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The U.S. -Mexico Relationship: Advancing Security and Prosperity on Both Sides of the Border

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Statement before the Senate Committee on Foreign Relations
Subcommittee on the Western Hemisphere
On the U.S. Mexico Relationship: Advancing Security and Prosperity on Both
Sides of the Border

The U.S.-Mexico Partnership

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KEY POINTS

President Trump's rhetoric about Mexico obscures the disproportionate importance of Mexico to U.S. prosperity and security. The economic partnership and security cooperation with Mexico is not a problem, it's a solution.

- Mexico is the United States' second-largest export market (after Canada) and third-largest trading partner (after Canada and China), with a two-way trade that amounts to \$530 billion (more than Japan, Germany, and South Korea combined).
- If oil is taken out of the equation, Mexico would surpass Canada as the United States' second largest good trading partner. Mexico's two-way trade with the United States would stand at \$511 billion and Canada's at \$505 billion.
- Mexico is the fourth largest source of foreign crude oil imported by the United States.
- Mexico is the top buyer of U.S. corn (27% of the country's exports representing \$2 billion). Mexico is the world's No. 1 importer of U.S. dairy products. A disruption or loss of that market would be devastating to U.S. agriculture.

NAFTA is an indisputable success story for both the United States and Mexico.

- It has helped companies build a mighty North American market, contributing to U.S. global competitiveness.
 - U.S.-Mexico trade encompasses integrated cross-border supply chains and "production sharing," in which 40 cents of every dollar of Mexican exports are U.S. content.
 - Five million U.S. jobs depend on trade with Mexico; 14 million depend on NAFTA.
- NAFTA has fueled momentum toward modernization that has encouraged Mexico to strengthen its democratic institutions and modernize and diversify its economy—all of which makes Mexico a more cooperative and stable neighbor.

As good as cooperation on cross-border issues is today, it could be better. The United States needs Mexico to do more to promote border security to protect our citizens from drugs and terrorism. That is less likely to happen if U.S. officials peddle half-truths and hurl threats that undermine mutual confidence.

- The United States cannot formulate an effective anti-drug (including opioids) strategy without receiving more support from Mexican authorities who are the last line of defense against illegal drugs bound for our southwest border.
- In recent years, Mexican migration authorities interdicted 560,000 persons, mostly illegal immigrants from Central American countries, headed for our border.

Misinformation and distortions undermine the effort to build an even more robust economic and security partnership. Thus far, White House advisors and their

Mexican counterparts appear to have established a more serious and mutually respectful dialogue.

Mexicans should not allow themselves to be distracted from an important reform agenda that is essential to building a modern, prosperous nation. Anti-Mexico rhetoric is a destructive and costly distraction.

Those who stand to gain from a return to overheated rhetoric are populists in Mexico who disparage the economic relationship and nationalists who criticize cooperation with U.S. law enforcement and migration authorities.

Americans must admit that many of Mexico's insecurity woes are the direct result of being on the threshold of a nation with an insatiable desire for dangerous illegal drugs.

American stakeholders in the U.S.-Mexico bilateral relationship—particularly businesses that rely on the integrated supply chain and whose jobs depend on Mexican partners and investors—must do more to explain the tangible and substantial benefits of ties to Mexico and to advocate for a more constructive engagement by U.S. authorities.

INTRODUCTION

During his candidacy for the U.S. presidency, Donald J. Trump tapped into American anxiety about lost jobs and illegal immigration to garner popular support. That anxiety is very real, but candidate Trump offered a questionable diagnosis and impractical remedy. Unfortunately for Mexico, his rhetoric singled out that country as a scapegoat, accusing the government of taking advantage of the United States in the North America Free Trade Agreement and saying that it “forces many bad people into our country, ... including drug dealers and criminals of all kinds.”

In the ensuing months, experts and journalists have systematically disproven these accusations. However, significant damage has been done to Mexico's economy and American credibility as a security partner. Twenty years ago, such animus from a key U.S. political figure, let alone a one who waged a successful bid for the presidency, would have been met with a nationalistic backlash. Instead, the Mexican government and much of the political class has sought to minimize the damage—recognizing that their country's fate is tied inexorably to North America.

In recent weeks, the White House advisors managing the relationship have established a more serious and constructive dialogue. However, President Trump has not disavowed his most negative comments about trade with Mexico and illegal Mexican immigrants, of which there are 11-12 million living in the United States today; nor has he dropped his insistence that our neighbor to the south will pay for a 2,000-mile border wall that experts say could cost as much as \$20 billion.

It is important to acknowledge that, if the President continues to bash Mexico to placate his political base, one of the United States' most important bilateral relationships is at risk. Although the damage so far can be measured in the value of the Mexican peso and the anxiety of Latin American immigrants, also at stake are billions of dollars in two-way trade, millions of U.S. jobs that depend on an integrated cross-border supply-chain, and essential cooperation against illicit drugs and a potential wave of illegal immigrants.

MEXICO'S CONTRIBUTION TO U.S. PROSPERITY

Mexico is the United States' second-largest export market (after Canada) and third-largest trading partner (after Canada and China), with a two-way trade that amounts to \$530 billion (more than Japan, Germany, and South Korea combined), according to the office of the U.S. Trade Representative. USTR reports:

U.S. goods imports from Mexico totaled \$295 billion in 2015, up 0.2% (\$667 million) from 2014, and up 73% from 2005. U.S. imports from Mexico are up 638% from 1993 (pre-NAFTA). U.S. imports from Mexico are up 638% from 1993 (pre-NAFTA). U.S. goods exports to Mexico in 2015 were \$236 billion, down 1.6% (\$3.9 billion) from 2014 but up 97% from 2005. U.S. exports to Mexico are up 468% from 1993 (pre-NAFTA). U.S. exports to Mexico account for 15.7% of overall U.S. exports in 2015.... The top import categories in 2015 were: mineral fuels (\$70 billion), vehicles (\$55 billion), machinery (\$20 billion), special other (returns) (\$14 billion), and plastics (\$11 billion).

However, these data not take into account the "production-sharing" that is integral to the robust cross-border manufacturing between the two countries; as a result, about 40 percent of Mexico's exports actually is U.S. domestic content being re-exported into the U.S. market. That simple fact means that the \$60 billion trade deficit figure cited repeatedly by President Trump is misleading.

Mexico also is our fourth largest source of foreign crude oil, according to the U.S. Energy Information Administration.

An article published in *Foreign Policy* just this week offers a strong refutation of the suggestion that the lost of millions of U.S. jobs can be attributed to NAFTA:

From 1994 to 2000, after NAFTA was enacted but before the 2001 recession and the reduction of investment restrictions in China, U.S. manufacturing employment rose from 16.8 million jobs to 17.3 million. While estimates vary, research suggests NAFTA had a modest but positive effect on the U.S. economy. A 2014 study by U.S. International Trade Commission economists found that NAFTA slightly increases national real wages and employment in the U.S. machinery and metal industries, while slightly decreasing employment in the sugar and apparel sectors.

MEXICO'S CONTRIBUTION TO U.S. SECURITY (ILLEGAL DRUGS AND ILLEGAL IMMIGRATION)

Mexico benefits materially from its proximity to one of the world's most dynamic markets and its partnership in NAFTA. However, the country also pays a high price for being located in the heart of the transit zone through which tons of illicit narcotics and illegal immigrants flow to the U.S. border. Mexico sits between the largest consumer of illicit drugs (the United States) and the largest producers of cocaine (Colombia, Perú, and Bolivia). It also borders Central American nations that are the source of an influx of illegal immigrants.

Transnational organized criminal networks—which no country can confront on its own—attack the already weak institutions in Mexico in order to carry out production on the doorstep of the U.S. market and to move product (and currency from illegal sales) through Mexican territory. Successive Mexican presidents have implemented policies aimed at disrupting these drug-trafficking organizations, but the result has been a decade-long bloodbath that has cost more than 100,000 deaths to the ensuing violence.

Criminal organizations operating in Mexican territory have become the top producers of methamphetamines and heroin. In fact, 90 percent of heroin consumed in the United States is produced in Mexico.ⁱⁱ Far from “forcing” these criminals over the U.S. border, Mexican authorities and innocent civilians have paid a very dear price for trying to interdict these criminals and their contraband and to dismantle their operations.

The opioid epidemic in the U.S. is fueling this production. “According to the Department of Health and Human Services, More people died from drug overdoses in 2014 than in any year on record, and the majority of drug overdose deaths (more than six out of ten) involved an opioid. Since 1999, the rate of overdose deaths involving opioids—including prescription opioid pain relievers and heroin—nearly quadrupled, and over 165,000 people have died from prescription opioid overdoses.”ⁱⁱⁱ

The State Department's 2017 International Narcotics Control Strategy Report, using figures from the office of Mexico's Attorney General, quantifies Mexico's anti-drug seizures in recent years. From April 2014 to September 2015 (most recent figures) “Mexico reportedly seized 1,346.4 metric tons (MT) of marijuana (a 45 percent increase from the same period in 2013 to 2014), two MT of opium gum (a 43 percent increase), 26.5 MT of methamphetamine (a 74 percent increase), 10.2 MT of cocaine (a 183 percent increase), and 272 clandestine laboratories (a 90 percent increase).” “Mexico also reported seizing 653 kilograms (kg) of heroin from April 2014 to September 2015, an increase from 455 kg during the previous reporting period, between December 2012 and April 2014.”

Regarding illegal immigration, candidate Trump excoriated U.S. authorities for failing to protect the U.S. border with Mexico. A wave of unaccompanied minors crossing the border in the summer of 2015 exacerbated the impression among the American people that illegal immigrants are crossing into the United States with impunity. Unfortunately, Mr. Trump failed to make a distinction about the national origin of recent arrivals, fueling the incorrect impression that Mexicans are pouring across the Rio Grande.

The March 28 Foreign Policy piece by Messrs. Blackwill and Rappleye reports that “net migration from Mexico to the United States has been negative since the 2008 recession.... Most exiting immigrants were undocumented. The number of apprehensions of Mexican migrants at the U.S. border fell from 1,637,000 in 2000 to 188,000 in 2015, reaching a low level not seen since 1969.”

On the other hand, Mexican authorities continue to play a significant role in quelling the 2015 crisis. Between October and April 2015, Mexico apprehended 92,889 Central Americans. In the same time period, “the United States detained 70,226 ‘other than Mexican’ migrants, the vast majority from Guatemala, Honduras and El Salvador,” according to a report in U.S. News and World Report in June 2015.

As the United States confronts this quadrupling of opioid abuse in recent years, it must be able to count on the Mexican government deploying law enforcement resources to its southern and northern borders and adopting other measures to interdict illegal activity. Rhetoric that treats Mexico as a scapegoat comes dangerously close to sabotaging crucial political support and law enforcement cooperation on the Mexican side, without which the U.S. border would be overwhelmed.

POPULISM AND NATIONALISM

To the extent Mexicans are disoriented by unhelpful rhetoric, they may become more vulnerable to a populist of their own. Andrés Manuel López Obrador (known commonly by his initials, “AMLO”) has made a career of fanning populist and nationalist flames. For example, he has blamed NAFTA for causing more poverty and inequality in the country and attacked presidents for welcoming U.S. law enforcement cooperation.

As Mayor of Mexico City, López Obrador was responsible for increasing the debt of the city by 400%. When he left office, the city’s debt increased to \$4.3 billion (exchange rate of 2006). In that same period, poverty increased from 9.9% to 10.3%.

In 2006, AMLO ran for the presidency, losing in one of the closest elections in Mexico’s modern history. After losing, he refused to accept the results of the election and launched nationwide protests, which paralyzed Mexico City’s most important thoroughfares for almost a year, causing billions of dollars in losses. In

2012, sought the presidency for a second time, losing by a wider margin to current President Enrique Peña Nieto. Again, AMLO rejected the results and initiated nationwide protests.

In 2013, he opposed Peña Nieto's education reform, sponsoring riots, especially in the states of Michoacán, Guerrero, Oaxaca and Chiapas. These riots caused billions in losses and were responsible for serious acts of violence and looting. In 2014, AMLO launched his own party, *Movimiento Regeneración Nacional* (MORENA), signaling his intention to wage another campaign for the presidency in 2018. Last year, he proclaimed himself the "antisystem" candidate.

The United States is among the greatest beneficiaries of a Mexico that is democratic, stable, and cooperative. Any sensible U.S. diplomatic strategy toward Mexico should avoid rhetoric and confrontations that divide the two countries and strengthen the hand of politicians who would undermine democratic capitalism and positive bilateral relations with the United States.

MEXICO'S DAUNTING AGENDA

The United States should hope that Mexico's political leaders will take steps to invigorate their nation's economy so that it contributes even more to a healthy and dynamic North American market with greater advantages over competitors in Asia and Europe. Anti-Mexican rhetoric in the United States is a distraction from a daunting agenda of reforms that Mexico must undertake to build a safer and more prosperous country—and an even better neighbor.

When President Enrique Peña Nieto came into power on December 1, 2012, he proposed to increase public spending to jumpstart the economy. Four years into the Peña Nieto administration, public spending has increased by 16.2%. In 2012, public debt was 34.3% of gross domestic product (GDP) and last December reached 50.5% of GDP, according to data from the Ministry of Finance and Public Credit (SHCP). This spending has not jumpstarted the economy, reduced poverty, or improved public security.

According to the Economic Commission on Latin America and the Caribbean (ECLAC), from 2010-2014 poverty in Mexico increased 2.9%. In the decade from 2006-2016, Mexico's economy grew a meager 2.4%. In recent years, the 60% decline in oil prices and 20% reduction in oil production have generated losses that amount to 5% of the country's GDP.

When the energy reform was enacted in 2013, it failed to attract sufficient private capital because of the decline in the world prices of oil. More recently, however, companies have started to invest through the bidding rounds. So far, Mexico has received investments for \$70 billion, and there are already 80 companies from 18 countries with contracts for the development of electricity and oil projects. Mexico needs to continue to attract more companies and capital if it

wishes to recover lost ground. In fact, according to Pablo Zarate, member of the Mexican Association of Hydrocarbons Companies (AMEXHI), Mexico needs to attract investments of \$26.6 billion a year to reach the goals of the International Energy Agency, which estimates that Mexico can reach 2.8 million barrels by 2040 if it adopts a serious energy sector reform.

Mexico's currency, the peso, has lost significant value as a result of bad economic policies and international factors, primarily the anti-Mexico rhetoric of the Trump campaign. In 2016 alone the peso lost nearly 20% of its value. This trend is not expected to improve this year.

In terms of foreign direct investment Citibanamex has reduced its 2017 forecast by a third from \$35.8 billion to \$25 billion. According to a report in the Financial Times, a bank research note predicted, "The main feature [of 2017] will be uncertainty and therefore weak investment." The bank predicted "a shift from manufacturing to extractive industries (oil and gas) and electricity, gas and water, among others."

Corruption costs Mexico approximately \$17.3 billion a year, which represents 9% of the country's GDP. According to Transparency International's Index of Corruption for 2015, the country ranks 95 out of 168 countries.^{iv}

In Mexico today, more than 50 organized crime organizations continue to operate with impunity, often engaging in ultraviolent action that terrorizes the population. The frontal assault against powerful crime syndicates, which started in earnest under President Felipe Calderón in 2006, left smaller but functioning cartels. Unfortunately, federal and local authorities have been unable or unwilling to adapt in order to thwart the smaller and less organized splinter groups that emerged after the Calderón offensive.

Peña Nieto began his six-year term deemphasizing the "war on drugs," failing to produce a comprehensive security strategy for his first year in office, and resorting to ad hoc measures as violence flared up repeatedly in subsequent years. Kidnappings have increased 79% since Peña Nieto took office, according to a January report in La Opinión summarizing 2016 statistics. Homicides were up by 255% in 2016 in comparison to 2015. Extortion increased by 30%.

According to the Global Impunity Index, Mexico ranks second in the world on its ranking of countries impacted by impunity. The Index noted that only seven of ten crimes are reported in Mexico, of which only 4.46% reach a sentence phase. For every 100,000 inhabitants there are 3.5 judges, less than one-fifth the average in most developed countries. Prisons remain understaffed at 20 guards per 100 inmates; the average in most developed countries is 47 per 100.

Until Mexico's political class takes on corruption that fuels criminality, modernizes a criminal justice system that sows insecurity, adopts fiscal

responsibility and tax reform, undertakes meaningful energy sector modernization, and adopts a host of measures to make itself more competitive, it cannot take full advantage of trade or attract the capital it needs to build a modern economy.

There is no agenda more important to Mexico than addressing the serious security challenges, impunity, and economic malaise that it is facing today. The rhetoric of President Trump may add to the burden, but it is a distraction from the country's real problems.

ⁱ "Fact Checking Trump's 'Alternative Facts' About Mexico," by Robert D. Blackwill and Theodore Rappleye, March 28, 2017

ⁱⁱ "State Department: At least 90 percent of heroin destined for the U.S. comes from Mexico," *The Washington Examiner*," by Joel Gehrke, March 2, 2017.

ⁱⁱⁱ Fact Sheet, Opioids, U.S. Department of Health and Human Services.

^{iv} "Corruption Costs Mexico 9% of GDP," *Forbes*.

WHAT PRES TRUMP CAN DO TO BETTER RELATIONSHIP WITH MEXICO

1. Invite President Peña Nieto to the White House to rebuild the relationship. Give him a State dinner. US-Mexico relations at its lowest ebb ever. Treat Mexico as an equal partner, not as a subordinate.

2. Let State-Commerce be the principal lead agencies on US-Mexico relations, not the White House. Keep career diplomat Roberta Jacobsen as Ambassador, not a political appointee in these turbulent times. Perhaps Rubio-Menendez invite Tillerson—Videgaray bring back relationship to an institutional framework.

3. Accelerate NAFTA discussions—not one year

- trigger the 90-day consultation period now that healthcare is over

- the longer they keep dragging NAFTA negotiations, the more populist-nationalism and anti-Americanism will play a role with all kinds of bilateral ramifications

4. Stop talking about import tax or border taxes. Mexico can retaliate against unfair trade policies. Do we want Mexico to punish Midwest corn, a \$2.5-million-dollar export. Talk to American farmers and ag interests that benefit from free trade.

5. Against threats that are now transnational (health, crime, immigration, terrorism) or opportunities which are equally so (energy security—from fossil fuels to renewables such as wind and solar in Baja feeding the California grid, Americas are better off and better protected when we work with Mexico. That cooperation is on hold.

WISHES, BUT NOT DOABLE

1. Forget the wall—too expensive, unworkable, and Mexico not going to pay for it. Forget deportations.

2. Comprehensive immigration reform—
border security but a path to citizenship—
like Pres George Bush

N.2.

-US-Mexico border has never been more secure

-US-Mexico bound together by geography, by trade, by family, by culture, by affinity

-US-Mexico economies don't compete vs. each other. We make each other more competitive in the global market.

-Mexico is the second-largest destination for US exports and the second-largest destination for exports from California, Arizona and Texas. Mexico buys more American goods than Japan, Germany and England combined. In 2015, 14-million tourists came to the US and spent around \$10 billion.

-Mexican immigrants are not violent criminals. They are patriotic and hardworking and make enormous contributions to the US economy. US agriculture, construction and restaurant industries might collapse.

L.S.

-gift to China if we abrogate NAFTA. China has poured about 60B into Venezuela.

-NAFTA strengthens US economy

-NAFTA needs updating-

- digital trade didn't exist in 1993

- more worker protections needed like labor standards and dispute settlement systems don't empower corporate interests

-with more competition from Asia and with increased sophistication of the Mexican economy, there is a strong case for strengthened rules of origin that enhance North American manufacturing.

-a way forward on immigration—wall terrible idea. Illegal immigration does not take place through people coming across borders in the desert. Takes place from illegal entry at legal checkpoints as people are smuggled across in freight containers unaffected by the wall. Technology, data science, enhanced collaboration, and cooperation with Central America are much better ways to resist illegal immigration flows.