100 Years Standing Up for American Enterprise

U.S. CHAMBER OF COMMERCE

ENHANCING THE U.S.–MEXICO ECONOMIC PARTNERSHIP

A Report of the U.S.-Mexico Leadership Initiative

Important Facts about the U.S.-Mexico Economic Partnership

- More than $1 billion in goods trade crosses the U.S.-Mexico border each day.
- Since 1994, $4.6 trillion in goods have been traded between the United States and Mexico.
- The United States is the largest global market for Mexican exports, and Mexico is the second-largest U.S. export market.
- 55% of all new foreign direct investment in Mexico in 2011 came from the United States.
- In 2011, U.S. exports to Mexico grew by $34 billion, the biggest dollar increase in U.S. exports to any market worldwide.
- Mexico's $349 billion in 2011 exports to the world, on average, contained 37% U.S. inputs.
- Approximately 6 million U.S. jobs depend on trade with Mexico.

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INTRODUCTION

Election Years Align

Once every 12 years, presidential elections in Mexico and the United States align, and the outcomes take on even greater significance for the bilateral relationship: 2012 is one of those years. In the United States, President Barack Obama will face a Republican challenge for the White House, and one-third of the United States Senate and the entire U.S. House of Representatives will be elected or reelected to form the 113th Congress. Simultaneously, 11 gubernatorial elections and numerous elections for state legislatures will reshape U.S. state governments. Meanwhile in Mexico, under the constitution President Felipe Calderón may not seek re-election, and citizens will choose their next president from among the four candidates. In addition, strict one-term limits mean all seats in the bicameral national legislature will be subject to open-seat elections. Gubernatorial elections will take place in six states and Mexico City, and hundreds of municipal elections will be held over the course of the year. It is therefore no understatement to say that the 2012 elections can have a considerable impact on the U.S.-Mexico relationship.

Importance of the U.S.-Mexico Relationship

The bilateral economic relationship is of critical importance for both nations. Since the implementation of the North American Free Trade Agreement (NAFTA), trade between the two countries has risen nearly 500%. The United States is, by far, Mexico's leading trading partner, and Mexico is the second-largest U.S. export market and third in total U.S. trade. Foreign direct investment from the U.S. to Mexico increased by 216% between 1994 and 2011 as a result of NAFTA. Owing to NAFTA, the United States, Mexico, and Canada form the world's largest free trade area, producing about one-third of the world's total gross domestic product (GDP). Moreover, through highly integrated production chains, the countries can truly be said to make things together and form a cohesive export platform from which to reach global markets.

This election year presents an opportunity to build on the many strengths of the relationship. Presidents Felipe Calderón and Barack Obama have made important advances in the relationship: agreement on NAFTA trucking provisions; progress on regulatory cooperation; tangible results from the 21st century border action plan; and enhanced security cooperation through the Mérida Initiative, among many others. However, much remains to be done to optimize this mutually strategic relationship.

U.S.-Mexico Leadership Initiative

The U.S.-Mexico Leadership Initiative (USMLI) was launched in May 2010, on the occasion of President Felipe Calderón's state visit to Washington, DC. Corporate members of the Initiative work with public and private sector partners in Mexico and the United States to ensure that policymakers and legislators understand the importance of our countries' economic ties, and to focus their attention on the considerable work that remains to be done to optimize the relationship.

The goal of the USMLI is to move true economic partnership between the United States and Mexico from policy aspiration to reality by making both countries more competitive in global markets; raising living standards for workers in both countries; making the U.S.-Mexican border the most modern, streamlined, and secure in the world; promoting the continent's energy independence while respecting our shared environment; and enhancing intergovernmental cooperation, all within a framework that fully respects and supports national sovereignty and interests.

To achieve this goal, the USMLI offers the recommendations in this report to engage the U.S. and Mexican presidential and congressional candidates, state and local policymakers, the business community, and American and Mexican citizens in a productive dialogue on enhancing the U.S.-Mexico economic partnership. The USMLI hopes that these recommendations will serve as a roadmap for the new administrations and legislatures as they take the reins of leadership toward a more strategic and prosperous economic partnership.

USMLI Vision 2020:

- Modern trade relationship
- 21st Century border
- Framework for government-to-government interaction
- Energy partnership and environmental cooperation
- Mutual workforce development

ENHANCING THE U.S.-MEXICO ECONOMIC PARTNERSHIP: A SECTORAL APPROACH

Beginning in December 2011, USMLI members launched a working group process to develop sector-specific recommendations applicable to both countries. They did so with a view toward setting relationship benchmarks for incoming policymakers. With so many elected leaders entering office in Mexico during the second half of 2012 and in the United States in January 2013, we believe it is critical for private sector leaders from our two nations to serve as corporate statesmen. These statesmen can ensure that the next generation of political leadership is keenly aware, from the start, of the great strategic significance that industry attaches to the U.S.-Mexico relationship.

The following recommendations are offered in the spirit of public-private partnership to enhance economic growth, job creation, and shared prosperity in both our countries. The areas covered in no way represent an exhaustive list of sectors of commercial engagement but are a starting point for discussion about how closely many industries are connected.

We hope that the recommendations in this report will form a basis for dialogue with our elected leaders and help advance the considerable progress that has been achieved through the dedicated public service of the current administrations and many committed leaders.

Overarching Recommendations

REGULATORY COOPERATION

Advance and expand the work of the U.S.-Mexico High Level Regulatory Cooperation Council by sharing information, expanding mutual recognition, and enhancing collaboration between regulators to reduce arbitrary regulatory differences that impose costs and burdens on governments, consumers, and businesses - especially SMEs.

TRANSPARENCY

Develop a greater degree of openness in regulatory and legal processes by reforming administrative procedures to guarantee that stakeholders have ample opportunity to offer public comments on proposed laws, regulations, and standards.

LEGAL CERTAINTY

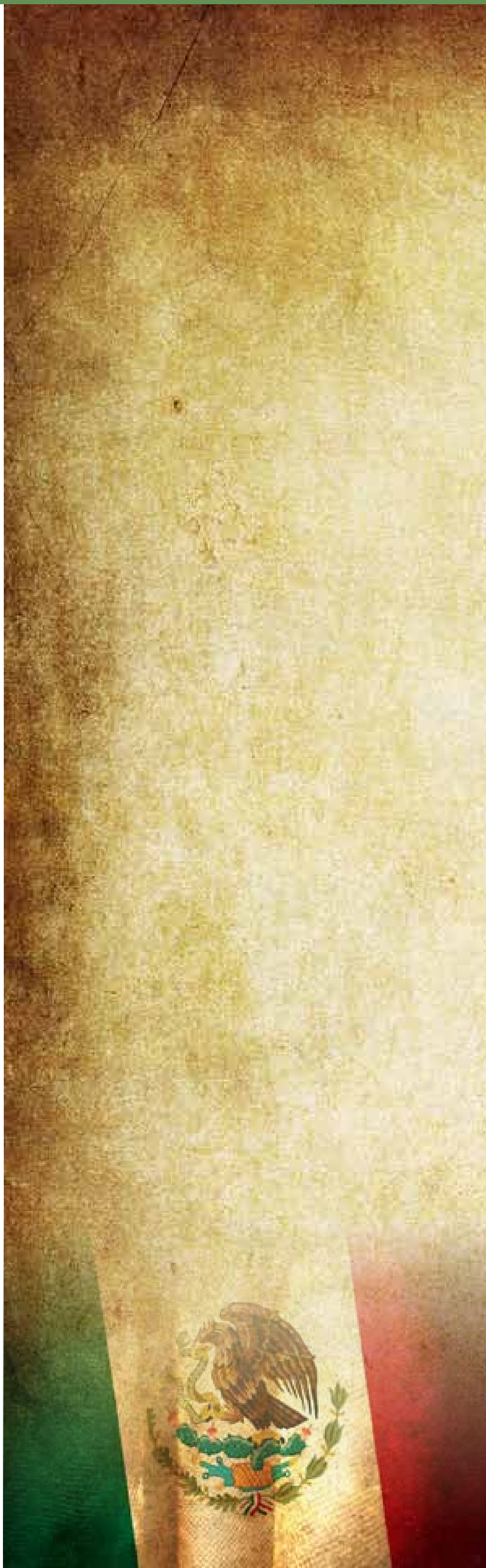
Foster an environment of legal certainty for business by ensuring that rules and regulations are transparent, predictable, and enforced, and that disputes are resolved through transparent and pre-determined due process mechanisms.

COMPETITION

Ensure an environment of fair and open competition in all industry sectors to provide both producers and consumers access to markets, fair prices, and efficient delivery of goods and services.

STRATEGIC ALLIANCE

Recognize that the United States and Mexico, together with Canada, form a unified North American export platform, and work together through mechanisms such as the Trans-Pacific Partnership negotiations to ensure that cross-border supply and production chains enjoy maximum competitiveness in global markets.



AGRICULTURE AND FOOD SECURITY

The goal of U.S.-Mexican agricultural cooperation should be the formation of a regional agricultural market that provides sustained access to an adequate supply of food at affordable prices for all citizens of both our countries. Science-based laws, regulations, and compliance processes pertaining to food and agriculture should be transparent and harmonized to the greatest extent practicable to facilitate cross-border trade in agricultural products for the enhancement of mutual food security within our countries.

Overview:

In both markets, consumers and producers alike benefit from access to the other's agricultural output. According to the U.S. Department of Agriculture, "U.S.-Mexico agricultural trade is largely complementary, meaning that the United States tends to export different commodities to Mexico than Mexico exports to the United States." Grains, oilseeds, meat, and related products make up about three-quarters of U.S. agricultural exports to Mexico, where domestic production is insufficient to meet demand. Meanwhile, roughly two-thirds of U.S. agricultural imports from Mexico consist of beer, along with vegetables and fruit whose growing season largely complements that of the United States.

As a result of this close relationship, each country plays an important role in the food security of the other. If that relationship can be made more efficient through regulatory cooperation, alignment of safety and testing practices, transparency, and science-based regulation, citizens of both countries will have more reliable access to safe food at better prices, quality, and reliability.

Recommendations:

REGULATORY COOPERATION

Prioritize the work of the U.S.-Mexico High-Level Regulatory Cooperation Council to harmonize food safety standards, streamline regional agricultural production and distribution, and promote common labeling practices.

- **Benefit:** Ensures consistent food safety practices.
- **Benefit:** Promotes efficiency throughout the regional supply chain.

SCIENCE-BASED REGULATION

Promote a science-based regulatory framework with predictable timing and criteria for advancement of rules through the regulatory process, in keeping with the World Trade Organization's (WTO) Sanitary and Phytosanitary Measures (SPS) Agreement. Avoid nonscience-based barriers that unduly limit market access and consumer choice (e.g., obesity measures, SPS restrictions).

- **Benefit:** Prevents trade frictions that can delay transportation, affect quality, and create unnecessary costs, all of which raise food prices and undermine food security.
- **Benefit:** Ensures that standards are based on sound science and in line with international standards for food and agricultural products, guaranteeing their safety."

REGULATORY TRANSPARENCY

Enhance the transparency of regulatory processes in both countries by ensuring ample opportunity for public comment at all points in the regulatory process.

- **Benefit:** Increases consumer safety by simplifying compliance with critical food safety regulations and ensuring that regulatory measures have a socially beneficial impact.

MUTUAL RECOGNITION

Agree to mutual recognition of food safety testing practices, inspectors, and data.

- **Benefit:** Reduces regulatory compliance costs by eliminating redundancy.

Negotiate a U.S.-Mexico organic equivalency agreement and work to do the same between Mexico, Canada, and the United States.

- **Benefit:** Prevents the establishment of barriers to exports to meet the growing regional demand for organic products.

Strive to achieve timely, synchronized approvals of products across both markets.

- **Benefit:** Gives growers access to products to improve their product yields and quality.

MARKET ACCESS

Eliminate remaining barriers to market access in agriculture and food products (e.g., excessive taxation) and further the development of bilateral coproduction capabilities.

- **Benefit:** Increases mutual competitiveness of the U.S. and Mexican food industries compared with costs in other regions of the world by consolidating North America's already strong food exporting capability.

TRANS PACIFIC PARTNERSHIP

Bring Mexico into the Trans Pacific Partnership (TPP) negotiations under the same high standards being negotiated among original negotiating parties.

- **Benefit:** Allows U.S. and Mexican exports to TPP members to retain originating goods status even with a high percentage of dual content.

FREE FLOW OF TRADE

Further efforts to improve trade facilitation across the U.S.-Mexico border and ensure free flows of agricultural products through customs modernization, infrastructure enhancement, and streamlined clearance processes.

- **Benefit:** Cuts costs at the border by reducing administrative burdens.
- **Benefit:** Reduces costs to consumers by cutting transaction costs.
- **Benefit:** Boosts federal revenues by increasing trade volume.

The United States and Mexico are major partners in agricultural trade:

- Mexico is the second-largest U.S. agricultural trading partner (two-way trade).
- U.S. agriculture exports to Mexico totaled $11.8 billion in 2010, and Mexican agriculture exports to the U.S. totaled $13.6 billion.
- The United States is Mexico's largest agrifood partner, buying 77% of Mexican exports and supplying 74% of Mexico's imports.
- In 2010, Mexico bought 14.6% of U.S. agriculture exports and supplied 13.6% of U.S. imports.
- Between 1993 and 2010, both Mexico's exports to the United States and U.S. exports to Mexico grew at an annual rate close to 10%.
- As of 2008, tariffs and quotas were eliminated on agricultural trade between the United States and Mexico.

ENERGY

The goal of U.S.-Mexican energy cooperation should be to foster technological innovation and infrastructure development to provide energy to all citizens of both our nations at affordable prices. This will also improve the security of our respective energy supplies.

Overview:

The United States and Mexico are major energy partners. Mexico is one of the top three sources of U.S. oil imports (along with Canada and Saudi Arabia)—a standing made possible by the fact that Mexico was the seventh-largest oil producer in the world and the third-largest producer in the Western Hemisphere in 2011. Despite its status as one of the world's largest crude oil exporters, Mexico is a net importer of refined petroleum products from the United States.

PMI, a subsidiary of Mexico's state-owned oil company, Pemex, has been a 50-50 joint venture partner in an oil refinery in Deer Park, Texas, since 1993. This refinery is the sixth-largest refinery in the United States, processing crude oil from a number of sources, including Mexico, into refined products for use in the United States and Mexico.

Mexico's total energy consumption consists of oil (58%), natural gas (30%), hydroelectric (5%), coal (4%), nuclear (1%), and other renewables (2%). Natural gas is increasingly replacing oil as a feedstock in power generation. However, Mexico is a net importer of natural gas, so higher levels of natural gas consumption will likely depend on more imports from the United States or via liquefied natural gas.

Mexico's natural gas pipeline network includes 10 active import connections with the United States. In 2010, Mexico imported 342 billion cubic feet (Bcf) of natural gas from the United States, while it exported 30 Bcf to the United States. Conventional thermal generation represents the overwhelming majority of Mexico's electricity generation, though the mix from these sources is gradually shifting from oil products to natural gas.

In an effort to strengthen our respective nations' energy security, the United States and Mexico signed an agreement on February 20, 2012, for the exploration and development of oil and natural gas reservoirs along the U.S.-Mexico maritime boundary in the Gulf of Mexico.

In sum, the energy sector (oil, natural gas, etc.) is of strategic importance to both the United States and Mexico; particularly because global energy demand is projected to rise over the next 30 years, in part due to increased demand by non-OECD (Organization for Economic Co-operation and Development) countries such as China and India.

Mexico has initiated energy reforms that, if carried forward, will help revitalize the sector, increase Mexico's energy production, allow for additional growth, boost revenue, and ultimately provide a better future for Mexico's next generation.

U.S.-MEXICO BILATERAL FRAMEWORK ON CLEAN ENERGY AND CLIMATE CHANGE

In early 2009, President Calderón and President Obama announced plans to strengthen and deepen bilateral cooperation by establishing the U.S.-Mexico Bilateral Framework on Clean Energy and Climate Change. The framework seeks to build upon cooperation along the border by facilitating the ability of neighboring border states to work together to strengthen energy trade. A key issue for renewable energy power development is access to electricity grid infrastructure. A specific priority under the U.S.-Mexico Bilateral Framework is to promote the development of a regional renewable energy market between California and Baja California and to help facilitate the construction of new power lines in a sustainable manner.

Recommendations:

REGULATORY REFORM

Jointly prioritize further energy reform to ease investment restrictions and allow additional two-way foreign investment that will lead to increased efficiency and production.

- **Benefit:** At a time when global demand is also projected to rise, reform facilitates production increases in order to meet growing domestic demand at more affordable prices to consumers.
- **Benefit:** Reduces dependence on oil from the Middle East.

TECHNOLOGICAL INNOVATION AND INFRASTRUCTURE DEVELOPMENT

Technological innovation and infrastructure development will modernize outdated technology and aging infrastructure.

- **Benefit:** Increased production and refining capacity will reduce costs, eliminate the need to subsidize gas prices, and in turn increase government revenues.
- **Benefit:** Modern technologies and infrastructure will curb emissions and reduce overall environmental impact.

Energy reform in Mexico

- In 2008, Mexico carried out a partial energy reform, which, among other things, allows Pemex to create incentive-based service contracts with foreign oil companies.
- In 2011, Pemex held the first licensing rounds for performance-based contracts on oil blocks since the nationalization of the oil industry in 1938.
- Energy is also a vital resource for Mexican economic stability:
    - Oil exports generated 14% of the country's export earnings in 2010.
    - A total of 32% of Mexico's federal government budget comes from oil industry earnings, a figure that includes both taxes and direct payments from Pemex.

NONCONVENTIONAL FUELS

The United States and Mexico should further strengthen their energy relationship via co-generation projects in non-conventional fuels (synthetic oil, shale oil, coal bed methane, shale gas, etc.) and progressively transition out of conventional oil.

- **Benefit:** Diversifies the energy mix of both the United States and Mexico to militate against unexpected energy supply shocks caused by either natural disasters or geopolitical developments.

"GREEN ENERGY": RENEWABLE FUELS

The United States and Mexico should further strengthen their energy relationship via co-generation projects in renewable fuels (solar, wind, biomass, and bio-fuels) and promote sustainable energy development. Both governments should work with industry toward regulatory coherence and use international standards that meet the WTO's definition.

- **Benefit:** Reduces the carbon footprint of energy generation and mitigates climate change.

Energy reform would guarantee the supply of cost-effective energy sources for homes and businesses. With reduced energy costs, citizens would have more disposable income and businesses would have additional operating capital to modernize their operations and/or invest further in their sector.

FINANCIAL SERVICES

Overview:

As the 2012 G-20 Chair, Mexico has an important role to play on the world stage as a guiding economic leader, especially with respect to international financial markets. It has become increasingly important for Mexico and the United States to implement clear, nationality-neutral financial policies that foster transparency and market integrity, and promote investment. For Mexico to achieve its critical infrastructure, economic, and social development goals, it must have access to the broadest and highest-quality range of financial services. The U.S.-Mexico Leadership Initiative Financial Services Working Group is dedicated to the advancement of internationalized capital markets and innovative financial services for economic growth and social development in both Mexico and the United States.

According to the World Bank, access to financial services in Mexico is limited and costly. Few people have the ability to manage their assets with competitive rates and in potentially high-growth markets; more people should have access to mortgages and credits for their businesses, as well as to life insurance with financially solvent companies. About 75% of Mexico is urban, yet 85% of adults in urban areas have had no dealings with formal financial institutions. Participation rates are particularly low for both rural agriculture and nonagriculture enterprises and very low for individual entrepreneurs and farmers. The low level of market penetration in formal financial services results in high transaction costs for Mexican citizens.

Mexico has a complex and restrictive legal and regulatory framework for governance of financial services. Existing rules limit consumer choice by unduly restraining the offerings made by financial services firms. Moreover, the infrastructure to provide services continues to lag. Foreign firms (accounting for 45% of the Mexican banking sector), including many from the United States, are helping to expand access for all Mexicans to the full spectrum of financial services. Close cooperation between industry officials and regulators on both sides of the border will help to close the infrastructure gap that currently prevents most Mexicans from putting their existing assets to work in support of their long-term financial security.

Widespread, convenient, and reliable access to financial services is critical to growing and maintaining the middle class. Regulatory principles must support maximum market growth and penetration to bring consumers the full benefit of modern financial services across all socioeconomic levels.

Recommendations:

REGULATORY COOPERATION

Prioritize regulatory cooperation through the High-Level Regulatory Cooperation Council to streamline cross-border transactions and data flows, and harmonize business practices.

- **Benefit:** Enhances efficiency of binational financial markets to the benefit of consumers.
- **Benefit:** Transparent and nondiscriminatory financial rules facilitate partnerships between industry, government, and consumers, promoting efficiency and competition.

Enhance the robust ongoing regulatory dialogue between U.S. and Mexican regulators.

- **Benefit:** Helps regulators, investors, and other market participants strengthen compliance by reducing regulatory complexity and opportunities for regulatory arbitrage.
- **Benefit:** Helps industry comply fully with regulations and promote desired outcomes.

REGULATORY TRANSPARENCY AND STREAMLINING

Optimize administrative law to provide opportunities for meaningful public consultation on new or amended supervisory policies, rules, and regulations at every step of the process.

- **Benefit:** Improves transparency and accountability in government decision-making processes, promoting fair competition and reinforcing government authority to regulate.

ENHANCE COMMUNICATION

Pursue binational communication (e.g., U.S.-Mexico Insurance Dialogue) between regulators and business about the policy basis and desired outcomes of new regulations.

- **Benefit:** Helps eliminate regulatory uncertainty that hinders financial services innovation.

Publicize voluntary measures endorsed by governments on the same basis as proposed regulations, as they often become *de facto* market requirements.

- **Benefit:** Ensures broad industry support for government standard-setting efforts.

FINANCIAL INCLUSION

Implement a legal framework to allow securitization of assets, which will facilitate access to credit.

- **Benefit:** Empowers and incents individuals and small businesses to enter formal financial services markets by monetizing existing assets not currently recognized as collateral.

DATA FLOWS

Modernize outdated laws that threaten the free flow of data, recognizing and facilitating the use of data in a global networked environment.

- **Benefit:** Allows global businesses to meet customer needs and provide efficient services.

COMPETITION

Eliminate legal and regulatory bias favoring state-owned (SOEs) and state-supported enterprises (SSEs) that create major competitive distortions in markets.

- **Benefit:** Enhances competition, spurs infrastructure development and modernization, and lowers prices to consumers.

GOVERNMENT PROCUREMENT

Promote consistently competitive, transparent, and accountable standards for public procurement at all levels of government.

- **Benefit:** Produces maximum public value from expenditures at every level of government, so that project costs are lower and more public works are funded.

The U.S.-Mexico services trade is a vibrant and growing segment of the bilateral economic relationship:

- In 2010, U.S. service providers exported $24 billion to Mexico, while the United States imported $14 billion in services from Mexico.
- Financial services are an important component of this bilateral trade in services and a force multiplier for both economies.

Encouraging a productive environment for innovation, where individuals and businesses generate and commercialize new ideas and solutions, and students and workers receive education and training in high tech fields is critical to the current and future prosperity of the economies of the United States and Mexico. The ability of both governments to implement innovation that maximizes policies on human resource development and intellectual property rights will determine the strength of the regional knowledge-based economy.

INNOVATION AND TECHNOLOGY

Overview:

PRO INNOVATION POLICIES

The goal of joint collaboration on innovation should be to promote regulatory practices that facilitate trade and investment, and safeguard against unintended consequences that can stymie innovation. Policies should adhere to a model that is market-driven and nondiscriminatory, not government-directed and protectionist, in recognition of the key role that entrepreneurship plays in increasing productivity, ensuring economic growth, and creating jobs.

IP PROTECTION

Innovation policies need to respect innovators' intellectual property rights (IPRs) while creating incentives for them to keep innovating in ways that promote improvements in economic growth and quality of life. Effective protection of IPRs is critical to promoting innovation and competitiveness in Mexico and the United States.

Economic growth in the region is limited by counterfeiting of trademarks and piracy of copyrighted works, which take away incentives for the additional investment in research and development. Violations of IPRs are particularly costly for industry in terms of lost sales and for governments in terms of lost tax revenues. Counterfeiting and piracy cost the U.S. economy an estimated US$200 billion to US$250 billion per year. Mexico is believed to suffer comparable losses. In addition, counterfeiting and piracy pose a real threat to consumer health and safety. Greater cooperation between Mexico and the United States in combating such theft would significantly increase the effectiveness and efficiency of individual government efforts and provide greater benefit and protection to innovators and consumers in the region.

By way of example, the Mexican pharmaceutical market is the second-largest in Latin America, after Brazil. It amounts to 15.02% of the country's manufacturing GDP. Given the importance of the pharmaceutical sector to Mexico's economy, fostering a policy and regulatory environment conducive to continued investment in the sector should be a government priority, particularly with respect to IPRs. The leaders of the Mexican health regulatory agency (COFEPRIS) and the Mexican patent office (IMPI) have expressed commitments to provide protection against unfair reliance by third parties on clinical study data generated in order to obtain marketing approval for innovative medicines, and to improve application of patent linkage for pharmaceutical products.

Mexico should be commended for improving its IP protection and enforcement regime in recent years for example, by granting *ex officio* authority to its law enforcement officials. However, a number of key areas still need to be addressed. Mexico's entry into the TPP negotiations would be a boon for the region. The Mexican government should take steps to comply with all pending NAFTA commitments on data protection before it enters into full negotiations on the TPP.

HUMAN RESOURCE DEVELOPMENT

A skilled human resource pool is a cornerstone of any innovation-based strategy for socioeconomic growth in the United States and Mexico. An educated and qualified workforce is needed to tap the potential of accelerating technical change. Policy makers in both countries must ensure that expenditures on education are allocated efficiently and that the entire population can participate in the knowledge based economy. Technical secondary-level education—as well as higher education in science, technology, engineering and math (STEM) areas —is needed to adapt to technological trends, assess what is relevant for business, economic and societal growth, and determine the best application and implementation of the new technologies.

Recommendations:

REGULATORY AND LICENSING POLICIES

Strengthen the knowledge-based economy by implementing innovative and favorable regulatory/licensing policies that are transparent and allow for public comment.

- **Benefit:** Stimulates the growth and implementation of innovative technologies spurring socioeconomic development. The ability for the private sector to comment on proposed regulations and recommend voluntary standards also facilitates a knowledge-based economy.

BPO

Support Mexico's growth as a hub for provision of business process outsourcing (BPO) and other outsourcing services.

- **Benefit:** Creates jobs and opportunities for training in office skills and the English language by establishing Help Desks and other types of reference offices.

IPR

Develop policies that provide effective protection and respect for innovators' IPRs while creating incentives for continued innovation that promotes socioeconomic growth, including the following:

- An innovation model that is market-driven, nondiscriminatory, and nonprotectionist, and recognizes the key role of entrepreneurship in increasing productivity and growth;
- Increased intelligence sharing among law enforcement agencies related specifically to IPR violation;
- Metrics to assess progress of domestic policies and enforcement;
- Improved awareness of the importance of IPR and the economic and innovative damage—as well as the threat to health and safety—caused by piracy and counterfeiting.
    - **Benefit:** Provides assurance to companies so that they can transfer their technological know-how and make investments to facilitate innovation in country.

STEM

Emphasize education and training in STEM fields in schools to prepare and enhance the knowledge and innovation based economy in Mexico and the United States.

- **Benefit:** Improves competitiveness in the global marketplace.

EDUCATIONAL EXCHANGE AND COLLABORATION

Increase educational student exchanges/study abroad opportunities. In the 2010-2011 school year Mexico was the ninth leading place of origin for students coming to the United States, with 13,713 students. Meanwhile, in the 2009-2010 school year, 7,157 U.S. college students chose Mexico as their study abroad destination, ranking it eighth among countries.

- **Benefit:** Facilitates the development of an integrated, educated, and skilled workforce that is culturally and linguistically competent.

Encourage cooperation and joint development between academia and the private sector.

- **Benefit:** Creates a more competitive workforce and business platform.

TRANSPARENT HEALTH CARE PRICING AND REIMBURSEMENT SYSTEM

A transparent health care pricing and reimbursement system is a main pillar in supporting innovation in any country. Without a predictable, transparent, and fast pricing and reimbursement system, access to markets are too restricted and volatile to justify investment in costly innovative medicines that could take years to get to market.

- **Benefit:** Improves access to the best and most effective treatments by creating a fast and transparent pricing and reimbursement system that rewards innovation.

MINING INDUSTRY

Overview:

The United States and Canada are Mexico's principal mineral export partners. Mexico's principal mineral import partners are the United States and China. Mexico is the United States' first import source of silver, second import source of gold and graphite (natural), third import source of zinc, and fourth import source of copper (unmanufactured), aluminum, iron, and steel. Mexico is among the top ten world producers of industrial minerals, such as fluorspar, gypsum, and phosphate rock. In 2010, the United States and Mexico ranked third and fourth, respectively, in terms of mining exploration investment. Mexico was the top exploration investment destination in Latin America in 2010 (ahead of Peru, Chile, Brazil, and Argentina). According to 2010 figures, an estimated 70% of mining exploration investment in Mexico is foreign. The foreign direct investment from the United States amounts to 15.44%, second only to Canada, which amounts to 73.50%.

Mining is also a vital resource for Mexican economic stability. The mineral industry is one of Mexico's most profitable economic sectors and represents a major source of revenue for the government. Although mining amounts to only 1.6% of Mexico's GDP, it represents a very important source of foreign currency. In fact, in 2009 and 2010, the mineral industry was the fourth-highest source of foreign currency for Mexico, behind the auto industry, crude oil exports, and remittances. The mineral sector surpassed the tourism sector in 2010.

The principal mineral-rich areas are located in the north and west-central parts of Mexico, in states that are close to the United States. The multiplier effect—that is, nonmining jobs created as a result of mining jobs—is significant, ranging from 2.5 nonmining jobs per mining job to double that number, depending on the jurisdiction.

Recommendations:

The United States and Mexico, together with Canada, should enhance their competitiveness by continuing to promote public policies that increase investment in the mining sector. Minerals are vital inputs for a variety of strategic industries, so the sector has geostrategic importance as well as economic benefits.

IMPROVED FISCAL MANAGEMENT

Increase revenue by introducing a reasonable mining royalty or mining-specific tax increases. Given the volatility of the price of minerals, these increases should be pegged to the price of minerals and take into account the costs of mineral production. These policies, along

The goal of U.S.-Mexican mining cooperation should be to foster technological innovation in order to optimize the economic benefits of the mining sector while addressing community social responsibility issues. The two countries should also continue to improve mine safety, environmental best practices, and efficient and sustainable water management techniques.

with an allowance for reasonable deductions, will optimize the economic benefit of the sector without hindering its competitiveness. Additionally, in Mexico, the distribution of revenue among the federal, state, and municipal governments should be more equitable.

- **Benefit:** Collects added tax revenue from the mining sector.
- **Benefit:** Enables a more equitable allocation of tax revenue between the national and subnational levels of government, and in turn improves public works or social programs both nationally and in targeted stakeholder communities.

CORPORATE SOCIAL RESPONSIBILITY

Develop comprehensive corporate social responsibility strategies in coordination with government plans and budgets, to address stakeholder needs more effectively and ensure that the economic benefits of mining are widely felt.

- **Benefit:** Amplifies the benefits of corporate social responsibility strategies.
- **Benefit:** Improves the welfare of relevant communities and builds support and social inclusion for the projects.

INNOVATION FOR SUSTAINABLE DEVELOPMENT

Although the mining industry is one of the more environmentally regulated industries, mining companies should expand innovation and technology, as well as intensify their coordination with government, in order to minimize their ecological footprint. Companies should reinforce efforts to reduce the direct and indirect impacts of mining (for example, in the areas of greenhouse gas emissions, water quantity and quality, waste disposal, noise pollution, biodiversity protection, and restoration).

- **Benefit:** Ensures sustainable mining practices.
- **Benefit:** Increases the sector's role in mitigating global climate change.

WATER MANAGEMENT

In anticipation of climate change, episodes of drought, and mounting water management challenges, mining companies should work toward more efficient water management.

- **Benefit:** Makes mining more sustainable.

NATIONAL MINERAL POLICY

The United States and Mexico would each benefit from developing a national mineral policy. Currently, neither country has articulated overarching goals and objectives, so the sector proceeds on an ad-hoc basis, driven by corporate objectives and overseen, in large part, by subnational government authorities. A national mineral policy would benefit business and also have geopolitical merit. The current level of sectoral integration among Canada, the United States, and Mexico also warrants consideration of a North American mineral strategy.

- **Benefit:** The U.S., Canadian, and Mexican mining industries and their respective shareholders would benefit from increased policy coordination.
- **Benefit:** Increased coordination would also help to underscore a sustainable approach to mining.

TRANSPORTATION, LOGISTICS, AND CUSTOMS

Overview:

Increasing exports between the United States and Mexico, in both directions, create jobs and profit for both nations. This is because exports from both nations to third parties frequently include inputs inputs from the other. For example, the parts and components for cars exported to foreign markets from Mexico move back and forth across our borders half a dozen times in the assembly process. Thus, increasing the ease and speed at which these products can cross the border will benefit both countries' exports.

Yet supply chains continue to come to a halt as a result of border delays, security concerns, and infrastructure constraints. These issues create an environment of uncertainty in the business community, stymieing investment, job creation, and economic prosperity. By linking trade facilitation with security through risk management techniques, both countries can maximize the benefits of trade and a secure supply chain.

It is thus crucial that the United States and Mexico commit to customs principles that promote efficiency and eliminate redundancy in the customs clearance process. Both countries should show a level of readiness to adopt customs modernization principles that include the following: the World Customs Organization SAFE Framework; automated risked-based management principles; expedited clearance processes for express delivery shipments; electronic pre-arrival clearance; the development of a single-window, electronic submission of data; harmonized data elements; and agreement on a high *de minimis* value.

The objective of the U.S.-Mexico transportation, logistics, and customs cooperation working group is to enhance regional and national competitiveness and security making the flow of commerce faster and more efficient while significantly reducing transaction costs. Investments in trade facilitation and security can be a source of jobs and prosperity on both sides of the border.

Recommendations:

AUTHORIZED ECONOMIC OPERATORS

Ensure that the newly announced Mexican trusted shipper program—*Nuevo Esquema de Empresas Certificadas* (NEEC)—is harmonized with the U.S. Customs-Trade Partnership Against Terrorism (C-TPAT) trusted shipper program. These programs should also enhance the commercial benefits to participating through incentives for supply chain security investments.

- Two-way trade between the United States and Mexico reached well over $460 billion in 2011, making this the third-largest bilateral trading relationship in the world.
- More than $368 billion—80% of bilateral trade—was carried across the border by trucks.
- Last year alone, bilateral trade grew $67 billion, an increase greater than the entire GDP of Ecuador or Croatia.

NAFTA CERTIFICATE OF ORIGIN

Create a new system that could eliminate the current NAFTA certificate of origin. The complicated procedure to fill out this certificate is a serious impediment to cross-border trade and causes numerous shippers, particularly small and medium enterprises, to forego the benefits of free trade rather than expend the resources to apply. For low-value shipments, the shipper can submit a written statement to the effect that the goods originated in a member country, and this procedure should be expanded to include all goods.

DE MINIMIS

Commit to increasing *de minimis* values, which would allow low-valued goods to be imported without complicated customs duties and fees. A commercially meaningful *de minimis* provides for a simplified, cost-efficient, and timely entry process for businesses to move products without adding the cost for brokerage services to comply with the formal entry process. Increasing the *de minimis* value would simplify entry requirements and reduce transaction costs for small and medium-sized businesses, making them more competitive in the global economy. Moreover, because customs authorities would no longer have to process paperwork relating to shipments generating insignificant duty and tax revenue, they would be better positioned to carry out their mandates to intercept contraband, protect intellectual property rights, and collect duties and taxes on more substantial shipments.

INFRASTRUCTURE PLAN

Create short-, medium- and long-term transportation plans for the United States and Mexico that maximize security and relieve congestion and bottlenecks. Furthermore, ensure that any federal transportation legislation includes attention to the needs of border infrastructure to facilitate the safe and efficient movement of goods and people between the two nations.

REGULATORY HARMONIZATION

It is vital that the United States and Mexico work together to identify and implement common regulatory standards that are equal to or better than the best practice standards applied around the world. This includes, but is not limited to, common regulations on truck sizes allowed on highways and diesel emission regulations. Reducing regulatory inconsistencies will reduce transaction costs and create a more efficient supply chain.

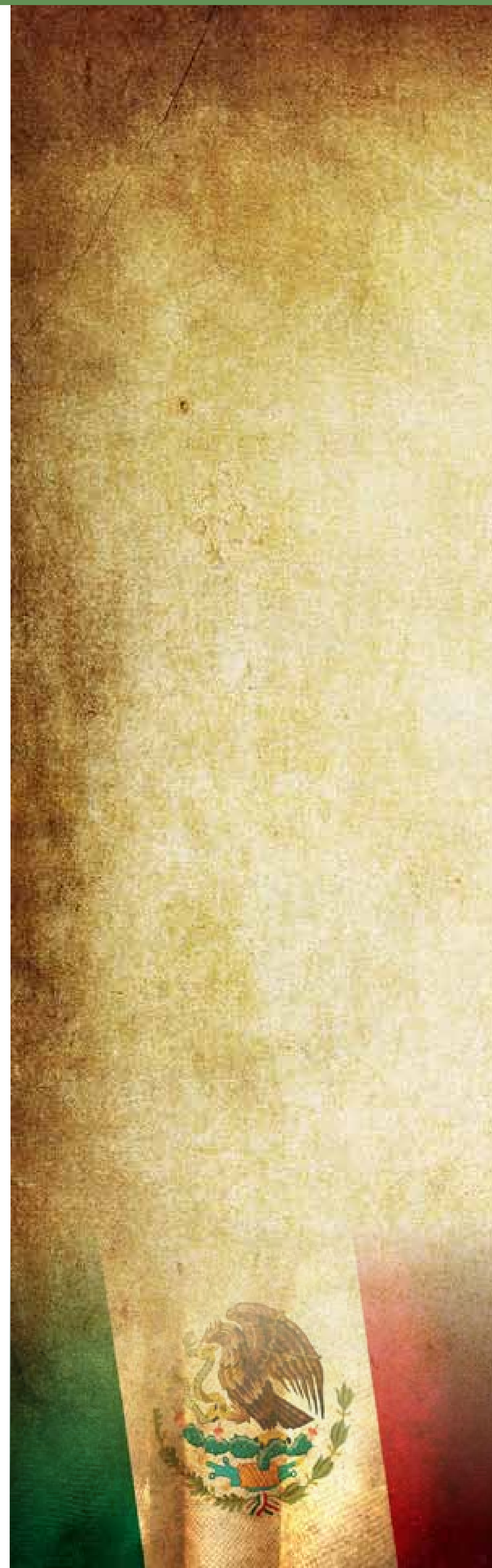
Please note that a more extensive discussion of bilateral business community priorities for the shared border can be found in the June 2012 report "Steps to a 21st Century U.S.-Mexico Border" (www.uschamber.com/reports/steps-21st-century-us-mexico-border). A number of these recommendations are also reflected in the governments' U.S.-Mexico Bilateral Action Plan on 21st Century Border Management, which can be found on website of the U.S. Embassy in Mexico (http://mexico.usembassy.gov/).

TOUCHSTONES: IMMIGRATION AND SECURITY

Finally no conversation about the U.S.-Mexico economic partnership would be complete without a discussion of two key dimensions of the relationship: joint collaboration and coordination on security matters, and the critical need to work together to constructively address the challenge and opportunity of immigration and immigration reform.

We support Mexico's efforts to strengthen local, state, and federal law enforcement agencies as well as to enhance internal coordination. Another critical step will be to accelerate the country's judicial reform in an effort to provide greater legal certainty overall. Together, these steps will increase the security of citizens and business alike. Enhanced overall security and rule of law will attract additional investment into Mexico, reduce the economic incentives for illicit commerce, and foster a virtuous cycle of job creation and middle class growth. The United States has a role in supporting Mexico's direct security efforts; as well as placing greater emphasis on dismantling transnational criminal networks and reducing demand for illegal narchotics within the United States.

The U.S. Chamber of Commerce has long called for comprehensive immigration reform. The United States must advance immigration reform that addresses local, regional, and national security concerns and streamlines the legal flow of people across the U.S.-Mexico border. In addition, improvements should be made to the H-1B visa process to attract needed skilled labor to the United States. The creation of a system that allows those who wish to enter the United States legally and addresses the situation of those living in the United States without legal status will go a long way toward alleviating a major strain on the relationship. Further, it will allow the United States and Mexico to take full advantage of our collective human capital and global competitiveness.



CONCLUSION

The members of the U.S.-Mexico Leadership Initiative strongly believe that the economic strength and future prosperity of both our countries can be greatly enhanced by a broader and deeper bilateral collaboration. These corporate leaders have put themselves forward as examples of the benefits of U.S.-Mexico economic engagement. They are investors, job creators, and good corporate citizens in both countries. The recommendations offered in this report reflect their practical experience based on doing business within, between, and across the border of, the United States and Mexico each and every day. This is just the beginning of our conversation.

Together with these and other like-minded U.S. and Mexican companies and partner organizations, the U.S.-Mexico Leadership Initiative looks forward to working with political and policy leaders new and old as this year's elections unfold and new leadership terms begin at all levels of government. Our overriding goal on behalf of the private sector is to be a source of continuity in the relationship between our countries, building on the remarkable progress that has been achieved, and advancing a bold vision for future progress.

The United States and Mexico have a bright future. Working together, it will be even brighter. As strategic allies in the global economy our workers and businesses enjoy their maximum competitiveness in the world's markets.

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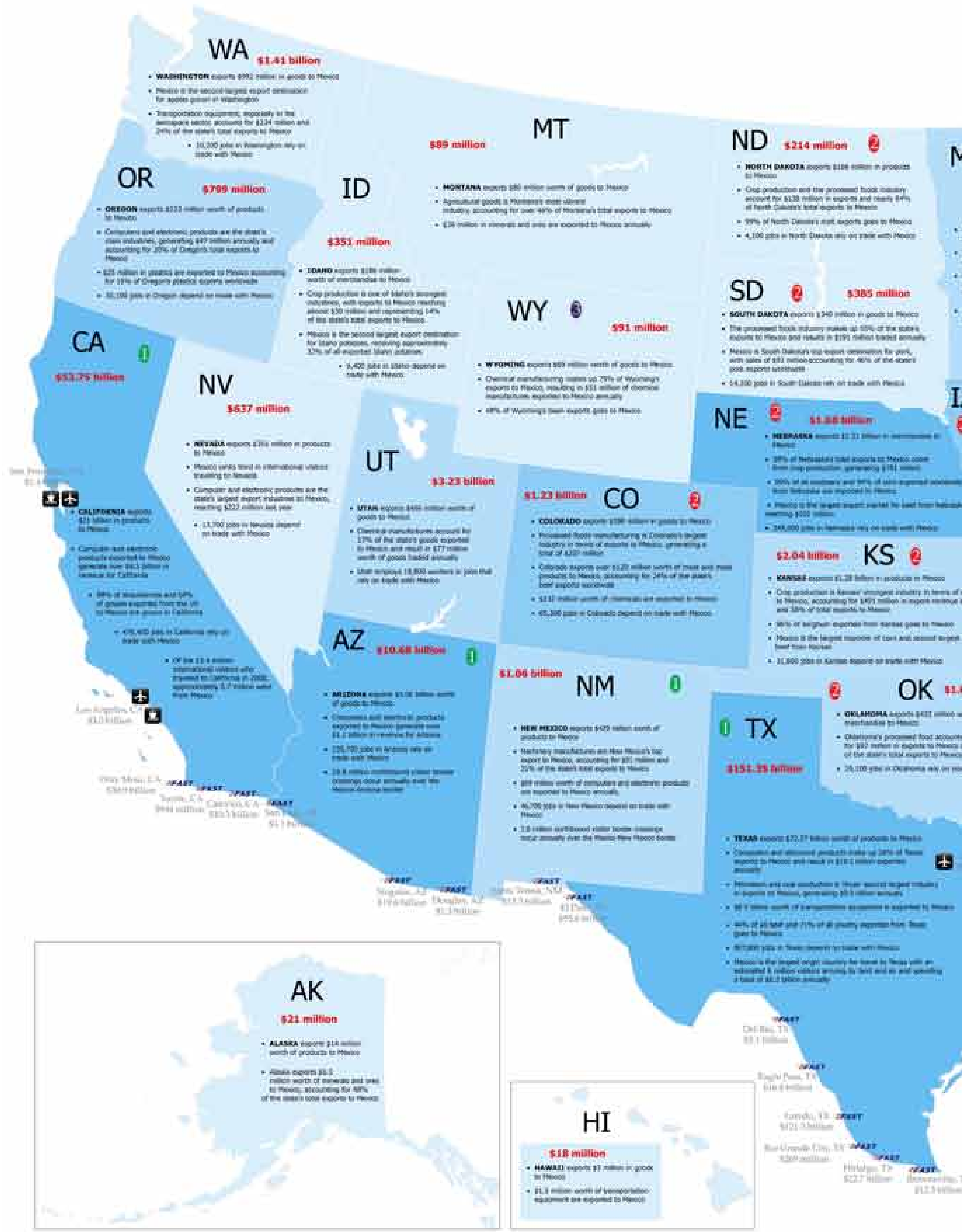
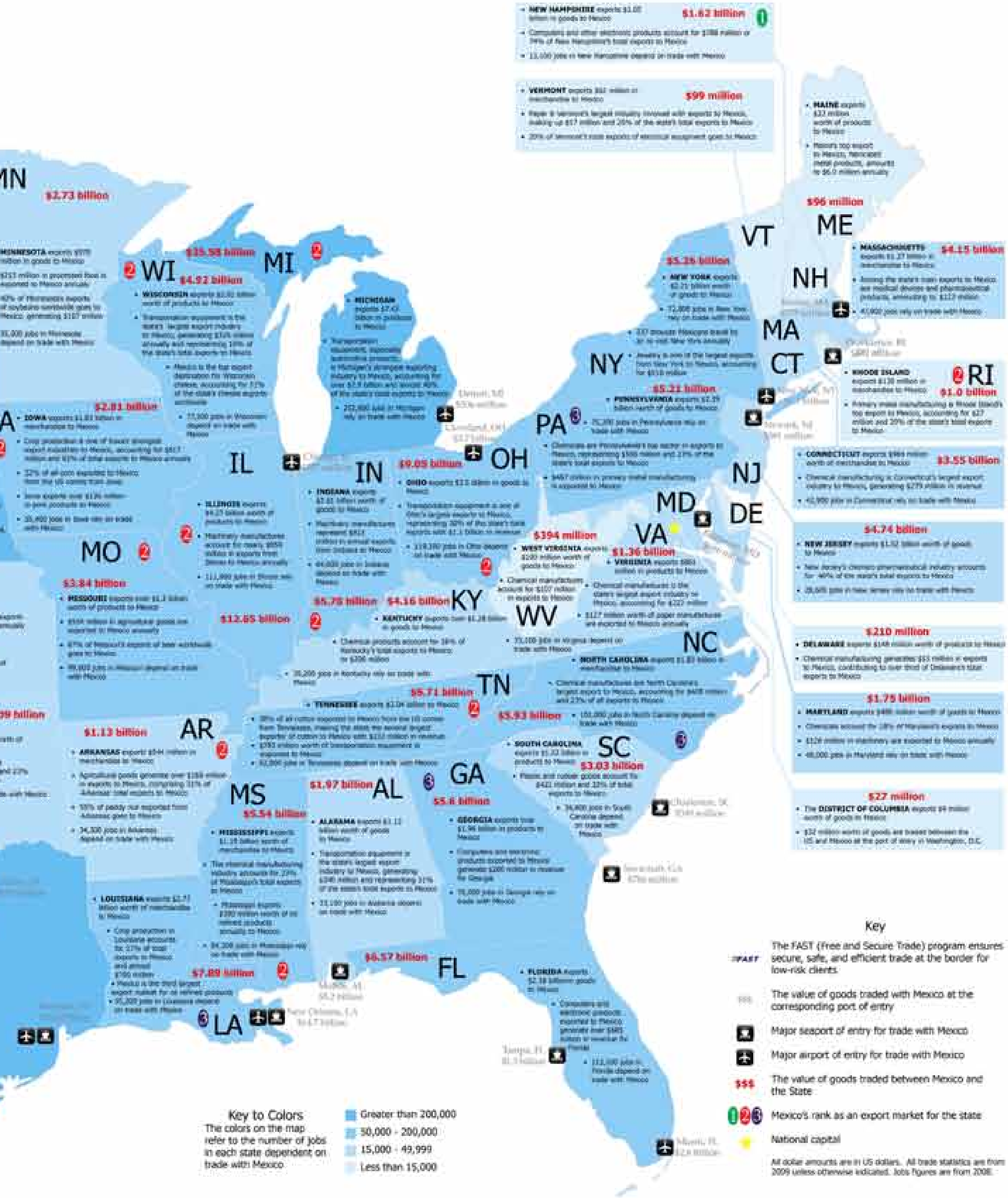
US-Mexico Economic Relations



s: Job Creation Starts with Trade



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