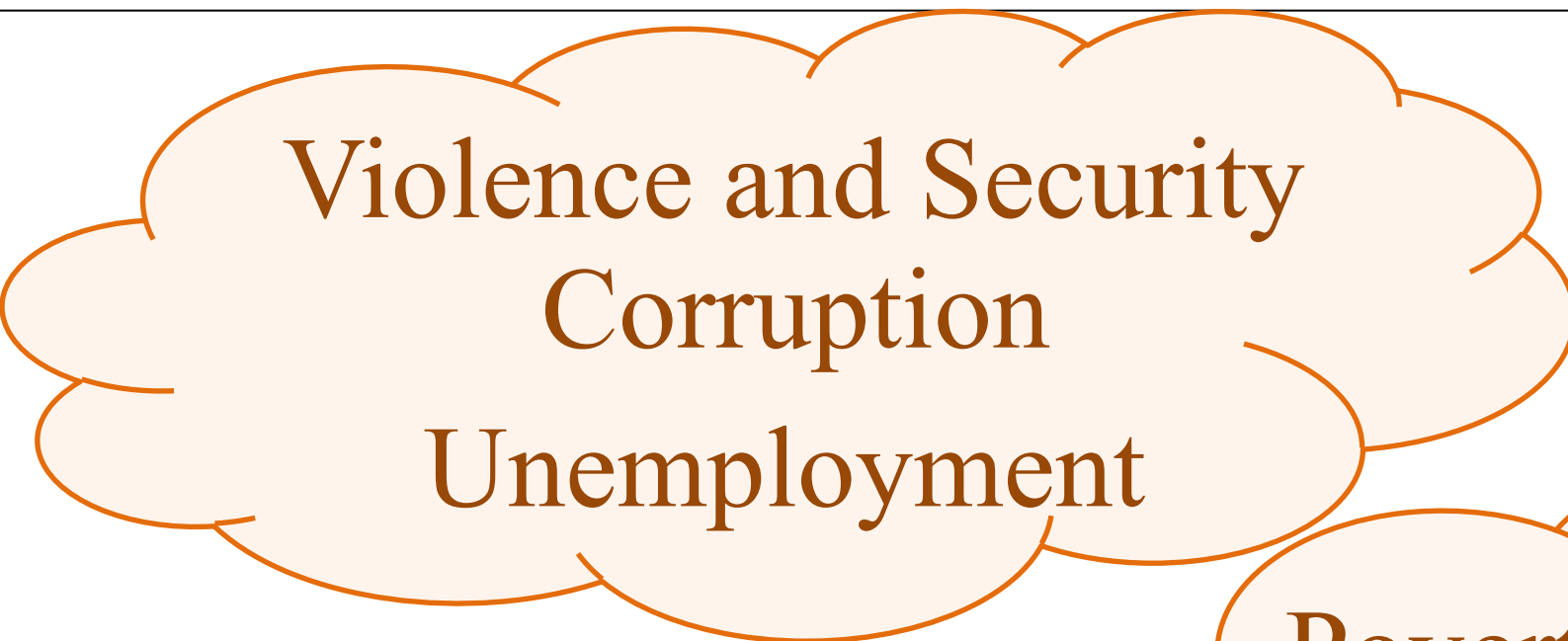
July 1 voter turnout: 63.5%

Andres Manuel Lopez Obrador's party, Morena, **won big majorities in Congress** and state legislatures.

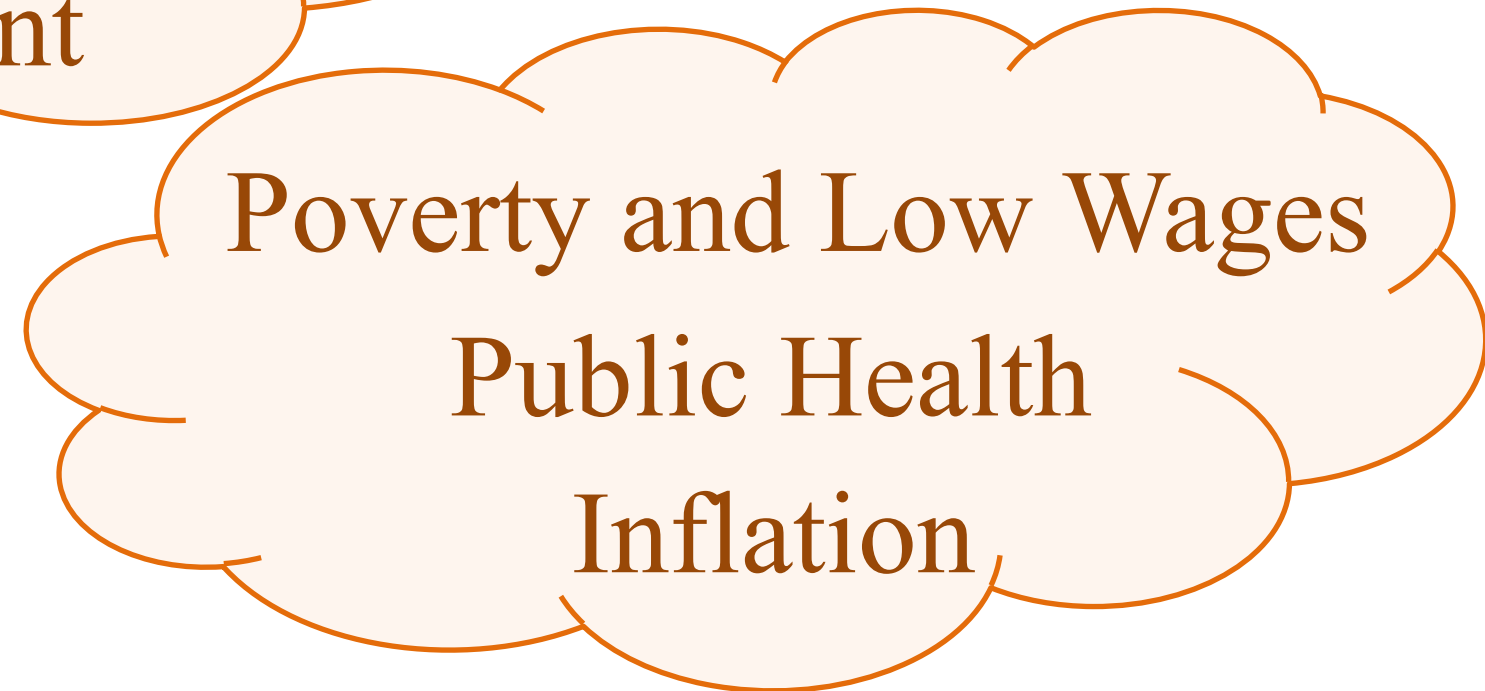
AMLO took office December 1.

Most powerful President in decades: few counterweights.

Issues that Influenced Votes



Violence and Security
Corruption
Unemployment

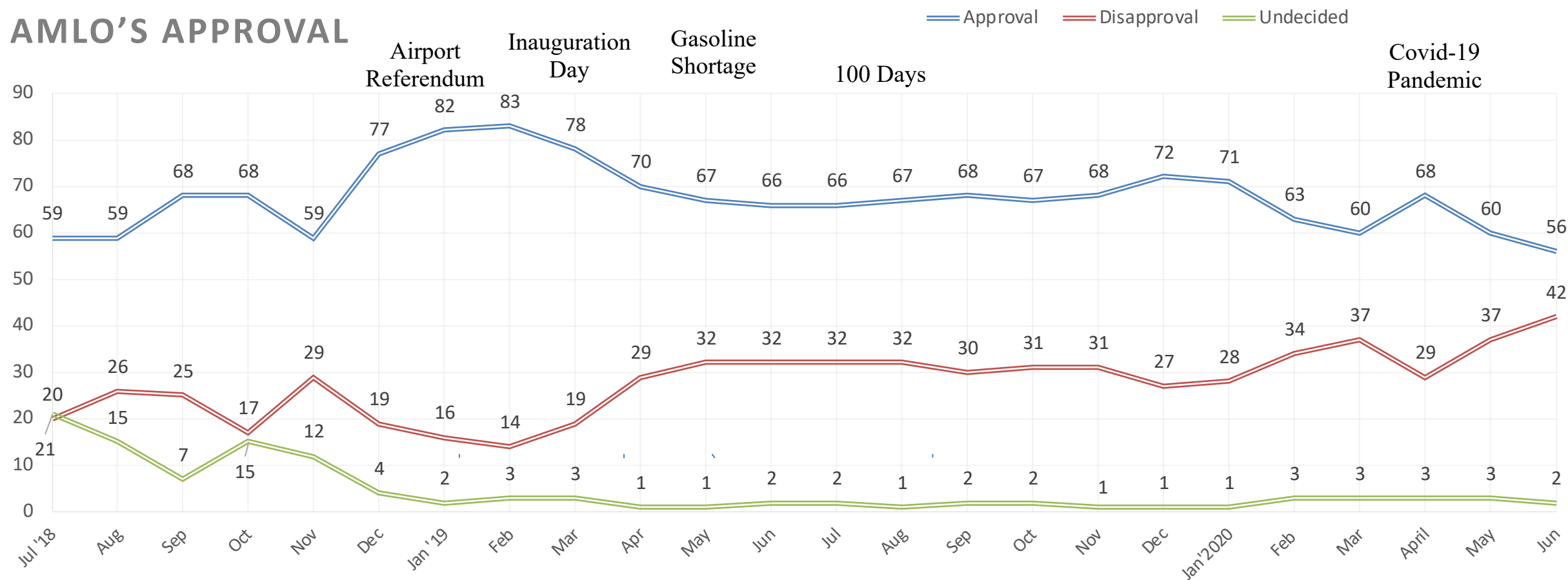


Poverty and Low Wages
Public Health
Inflation

AMLO's Popularity High But!



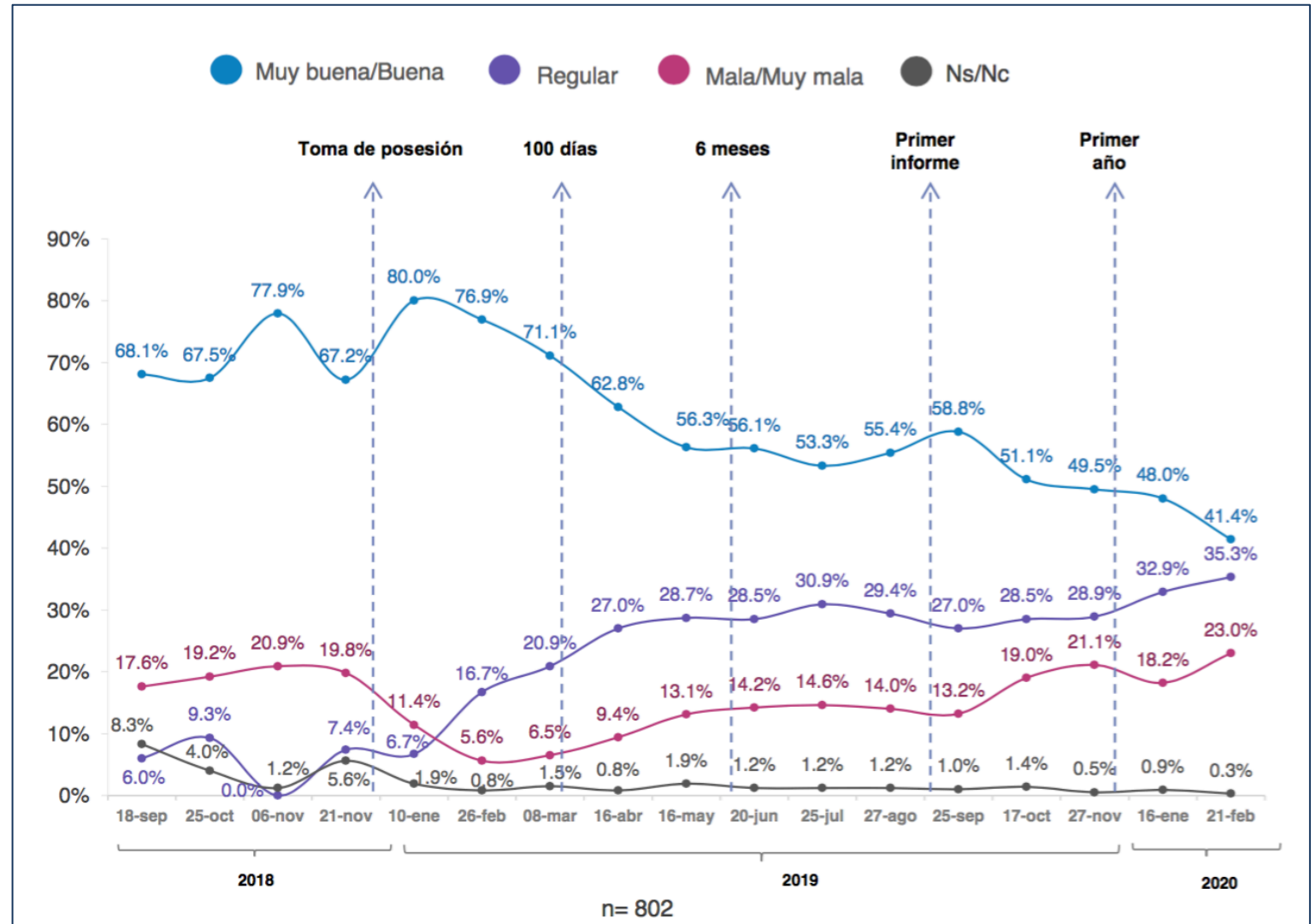
AMLO'S APPROVAL



Another Poll by *El Economista* reports an approval rate of 46.1% for May

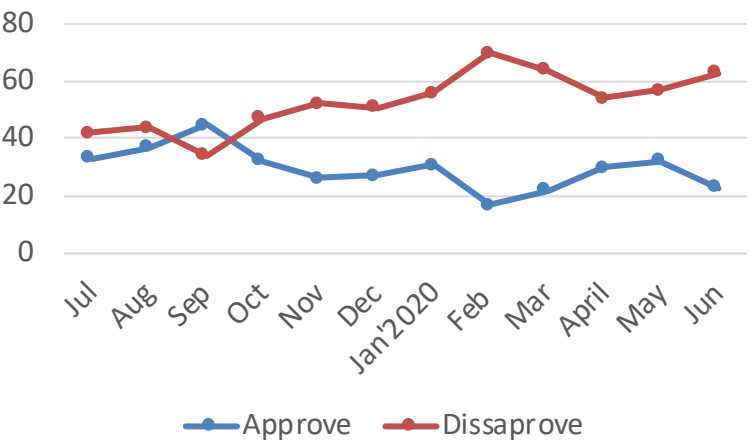
Clear Decline Good Ratings – February 2020

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

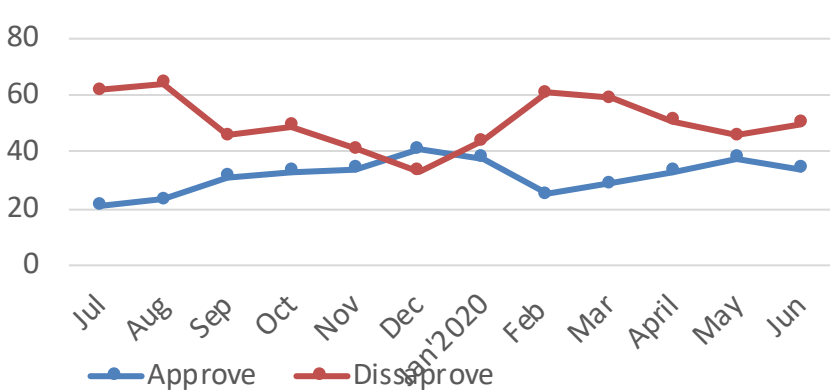


AMLO's Approval Ratings by Issue – April 2020

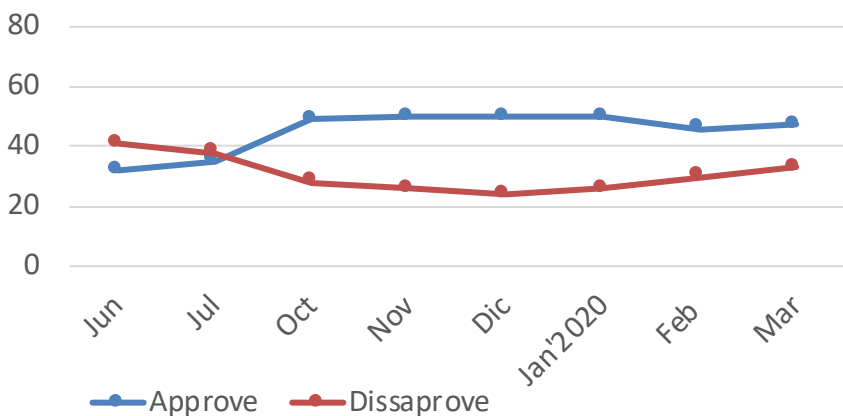
Security



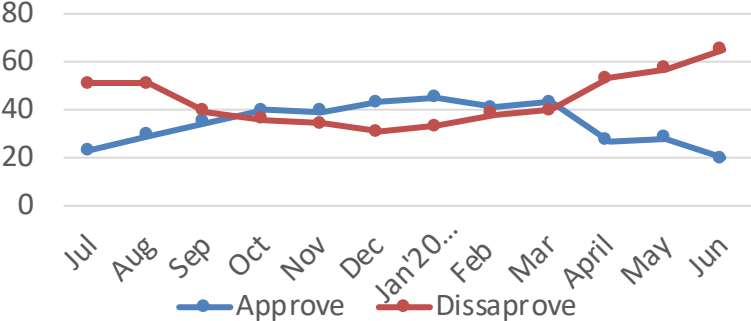
Corruption



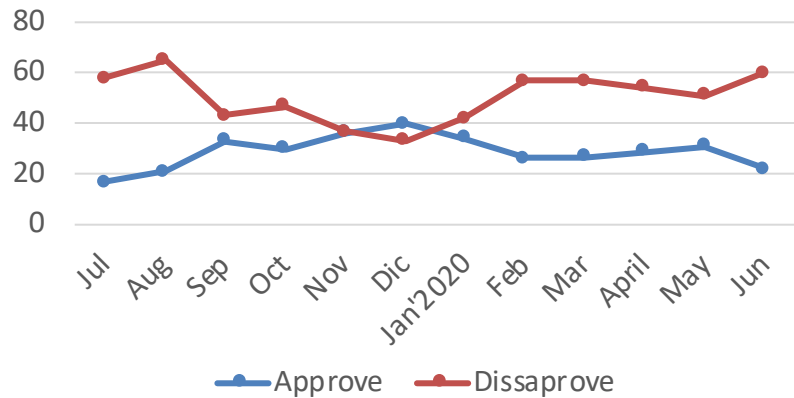
Education



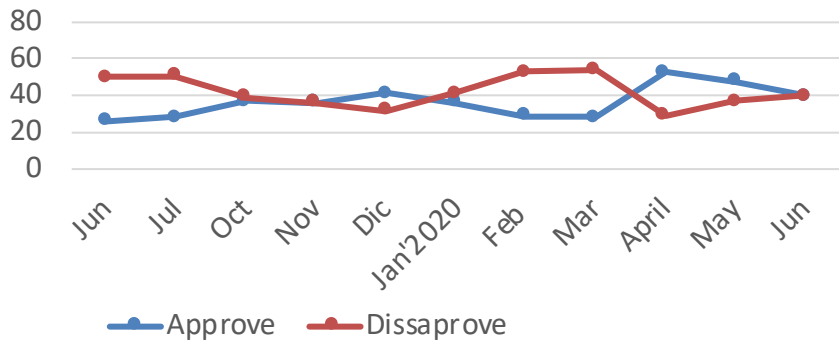
Economy



Poverty



Public Health

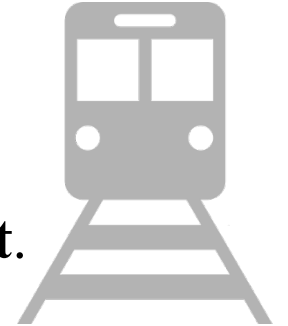


AMLO's Policy Proposals and Actions



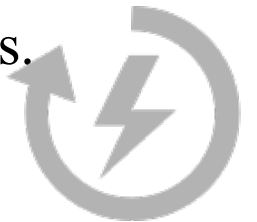
Economic Policy: Reducing Inequality

- 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** vs 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, spending 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—Before COVID-19



- AMLO maintained **strong fiscal and monetary fundamentals**, with **inflation down**, winning IMF kudos.
- But the IMF 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%**.
- The **price** of the **Mexican oil mix has dropped to \$27.40** amid the Saudi Arabia price war, half the \$49 on which the government based its 2020 budget. The Mexican government **relies on PEMEX** to fund **18 percent** of the **national budget**. PEMEX is one of the world's **most indebted oil companies** with debt of \$105bn.
- **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 included:
 - **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 2020.

Effects of COVID-19 on the Mexican Economy



- The IMF projects an economic **contraction of 10.5% for Mexico** in 2020; the biggest contraction in Latin America after Venezuela. (Some banks predict lower GDP drop.)
- The United States' economy is projected to shrink by 5.9% and Canada's by 6.2%
- Mexico's **GDP per capita** is forecasted to **shrink by 7.6%**; more than in 2008 financial crisis.
- Mexico impacted by the pandemic because of: 1) exposure to the United States and dependence on affected supply chains; 2) the oil price drop; 3) reduced tourism and remittances; 4) continued surge in crime and violence; 5) pre-existing economic weaknesses; 6) drop in investor confidence.
- Mexico's **credit ratings suffering** with worries about growth, PEMEX strength and policy making capacity; PEMEX bonds at junk level by two agencies: both raise borrowing costs.
- **Business seeking more help, AMLO refusing.**
- BBVA estimates that the global pandemic will push 12-16 million Mexicans into poverty.
- According to IMSS, 1 million 366 thousand jobs in the formal sector were lost during March, April, and May.
- Mexican exports to the U.S. decreased by 56.72% in May; this is their worse fall in record, since 1985.
- The Central Bank implemented measures to support the financial system including lowering interest rate to 5.00%.

PEMEX Credit Rating Downgrade



- Fitch Ratings reduced PEMEX's credit rating **from BB to BB-**, “junk status.”
- Moody's slashed PEMEX's rating **from Ba2 to Baa3**, lowering bond prices up to 30%.
- Moody said downgrade due to "**continued depreciation**" of its stand-alone credit profile and its "**limited flexibility**" to make it through the global shock in the oil and gas industry.
- With more than **\$105 billion in financial debt**, Moody also expects PEMEX to tap full credit facilities in 2020 despite government tax relief.
- The oil company will **contribute only 11% to the federal budget** in 2020, its lowest contribution since 1990. PEMEX contributed with 17.7% in 2019 vs 44.3% in 2008, its largest contribution.

The Energy Sector in Mexico



- A central tenant of AMLO's platform is to establish Mexican energy independence in oil, gas, and electricity.
- Bailing out PEMEX and building the Dos Bocas refinery are key objectives.
- Most recently, the Ministry of Energy's Cenace issued a decree to take full control over the National Electric System.
 - The decree required that power be sourced with the "strategic interests" of Mexico in mind. However, under the decree, only SENER and state-owned CFE could decide what is "strategic," effectively giving them full discretion over the source of electricity supply in Mexico.
- The decree also impacts the renewable electricity sector, since the Mexican government can effectively cut off the sale of privately generated renewable power in favor of generation from the state-owned CFE.
- Investors put billions of dollars into Mexico following the 2013 Energy Reform. The decree jeopardizes 44 existing renewable projects in 18 states worth \$6.5 billion dollars, accounting for 29,500 jobs. This does not include projects in early development stages, which could total another \$3-5 billion per year.
- An association representing 18,000 European companies (Eurocam) opposes the decree; these companies represent 29% of all FDI in Mexico. The Canadian and U.S. governments have also raised concerns.
- This decree and the recent shut down of a Constellation Brewery in Mexicali have investors wary.
- On June 11, a specialized federal court permanently suspended the CENACE's decree. The federal government said it will challenge the ruling in the courts.

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**.
 - Mexican authorities **apprehended over 81,000 migrants** from June through September, and migrant returns rose by 69%.
- 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** apprehended 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 U.S. 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.
- With border restrictions due to Covid-19, including closure to non-essential travel, **migrant crossings and apprehensions dropped significantly during the months of April and May**.
 - There has been around **986 confirmed cases of Covid-19** among those in ICE custody.

Key Work Areas for U.S.-Mexico Relations

Manage impacts of Corona virus.

- Work together on the implementation of policies to mitigate, contain and recover from the effects of COVID-19. This raises **important questions** for the U.S.-Mexico relationship in terms of migration, tourism, and the trade/commercial relationship as supply chains restart and USMCA is launched.

Trade:

- Begin implementation of **USMCA**.
- **Renew focus** on enhancing **facilitation of trade** and travel as well as adapt to new aspects of the post-pandemic economies.

Border, Migration, Security, Anti-Crime Cooperation:

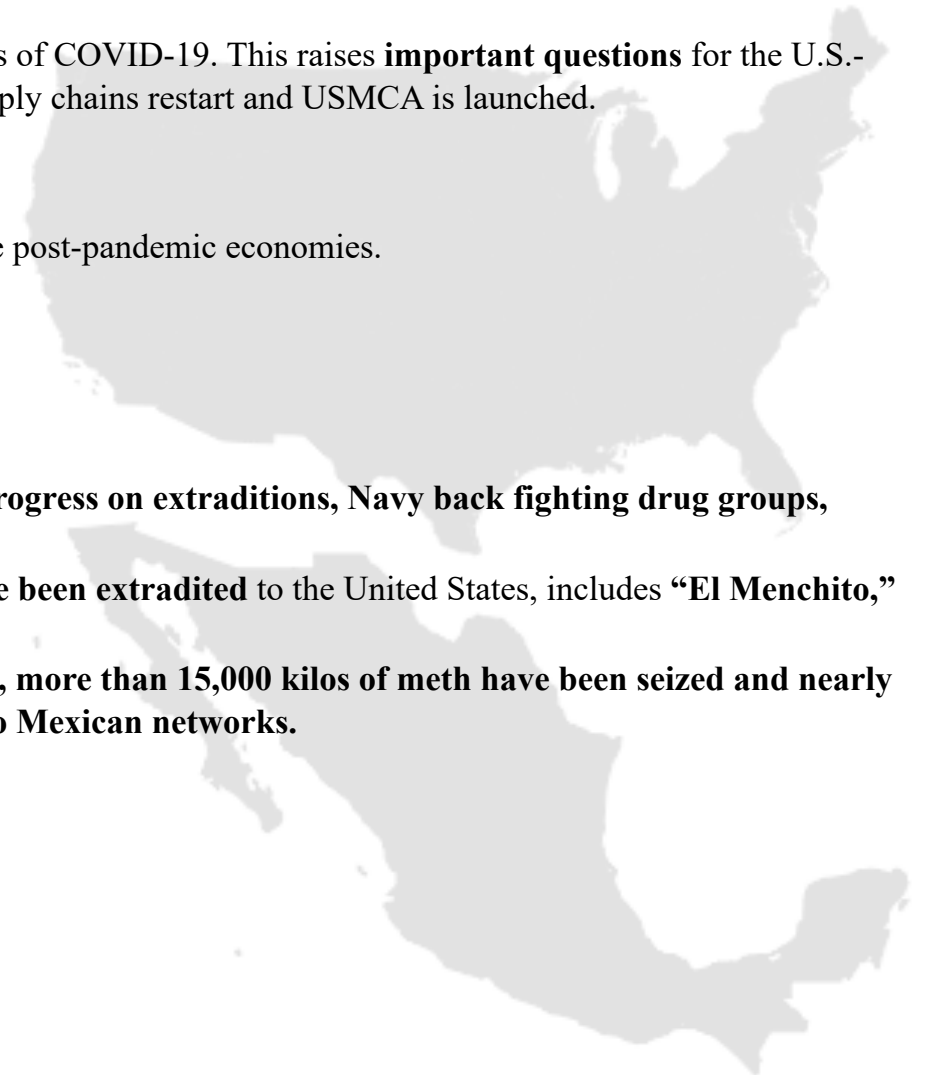
- Better manage **migration going forward**; strengthen migrant services.
- Deepen support for addressing **root causes** of migration; work with Northern Triangle.
- **Strengthen cooperation against cross-border crime.**
- **Trump threat to designate Mexican cartels as Foreign Terrorist Organizations 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, includes **"El Menchito,"** second-in-line and son of the leader of the Jalisco cartel.
 - **In U.S., more than 600 people have been arrested during operations in recent months, more than 15,000 kilos of meth have been seized and nearly \$20 million have been taken. Is this the US DEA operation? If say so and say linked to Mexican networks.**
- **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.**

Rebuild 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



41-52% of employers are having difficulty filling jobs.

- Hardest roles to fill:

Manufacturing, Sales Representatives, Office Support and Skilled Trades.

United States



66-90% of employers are having difficulty filling jobs.

- Hardest roles to fill:

Skilled Trades, Drivers, Sales Representatives, and Healthcare professionals.

Canada



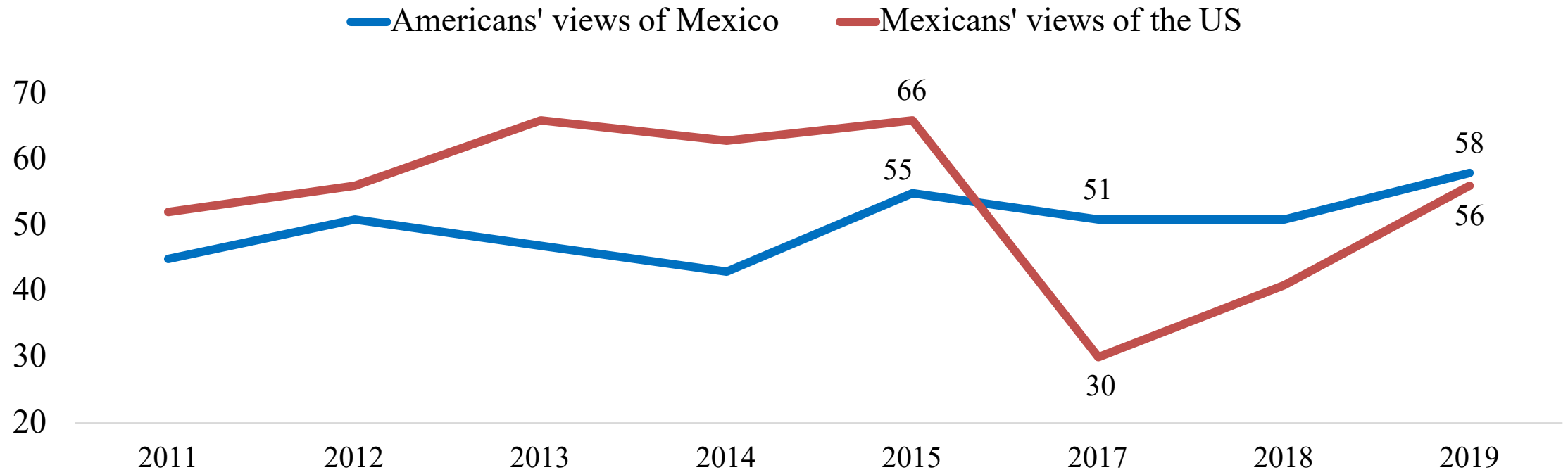
41-52% of employers are having difficulty filling jobs.

- 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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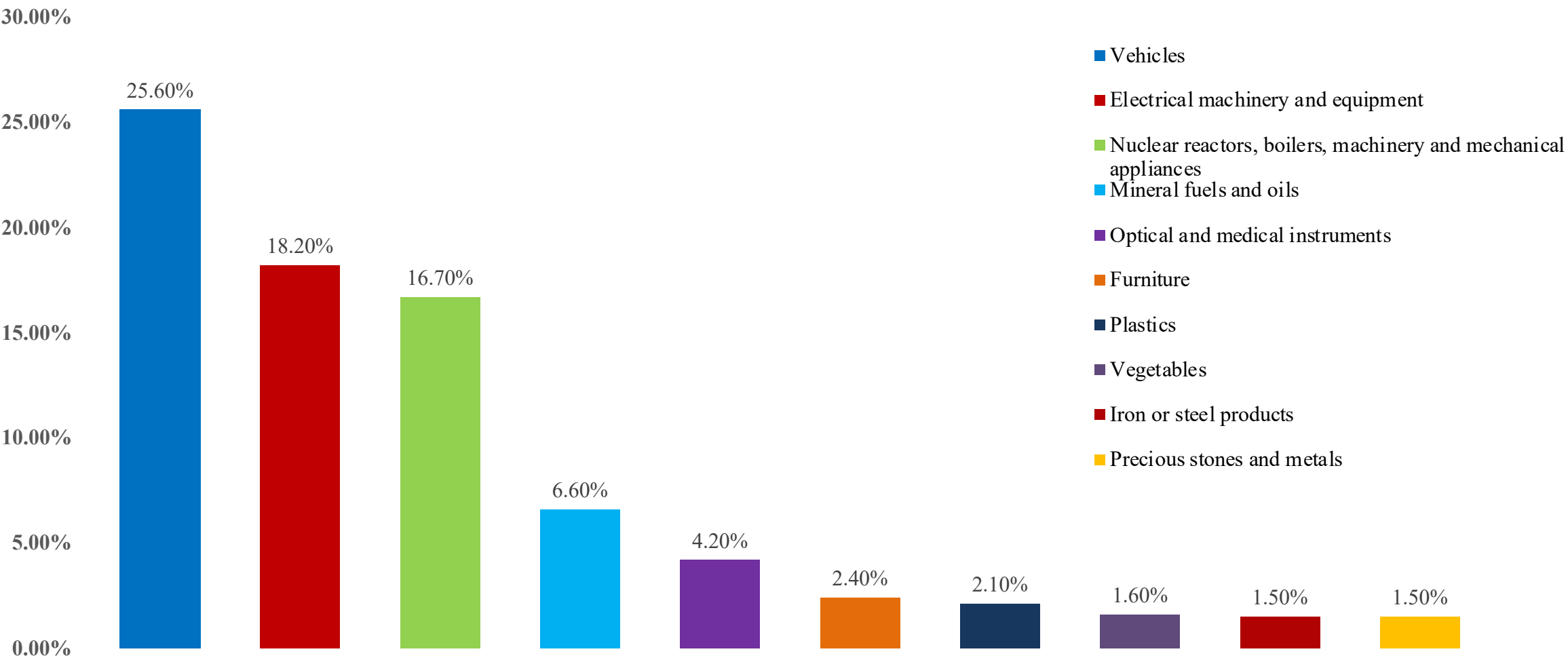
www.eawayne.com

July 2020

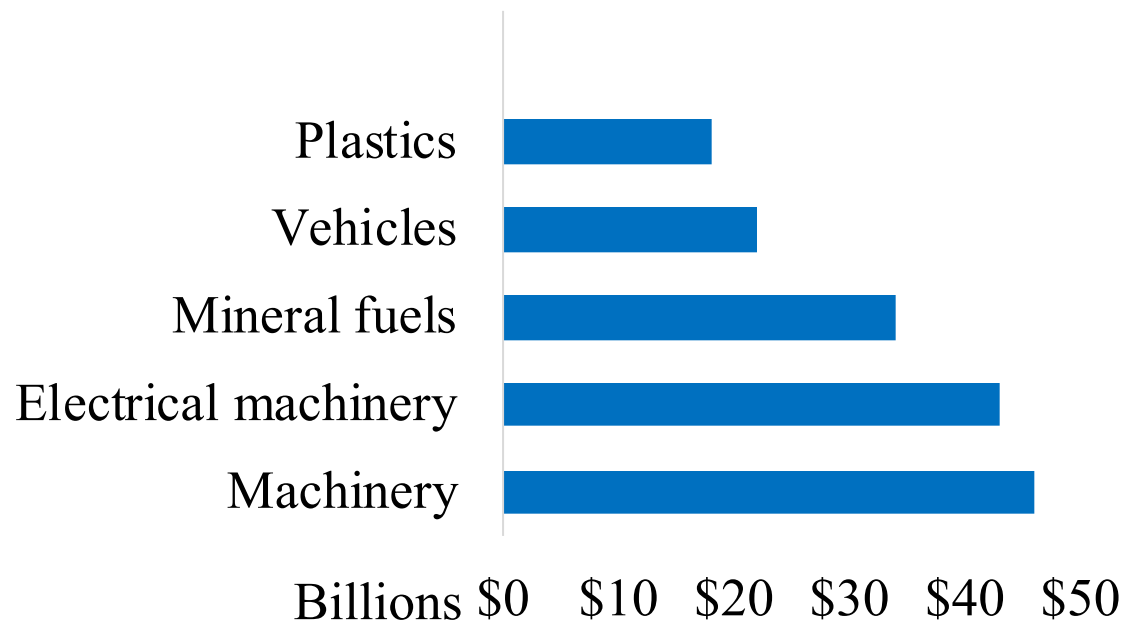
Background Slides

Leading Mexican Products Exported to the US

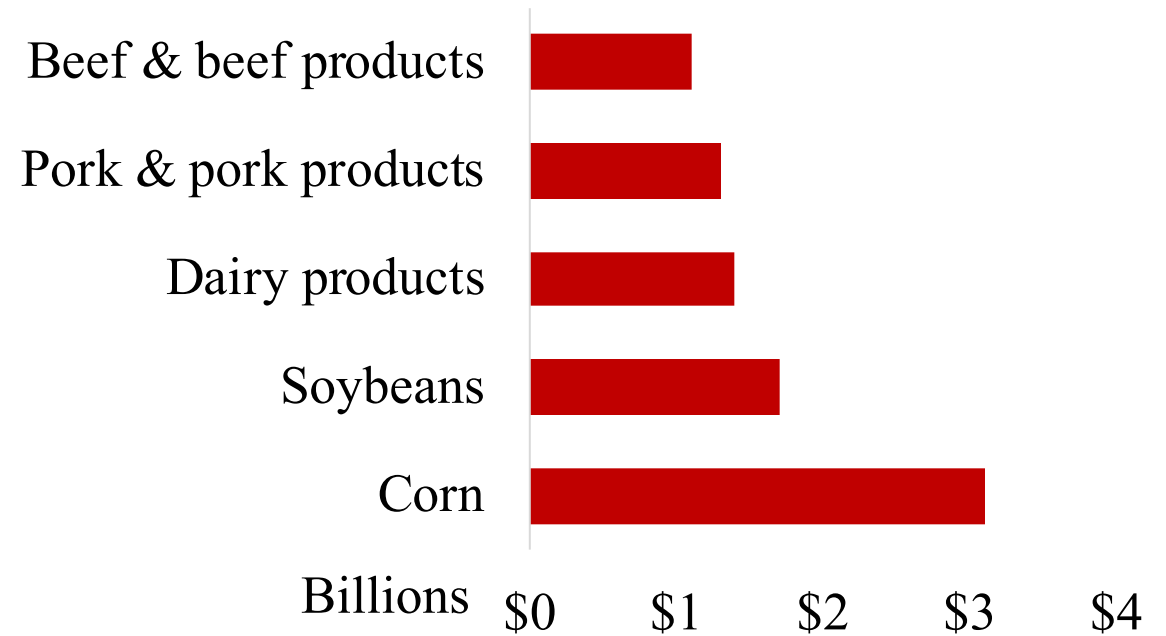
Manufactured Goods Dominate 2019



Leading U.S. Products Exported to Mexico 2018

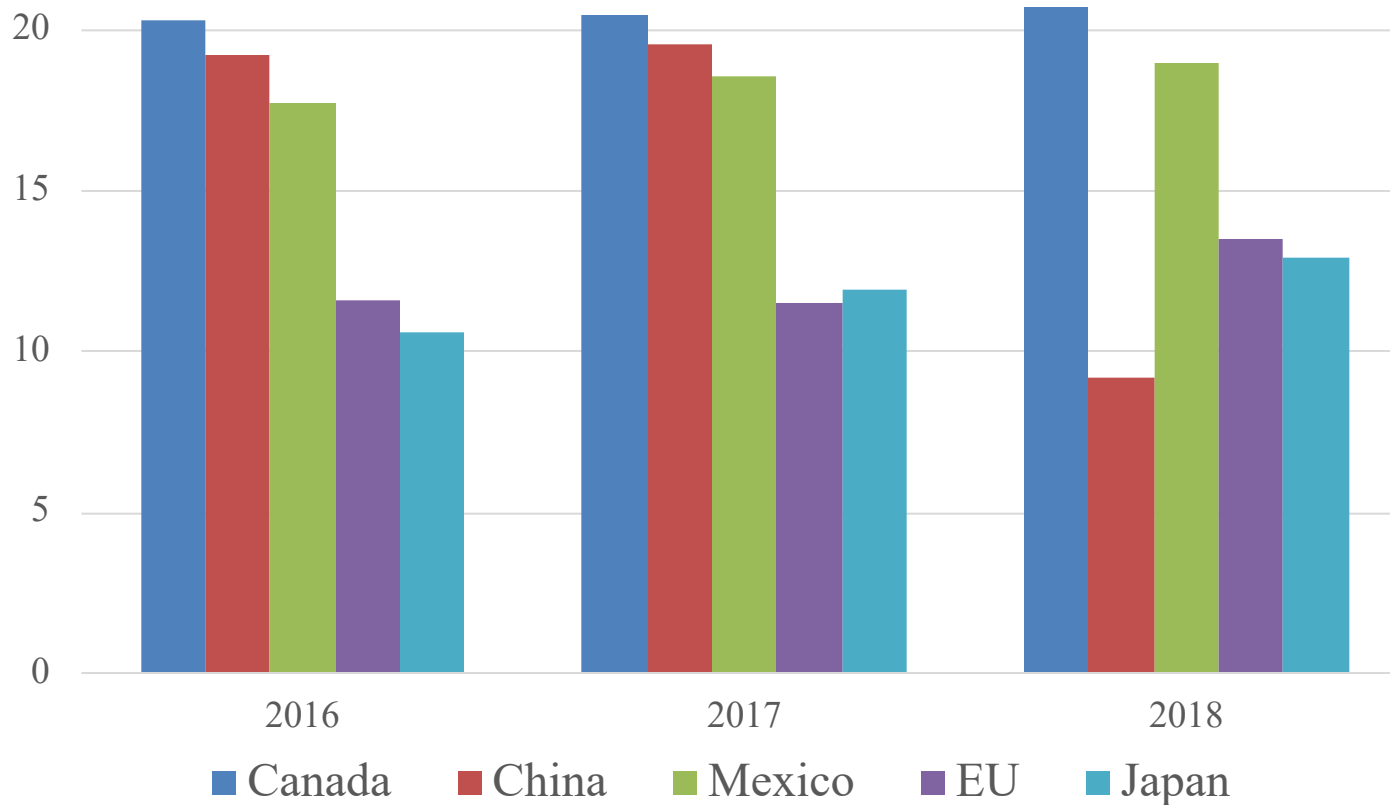


Leading U.S. Agricultural Exports to Mexico 2018



Agricultural Exports (2016-2018)

Agricultural Exports (Billions of Dollars)



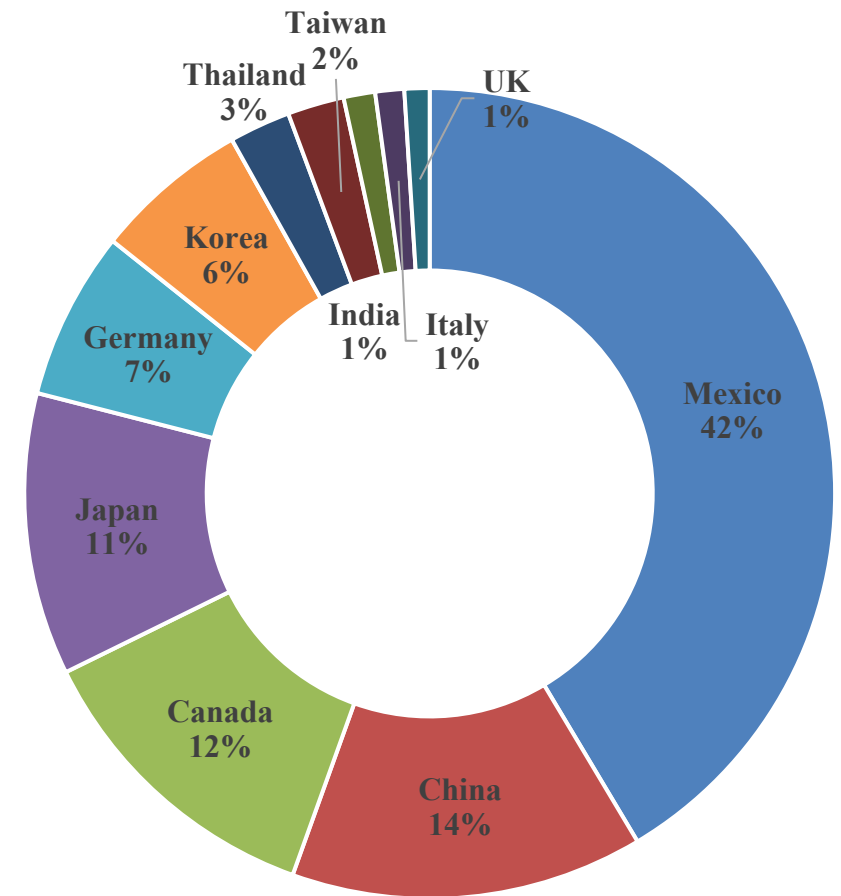
- 2018: Canada (\$20.7), Mexico (\$19.0), EU (\$13.5), Japan (\$12.9), China (\$9.2)
- China was the United States' second destination in 2016; it dropped to be #5 in 2018.

The Automobile industry:

Sourcing of U.S. Motor Vehicle Parts Imports 2018

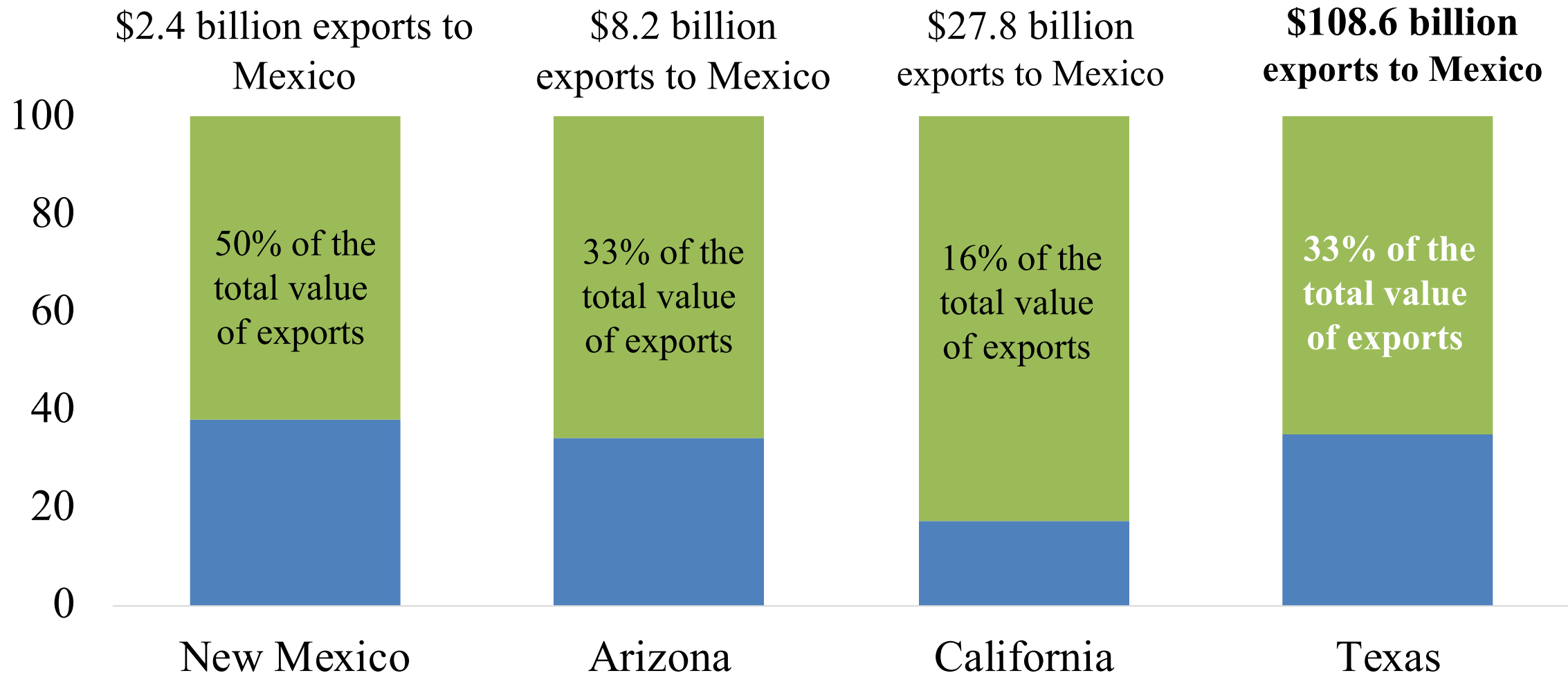


- The North American light-and medium-duty motor vehicle is estimated to be worth **USD 728 billion** annually: **28% of the global market** for new vehicles.
- In 2018, the U.S. **produced over 11 million** light vehicles, while **17.3 million were sold**.
- In 2017, **48%** of all vehicles sold in 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.



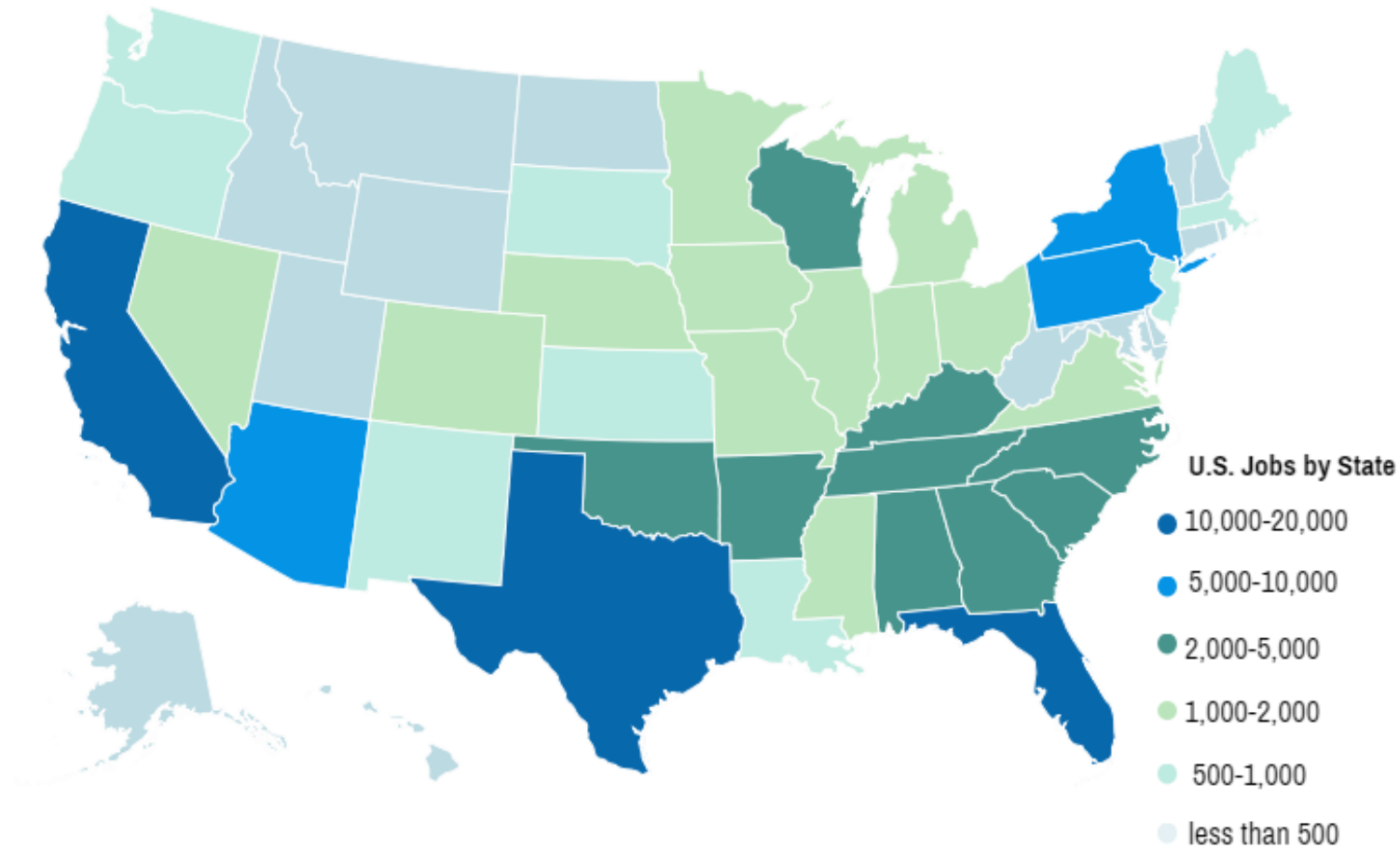
US Border States Exports to Mexico

Texas is the top exporting U.S. state to Mexico (2019)



U.S. Jobs Created by Mexican Investment₂₀₁₆

- Mexican investment supports 123,000 US jobs.



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

Questions about USMCA's 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.**

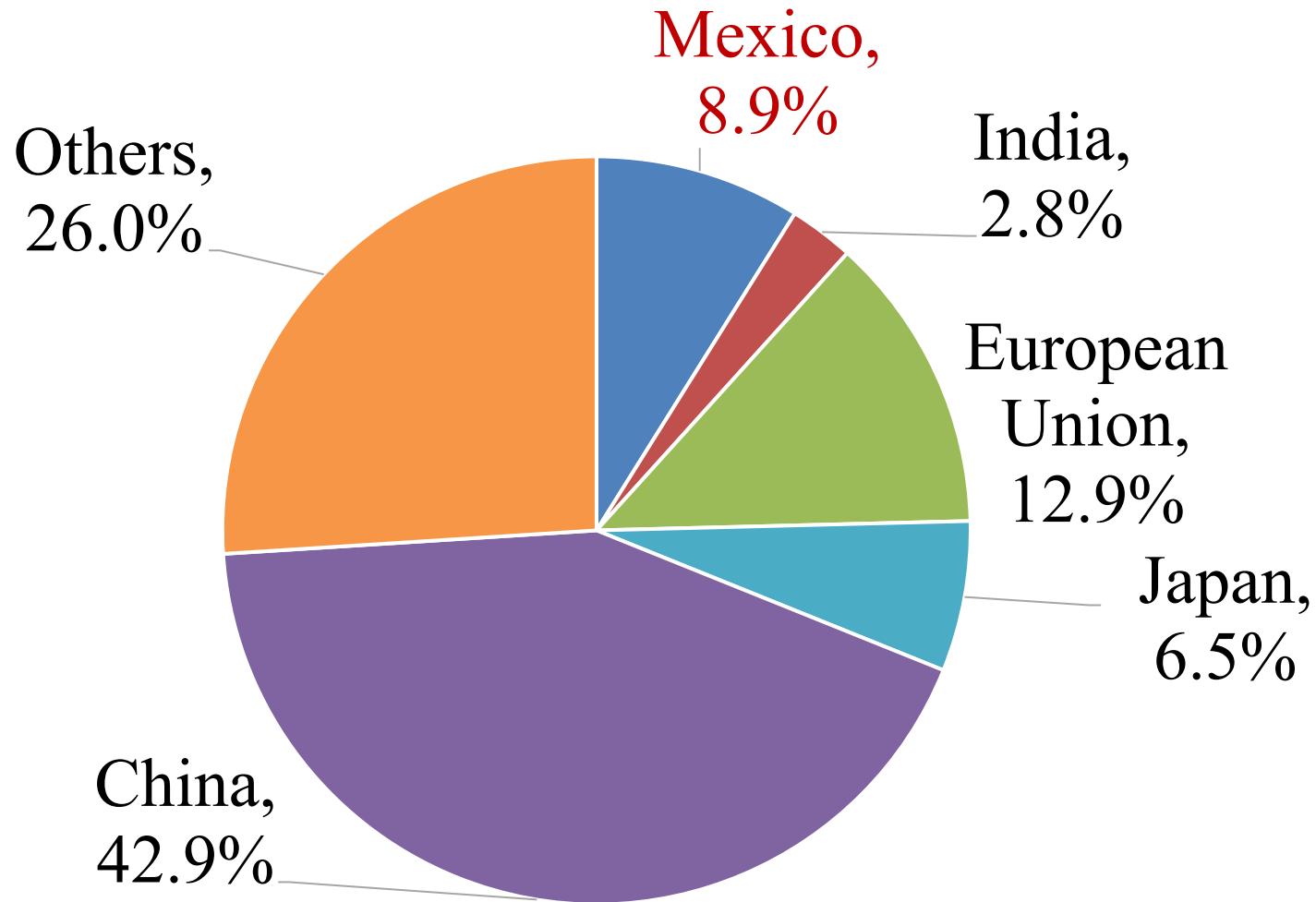
IMF: USMCA Gains per Country



- 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>

US Trade in Goods Deficit but Service Surplus

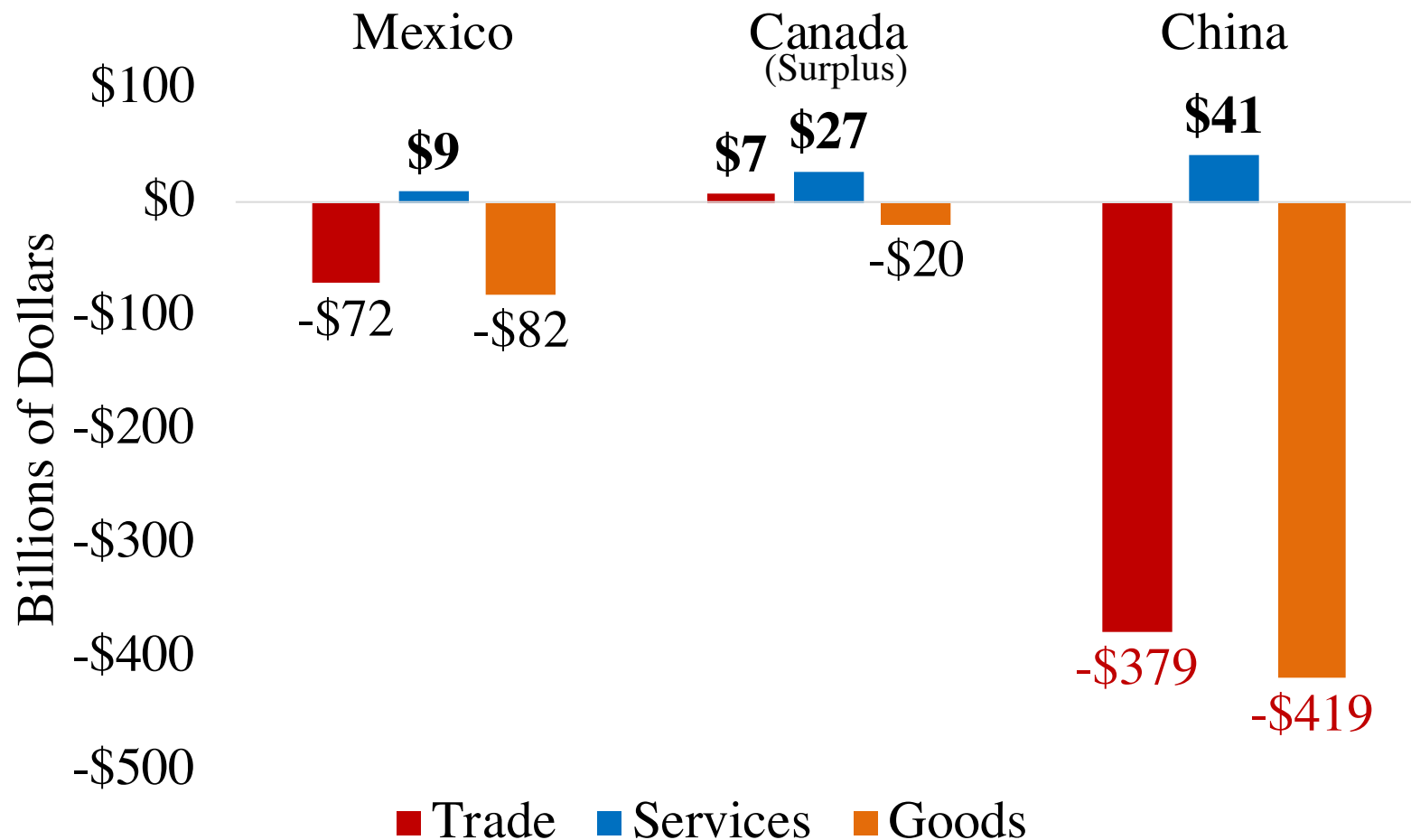


U.S. Trade Surplus of services
with Mexico rose

19.1%

from 2017 to 2018

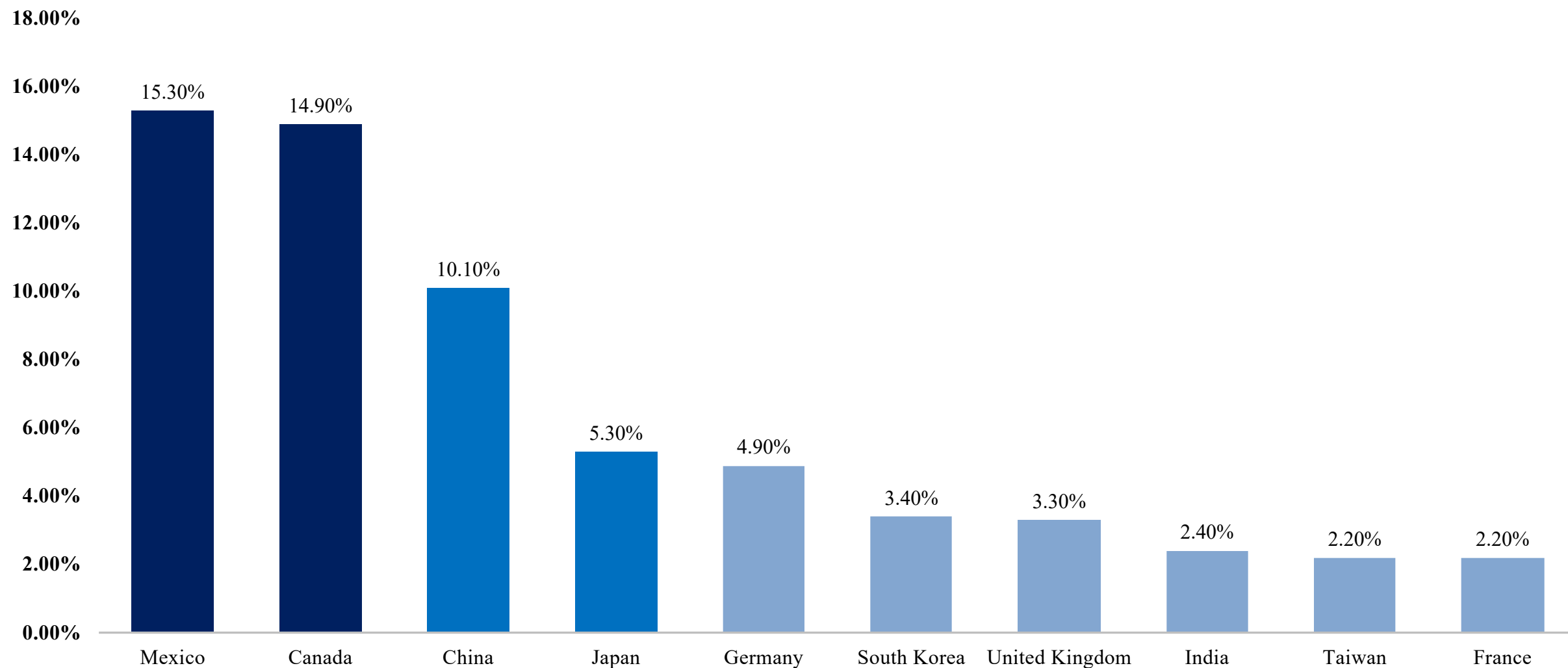
US Trade in Goods and Services 2018



\$27 billion surplus in services & \$7 billion total trade surplus with Canada

\$8.8 billion surplus in services with Mexico

Leading US Imports: Mexico on the rise



Source: United States Census Bureau, March 2020

Where have the manufacturing jobs gone?

Competition from China

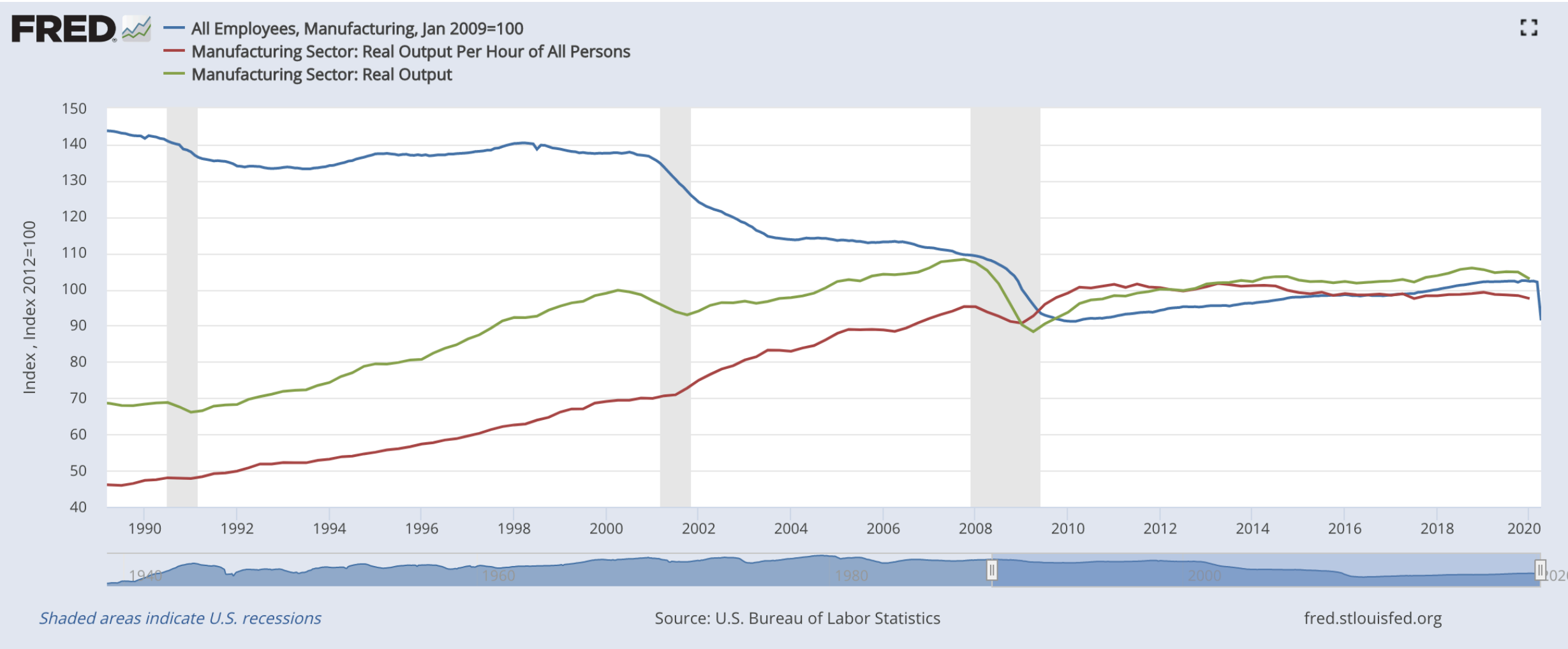
2 - 2.4 million

New Technology

4.7 million

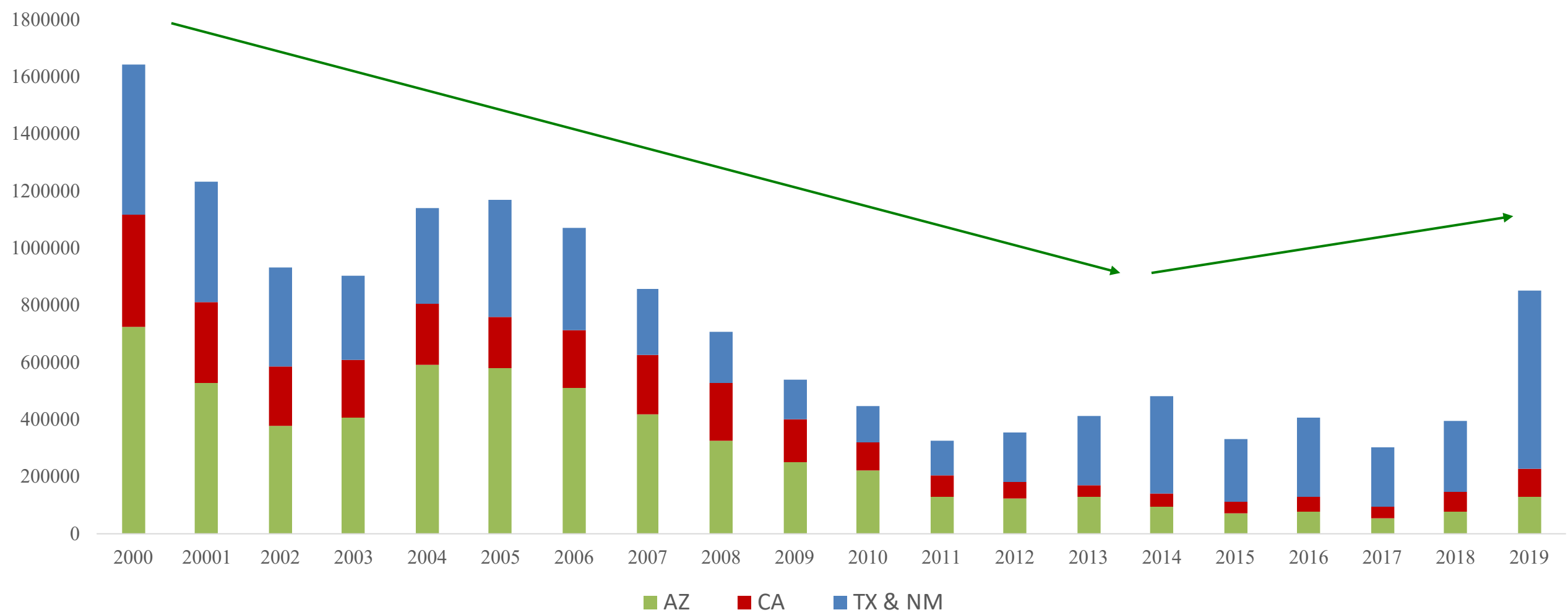


U.S. Manufacturing Employment and Output



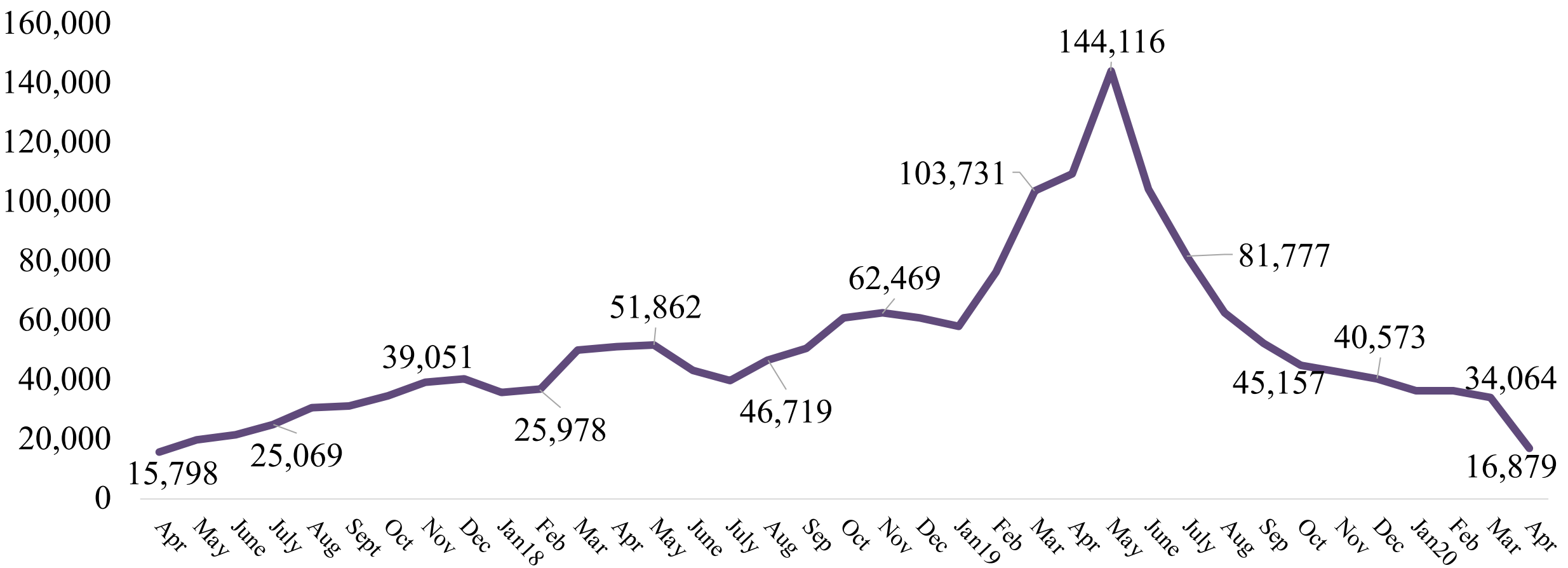
Border: Migrant Flows

Southwest Border Apprehensions by State



Source: U.S Border Patrol FY2000-FY2019

USBP Southwest Border Monthly Apprehensions



Source: U.S. Border Patrol Monthly Apprehensions (2017 - 2020)

Visa overstays and illegal border crossing in 2019

