New Ideas for a New Era: Policy Options for the Next Stage in U.S.-Mexico Relations

By Christopher E. Wilson, Eric L. Olson, Miguel R. Salazar, Andrew Selee and Duncan Wood

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Introduction

By Duncan Wood and Christopher E. Wilson

Once every twelve years, U.S. and Mexican presidential elections coincide, creating a natural opportunity to look back at the evolving context of bilateral relations and to look forward for ways to strengthen ties. Mexico's newly elected President Peña Nieto and the recently reelected President Obama will be operating in a landscape of U.S.-Mexico relations that has changed profoundly since the last time elections overlapped twelve years ago and even since the last presidential election in each country.

The new administrations begin working together at a time of considerable optimism in the relationship. Mexico has developed a highly competitive democratic system, and its rising middle class, solid macroeconomic footing and positive outlook for economic growth make the country a pillar of strength in a complex and volatile global environment. As the United States faces a post-Great Recession, post-9/11 world, it is increasingly aware of the transnational dimensions of U.S. economic and national security. Mexico is a key partner on each of these fronts.

Whether in the form of joint efforts to protect the region from terrorist threats or to reduce the violence perpetrated by transnational organized crime, security cooperation has dominated the bilateral agenda since 2001. The Peña Nieto administration now seeks a rebalancing of the agenda, giving greater weight to strengthening the economic competitiveness of the region, and there is reason to believe such an approach could achieve some success.

U.S.-Mexico trade is booming, growing faster than U.S. trade with China and faster than it did after NAFTA took effect in the 1990s. In a way that cannot be said for drugs, violence, or illegal immigration, focusing on the creation of jobs and improving the competitiveness of manufacturers on both sides of the border is a good-news story. Greater focus on this dimension of the relationship could potentially change the tone of the relationship in a way that makes the stickier issues of security and migration a little less intractable. Progress on the economic agenda, including intraregional efforts to move goods and services across the border more efficiently as well as cooperation on global trade issues like the Trans-Pacific Partnership, could provide a significant boost to both the U.S. and Mexican economies.

While economic issues are likely to see increased attention, much of the day to day work in the bilateral relationship will remain focused on security. There are signs that overall levels of organized crime-related violence in Mexico finally began to decline in 2012 after several years of growth, though much work remains to be done on issues of public security and criminal justice reform in Mexico, drug consumption in the United States, and the trafficking of weapons, drugs and illicit funds between the two countries. Fortunately, over the past six years an unprecedented level of cooperation between the U.S. and Mexican governments and their many law enforcement and national security agencies has been achieved, leaving a legacy of increased understanding and trust. Efforts must now be made by both sides to consolidate these gains in the context of the new security strategy being defined by the Mexican administration, the change in personnel in Mexico after the election, and the institutional adjustments seen with the strengthening of Mexico's Secretariat of Internal Affairs (Gobernación) and the organization changes affecting the Secretariat of Public Security.

On the question of migration, there has been a shift in internal politics in the U.S. that permits a more open debate on immigration than at any time in recent memory, with a bipartisan willingness to consider meaningful reform of immigration laws. This happens at the same time as we have seen a significant drop in migration flows from Mexico, high levels of reverse migration and a more robust economy in Mexico beginning to create more jobs south of the border.

Since 2007, the number of Mexican migrants illegally entering the United States has dropped to historically low levels, with a net outflow of unauthorized immigrants from the U.S. over the past three years. The drop is partially because of the weak U.S. economy, but it also has to do with more effective U.S. border enforcement and better economic opportunities in Mexico. This shift, along with a newfound bipartisan willingness to consider reforming immigration policy after the 2012 presidential election in the United States, offers the potential for both countries to explore new approaches to migration for the first time in a decade. In the United States, policymakers have an opportunity to look especially at how to reform the legal immigration system so that the country can ensure it has the human capital needed, at all skill levels, to fuel innovation and growth. Mexican policymakers, on the other hand, have opportunities to consolidate Mexico's burgeoning middle class in those communities where migration has been a feature of life so as to make sure that people no longer need to leave the country to get ahead. Mexico could also facilitate U.S. reform efforts by indicating how they could help cooperate with a new U.S. visa system if the U.S. Congress moves forward on a legal immigration reform.

In the area of energy policy, there is a realistic chance that the Pena Nieto government will be able to secure the passing of energy reform legislation that opens up Mexico's oil and gas industry to private and foreign participation. This development, should it come to pass, will drive forward higher levels of investment and cooperation by U.S. hydrocarbons firms in Mexico. In particular in the area of shale gas and shale oil, it is U.S. firms that possess the technology and expertise that will be required to develop Mexico's resources. On environmental issues connected to the oil and gas sector there is a pressing need for bilateral cooperation on standards and implementation, especially in light of the Transboundary Hydrocarbons Agreement covering oil exploration in the Gulf of Mexico.

Similar to other large middle-income countries, Mexico has reason to be increasingly active in responding to regional and global issues. As Mexico's economy grows, so will its weight on the global stage. Since Mexico is a key partner for the United States on global issues and the two countries have many shared interests, this represents an opportunity for the United States. Mexico, too, has much to gain from working in partnership with the United States. Despite recent successes in its role in hosting the G-20 and the United Nations Climate Change Conference, Mexico has punched below its weight on foreign policy for several years. To increase international clout, Mexico must become even more active in international institutions—perhaps UN peacekeeping operations—and could become a regional leader in supporting Central American countries as several face public security crises caused by organized crime and gangs.

The presence of so many opportunities in bilateral relations does not mean that the path ahead is obstacle-free. In fact, due to the intense blend of domestic politics and international affairs that makes up the U.S.-Mexico relationship, without a determined effort on the part of both governments to keep the bilateral relationship positive and productive, it can easily be pulled off track by scandals and disagreements. Some policy areas are particularly sensitive. On security cooperation, for example, some joint efforts implemented with the previous Mexican administration may be considered too risky by the new team; officials will have to take care to move forward with an overall approach based on collaboration and shared responsibility even as the details of cooperation are renegotiated. On the issue of energy, any discussion of cooperation in the area of oil still requires sensitivity on the part of the United States, particularly at this time of potential change in the legislative framework in Mexico. Similarly, the ability of Mexico to push for progress on a U.S. immigration reform is limited, and Mexican officials will have to choose their strategy carefully.

The purpose of this report, therefore, is to identify areas in the bilateral relationship where mutually beneficial cooperation can be pursued. In a way that has not been the case for at least a decade, the context in which the new U.S. and Mexican administrations meet is one of tremendous opportunity. Taking full advantage of this opportunity-laden moment will not be easy, but the potential in deepening the U.S.-Mexico strategic partnership justifies an investment from both sides in terms of resources, time and political will.

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A U.S.-Mexico Economic Alliance: Policy Options for a Competitive Region

By Christopher E. Wilson

Key Recommendations

- Negotiate future trade agreements as a North American bloc and cooperate on global trade issues, recognizing that exports from the Mexico and Canada contain high levels of U.S. parts, materials, and value. The current Trans-Pacific Partnership negotiations represent a great opportunity for a collaborative approach.
- Facilitate regional commerce by cutting the time it takes to cross the U.S.-Mexico border.
- Liberalize services trade within the North America. Great cost savings could be found in the healthcare and transportation industries. An Open Skies agreement and moving the cross-border trucking program beyond its pilot phase would be positive first steps.
- Fully implement customs single windows and move toward a common North American external tariff, even if that means beginning industry by industry or product by product.
- Harmonize regulations on the books in North America and coordinate the development of new regulations so manufacturers do not need separate production lines for the Mexican, U.S. and Canadian markets.
- Facilitate greater U.S.-Mexico private sector and civil society dialogue regarding enhanced economic cooperation.

At a time when Mexico is poised to experience robust economic growth, a manufacturing renaissance is underway in North America and bilateral trade is booming, the United States and Mexico have an important choice to make: sit back and reap the moderate and perhaps temporal benefits coming naturally from the evolving global context, or implement a robust agenda to improve the competitiveness of North America for the long term. Given that job creation and economic growth in both the United States and Mexico are at stake, the choice should be simple, but a limited understanding about the magnitude, nature and depth of the U.S.-Mexico economic relationship among the public and many policymakers has made serious action to support regional exporters more politically divisive than it ought to be.

The Value of U.S.-Mexico Trade

- Bilateral goods and services trade reached a record breaking $500 Billion dollars in 2011
- Mexico is the United States' second largest export market (after Canada)
- The U.S. exports more to Mexico than all of the BRICs (Brazil, Russia, India, China) combined
- Imports from Mexico contain, on average, 40% U.S. content
- Trade with Mexico is growing faster than trade with China

The United States and Mexico have become profoundly integrated, and the two countries are now partners, rather than competitors, in the global economy. The North American Free Trade Agreement, geographic proximity, and the complementary nature of the two economies have fostered an integrated manufacturing platform. The United States and Mexico do not only trade finished products; they build them together. Indeed, roughly 40 percent of all content in Mexican exports to the United States originates in the United States, much more than the comparable figures with China, Brazil, and India, at four, three, and two percent respectively. Only Canada, at 25 percent, is similar. As a result, improvements in productivity in either country, as well as advances that lower the costs of moving goods across the border (i.e.: long wait times, inefficient customs procedures), strengthen the competitiveness of manufacturers throughout the whole region.

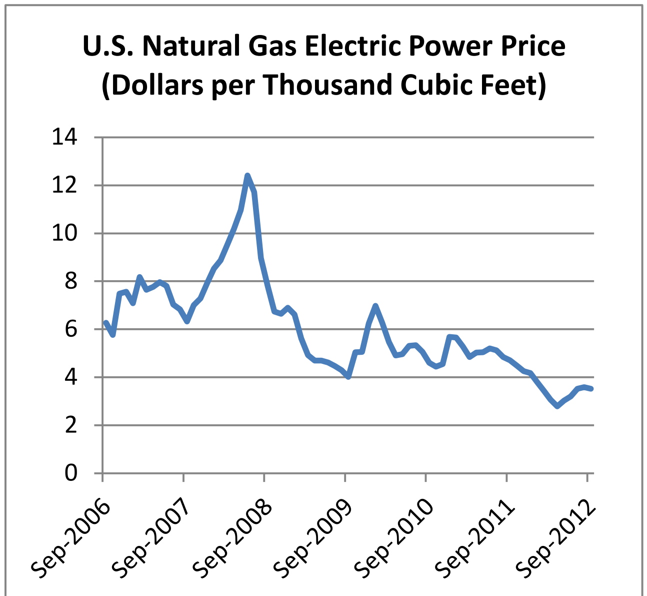
A manufacturing renaissance is taking hold in the United States and Mexico that is increasing the competitiveness of regional industry and the volume of U.S.-Mexico trade.

An Evolving Context

The Advent of Advanced Manufacturing and the Return of North American Competitiveness

Driven by a series of global developments and technological advances, a manufacturing renaissance is taking hold in the United States and Mexico that is increasing the competitiveness of regional industry and the volume of U.S.-Mexico trade. After many companies moved their factories to Asia in search of cheap wages over the past two decades, new trends are pulling production facilities back to North America.

While manufacturing wages in China were four times less than Mexico in 2000, they are now nearly equal and are expected to be 25 percent higher than Mexican labor costs by 2015.[1] The simple math of wage differentials drove the past decade's movement of factories from the U.S. and Mexico to China, but companies are taking an increasingly holistic approach in deciding where to locate factories, considering transportation costs and shipping times; exchange rate and political risks; language, culture, and time zone differences; contract and intellectual property law enforcement; security; production flexibility; the supply and cost of materials and energy; and the availability of skilled and educated workers. In most of these categories, Mexico is gaining ground or maintains a distinct advantage over other regions of the world, particularly in terms of serving markets throughout the Americas.



Note: Electric Power Price refers to the price of gas used by electricity generators (regulated utilities and non-regulated power producers) whose line of business is the generation of power. Source: U.S. Energy Information Administration, Department of Energy, 2012, http://www.eia.gov/dnav/ng/hist/n3045us3m.htm.

For example, between 2007 and December 2012, the value of the Mexican Peso fell by 17 percent compared to the U.S. Dollar and by a full 33 percent compared to the Chinese Yuan, improving the competitiveness of regional exports vis-à-vis Chinese goods.[2] Crude oil prices rose 231 percent between 2002 and 2012, thus raising shipping costs and incentivizing the use of shorter, regional rather than longer, transcontinental supply chains.[3]

New drilling techniques, however, are changing the outlook for oil and especially natural gas, opening access to new reserves, increasing production, and therefore lowering some energy costs. While this may eventually lower long-range shipping costs, the more immediate effect is proving to be a major decline in natural gas prices, which has already lowered electricity costs in some parts of the United States and has the potential to do so throughout both the region. Such a decline in prices provides a major boost to energy intensive industries, such as steel, and petrochemical producers. The United States is on the forefront of the technological advances in the energy industry and stands to gain the most from them, but Mexico could reap the benefits as well should it either reform its energy industry to take advantage of its significant shale gas reserves or develop the pipeline infrastructure to support increased gas imports from the United States.

Technological advances and improvements in the manufacturing process and logistics are revolutionizing industrial production in ways that significantly change cost structures, further incentivizing those that had

[1] Harold L. Sirkin, Michael Zinser, and Douglas Hohner, "Made in America, Again: Why Manufacturing Will Return to the U.S.," Boston Consulting Group, August 2011, http://www.bcg.com/documents/file84471.pdf.
[2] Author's calculations, with data from International Monetary Fund, Exchange Rate Archives, 2012 (http://www.imf.org/external/np/fin/data/param_rms_mth.aspx).
[3] Author's calculations based on data and price projections for 2012 from: U.S. Energy Information Administration, 2012 (http://www.eia.gov/forecasts/steo/realprices/).

offshored to China to consider nearshoring in Mexico or reshoring their production back to the United Sates. Robots and the high-tech sensors that allow them to function with precision are allowing many of the simple, repetitive jobs that traditionally made up factory work obsolete. The need for large numbers of relatively unskilled laborers is on the decline, and the need for high skilled technicians who can program and maintain the complex machines and robots of today's factories is on the rise. As a result, labor costs are a shrinking portion of total production costs, as evidenced by a recent study that found only 5.3% of the price of an iPhone goes to offshore manufacturing wages.[4] This shift opens an opportunity for advanced economies like the U.S. to recoup some of their share of global manufacturing, especially if the complementary nature of high-tech design and production in the U.S. is complemented with lower cost manufacturing in Mexico for the portions of production that still require a higher degree of manual labor.

The widespread implementation of *lean manufacturing* principles has improved the efficiency and agility of factories around the world. One important area in which fat has been cut from the manufacturing process is in warehousing. *Just-in-time* supply chain management has minimized the costly storage of parts and products, thus fueling the trend of regionalization in manufacturing by increasing the importance of a robust network of nearby suppliers. It is also greatly increasing the need for short and predictable wait times at the U.S. land borders since an unexpected delay has the potential to shut down production until the needed parts arrive at their destination.

Mexico on the Move

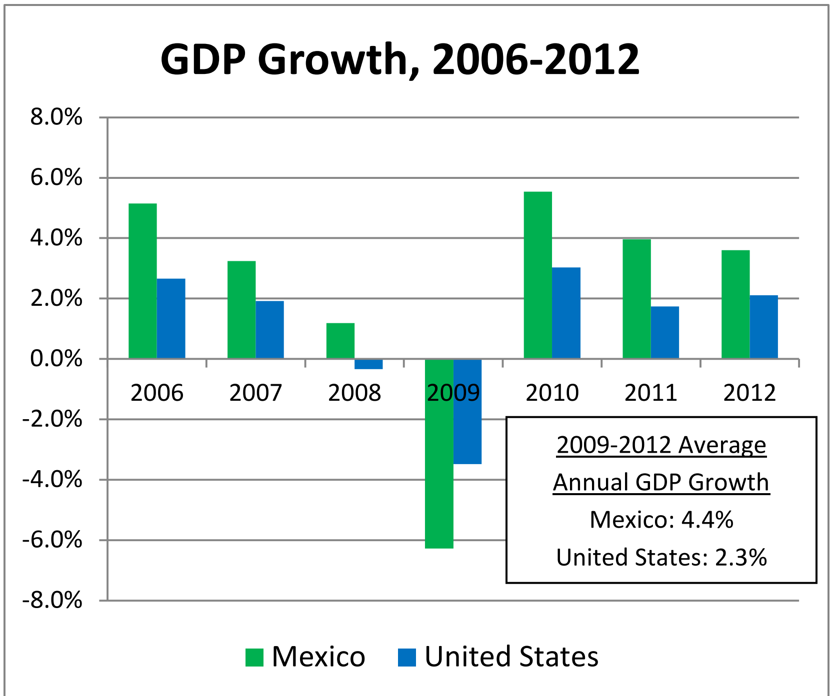
For years, Mexico oriented its economy toward the U.S. in hopes of harnessing the growth of the world's largest market. Now, at a time when Mexico is growing around four percent a year – faster than the United States – Mexico can return the favor and provide a boost to the U.S. economy. Measures of the

At a time when Mexico is growing around four percent a year – faster than the United States – Mexico can provide a boost to the U.S. economy.

country's manufacturing sector are showing record-high growth, a clear sign of strengthening competitiveness, and the country is building ever more complex products like cars while leaving behind simpler industries like textiles and shoemaking. Mexico's large and growing middle class has become an increasingly important market for U.S. products and a force for many of the economic and political reforms needed to unleash Mexico's full economic potential.[5]

[4] *The Economist*, "A third industrial revolution," April 21, 2012, (http://www.economist.com/node/21552901); and Kenneth L. Kraemer, Greg Linden, and Jason Dedrick, "Capturing Value in Global Networks: Apple's iPad and iPhone," July 2011,(http://pcic.merage.uci.edu/papers/2011/Value_iPad_iPhone.pdf).

[5] Both the Mexican government and HSBC versions of the purchasing managers index for manufacturing (PMI) recorded record growth in late 2012: Adam Thompson, "Mexico manufacturing: chugging along," Financial Times, January 2, 2013, http://blogs.ft.com/beyond-brics/2013/01/02/mexico-manufacturing-chugging-along/#axzz2GvjxFYDs; and Patrick Fearon, November PMI at Record High, MexECON Blog, Terra Nova Ventures, December 12, 2012, http://www.tnvmanagement.com/mexecon-blog/2012/12/4/november-pmi-at-a-record-high.aspx.



Source: International Monetary Fund, World Economic Outlook Database, 2012, http://www.imf.org/external/pubs/ft/weo/2012/02/weodata/weoselgr.aspx.

Altogether, Mexico's new government inherited a very solid economic outlook despite the complex global environment, and the recent passage of important labor and education reforms suggest that the political gridlock that blocked the passage of several key economic reforms in congress for years may have finally, if perhaps only temporarily, become unstuck. Recent optimism regarding the Mexican economy has attracted significant foreign investments, and the United Nations expects FDI in Mexico in 2013 to reach a record $38 billion dollars.[6] The Peña Nieto administration currently looks poised to manage a period of robust growth, and while global developments or a failure to measure up to high expectations could create downward pressures on Mexico's growth, if Congress passes key energy, fiscal and accountability reforms, the outlook could become even brighter.

A Boom in Bilateral Trade

After years of slow growth (4.5 percent average annual growth from 2000-2008) and then a 17 percent drop between 2008 and 2009 during the Great Recession, U.S.-Mexico trade is now booming as never before. It is growing faster than U.S. trade with China and faster than during any period during the post NAFTA spurt in the 1990s.[7] In the uncertain context of a global economy in search of a new equilibrium—Europe struggling, China's decelerating, a fiscal reckoning in the United States— the

The amazing thing is that this recent boom in bilateral trade has occurred without a strategy. Imagine what could be achieved if the governments of the United States and Mexico designed and implemented a comprehensive plan to improve the competitiveness of our region in the global marketplace.

[6] Ulises Diaz, "Favorece IED de 2013 a Peña Nieto," *Reforma*, January 3, 2013, A1.
[7] U.S.-Mexico merchandise trade (exports plus imports) grew at an average annual growth rate of 24 percent from 2009-2011, while U.S.-China trade had 17 percent AAG. Author's calculations with data from U.S. Department of Commerce, Census Bureau, 2012.

bilateral economic relationship stands out as a pillar of strength and perhaps a signpost on the path to a stronger economic region.

Note: imports plus exports for trade, inward plus outward investment positions. Source: U.S. Department of Commerce, Bureau of Economic Analysis and Census Bureau, 2012.

U.S.-Mexico trade already supports more than six million U.S. jobs, and the return of manufacturing competitiveness to the region, as well as the robust growth of the Mexican economy, presents an opportunity to significantly increase export supported employment should steps be taken to support further advances in North American competitiveness.[8] The amazing thing is that this recent boom in bilateral trade has occurred without a strategy. Imagine what could be achieved if the governments of the United States and Mexico—ideally in conjunction with Canada—designed and implemented a comprehensive plan to improve the competitiveness of our region in the global marketplace.

A Regional Competitiveness Agenda

To cash in on the trends bringing competitiveness back to North America in a way that significantly boosts economic growth and job creation, significant policy action is needed by both the United States and Mexico. At the domestic level, each country must work through its own complex political landscape to press through key reforms, including but not limited to education and fiscal reform in both nations; competition, rule of law and energy in Mexico; and a revamp of the U.S. immigration system so that it attracts and retains the world's top talent. The opportunities for U.S.-Mexico collaboration outlined below go hand in hand with these domestic efforts, supporting regional manufacturers and service providers so they can successfully compete in domestic and international markets. Taken together, they have the potential to truly revitalize the regional economy.

[8] Christopher Wilson, *Working Together: Economic Ties Between the United States and Mexico*, Washington, DC: Woodrow Wilson International Center for Scholars, November 2011.

Strengthening Competitiveness through Integration

The first step to improving regional competitiveness is freeing up the flow of trade within the region. As the central architecture of North American economic relations, NAFTA has spurred huge growth in regional trade and investment. Unfortunately, even as bilateral trade skyrocketed, the United States and Mexico did not make the infrastructure investments or policy advances needed to efficiently move what now amounts to more than a billion dollars' worth of goods back and forth across the U.S. Mexico border each day.

Since the U.S. and Mexico build products together, materials and parts that are used as inputs for production often zig-zag back and forth across the border several times as a product is being made. This means that the bottom line of regional manufacturers is negatively impacted in a magnified way by any inefficiency in moving goods between the two countries. The section of this report on border management describes the challenges and solutions in greater detail, but, in short, the advances in border security made after the terrorist attacks of 9/11 came at a price. Long and unpredictable wait times now chip away at the competitiveness of the region. Thankfully, an innovative set of border management concepts, endorsed by the presidents of the United States and Mexico in the **21st Century Border** initiative in 2010, has the potential to simultaneously strengthen security and efficiency. Some important advances on the implementation of those concepts have been achieved, but the lines at the border remain long and there is much work to do.

In addition to physical security at the border, other important issues also create friction add extra costs to regional manufacturers as they trade within the NAFTA region. Importers and exporters must meet onerous **customs** paperwork obligations to access the preferential tariff rates of NAFTA, but thankfully there are at least two main strategies available to mitigate the burden. First are **single-window** systems, which provide a single electronic platform where importers and exporters can input all of the needed information and documentation regarding a shipment. This streamlines the process by avoiding often redundant interactions between the shipper and the many government agencies involved in clearing a shipment, and the electronic platforms in place in Mexico and the United States should be fully developed for both imports and exports.[9] The second strategy is the implementation of a **common external tariff**, in this case a common tariff charged to any non-NAFTA country as the goods enter North America, which would eliminate the need for rules of origin and the related paperwork. There are more political and technical challenges to this proposal, but the benefits could be significant. Perhaps a product-by-product approach would be the most feasible, creating common tariffs first on goods in which the most-favored-nation tariff among the NAFTA countries is already very close.[10]

To further facilitate the efficiency of regional manufacturers, efforts should be made to **harmonize U.S., Mexican and Canadian regulations** and safety standards. Right now, companies often need to maintain separate product lines for each of their North American markets, adding to manufacturing costs. The

[9] In the United States, the single-window system is known as the Automated Commercial Environment (ACE) and has slowly added functionality since its debut in 2003. For more information see: http://www.cbp.gov/linkhandler/cgov/trade/automated/modernization/ace/ace_timeline.ctt/ace_timeline.pdf. In Mexico, the Ventanilla Unica de Comercio Exterior Mexicana (VUCEM) began operation in 2012. For more information see: http://www.naftamexico.net/wp-content/uploads/2012/08/jul12.pdf.

[10] Gary Hufbauer and Jeffrey Schott, NAFTA Revisited: Achievements and Challenges, 2005, Washington, DC: Institute for International Economics, October 2005, 473-476.

U.S.-Mexico High Level Regulatory Cooperation Council and the U.S.-Canada Regulatory Cooperation Council are working on some of these issues, but the efforts are not very ambitious. Instead of having two nearly identical commissions working on a dual-bilateral basis, they could achieve greater cost reductions by uniting in a NAFTA-wide effort. Additionally, a plan should be devised regarding how to extend or, better yet, institutionalize regulatory cooperation mechanisms beyond their current two-year term. An approach that encourages regulatory bodies in each country to regularly consult with one another as they design future regulations, a preventative rather than reactionary approach, may offer the most long-term benefits.

In addition to facilitating the flow and trade of goods, an effort should be made **to liberalize the exchange of services**, which currently represent only a small share of bilateral trade (eight percent) but make up the lion's share of both the U.S. (79 percent) and Mexican (61 percent) economies.[11] **Transportation** and **healthcare** are areas particularly ripe for advance, and an open skies agreement, which would allow U.S. and Mexican customer airlines and cargo flights greater access to routes including stops in the other country, would be a good place to start. The current pilot program to allow trucks access to deliver goods throughout Mexico and the United States without unloading and reloading at the border should also be expanded and made permanent. Similarly, at a time when the population is aging and healthcare costs are rising in the U.S., it makes sense to open the market to Mexican health service providers, allowing U.S. residents the option to use their Medicare or insurance to seek lower-cost treatment at authorized hospitals and clinics in Mexico.

The United States and Mexico are among the most open economies in the world, having integrated their manufacturing sectors through NAFTA and having negotiated trade agreements granting preferential access to a combined fifty-plus nations and two-thirds of global GDP. This presents a tremendous opportunity for the sale of jointly produced exports and **cooperation on global trade** issues to ensure North American products receive fair treatment around the world. Whether in the **Trans-Pacific Partnership** (TPP), a trade agreement being negotiated by 11 Pacific Rim countries, or other initiatives, the United States, Mexico and Canada could improve their chances of successfully completing mutually beneficial trade deals by negotiating and working to implement them as a bloc, recognizing that each countries shares in the advantages of a competitive North America. Though the TPP is the next step, it should be understood in the context of a broader strategy to drive progress on the global trade agenda. If the current parties successfully negotiate a comprehensive, 21st Century trade agreement linking the world's largest economic region (North America) to its most dynamic (Asia-Pacific), China may decide it has more to gain by joining in than by sitting out, which would in turn create a strong incentive for long-stalled progress at the World Trade Organization, strengthening the competitiveness of regional exports.

Improving policy requires surmounting political opposition. Past advances in U.S.-Mexico economic relations such as the passage of NAFTA were won not only by the political leadership in both countries, but also by the coalition of business groups and other non-government actors. The business communities of the United States and Mexico are natural allies for any effort to implement the type of competitiveness enhancing policies described above, but the networks forged during the passage of NAFTA virtually

[11] Trade figure: author's calculation with data from U.S. Census Bureau, 2012. Services as portion of GDP: World Bank, Data Bank, 2012.

disappeared. Efforts should be made to **strengthen the networks of U.S. and Mexican businesses and civil society groups** working to support a positive and productive U.S.-Mexico partnership.

Looking Forward

In the end it is about vision. Popular opinion on NAFTA and free trade is still mired in the same tired debates of twenty years ago. Modern day refrains of Ross Perot's "giant sucking sound" still echo. Opponents of trade agreements still measure job loss by subtracting imports from exports, while free traders still retort that a bigger trade pie means more to eat for everyone. The debates are the same, but the world is not. Globalization has changed the very nature of trade, and if our perception does not catch up with reality, there is little doubt that we will be caught with a strategy from yesterday in the world of tomorrow, and one of the best opportunities to reinvigorate the region may be squandered. If instead, the United States, Mexico, and Canada see themselves as the partners that they are, and capitalize on the major advances underway in manufacturing and energy by pursuing a robust agenda to cooperatively strengthen the competiveness of the region, then the likelihood is strong that North America will continue to be among the most dynamic and wealthy in the world.

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The Future of U.S.-Mexico Security Collaboration

By Eric L. Olson

Key Recommendations for Mexico

- Develop stronger internal control mechanisms within law enforcement agencies to investigate corruption.
- Accelerate judicial reform by ensuring all states and the federal government adopt criminal procedure reform and by supporting state implementation of the new adversarial system.
- Create specific avenues for citizen oversight and participation—such as "citizen observatories" that gather and report on crime data and "oversight boards" with citizens and government officials—in order to help restore public confidence in government and especially law enforcement.
- Focus law enforcement efforts and social investments on the most violent areas to achieve significant and measurable results, thereby demonstrating the state's capacity to effectively coordinate and target crime.

Key Recommendations for the United States

- Demonstrate a long-term commitment to supporting institutional reform— especially criminal procedure reform and police modernization. While the amount of U.S. assistance is relatively small compared to what Mexico is spending, U.S. support and cooperation send a signal about their importance.
- The U.S. needs to make significant progress on the domestic policy front to demonstrate the seriousness with which it takes the policy of *shared responsibility*. It can do so by **reducing illegal drug consumption and disrupting money laundering and firearms trafficking**. Failure to make progress on these fronts would send a signal to partners in Mexico and the region that the U.S. expects them to assume all the costs of stopping the illegal drug trade.

As President Obama begins his second term he is met by a new president and partner in Mexico, Enrique Peña Nieto, elected in July and inaugurated in December 2012. Faced with elevated rates of violence and challenges to local governability in important areas of the country, Peña Nieto has committed himself to continue fighting organized crime and drug traffickers in cooperation with the United States and within the framework of "shared responsibility" pursued by his predecessor, Felipe Calderón. But he has also been critical of Calderón's aggressive anti-crime strategy for failing to stop the soaring violence. In its place, Peña Nieto has begun to redefine the country's security strategy to ***reduce violence*** and ***re-balance*** the relationship with the United States so that it includes a greater focus on bi-national and global trade and energy in addition to continued security cooperation. The broad parameters of Mexico's new security strategy are just emerging, and it will be up to the Obama Administration to decide how it wishes to engage the Mexican government on this new approach. Whatever modifications in strategy Peña Nieto pursues, U.S.-Mexico security cooperation is likely to continue within the framework of ***shared responsibility*** that characterized the relationship for the past six years.

Whatever modifications in strategy Peña Nieto pursues, U.S.-Mexico security cooperation is likely to continue within the framework of shared responsibility.

The Context:

There is little question that Mexico faced major security challenges from drug traffickers and organized crime during the six years of the Calderón Administration (2006-2012). During this period violence soared dramatically with local, state and federal authorities often unable to bring these threats under control.

In this context, President Calderón took two decisions that significantly changed Mexico's security policy and security cooperation with the United States. Even before his inauguration he began to map out a plan to confront drug traffickers and organized crime groups that were destabilizing important regions of the country. In this way, Calderón committed his government to a full frontal assault against criminal groups, making it a top priority throughout his administration.

To assist with this strategy, Calderón proactively sought the participation of the United States and committed his government to work more closely with the United States to combat organized crime. Calderón's initiative was unprecedented and controversial domestically since it pushed beyond the traditional nationalism that resisted engagement with the United States on security matters, but he succeeded in large part because of the gravity of the security situation and growing public outcry for action and because collaboration with the United States was built on the principles of *shared responsibility*.[1] Fundamental to this approach was the conviction that Mexico and the United States

[1] The principles of *shared responsibility* were first announced in 2007 after a presidential meeting in Merida, Yucatan and later embodied in the Bush administration's budget request to the U.S. Congress for what became known as the ***Merida Initiative***.

needed to work together collaboratively, rather than separately, to confront criminal organizations operating in both countries. As such, Calderón signaled his willingness to significantly expand cooperation to include a larger U.S. security presence in Mexico, expanded use of extraditions for high valued targets, and unprecedented information and intelligence sharing to fight drug trafficking. The U.S. was an eager partner.

The framework of *shared responsibility* also placed important symbolic and practical demands on the United States. Symbolically, many Mexicans, and, indeed, people throughout the region, were pleased by the public acknowledgements of top U.S. officials, including Presidents Bush and Obama, that the escalating violence and power of drug traffickers in Mexico is a by-product of illegal drug consumption in the U.S. and that illegal drug use generated significant dirty money and firearms for traffickers that further exacerbated the violence in Mexico. The U.S. had traditionally pressured Latin American countries to take an increasingly aggressive approach against drug traffickers without acknowledging that the U.S. market was the main catalyst for the drug trade. By publically acknowledging that illegal drug trafficking was not just a problem for Mexico to address but one in which U.S. consumption, money and firearms played a major role, Calderón was able to place the security challenges in a bi-national context.

The practical implications of *shared responsibility* resulted in a Bush administration proposal for a three-year $1.4 billion assistance program to support the Calderón security agenda. Known as the Merida Initiative, the program initially focused on providing the equipment and technology needed by Mexican security forces to carry out their mission of confronting organized crime. It also opened the door to a new era of closer collaboration through information and intelligence-sharing between U.S. and Mexican law enforcement and intelligence agencies, as well as expanded interaction between the militaries of both countries.

A new strategy within an existing framework

As is often the case with new governments, the Peña Nieto government seeks to put its own stamp on existing policies rather than merely continuing what came before. This happened in the transition between Presidents Bush and Obama as well. Bush's original Merida Initiative program was recalibrated by the Obama team to focus on four priority "pillars," but the framework of *shared responsibility* continued.[2] For the Obama administration, deepening and expanding close cooperation with Mexico was a priority, but they refocused the strategy to support the strengthening of Mexico's law enforcement institutions, especially police and prosecutors, and added priorities to modernize the U.S.-Mexico border and build "resilient communities" through targeted social investment.

Similarly, the Peña Nieto government is seeking to reframe Mexico's security strategy while maintaining the *shared responsibility* framework with the United States. Thus far, two overarching themes appear to be at the heart of Peña Nieto's strategy. First, a focus on reducing the violence that characterized the six years of his predecessor. During President Calderón's tenure, an estimated 79,000 people were murdered

[2] The "four pillars" of the Obama administration's strategy included 1) dismantling criminal networks; 2) strengthening institutional capacities of law enforcement; 3) building a 21st Century Border; and 4) investing in resilient communities.

in Mexico, roughly 60,000 of these in drug-related violence, with an additional 20,000 reportedly "disappeared."

While the Calderón Administration understood this to be an intolerable toll for Mexico, it also argued that a majority of the killings involved criminals killing criminals. Additionally, it maintained that its policy of confrontation was necessary and the resulting increases in criminal violence, while never acceptable, may reflect the success of the strategy as criminal groups became increasingly desperate in light of government action. But the levels of violence were so extreme[3] and gruesome that the violence itself became an important element in the public debate and the presidential campaigns of 2012. Many argued that the Calderón strategy of confronting organized crime had simply increased violence without restoring public security. The public increasingly demanded an end to the violence and justice for innocent victims. In this context, Peña Nieto campaigned with a promise to reduce violence and protect citizens so that they could return to their normal lives.

How this is to be accomplished is still only partially understood, but the strategy will likely focus on crimes that affect citizens most directly such as kidnapping and extortion, which are generally more violent than other crimes. Specialized anti-kidnapping and anti-extortion units, along with the formation

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of a 10,000-strong federal gendarmerie, are at the core of this strategy. But the "violence reduction" strategy has also opened many questions for Mexicans and U.S. partners who wish to continue the policy of confrontation as a priority in bilateral anti-trafficking relations.

A second common theme in Peña Nieto's emerging strategy is increased policy coordination on security matters. This emphasis was evident when the president announced his new security strategy on January 12, 2013. The strategy included the following six specific areas of government action:

- better government planning that would result in a reduction in violence and clear, measurable results;
- increases in crime prevention programs and social investments to give young people alternatives to crime;
- a commitment to protect human rights;
- improved inter-governmental coordination among federal agencies and between federal, state and municipal governments;
- continuation of institutional reform and strengthening efforts; and,
- continuous evaluation of government programs for effectiveness with adjustments made based on these evaluations.

[3] More people (10,000) were killed in Ciudad Juarez, Chihuahua between 2008 and 2011 than in all of Afghanistan during the same period.

In addition to the six points, México's president emphasized the need for a "state" security policy that goes beyond the partisanship and political gamesmanship that hampered security reforms and initiatives in the past. He called on all political parties to work together in an integrated fashion to support a common national policy on security that transcends the political divisions that have undermined previous reforms.

Peña Nieto's emerging security strategy

A violence reduction strategy: Peña Nieto's emphasis on *violence reduction* has resonated with a Mexican public overwhelmed and terrorized by the violence, but it has also generated concern and questions among critics in the United States and Mexico. Most of these concerns focus on the potential risks of such a strategy. Does a *violence reduction* strategy mean the Mexican government will no longer prioritize confrontation with organized crime and drug lords? If so, will the government seek to reach an accommodation with organized crime, either tacitly or explicitly, whereby criminal activity is tolerated in exchange for a reduction of violence? Finally, from the perspective of some in the U.S., will the new strategy prioritize fighting local crimes such as kidnapping and extortion at the expense of pursuing transnational organized crime devoted to trafficking cocaine, human smuggling or human trafficking?

In this context, it will be important for the Peña Nieto government to move quickly to define in a clear and transparent way what it means by a *violence reduction* strategy. There are legitimate and logical reasons for adopting such a strategy as a starting point. For instance, significantly reducing homicide rates and the most gruesome forms of violence that have paralyzed entire cities and, at times, the nation, and contributed to enormous distrust between citizens and the government could be a positive first step toward restoring the public's confidence in government and re-establishing state authority in hard hit areas. If successful, these could lead to renewed citizen involvement in public security efforts, including increased reporting of crimes.[4] But if violence reduction simply means protecting citizens from violence while criminal groups continue undisturbed it will not garner much public or international support. For now, the emerging Peña Nieto strategy appears to center on greater federal-local coordination to target kidnapping and extortion rings and other violent local crime.

Rebalancing the U.S.-Mexico relationship: President Peña Nieto has spoken of his desire to broaden Mexico's agenda with the U.S. to include multiple issues such as improving trade and promoting energy cooperation. In truth, U.S.-Mexico relations have always been broad and complex, but there is little doubt that security issues were dominate over the past decade. This reflects post-9/11 security concerns in the United States that translated into greater emphasis on border security and perceived threats from potential terrorists and undocumented border crossers, but it also reflects the priority the Calderón government placed on drug trafficking. These factors and the exploding violence in Mexico resulted in security becoming the most frequently-reported topic in the U.S. media and a major concern among U.S. policy makers.

[4] National victimization surveys suggest that roughly 25% of all crimes are reported. Respondents suggest that distrust of the criminal justice system and inefficiency are at the root of most of the under-reporting.

Against this backdrop, Peña Nieto has declared his intention to re-calibrate the relationship so that security is not the predominate issue, but rather one priority among others. The question then becomes whether in elevating the importance of trade and energy issues in the bi-national agenda security concerns move to the back burner and do not receive the kind of high-level attention and scrutiny they did in the previous administration.

Mexico's military, police and gendarmerie: A hallmark of the Calderón government's security policy was the mass mobilization of the military – up to 55,000 troops at one point. Additionally, Calderón's government invested heavily in creating a more modern and professional federal police force, with significant U.S. support.

As a presidential candidate, Peña Nieto indicated he may consider changing the military's role in combating organized crime and engaging in public security operations. Additionally, he discussed the idea of creating a national gendarmerie of up to 60,000 members to complement some of the public security responsibilities of the military.

Nevertheless, since becoming president these ideas have begun to evolve. First, there is no indication that he will withdraw the military from public security functions. They may be used in a more limited fashion, with fewer mass mobilizations and more targeted operations, but they will continue to play a role. Additionally, the discussed gendarmerie is now slated to become a force of 10,000 with a focus on supporting other law enforcement forces especially in areas where local crime-fighting capacity is weakest. The smaller force size and limited mandate most likely reflect the reality that identifying, vetting, training, and effectively deploying a new force of 60,000 is an enormous task that could take years to complete and will have limited capacity to effectively reduce violence in a reasonable timeframe.

The Emerging Importance of the *Secretaría de Gobernación*

Probably the most dramatic decision taken by Peña Nieto to date was the dissolution of the Public Security Secretariat as an independent ministry and the incorporation of the Federal Police within the Secretaría de Gobernación (SEGOB- Interior or Internal Affairs Ministry).[5] According to administration statements, the goal is to create greater policy and operational coordination within the government by bringing under one roof a number of agencies and law enforcement forces. Whether such a concentration of functions results in better policy coordination, simply more bureaucratic opaqueness, or both, is open to question, but this has been the government's most significant institutional change since taking office.

SEGOB has also become more central by returning to its traditional role of cabinet coordinator and the government's main vehicle for coordination between federal, state, and local authorities. An oft heard criticism of the Calderón government and security strategy is that coordination among federal agencies was inefficient and held hostage to competing institutional and personal rivalries. Furthermore, while the past two PAN governments (Fox and Calderón) pursued a policy of decentralization, allowing states and governors to assume more responsibility for a multiplicity of issues including public security, Peña Nieto's strategy appears to favor more direct action and coordination on security matters from the federal government to the states and municipalities.

[5] This represents a return to previous institutional arrangements under ruling-party (PRI) governments before they lost power in 2000.

Strategic Priorities and Policy Options Going Forward

In addition to the many challenges outlined above, there are a number of essential and pressing issues that both Mexico and the United States need to address going forward. Some of these have been raised before in government declarations, but *action that is focused and measurable is urgently needed in the following areas*:

Corruption, State Capture, and Criminal Penetration of Government:

Progress was made, albeit insufficient, in tackling corruption in government during the Calderón years. Transparency laws were strengthened, the federal government did a better job of vetting prospective police, and public scrutiny of government increased. Nevertheless, there is much still to be done, and it will be important for the Peña Nieto government to seize the opportunity to further this agenda. Thus far, the Peña Nieto administration has made some important early proposals for reforming and further strengthening the federal access to information law and reforming the government's oversight mechanism, but additional actions are urgently needed.

A starting point would be to commit to developing stronger internal control mechanisms within law enforcement agencies that can proactively investigate internal corruption. These internal affairs mechanisms are currently ineffective and do little to fight corruption. Such actions would complement the improved vetting instituted under Calderón but would ensure the federal and state governments do not rely on vetting and mass dismissals as their primary tools to combat corruption. Likewise, building stronger mechanisms for public oversight of law enforcement through independent citizen bodies is essential. Finally, strengthening and expanding joint operations among multiple federal and local agencies along with citizen participation creates an environment in which inter-agency oversight is possible and corruption becomes more difficult.

Accelerating Judicial Reform: One of the more significant developments during the Calderón years was the adoption of constitutional reforms to transform the country's criminal justice system. At the heart of these complex reforms is the creation of an adversarial justice system based on the presumption of innocence for the accused, which involves public and oral trials and requires the state to present evidence to an impartial judge that can be challenged by a defense attorney. Building an effective, trustworthy, and efficient criminal justice system can contribute to ending the impunity enjoyed by the vast majority of criminals, help restore public confidence in government action, and hold public authorities accountable for their actions or inaction.

While the Calderón administration took the initiative to pursue these constitutional reforms, implementation has lagged behind. A majority of states have passed reform laws but there is no federal reform law and less than half the states have even implemented the new codes. The Peña Nieto administration should recapture the initiative on criminal justice reform and ensure that the states still needing to adopt criminal procedure reform and implement the new adversarial system receive adequate support and leadership from the federal government, and the federal government itself should pass and implement federal criminal procedure reform.

Civic Participation: Nearly 75% of crimes go unreported in Mexico. Citizens often express their reluctance to report crime believing it is a waste of time, useless, or possibly dangerous. Not surprisingly, many surveys also find very little public trust in the police or prosecutors at the heart of the criminal justice system. These indicators suggest that citizen cooperation in fighting crime, considered a critical factor in most countries, is largely non-existent in Mexico. Conversely, in some limited cases, such as Ciudad Juarez and Monterrey, citizen participation in crime-fighting has proven to be an important factor reducing violence.

Restoring public confidence in government and especially law enforcement will require specific strategies such as a more effective criminal justice system, more transparency and accountability for law enforcement, and specific avenues for citizen oversight and participation. Autonomous tip lines and 911-type phone numbers can be useful to encourage crime reporting, but a broader systematic approach to encourage civic engagement in crime fighting is also needed. The formation of "citizen observatories" that gather and report on crime data, and "oversight boards" with independent citizen representation along with government officials, can be effective avenues for encouraging citizen participation and restoring trust.

Targeted law enforcement and social investments—A territorial approach: Tackling Mexico's myriad security challenges all at once can be costly and ultimately ineffective. A generalized get-tough approach to crime fighting can lead to a reactive approach—simply chasing after criminals. Conversely, focused law enforcement and social investments in the most violent neighborhoods can be more effective and demonstrate the state's capacity to effectively coordinate and target crime.

Focused law enforcement and social investments in the most violent neighborhoods can demonstrate the state's capacity to effectively coordinate and target crime.

The Peña Nieto intention to reduce violence and improve inter-governmental coordination can be successful if it also includes careful targeting of those areas hardest hit by criminal violence. A carefully targeted approach in which specific cities and territories are identified for action and where all levels of government work together with citizens to re-establish control may be the best way of slowly but consistently restoring order, isolating criminal gangs, and winning back the public's support and cooperation.

For the United States: A long-term commitment to supporting institutional reform in Mexico; reducing illegal drug consumption and disrupting firearms trafficking and money laundering at home. While Mexico's security strategy is still being fine-tuned by the new administration U.S.-Mexico security relations appear to be stable and strong. Numerous working meetings have already taken place, both with the Peña Nieto transition team and since Peña Nieto's inauguration. The framework of cooperation that characterized the last six years appears intact.

As the relationship is solidified there are two specific areas where U.S. action could be most useful. First, continuity in funding for institutional reform and capacity building, especially for criminal procedure and police reform and modernization, is vitally important. While the amount of U.S. assistance is relatively small compared to what Mexico is spending, U.S. support and cooperation send a signal about their importance and may contribute to ensuring the reform agenda continues and is fully implemented.

Finally, the U.S. needs to make significant progress on the domestic policy front to demonstrate the seriousness with which it takes the policy of *shared responsibility*. Reducing illegal drug consumption and disrupting money laundering and firearms trafficking are enormous challenges, but failure to make progress on these fronts would send a signal to partners in Mexico and the region that the U.S. expects them to assume all the costs of stopping the illegal drug trade. Mexico faces enormous political and societal challenges as a result of the violence resulting from international trafficking and organized crime, so it is important for the U.S. to demonstrate similar courage in tackling such difficult issues as firearms trafficking and reducing drug consumption at home.

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Concluding thoughts

Amidst the devastating violence and insecurity that gripped Mexico the past six years, there is some good news –the U.S. and Mexico are working together to find solutions. The framework of collaboration and cooperation on security matters is intact and will likely continue as Presidents Obama and Peña Nieto become acquainted and new strategies are mapped out. What is urgently needed now is a strategy that addresses the underlying factors giving rise to the violence—demand for drugs that generate enormous illicit revenues that, in turn, have a powerfully corrupting influence in both countries. Additionally, ready and easy access to firearms in the United States, weak law enforcement and widespread impunity in Mexico, as well as social and economic despair in specific areas of the country are all important contributing factors. These challenges require a long-term approach while not ignoring the immediate challenges posed by soaring crime and violence. Mexicans need to feel that their government is aware of their plight and moving quickly to address it. Reducing the influence and harms caused by organized crime and illegal drugs in both countries should become the primary focus going forward. Adopting a strategy focused on specific troubled areas, involving multiple government agencies—law enforcement and social ministries; and strengthening local participation in designing and implementing the strategy may be a way forward. Ultimately, both countries will be served best if the efforts are undertaken in collaboration and if Mexico develops the capacity to significantly reduce the threats posed by organized crime and violence.

Facing the Future: The Changing Dynamics of U.S.-Mexico Migration

By Miguel R. Salazar and Andrew Selee

Key Recommendations

- The U.S. would do well to make every effort to grant legal status to those migrants who were brought to the U.S. as children and for whom the U.S. is their home.
- The U.S. needs to consider drastic overhauls to its legal immigration system and explore ways of reclassifying and expanding skills-based admission to ensure that supply for workers at different skill levels exists. The U.S. should also allow for preferential visas for graduates of STEM programs. The U.S. could consider alternative methods of regularizing the status of the estimated eleven million unauthorized immigrants living in the country through staggered visa processes or work authorizations with longer timetables for access to citizenship. The U.S. government could create an independent commission to assess economic needs and set visa levels taking into account the long-term strategic interests of the U.S.
- Mexico and the U.S. should begin to discuss the implementation of a major legal immigration reform. In the U.S. and Mexico, officials might look at what governments would need to do to support these efforts and make them a reality.
- The U.S. would be well served to prioritize deportation of those who pose a threat to the safety and security of the population and further invest in the ability for employers to easily and accurately verify the authorization to work of their potential employees.
- The deportation of immigrants with felony records to the interior of Mexico can mitigate the negative effects of deportation on border communities and should be continued. Mechanisms for

notifying Mexican state governments about the deportation of immigrants with felony records would also help.

- Much more can be done to increase regional partnerships among the Mexican and Central American governments to address migration flows and protect migrants. Prioritizing intelligence sharing and law enforcement cooperation against human smugglers and those preying on immigrants is a good place to start.

- Mexico (and Central America) can prioritize education and employment training programs that meet labor market needs, especially by increasing opportunities to learn English. The U.S. government can support these efforts in limited but effective ways through the work of USAID, the Peace Corps, and other existing mechanisms.

- Mexico could explore ways of helping migrants bank their remittances more effectively to promote local development. Promoting rural credit unions may be one alternative. Developing coordinated programs that encourage migrants to start or scale-up businesses in their communities of origin by providing credit and technical support can yield major results in communities that have few other job opportunities. Remittances and skill development programs for returning migrants boast an ample opportunity to capitalize on financial resources and acquired skills. Support for these programs and those migrants interested in promoting start-ups should be encouraged through creative credit, training, and marketing support.

Migration remains one of the most important features and greatest tensions in the U.S.-Mexico relationship, but beyond political rhetoric, it plays a comparatively smaller part on the policy agenda between the two countries. However, the landscape of migration issues has changed significantly, and this suggests that there may be greater opportunities now than ever before to take proactive policy steps to deal with migration flows. Unauthorized migration from Mexico is down to historically low levels, and signs indicate that this may represent an important structural shift. At the same time, immigration reform has returned as an important policy goal of leaders in both major U.S. political parties.

To respond to this new reality, there are steps that policymakers in the two countries can take to ensure a more regular and predictable flow of migrants in the current legal environment, and there are policy options that could help provide the conditions for a better solution to manage migration flows. Many of these steps will have to be taken by leaders in one country or the other, but some lend themselves to binational cooperation. After a brief review of the changing circumstances of migration, we look at three areas where steps forward are possible: enforcement regimes; human capital development, remittances, and investments in quality of life; and reforms to existing immigration laws and their possible consequences for bilateral cooperation.

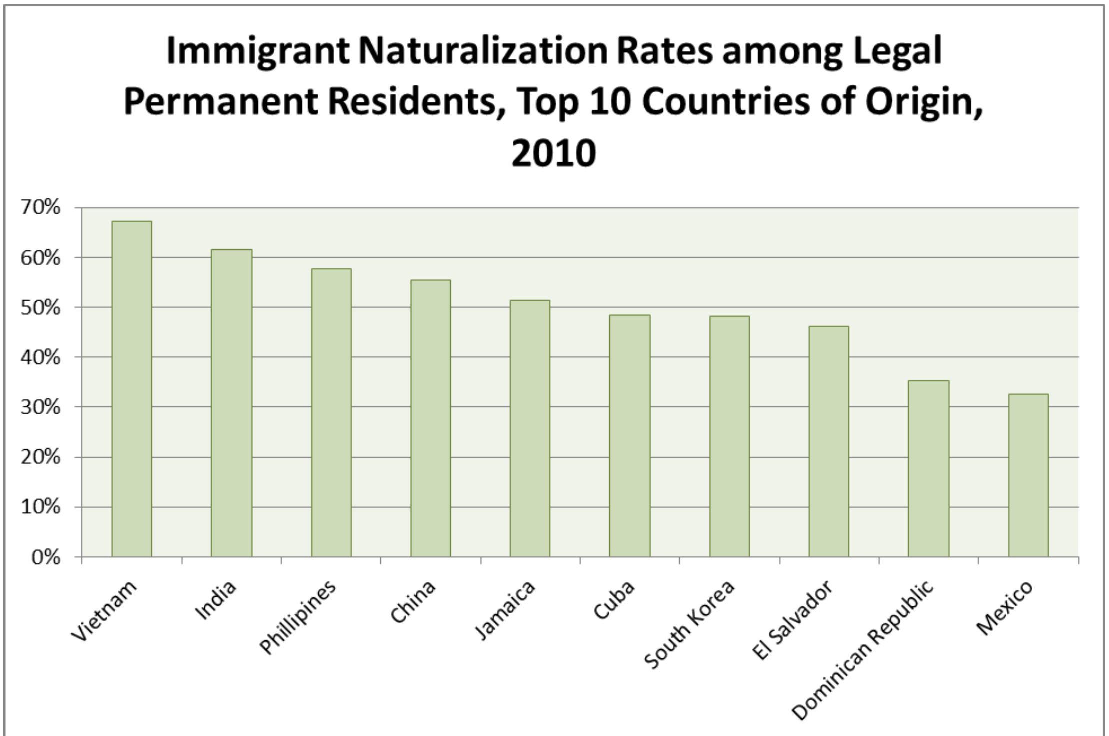
According to a Fiscal Policy Institute report, migrants make up about 18% or roughly 1 in 6 small business owners even though they account for 13% of the population. Mexicans account for the largest group of small business owners according to the report.

Changing Demographic Statistics: The U.S. has a long history of attracting immigrants in search of opportunity, family reunification, and protection from oppression abroad. The country is currently facing an era of changing demographics as population growth rates have begun to decline and society continues to age. Migrants can serve a strategic interest for the U.S., helping keep population numbers level, supplying workforce needs, and ensuring the solvency of entitlement programs. Census figures from 2010 show that the population 65 years and older grew at a rate of 15.1 percent between 2000 and 2010, outpacing total population growth rates for the same period. A recent Pew Research report states that U.S. birth rates are at their lowest since 1920. Even among foreign born women, birth rates dropped 14 percent between 2007 and 2010, while there was a 23 percent decrease among Mexican immigrant women. [1]

Migrants also offer the U.S. a competitive pool of talented innovators and entrepreneurs with the potential to generate economic growth. According to a Fiscal Policy Institute report, migrants make up about 18 percent of, or roughly one in six, small business owners even though they account for 13 percent of the population. Mexicans account for the largest group of small business owners according to the report.[2] Immigrants are currently recovering faster from the great recession than U.S. born individuals, with rates of employment having increased 5.2 percent compared to 1.8 percent among U.S. born individuals

[1] U.S. Department of Commerce, The Older Population: 2010, , Economics and Statistics Administration. (Washington, DC: U.S. Census Bureau, 2011), 4.
[2] David Dyssegaard Kallick, Immigrant Small Business Owners: A Significant and Growing Part of the Economy, (New York, NY: Fiscal Policy Institute, 2012).

between 2009 and 2011.[3] The Hispanic community will likely play an increasing role in contributing to the United States' economic growth and demographic prosperity. In 2010, Hispanics made up the second largest group of immigrants (430,000 Asian immigrants vs. 370,000 Hispanic immigrants—Mexicans made up 140,000 of those migrants).[4]

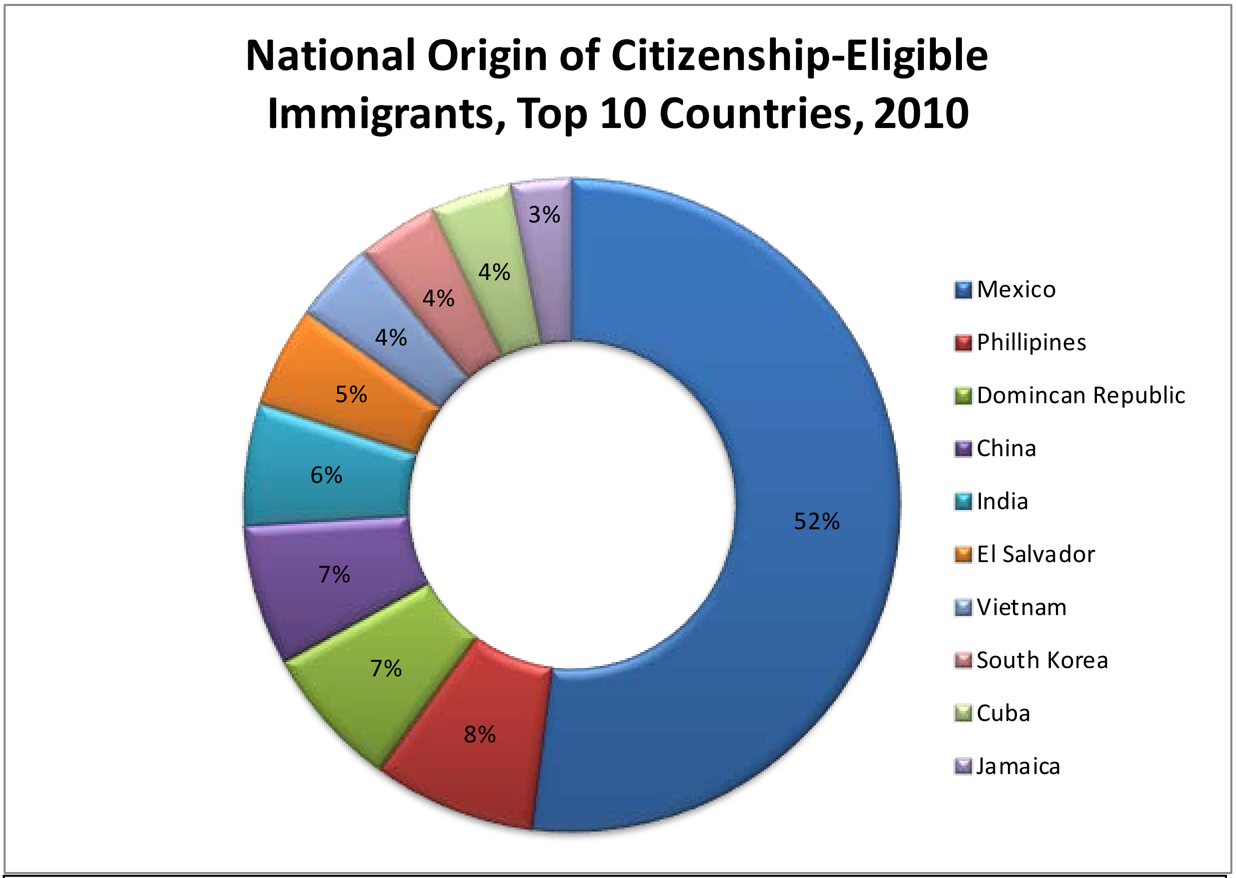


David R. Ayón, The Legal Side of Mexican Immigration (Washington, DC:, 2012).
Note: Chart based on data from the USCIS Office of Immigration Statistics.

The 2012 U.S. presidential election showed the increasing importance of the Latino electorate with Hispanics making up roughly 10 percent of the electorate.[5] Projections from the Pew Hispanic Center estimate that the Hispanic electorate will likely double by 2030, meaning those eligible to vote will number around 40 million.[6] A June 2012 Wilson Center study found that in 2010 Mexicans were the largest group of immigrants in the United States eligible to naturalize, compromising some 52 percent of this population. Although Mexico is last among the ten countries with the highest numbers of legal

[3] The George Washington University, "Face the Facts USA," Big Shift in the Immigrant Tide, http://www.facethefactsusa.org/facts/big-shift-in-the-immigrant-tide/ (accessed August, 27, 2012).
[4] Paul Taylor, et al., The Rise of Asian Americans, (Washington, DC: PewResearchCenter, Pew Social & Demographic Trends, 2012). Note: Data on Mexican migrants obtained from Jeffrey Passel, et al., Net Migration from Mexico Falls to Zero -- and Perhaps Less, (Washington, DC: PewResearchCenter, PewResearch Hispanic Center, 2012).
[5] Mark Hugo Lopez, Paul Taylor, Latino Voters in the 2012 Election, (Washington, DC: PewResearchCenter, PewResearch Hispanic Center, 2012).
[6] Paul Taylor, et al., An Awakened Giant: The Hispanic Electorate is likely to Double by 2030, (Washington, DC: PewResearchCenter, PewResearch Hispanic Center, 2012).

permanent residents eligible for naturalization, its rate of naturalization has increased dramatically.[7]



David R. Ayón, The Legal Side of Mexican Immigration (Washington, DC:, 2012). Note: Chart based on data from the USCIS Office of Immigration Statistics.

Mexico too is experiencing demographic shifts that are fundamentally altering traditional U.S.-Mexico migration dynamics. Mexico's population, much like that of the U.S., is aging, and fertility rates have dropped to roughly 2.05 children per fertile mother from an estimated 7.3 children per fertile mother in the 1960s.[8] In recent years, Mexico has experienced the growth of a substantial middle class and has benefited from declining poverty rates, increased average years of schooling, and increased access to housing credit.[9] These demographic and structural changes in Mexico, coupled with the recession and increased border security in the United States, are helping to slow the rates of migration from Mexico to the United States considerably, so much so that it probably stood at net zero in May 2012.[10] However, current data from the migration monitor suggests that northbound flows from Mexico have begun to

[7] David R. Ayón, The Legal Side of Mexican Immigration, (Washington, DC: Woodrow Wilson Center, 2012).
[8] Luis De La Calle, Luis Rubio, Mexico:A Middle Class Society, Poor No More, Developed Not Yet (Washington, DC: Woodrow Wilson Center, 2012), 22.
[9] De La Calle, Rubio, Mexico: A Middle Class, Woodrow Wilson Center.
[10] Jeffrey Passel, et al., Net Migration from Mexico Falls to Zero -- and Perhaps Less, (Washington, DC: PewResearchCenter, PewResearch Hispanic Center, 2012).

increase once more over the past few months, though they remain well below historic levels reached in the period 2000-2006, and are likely to remain low for the foreseeable future.[11]

While Mexicans will continue to migrate, and may do so in greater numbers if a strong economic recovery develops, they are unlikely to do so at the levels they once did. Recent data indicate that the next group of low skilled migrants to the United States will come from countries other than Mexico, likely those in Central America. Estimated projections by the Department of Homeland Security for 2012 place total border apprehensions at about 355,000 of which Mexicans make up about 260,000 and non-Mexicans make up 90,000 (nearly double the number of non-Mexicans in the FY11 data).[12] The majority of non-Mexican migrants originate from Central America, especially Honduras, El Salvador, and Guatemala, driven by high rates of poverty and public insecurity. Mexico will continue to be a largest source of legal entrants into the U.S. but will comprise a decreasing number of unauthorized migrants. These changes will no doubt carry many implications for Mexico, which will face a number of challenges given its geographic proximity and role as a pass-through country. The U.S. will also need to consider these fluctuations, and consider tailoring policies in the region not only towards Mexico but also towards countries in Central America. Mexico will continue to play an important role in our migration policy given the vast existing familial ties, but it will increasingly become a partner in managing migration flows from other countries and become less important as a source country.

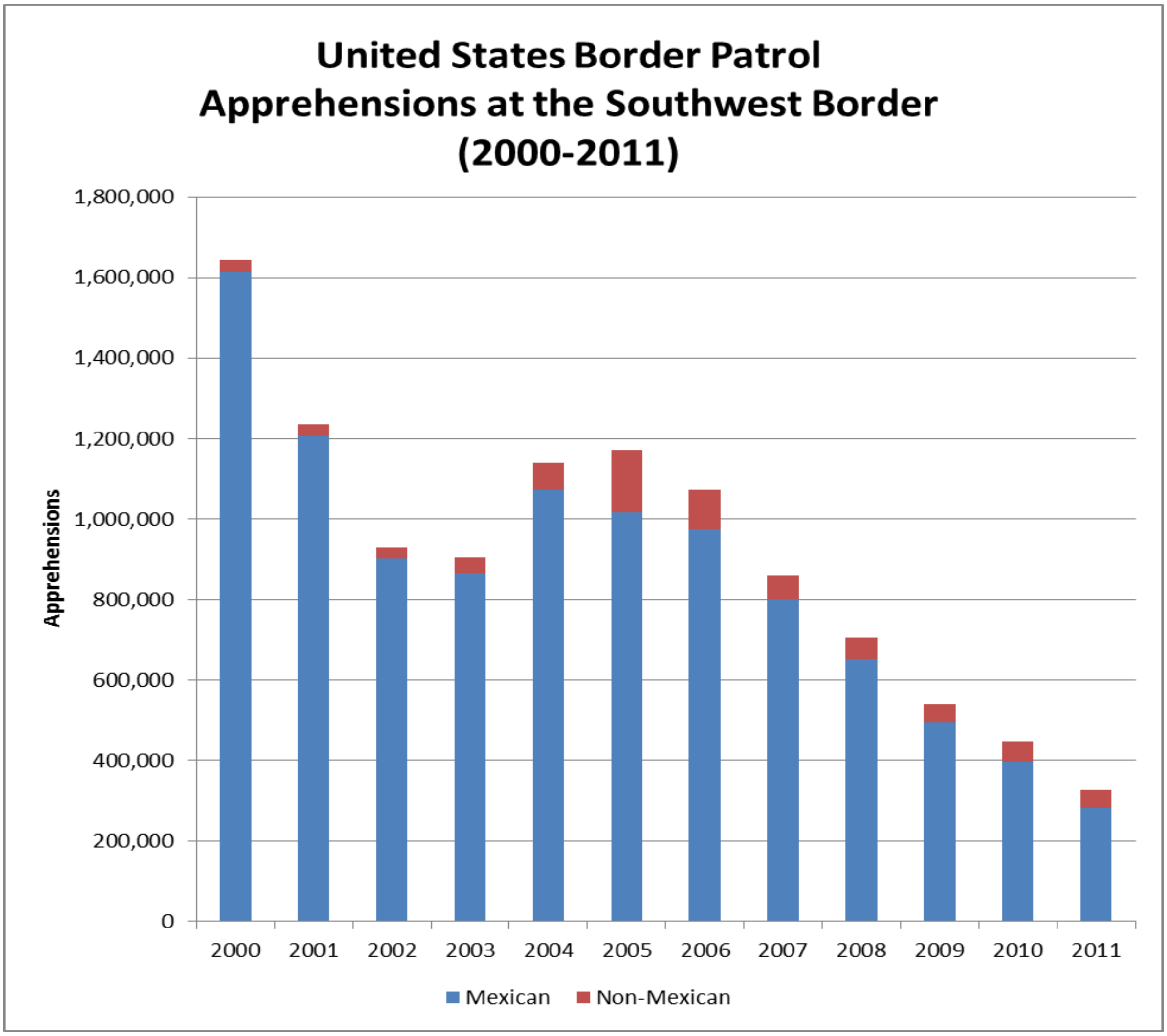
While Mexicans will continue to migrate, and may do so in greater numbers if a strong economic recovery develops, they are unlikely to be present in the numbers they once were.

Enforcement

Recent years have seen a staggering and impressive investment in border enforcement, cementing its place as the United States' most important federal criminal law enforcement priority in terms of financial and personnel resources.[13] A recent MPI report highlights this record high level of spending on law enforcement initiatives, which totaled $17.9 billion in FY 2012, more than all other criminal federal law enforcement agency spending combined.[14] While this build up has been increased in large part since 9/11, it is representative of a long term trend in increased spending for immigration enforcement initiatives in the wake of the 1986 Immigration Reform and Control Act (IRCA). These heightened levels of spending coincide with record low levels of border apprehensions in FY 2011, which numbered roughly 340,000, down from the peak in FY 2000 of 1.7 million. Data on criminal prosecutions and individuals in the detentions system show the vast structure of the existing enforcement regime. There are more individuals in the immigration detention system today than are serving sentences in federal prisons, and more than 50 percent of all federal criminal prosecutions are immigration specific.[15] It would seem that sufficient investment in infrastructure and technologies have been made to allow for a system that can adequately

[11] Collapse and Convalescence: The Great Recession and Mexican Migration Flows, (Mexican Migration Monitor).
[12] Sebastian Rotella, "The New Border: Illegal Immigration's Shifting Frontier," ProPublica, December 6, 2012.
[13] Doris Meissner, et al., Immigration Enforcement in the United States, (Washington, DC: The Migration Policy Institute, 2013).
[14] Meissner, Immigration Enforcement, 2.
[15] Meissner, Immigration Enforcement, 7.

screen individuals and react to potential threats. A GAO report notes that Border Patrol apprehensions between 2006 and 2011 were down by 68 percent. The report also presents a new method for estimating the total migrant flow ("known flow"), based on individuals apprehended, those that turned back due to fear of arrest, and those that get away. It concludes that crossing the U.S.-Mexico border illegally has grown more difficult, as evidenced by the decrease in the "known flow," which experienced an estimated 69 percent decrease between 2006 and 2011. The report also places estimates of those individuals that eluded apprehension and successfully gained entry into the U.S. at 85,000 individuals in FY 2011, dramatically down from 600,000 in 2006.[16]



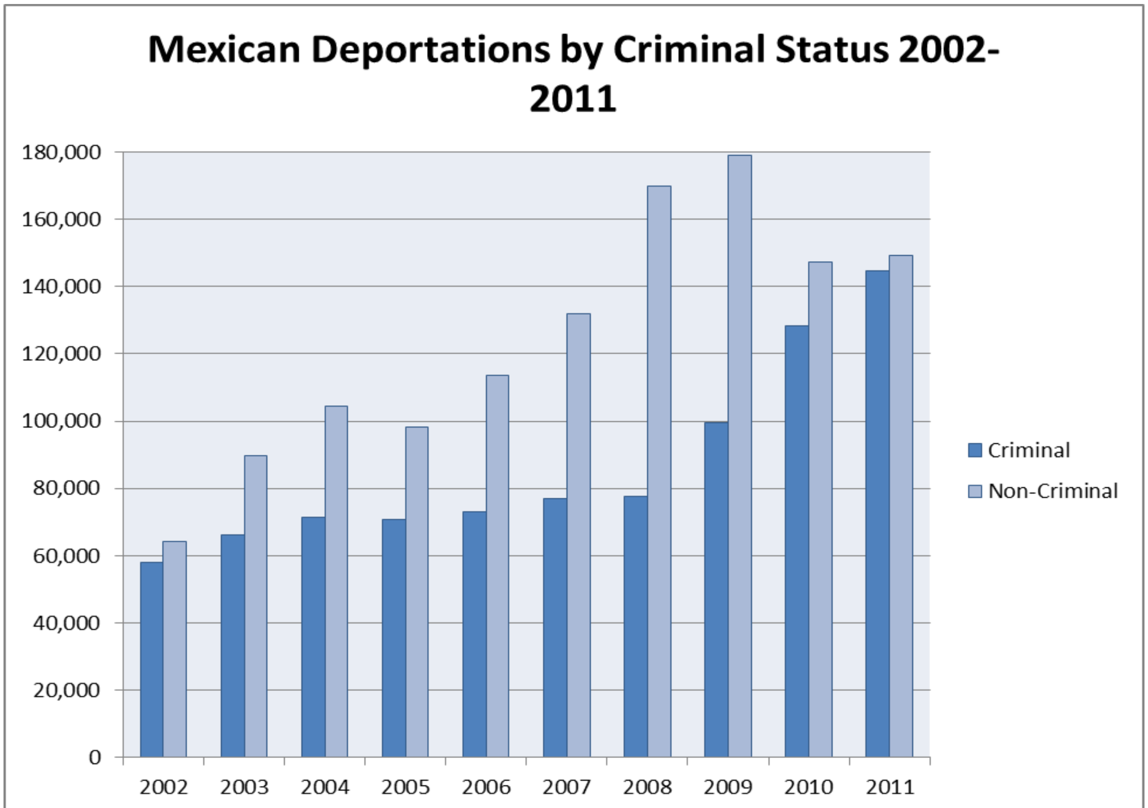
Source: United States Government Accountability Office, "Border Patrol: Key Elements of New Strategic Plan Not Yet in Place to Inform Border Security Status and Resource Needs," December 2012, http://www.gao.gov/assets/660/650730.pdf.

It is important to consider enforcement alternatives that focus less on border security, such as increased automation, information sharing and further expansion of trusted traveler programs. While the U.S. maintains a system of employee verification it is vastly underutilized. Of an estimated 7 million

[16] U.S. Government Accountability Office, Border Patrol Key Elements of New Strategic Plan Not Yet in Place to Inform Border Security Status and Resource Needs, (Washington, DC: Government Accountability Office, 2012).

employers in the U.S fewer than 10 percent are enrolled in E-Verify.[17] The Obama administration has increasingly shifted the locus of enforcement efforts away from workplace raids and in favor of workplace sanctions in an effort to increase costs for employers who seek out unauthorized workers, and this is likely to remain the focus for the foreseeable future.

Additionally, DHS has prioritized the identification, prosecution and removal of criminal aliens, although it is often the case that non-criminal migrants are adversely affected by internal removals. Programs such as 287(g) (an optional program) and Secure Communities (from which state governments cannot opt out) have helped expand the reach of federal law enforcement into state and local jurisdictions. These programs have been met with the disapproval of immigrants' rights groups who cite eroded confidence in law enforcement among other issues with the programs. In FY 2009, 179,000 non-criminal migrants were removed from the U.S. while an estimated 100,000 criminal migrants were removed in the same year. Only in recent years have DHS data begun to show a trend toward prioritizing the removal of criminal aliens, and even now only half of those migrants who are forcibly removed from the U.S. have a criminal record. In FY 2011 149,000 non-criminal migrants were removed and 145,000 criminal migrants were removed.[18] The administration appears to be shifting the priority but has so far fallen short of its stated goals of prioritizing the removal of unauthorized immigrants with criminal records.



Department of Homeland Security, 2011 Yearbook of Immigration Statistics.

[17] Meissner, Immigration Enforcement, 6.
[18] Department of Homeland Security, Immigration Enforcement Actions: 2011, (Washington, DC: Office of Immigration Statistics, Policy Directorate, 2012).

The shift towards internal removals has tended to impact migrants who have lived in the U.S. for periods of more than one year. Between 2003 and 2007, an average of 6 percent of Mexicans who were deported had lived in the U.S. for more than one year. Of those Mexicans who were removed in FY 2011, 46 percent had lived in the U.S. for more than one year.[19] Further efforts to reorient deportation policies to target criminal aliens who commit felonies and violent crimes are still needed. In addition, increased education for employers on the use of E-Verify will help root out false documentation.

While much remains to be done on the U.S. side to improve enforcement regimes, substantial opportunities exist for cooperation between the U.S. and Mexico. The changing demographics in Mexico, as well as increased rates of violence and poverty in Central America, have increased migratory flows into Mexico via its southern border. Among the many challenges that Mexico faces along its southern border is the fact that Mexico is itself a migrant sending nation. Mexico's immigration service also lacks funding and personnel, has been accused of internal corruption, and is often placed elsewhere to combat organized crime violence. The Peña Nieto administration has indicated that it may use the new Gendarmerie, in part, as a force to address organized crime violence at the northern border, serving as a counterpart for the U.S. Customs and Border Protection, and strengthen and professionalize the existing police forces of the National Institute for Migration (INM). This creates opportunities for greater intelligence sharing between the Mexican government and CBP on addressing human smuggling and organized crime activities at the border, and it may augur better opportunities for greater cooperative efforts in this area with Central American governments.

Mexico could pursue a multi-pronged strategy that combines enforcement at its southern border with cooperation with its southern neighbors, protection of migrants, and a better visa regime for those from the Central American countries who want to work in Mexico. Mexico has already issued visas to some Guatemalans who have a long history as seasonal workers in southern Mexico in order to separate out local and well-established flows of migrant workers from larger international flows. Improved communication and information sharing among civilian and military agencies active at the southern border, as well as local and municipal governments across borders will help achieve this goal. Although politically difficult, so will a professionalized border agency with increased oversight over officers and migration authorities and stricter punishments for those that violate human rights or abuse authority.

The increased use of interior deportation from the United States to Mexico for immigrants with a felony record is a positive step in the cooperation between the two countries and helps ensure that not all of these former convicts are sent to the border states. Finding ways to notify border state governments about deportees with felony records remains a pending challenge since many of these deportees have been drawn into organized crime groups either by choice or lack of other opportunities. This remains an aggravating factor in violence in border communities and one that could be more easily avoided through better coordination.

[19] Hitting Homes: The Impact of Immigration Enforcement, (Mexican Migration Monitor).

Human Capital Development

Changing demographics in Mexico and Central America have already begun to influence migration patterns to the United States, further underscoring the importance of committing resources to human capital development in the region. While levels of educational attainment and years of schooling in Mexico have risen over the years, a greater emphasis on pegging education to labor market needs should be expanded to allow Mexico access to labor that is strategically positioned to capitalize on employment opportunities.[20] The region already has models to develop clusters that bring manufacturers, educational institutions and government together to encourage development. In Baja California, pro-investment policies have helped established an aerospace industry that has led to universities expanding their engineering and technology programs.[21] Other Mexican states such as Queretaro, Chihuahua, and Jalisco are also facilitating the development of clusters in aerospace, automobile, and computer technology fields. Similarly, English language proficiency programs throughout Mexico could further develop its commerce and hospitality sectors, which represent an estimated 30 percent of employment.[22]

A greater emphasis on pegging education to labor market needs should be expanded to allow Mexico access to labor that is strategically positioned to capitalize on employment opportunities.

The nursing sector offers ample opportunities to develop pilot programs that both promote human capital development but also take migratory impulses into account. There is a niche labor need for Spanish speaking nurses in the U.S., but Mexican nurses often lack English language skills and proper accreditation to effectively break into the U.S. market. Programs that offer nurses in the region English language training and the opportunity to "study abroad" for a temporary period, before returning to their countries of origin could lead to a greater industry specific knowledge, skills and abilities.[23]

Research demonstrates that on-the-job and off-the-job technical skills, as well as social and interpersonal skills, are among the most highly transferred skills among migrants traveling from Mexico to the U.S. Mexicans also bring back on-the-job technical skills, as well as high levels of social and interpersonal and English language skills.[24] Migrants returning to Mexico often settle in areas other than where they originated. In this way their skills are transferred to regions and communities where they can best be applied. Migrants who return voluntarily to Mexico have been shown to be much more likely to pursue self-employment activities than those migrants who are deported.[25] Mexico and other countries in the

[20] Aaron Terrazas, Demetrios G. Demetriou, Marc Rosenblum, Evolving Demographic And Human Capital Trends in Mexico and Central America And Their Implications For Regional Migration, (Washington, DC: The Migration Policy Institute, 2011).
[21] Miguel R. Salazar, Innovation and Development in Mexico: The Promising Road Ahead (Washington, DC: Woodrow Wilson Center, 2012).
[22] Terrazas, Demetriou, Rosenblum, Evolving Demographic And Human Capital.
[23] Allison Squires, Hiram Beltran Sanchez, Migration Development and the Strengthening of Health Systems: A Comparative Case Study of Five Countries in the Americas, (Washington, DC: The Policy Institute, 2013).
[24] Jacqueline Maria Hagan, Forthcoming Material on "Unskilled" workers in U.S.-Mexico Migration.
[25] Hagan,Forthcoming Material on "Unskilled" workers in U.S.-Mexico Migration.

region could develop reintegration programs for returning migrants, providing access to capital, business support, and a labor pool with clerical or basic business management training.

Mexico needs to expand on its programs that allow for direct contributions to economic development. Currently, businesses started by returning migrants only receive about 3.5 percent of the total 3-1 program funding.[26]A recent pilot program in Zacatecas may point in a fruitful direction. In this case, Zacatecan migrant associations in Southern California have partnered with the state and federal governments to provide credit to match the seed capital of migrants who want to start businesses in their local communities and, through the support of an international foundation, also provided ongoing technical assistance for marketing, financial management, and other key skills needed to ensure that the businesses survive and can scale up successfully. So far the record has been highly successful and created jobs in rural areas where few successful businesses have prospered before.[27]

Migrants certainly transfer skills with them when physically crossing the border, but they also contribute significantly to national and local economies through the flow of their remittances. Recent data on monetary transfers from the U.S. to Mexico indicate that remittances have largely recovered from the great recession but are still below pre-recession levels.[28] Mexico and Central American countries have long relied on remittance flows, making them highly dependent on foreign economies and vulnerable to economic shocks. Mexico's remittances are used primarily for individual family support and are not fully banked, making them unavailable for community reinvestment. Supporting the creation of rural credit unions or community banks that employ innovative use of technology to facilitate international transfers and keep fees to a manageable level could greatly multiply the effect of remittances.[29]

Legal Reforms

Improvements in U.S. and Mexican enforcement regimes, the prioritization of human capital development, and improved reallocation of remittances will only partially address international migration between the U.S. and Mexico without legal reform to the U.S. immigration system. As the United States emerges from its worst economic crisis in many years, policymakers would be wise to look at immigration reform as an economic priority, rather than solely a law enforcement or human rights issue. The U.S. needs a system that can effectively manage immigration flows to match real labor market needs in order for the country to regain and retain its competitive edge.

One aspect of immigration reform that makes economic sense is the allocation of additional visas for graduates of U.S. institutions of higher learning in the fields of science, technology, education and mathematics aimed at helping to keep student talent in the United States. The U.S. spends more on education per student than the OECD average but is outperformed by countries like Japan and South Korea in reading, math and science.[30] Of all postsecondary degrees awarded in 2009 only 10.7 percent were in the STEM fields and only 7 percent of those degrees were awarded to Hispanics. The Department

[26] David R Ayón, Linking Development and Migration: Binational U.S.-Mexico Dialogue, (Washington, DC: Woodrow Wilson International Center for Scholars, 2012).
[27] Andrew Selee, Intimate Strangers: Mexico and the United States, manuscript in process.
[28] Remittances: Steady Growth, (Mexican Migration Monitor).
[29] Ayón, Linking Development, Woodrow Wilson Center.
[30] The George Washington University, "Face the Facts USA," Money Cant Buy Genius, http://www.facethefactsusa.org/facts/money-cant-buy-genius/ (accessed January, 2013).

of Commerce estimates that between 2008-2018 STEM jobs will grow at a rate 1.7 times faster than non-STEM occupations.[31] Studies have demonstrated that immigrants can lead to workforce expansion and increased productivity. Roughly 25 percent of startups are run by foreign-born executives and four out of ten Fortune 500 companies were started by immigrants or the children of immigrants.[32] Immigrants are well represented in higher skilled industries, making up 23 percent of employees in the fields of information technology and high tech manufacturing.[33]

As the United States emerges from its worst economic crisis in many years, policymakers would be wise to look at immigration reform as an economic priority, rather than solely as a law enforcement or human rights issue.

However, the U.S. economy does not just need highly skilled immigrants, but also requires low skilled and medium skilled workers. As the U.S. and Mexico continue to strengthen their economic partnership, greater investment in logistics and transportation workers such as long-haul truckers and supply chain managers will be needed. Trends in manufacturing and agriculture point toward higher rates of mechanization as the U.S. recovers from recession. As a result, individuals in these occupations will need to develop new skill sets to keep pace with a changing industry.

The future success of immigration reform will also rest in large part on how to resolve the question of how to bring the estimated eleven million unauthorized immigrants out of the shadows. There seems to be some agreement in both the House and Senate on finding a solution for unauthorized immigrants who were brought to the United States as children and have stayed in school or enrolled in the armed forces, although specific solutions differ somewhat. It is estimated that approximately 1.4 million immigrants would be eligible for some type of legislation, similar to the Dream Act or other legislative actions that grant work authorization to those unauthorized immigrants who entered the country as children and have met other requirements of showing their connection and contribution to U.S. society. Of these, 68 percent who would likely be eligible are of Mexican origin. [34] However, a much larger challenge remains in finding a politically-feasible solution for the remaining millions of unauthorized immigrants.

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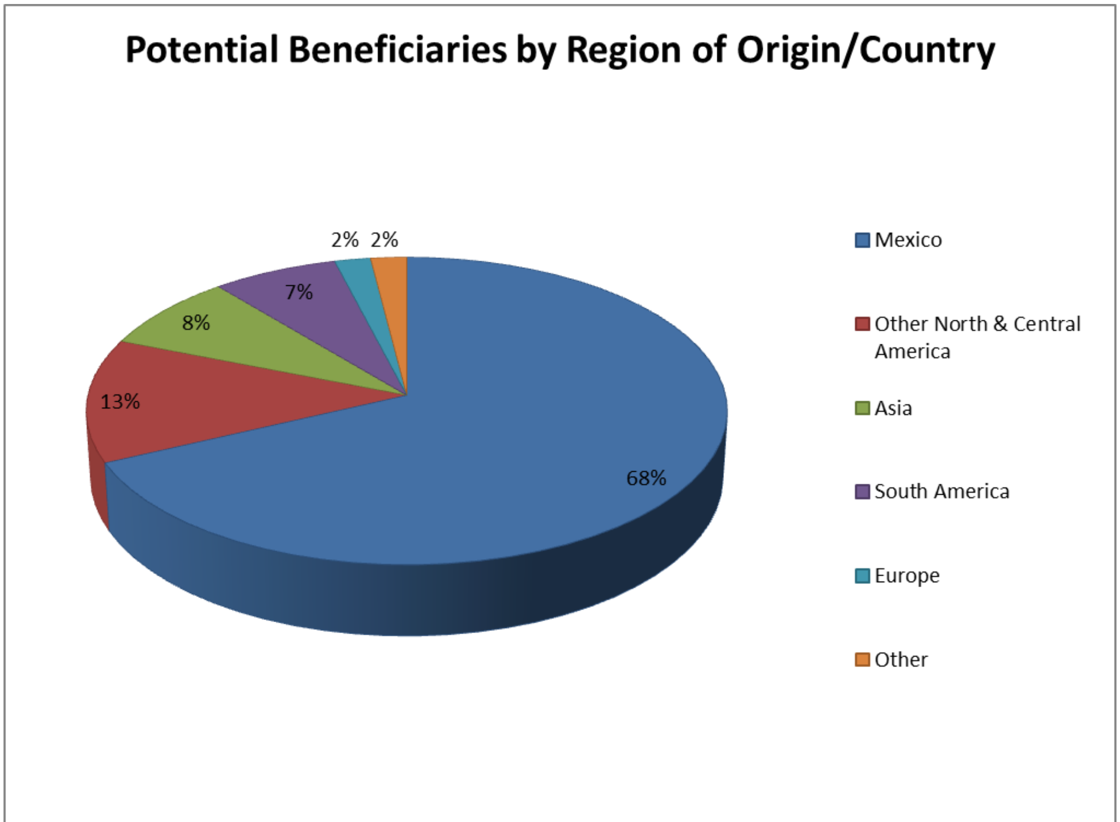
[31] Michael Feder, One Decade, One Million more STEM Graduates, (Washington, DC: The Office of Science and Technology Policy, 2012).
[32] Doug Bandow, "The GOP and Immigration: Good Economics, But What About the Politics?," Forbes, December 17, 2012.
[33] Immigrant Workers in the U.S. Labor Force (Washington, DC: The Brookings Institution, 2012).
[34] Who and Where the DREAMers are, (Washington, DC: The Immigration Policy Center, 2012).



Who and Where the DREAMers Are, (Washington, DC: Immigration Policy Center: American Immigration Council, 2012).

One avenue to help formalize the status of these unauthorized individuals would be to offer work authorizations while simultaneously stepping up checks on those arrested for felonies and serious crimes. Yet another option would involve temporary work visas with a path toward citizenship with a longer wait time before naturalization would be allowed and a higher cost associated with processing fees. These decisions will require weighing competing alternatives and reaching a careful political compromise, if reform is to proceed. In the long term, the U.S. would benefit by simplifying its visa guidelines, re-classifying traditional skill measures, and re-evaluating the prioritization of family reunification. A visa system that is open to a more diverse set of applicants with different skill sets could potentially reduce the desire to immigrate illegally by offering legal options for entry. Two examples of potential expanded visa types are a more costly visa for those individuals estimated to use a higher amount of government resources and the simplification of the hiring process for seasonal farm workers. Figures show that an estimated 70 percent of crop workers were born in Mexico, and 55 percent of foreign born crop workers are unauthorized migrants.[35]

Oftentimes, discussions over reforms to the U.S. immigration system are stymied by overly-politicized rhetoric. Conflicting interests among policymakers, religious and business groups, and the general public cause insurmountable tensions that halt progress. Options such as the creation of an independent

[35] Philip Martin, J. Edward Taylor, Trends in Agriculture in the U.S., Mexico, Central America: Implications for Employment, Skills, and Migration, (Washington, DC: The Migration Policy Institute, 2013).

immigration commission with authority from Congress to set annual visa limits could insulate policymakers from having to make politically damaging decisions on immigration. Such a commission would be charged with gathering independent data, formulating long term policies, and weighing labor market needs.[36]

There is widespread consensus that the U.S. immigration system is in need of a serious overhaul. A migratory reform will carry important consequences for each country and will no doubt affect the bilateral relationship. While major action on this issue will ultimately lie in the U.S., Mexico can choose to play a constructive role by helping facilitate a dialogue that supports changes in U.S. law. Additionally, Mexico can continue to look for ways to improve border security as well as further develop human capital and employment opportunities within its borders.

If there appears to be possible action in the U.S. Congress on legal immigration reform, the U.S. and Mexican governments may want to begin conversations about the practicalities of implementing any legislation that emerges. If there were a major overhaul of U.S. immigration laws, it would require significant investments on the part of the Mexican government in expediting passports to Mexican citizens eligible for regularization in the United States, and any expanded visa program will almost certainly require significant logistical cooperation between the two countries to avoid bottlenecks at implementation.

Conclusion

There are established historical ties between U.S. and Mexican migration. However, changing demographics in the region and within Mexico are likely to begin shifting these patterns. Increasingly, Mexico will see its role as sending country diminish while the number of Central Americans traversing its borders will likely increase. The U.S. has succeeded in building a robust immigration enforcement system with considerable physical and technological resources, which has now succeeded in diminishing the flows of unauthorized immigrants. In this new context, there is an opportunity to re-focus future enforcement at workplaces against those convicted of major crimes, invest in efforts to encourage human capital development, and advance legal reforms in ways that help the two countries manage flows more effectively to enhance the two economies.

[36] Darrell M. West, Brain Gain (Washington, DC: The Brookings Institution, 2010), 63.

Growing Potential for U.S.-Mexico Energy Cooperation

By Duncan Wood

Key Recommendations

- There is a pressing need for infrastructure investment in the transportation of oil and, most importantly, gas. The creation of a truly regional gas market requires large scale construction of gas pipelines, both within Mexico and across the border.
- Regulatory cooperation between the energy and environmental agencies of both countries is urgently needed. As transboundary oil and gas reserves are exploited, the two nations should harmonize their standards and regulations for hydrocarbons exploration and production.
- The question of cross border electricity transmission has been a feature of bilateral talks since 2010 but little has yet been achieved. It is vital that the bilateral mechanism is given a sense of urgency and importance from both governments
- The development of a Smart Grid for electricity transmission and distribution in Mexico is an issue that would benefit from further bilateral cooperation. U.S. funding for initial research into the building of a smart grid should now be followed by increased technical cooperation.
- The huge advances in energy efficiency in the United States in recent years presents a model that Mexico would do well to study. Some work has already been done in Mexico to put in place an energy efficiency strategy, and collaboration with U.S. agencies would be of great benefit.
- Long term discussions should begin between Mexico, the United States and Canada over the questions of carbon emissions, carbon pricing and a carbon tax. Although the possibility of a national carbon tax or cap and trade system in the U.S. appears distant, it is important that all three of the NAFTA partners understand the others' approach to this issue and monitor future policy developments closely.

Looking ahead to the next six years of interaction between governments of Mexico and the United States, there is the potential for an enormously fruitful relationship in energy affairs. Much of this depends on two key factors, political will and the internal changes that are underway in Mexico's energy sector. In the past, political sensitivities concerning U.S. involvement in the Mexican hydrocarbons industry have limited the extent of collaboration in the oil and gas sectors. This continues to be a cause for concern in any U.S.-based discussion (from either the public or private sectors) of Mexican energy policy and the potential for collaboration, but in recent years there has been a relaxation of sensitivity in this area. Partly in response to the perceived need for international assistance in resolving Mexico's multiple energy challenges, and partly as a result of a productive bilateral institutional relationship between federal energy agencies, there is now a greater potential for engagement than at any time in recent memory.

We can identify three main areas in which bilateral energy cooperation holds great promise in the short- to medium-term. First, given the importance of the theme for both countries, there is great potential in the oil and gas industries. This lies in the prospects for investment, infrastructure and technical collaboration. Second, we can point to the electricity sector, where the creation of a more complete cross-border transmission network and working towards the creation of a market for electric power at the regional level should be priorities for the two countries. Third, in the area of climate change policy, existing cooperation on renewable energies and the need for a strategic dialogue on the question of carbon-emissions policy are two issues can bring benefits for both partners.

Underlying all three of these areas are broader concerns about regional economic competitiveness and the consolidation of economic development in Mexico. The first of these concerns derives from the hugely important comparative advantage that the North American economic region has derived in recent years from low-cost energy, driven by the shale revolution. In order to maintain this comparative advantage, and to ensure that the integrated manufacturing production platform in all three countries benefits from the low-cost energy, the gains of recent years must be consolidated by fully developing Mexico's energy resources. With regards to the second concern, economic development, a number of commentators, analysts and political figures in Mexico have identified energy reform as a potential source for driving long-term economic growth and job creation, and the potential opportunities for foreign firms are considerable. While the United States cannot play an active role in driving the reform process, the implementation of any future reform will benefit from technical cooperation with the U.S. in areas such as pricing, regulation and industry best practices.

The Evolving Energy Context

The past 5 years have seen a revolution in the energy sector globally, with the advent of shale gas and tight oil production dramatically altering the supply outlook. In the case of gas, the success of American firms in drilling for gas in shale formations across the continental United States has meant a flood of new supplies that have caused a major decline in gas prices. From a Henry Hub spot price of over $13 per million British Thermal Units (mmBTUs), the price has fallen to just over $2 per mmBTU by the end of 2012. This, in turn, has greatly reduced the cost of generating electricity in the United States and has encouraged utilities to switch to gas from other fuel sources. The United States has also increased its domestic oil production by more than 800,000 barrels per day (bpd) through the exploitation of tight oil reserves in places such as North Dakota, applying latest drilling and hydraulic fracturing (fracking) technologies. Although we have seen this jump in supply in the U.S., oil prices have remained high due to global demand pressures and the international, rather than regional nature of oil pricing.

At the same time as U.S. production has risen, Mexican oil has experienced a precipitous decline. From a level of 3.4 million bpd in 2004, Mexico's oil production has fallen to only 2.55 million bpd. The stagnation of the national oil company, the prohibition on foreign or private investment and participation in the sector, and the end of easy oil in Mexico has meant that a change in thinking is desperately needed in Mexican hydrocarbons policy.

Oil and gas

As noted above, the history of cooperation between the United States and Mexico on oil issues has been limited by the historical sensitivity of Mexico's government and people to any hint of interference from the U.S. in what has traditionally been seen as a central element in the nation's sovereignty. Nonetheless, recent years have shown a softening on this sensitivity, in part due to generational change, in part due to political change, and in part due to the success of negotiating a Transboundary Hydrocarbons Agreement in 2012. That agreement laid out a framework for determining the management and exploitation of cross-border oil reserves, and was hailed as a positive development. It was quickly ratified in the Mexican Senate, but is has yet to be ratified in the United States, and so has not yet come into force. Before moving on to discuss new areas of cooperation, it is important that this existing agreement is ratified.

It is widely expected that the government of Enrique Peña Nieto will present an energy reform initiative to the Mexican Congress early in 2013. While it is still unknown how ambitious that reform proposal will be, it is thought that the government will present an initiative that will be aimed at opening the sector to greater levels of private participation in refining, petrochemicals and even in exploration and production. Such an opening will of course offer significant possibilities for foreign as well as Mexican firms, and will also open the door to new areas of technical and regulatory collaboration between the two countries.

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Mexico's energy establishment, and increasingly it seems, the government, hope that private investment will occur in unconventional hydrocarbons sector. For Mexico the most interesting plays in the future will be found in the deep waters of the Gulf of Mexico, in the as yet untapped shale reserves that are found throughout the east of the country, and in the geologically-complex fields of Chicontepec, where Pemex has been consistently failing to meet production targets over the past four years. The application of cutting-edge technologies and techniques from U.S. firms would likely be important in all three of these areas, and the experience of American firms in shale plays would provide them with an advantage in the event of an opening in that area.

Of particular interest in this regard is the experience of U.S. firms in the hydraulic fracturing (fracking) business. The ability to extract **shale oil and gas** in areas that suffer from water shortages (such as Texas) will be crucial to developing shale resources in Mexico, particularly in the north of the country. In fact existing knowledge of the geological characteristics of the Eagle Ford formation will also be crucial in exploiting its oil and gas reserves in Coahuila, where the formation extends. One Mexican company, Alfa, has already worked extensively with U.S. partners in the shale industry north of the border, and we can expect higher levels of private sector collaboration to develop.

Beyond exploration and production, the pressing need for **infrastructure** stands out as an area with high potential for bilateral collaboration. First, it is vital that large scale construction of gas pipelines occurs, both within Mexico and across the border. Within Mexico, the Calderon administration identified the need for multi-billion dollar investments in the creation of a truly national gas pipeline network: at the present time the majority of western portion of the country lacks access to natural gas. Secondly, as was made painfully clear to a number of private sector industrial consumers during 2012, during times of short supply, the country lacks the capacity to import extra supplies of gas from the United States due to the limitations of the cross-border pipeline network. In 2012 this led to complaints from companies that they were unable to secure stable and sufficient supplies of gas for their manufacturing processes.

The second deficit in energy infrastructure can be found in the **refining** sector. The much-publicized efforts of the Calderon administration, announced in January 2009, to build a new refinery at Tula in the state of Hidalgo that was designed to process up to 300,000 barrels a day of Mexican heavy crude have thus far come to nothing. The project has been repeatedly delayed, first due to problems in securing the land, then due to bureaucratic problems and political wrangling. At the same time, Mexico's dependence on imported gasoline has increased in line with rising demand. Mexico therefore needs to find a solution to this issue in the near future, and one option that presents itself is the example of the Deer Park refinery complex in Texas where since 1993 Pemex and Shell have worked together in a joint venture to refine 340,000 barrels a day of crude oil. Part of the production of the refinery heads back to Mexico and has become an important source of income for Pemex as well as helping to satisfy the country's need for refined products.

Lastly, Mexico's **petrochemical** sector is in urgent need of investment. For many years now the industry has languished due to a lack of funds and a lack of direction from the government. Despite encouraging signs of new investment interest in recent months, the major Mexican petrochemicals project of the last few years, Ethylene XXI, has suffered repeated delays. When completed in 2015, the project will be a private petrochemical complex for the production of polyethylene, producing up to one million tons of polyethylene, and replace up to $2 billion worth of imports resulting in the creation of thousands of jobs. But the prospect of huge supplies of cheap gas from Mexico and the U.S. shale gas industry offers the tantalizing prospect of turning Mexico into a production and export base for these products, and there will be a major opportunity for joint ventures with foreign firms.

The prospect of huge supplies of cheap gas from Mexico and the U.S. shale gas industry offers the tantalizing prospect of turning Mexico into a petrochemical production and export platform.

The last major area for hydrocarbons cooperation between the U.S. and Mexico concerns **regulation**. As Mexico contemplates the opening of its oil and gas industries, an issue of considerable concern is that of strengthening the regulatory agency, the Comisión Nacional de Hidrocarburos (CNH) and of designing national regulations that will provide a level playing field between public and private sector actors, and will ensure the efficient and safe functioning of the industry. Of particular concern, given the experience of recent years, is to guarantee environmental protection and operational safety, especially in deep water exploration and production (E&P). Institutional ties between the CNH and U.S. regulatory agencies have been slowly developing since the creation of the Comisión in 2009, and were particularly important in the context of the Transboundary Hydrocarbons Agreement. It is imperative that this cooperation is consolidated and strengthened into the future, and offers a low cost opportunity in one of the least sensitive areas of the Mexican oil and gas sector.

Electricity

Mexico's electricity sector has gone through significant changes over the past twenty years since the passing of the 1992 Ley de Servicio Publico de Energia Electrica, in which private electricity generation was permitted under certain circumstances. During that time the private sector has become responsible for around 30% of installed capacity in the country, although the Comisión Federal de Electricidad (CFE) remains the dominant player in the market through its monopoly over transmission and distribution. Electricity prices remain high in the country, particularly for commercial customers, and this is widely seen as a limiting factor on Mexican business competitiveness. At the same time, although 97% of the Mexican population is connected to the national grid, this means that almost 5 million Mexicans still do not have reliable access to electricity.

At the present time Mexico is a net exporter of electricity to the United States, with around 600 gigawatt hours (GWh) of power exported from Baja California to California in 2010and around 150 GWh of power exported from Texas. However, Demand for electricity in Mexico is growing fast: according to SENER, demand grew from 157,204 GWh in 2001 to 200,946 GWh in 2011. Much of that growth in demand has come from the residential sector, but it is big business that has led the way as demand is tied directly to economic growth. This suggests that, as Mexico's economy continues to grow at a rate higher than its NAFTA partners, we should expect the country's electricity demand to increase at a similar rate. This projected growth means that Mexico will either have to add further generating capacity or increase its electricity imports. Both scenarios present opportunities for the U.S. In the first, new installed capacity

Demand for electricity in Mexico is growing fast. Mexico will either have to add further generating capacity or increase its electricity imports.

will likely be in the form of combined cycle natural gas plants, to take advantage of the historically low price of natural gas due to the shale revolution. As pointed out above, Mexico is already looking to import more gas from the United States, and new electricity generating capacity will increase that even further. The second scenario would directly benefit the electricity producers, most likely in Texas, which has seen and rapid growth in capacity in recent years.

In order to get electricity from Texas to Mexico, however, some major investments must take place in the area of **transmission**. At the present time the cross-border transmission infrastructure is highly limited and talks between the two countries aimed at facilitating new cross-border projects have achieved little real progress since 2010. Nine cross-border interconnections exist at the time of writing, with new

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transmission capacity last added in 2007, with the opening of the Sharyland McAllen-Reynosa 150MW connection. Of course transmission not only affects the prospects for electricity imports into Mexico from Texas, but also exports from Baja California to California, particularly of electricity from renewable sources such as wind (see below).

Mexico and the United States will need to deepen their cooperation in the area of transmission if these projects are to be brought to fruition. As noted above, to date the cross-border transmission discussions between the two countries have not yielded very much of substance, and it should be a priority of both governments to try to inject the process with more vigor and enthusiasm. In part the slow movement of the talks so far is a result of the fact that neither side has attached much importance to them; on another level, however, the differences between the two countries' systems has run into cultural barriers. Because the CFE is run as a federal government agency, rather than as a business, it has been noted that the organization thinks not in terms of business opportunities, but rather of fulfilling its mission of providing electricity as a public service. This cultural obstacle to progress must be overcome, however, if the true potential for electricity trade is to be realized.

One final issue on which the two countries can and should cooperate in the years to come is that of upgrading Mexico's national electricity grid and making it a truly "Smart grid". As Mexico's economy and electricity market mature, and as a more market-oriented pricing structure emerges, the use of smart grid technologies will become of increasing importance to manage supply issues, and to allow for flexible responses to unexpected jumps in demand. One issue that the government hopes to solve through smart grid technology is that of electricity distribution losses, which run as high as 17% at the national level. At the present time the CFE is only just beginning to install a small number of smart meters in the selected areas of the country, but in August of 2012 the Comisión Reguladora de Energía (CRE)announced that it has begun developing a smart grid plan for the country. Early research for the plan was financed in part by a US$405,000 grant from the US Trade and Development Agency, and the two countries should continue to cooperate on the development of the grid, creating significant opportunities for private firms from both sides of the border.

Climate change and renewables

The Calderon administration was notable for its emphasis on questions of climate change and renewable energy. Calderon was personally committed to the question of finding a post-Kyoto bargain at the international level, and at the domestic level succeeded in passing ambitious carbon-emissions legislation in 2012. During his tenure Mexico also saw the rapid expansion of renewable energy sourced electricity generation with the large scale wind power developments in Oaxaca, and the beginnings of other developments in Baja California, Tamaulipas and Nuevo Leon. Presidents Obama and Calderon signed a Bilateral Framework for Clean Energy and Climate Change agreement during President Obama's April 2009 visit to Mexico City.

Thus far it does not appear that climate change or renewable energies are a high priority for the Pena Nieto government, but the potential for meaningful collaboration should not be underestimated. Given the continuing shift in the U.S. towards cleaner energy and energy efficiency (much of which has been driven by the shale revolution), it is now not unthinkable that the U.S. will be able to meet Kyoto-style emissions targets within the next few years. At the level of the states, with California at the cutting edge, we are seeing the development of not only renewable portfolio standards for electricity generation, but also the emergence of cap and trade schemes. If other states adopt similar measures, there are a number of implications for Mexico.

The first is simply an extension of discussions that already exist about Mexico sourcing **renewable energy** projects for U.S. consumption. The potential for wind power in the states of Baja California and Tamaulipas is both huge and economically competitive, although it is currently held back by the cross-border transmission challenges discussed above. Ample investment opportunities exist for U.S. firms in

The potential for wind power in the states of Baja California and Tamaulipas is huge, although it is currently held back by cross-border transmission challenges.

both wind power generation and in supplying the equipment for wind farms. What's more, an integrated production structure for turbines that sees equipment being produced in both countries makes eminent sense.

The second issue concerns questions of **energy efficiency**. The United States has taken great strides in this regard in recent years and Mexico has begun to implement energy efficiency measure in residential applications and for transportation. Close technical collaboration, and the harmonization of standards would be of enormous benefit for the North American market. Already Mexico has benefitted from stricter U.S. energy efficiency standards in automobiles, as car firms have invested heavily in new smaller vehicle production in the country.

Third, long-term discussions should be undertaken to prepare a harmonized approach to **carbon emissions policy**. As the United States moves towards a low-carbon future, and the potential for national cap and trade or carbon-tax systems becomes a reality, it is vital that Mexico is prepared for such a contingency. It would be a disaster if U.S. or Mexican goods were not able to cross the border freely because the two countries have divergent carbon emissions approaches. If a carbon tax is feasible in the long term, it would make sense for the two countries to coordinate their approaches, with each other and with Canada, to ensure that all three NAFTA partners move in the same direction.

Closing thoughts

The potential for effective collaboration between the two countries on questions on energy and climate change is huge. As a region, North America currently offers the most positive outlook in the world in terms of cheap, clean energy, largely thanks to the shale revolution that has taken place in recent years. Moreover, also thanks to shale, the United States, Canada and Mexico all have the chance to become energy independent and become net energy exporters to the world. The governments of the U.S. and Mexico should therefore undertake intensive discussions early in the new administrations to identify priority areas in the short- and medium-terms and should create institutional mechanisms through which these priorities can be pursued. In many cases these discussions will be bilateral, but on some long-term issues, such as climate change, for example, it makes sense to adopt a more regional approach, incorporating Canada into the process.

As Mexico undertakes a new energy reform process, the landscape for hydrocarbons and electricity will be subject to significant change. Mexico's new government has decided that the existing state-led approach to oil and gas exploitation is no longer valid, and no longer serves the interests of the nation. This change will offer new opportunities for U.S. firms and potential competitiveness gains for the American economy. The establishment of a clear agenda for talks on bilateral cooperation is therefore a priority that should not be underestimated.

A Dividing Line that Unites: The U.S.-Mexico Border

By Christopher E. Wilson

Key Recommendations:

- Implement 21st Century Border management techniques—trusted traveler programs, customs preclearance, advanced biometric and screening technologies—to make border crossings more efficient for commerce and people alike. The competitiveness of both the U.S. and Mexico depend on it.
- The most serious security risks going forward will be at, not between, the ports of entry. Rebalance border security efforts to recognize this, prioritizing technologies and methods that simultaneously strengthen border security and efficiency.
- Strengthen binational and interagency efforts to fight criminal groups that traffic drugs, guns, and migrants. These law enforcement efforts need to take place wherever they can be done most efficiently, whether at the border or far away from it.
- Take advantage of the momentum and good will generated by the successful negotiation of the new Colorado River agreement to strengthen environmental dialogue and cooperation on a wide range of issues. One area ripe for advance is the development of renewable energy resources, which are plentiful in the border region.

The border region is a land of paradox and contradictions. It is a region of great wealth and, in places, devastating poverty, a region held together by a dividing line. In a region of such tremendous contrasts, it is no wonder that policymakers face unique challenges. A central task for those charged with border management is to create a filter that blocks all unwanted crossings yet allows legitimate traffic to flow freely. This might include creating ports of entry that stop dangerous traffickers (drugs to the north, weapons and cash to the south) but allow commerce to proceed unimpeded. It could mean putting in place technology and physical infrastructure to detect and deter illegal crossings that is also porous enough to allow the free passage of wildlife in the often delicate ecosystems of the desert Southwest.

Perhaps counter intuitively, the best ways to approach this virtually impossible goal often come in the form of policies and programs enacted far away from the border itself. For example, investigative efforts targeting the points where drug money is collected and packaged before being sent across the border may be more effective and less disruptive than intensive southbound inspection efforts at the border itself. Similarly, deterring unauthorized immigration by increasing the number of visas available legally and strengthening pre-employment verification of work authorization may be more effective than building a higher, stronger fence. Border issues, from trade to security to the environment, have national consequences, and the best border policy will often depend heavily on the cooperation of agencies whose mandate does not cleanly fall within the realm of border management.

Sometimes the contrasts created by the border bring vitality to the region. Mexico’s northern border states are the heart of the Mexican manufacturing machine, with contrasts in prices and wages having attracted workers from all over Mexico and companies from around the world. Other times contrasts create market failures, or seemingly needless inefficiencies. Ambulances and firefighters may not be allowed to save a home, a forest, or an individual, unless the proper cooperative agreements are in place ahead of time. Children routinely wait in long lines at the border to go to school, and manufacturers shoulder the burden of long waits, the cost of filling out at-times cumbersome customs paperwork, and the expensive unloading and reloading of shipments due to limitations on cross-border trucking. Policy makers in the capitals of each country must recognize that the unique binational nature of the U.S.-Mexico border region and its population is an asset and that the unique policy challenges associated with the region are worthy of the special attention they require to be properly managed.

An Evolving Context and Evolving Opportunities

Over that last two decades, there have been three major points of inflection in the trends in cross-border flows and border management. First, on January 1, 1994, the North American Free Trade Agreement (NAFTA) took effect. It lowered or eliminated most barriers to cross-border trade among the United States, Mexico and Canada, and trade and cross-border traffic more generally took off. Then, like now, the vast majority of U.S.-Mexico trade crossed the land border, most by truck but some also by train and pipeline. Trade climbed at a fast clip, averaging 17 percent growth each year from 1993 through 2000, until 2001 when several events conspired to slow it down: the accession of China to the WTO, the U.S. recession, and, most importantly for the current discussion, the terrorist attacks of 9/11. Increased border security in the wake of 9/11 temporarily brought trade to a virtual halt. Since then strategies have been put in place to maintain heightened security while moving people and goods through more efficiently, but as anyone living in a border community will tell you, it is still much harder to cross the border than it was before 2001. As a result of the factors mentioned above, from 2000-2008 U.S.-Mexico trade slowed to a rate of 4.5 percent growth. The third major change in cross-border trends, one which is still in need of consolidation, emerged in the wake of the Great Recession.

Note: Imports plus exports for trade; AAG is Average Annual Growth.
Source: U.S. Department of Commerce, Bureau of Economic Analysis and Census Bureau, 2012.

After falling seventeen percent during the recession, trade with Mexico, unlike the rest of the U.S. economy, rebounded with astounding intensity, averaging 24 percent yearly growth from 2009 to 2011. Though some of this growth is driven by the short-term motor of recovery, a number of structural factors in the U.S., Mexican, and global economies (energy costs, labor costs, currency values, technological advance, etc.) are giving regional manufacturers a strong tailwind and boosting the volume of goods flowing across the U.S.-Mexico border to unprecedented levels. In fact, bilateral goods and services trade between the United States and Mexico reached the record level of a half-trillion dollars for the first time in 2011, about five times what it was before NAFTA was implemented.

Trade and Border Congestion

Remarkably, this boom in trade is occurring even though the brake applied to cross-border flows in the wake of 9/11 has never been fully released. What is more, even though trade is five times greater than it was two decades ago, many border ports of entry have not experienced major expansion or renovation since they were built several decades ago. U.S. Customs and Border Protection (CBP) believes that “federal appropriations have not kept pace with needs,” noting that $6 billion dollars of infrastructure investment are needed to “fully modernize” the land ports of entry along the United States southern and northern borders, and several studies have found that the U.S. and Mexican economies (not just border states) are missing out on billions of dollars of potential economic growth due to high levels of congestion at the border.[1] Since port of entry improvements offer significant monetary benefits to border communities and trade-dependent industries, state, local and private entities are often willing to contribute funding to border infrastructure projects. In a time of tight federal budgets, public-private partnerships and public-public partnerships (involving municipal, state and federal governments) represent a promising opportunity to meet border infrastructure needs.

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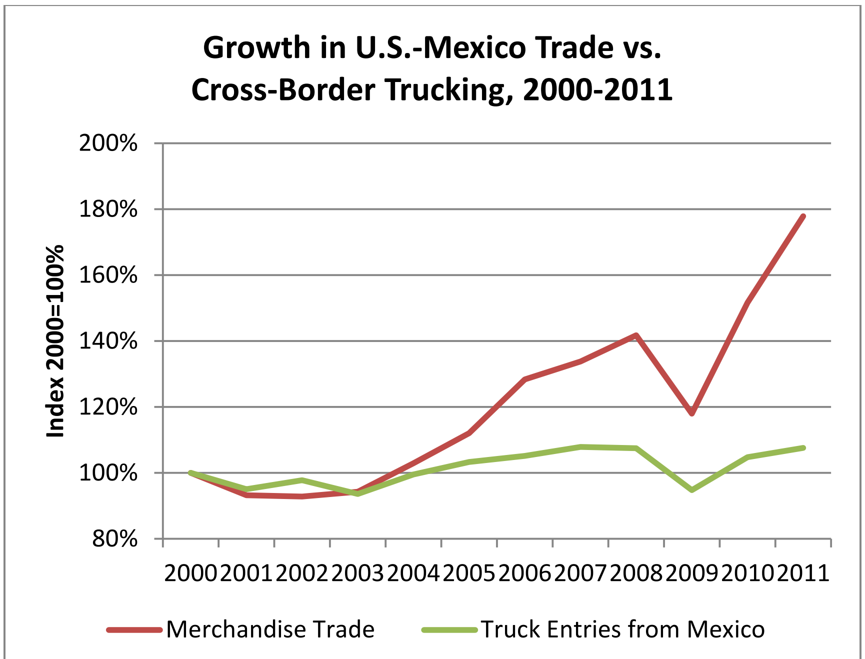
The combination of growing trade and aging infrastructure has led to a seemingly contradictory phenomenon. As shown in the chart below, trade has grown without a corresponding increase in the number of trucks crossing the border. Shippers seem to be finding ways to stuff more value into fewer trucks as a way to minimize their costly trips across the border. With so much growth happening despite the obstacles, imagine the potential for job creation and economic growth fueled by increased trade if strategies to increase efficiency while maintaining or even strengthening security were fully implemented along the border.

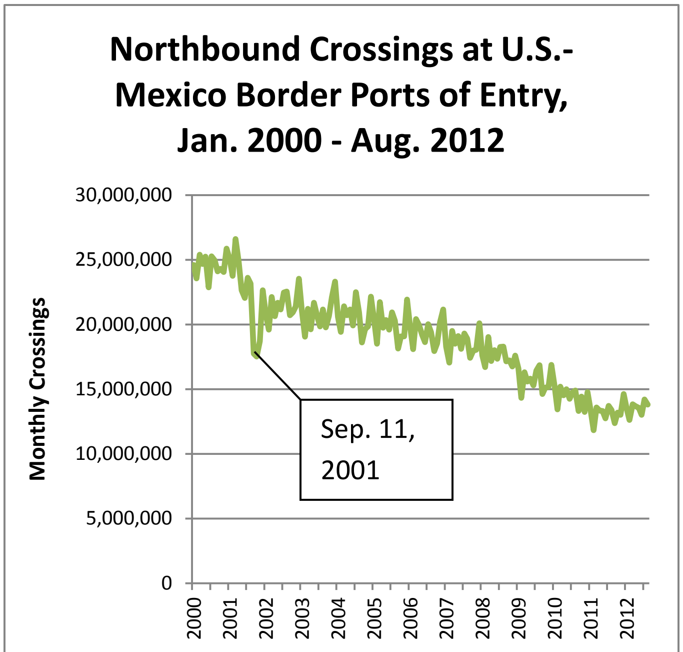


Sources: U.S. Department of Commerce, Census Bureau, 2012; and Department of Transportation, Research and Innovative Technology Administration, Bureau of Transportation Statistics, based on data from the Department of Homeland Security, U.S. Customs and Border Protection, Office of Field Operations, 2012.

[1] Infrastructure Deficit: Mikhail Pavlov, Customs and Border Protection, DHS, "Meeting Land Port of Entry Modernization Needs in Constrained Budgetary Environment," presentation to the Joint Working Committee, March 14-15, 2012, http://www.borderplanning.fhwa.dot.gov/filemanager/filemanager.aspx. Costs of Congestion Studies: Erik Lee and Christopher E. Wilson, The State of Trade, Competitiveness and Economic Well-being in the U.S.-Mexico Border Region, Working Paper Series on the State of the U.S.-Mexico Border, June 2012, http://www.wilsoncenter.org/publication/the-state-trade-competitiveness-and-economic-well-being-the-us-mexico-border-region, 11.

Quality of Life and Environmental Sustainability

Congestion does not just affect cross-border commerce; it affects people and quality of life in the border region. Unlike the U.S.-Canada border, the southwest border is characterized by twin cities—single metropolitan areas straddling the U.S.-Mexico divide. These joint-cities developed at a time when little to no documentation or security procedures were necessary to cross the border, and it is common for families to be dispersed throughout the cities in such a way that they regularly make international trips to visit relatives, go shopping, or go to work or school. Long and unpredictable border wait times, then, not only add additional costs to regional manufacturers but also put significant strains on the individuals and businesses (especially U.S. retailers) that count on efficient border crossings in their daily life.



Source: U.S. Department of Transportation, Research and Innovative Technology Administration, Bureau of Transportation Statistics, based on data from the Department of Homeland Security, U.S. Customs and Border Protection, Office of Field Operations, 2012.

A look at border-crossing statistics over the past twelve years makes the major decline in traffic abundantly clear. We cannot attribute the entire drop in traffic to border congestion and other post-9/11 effects, as the recession and spikes in violence in several Mexican border cities are surely other contributing factors. Still, given that crossings rose steadily throughout the 1990s and the border region population continued to grow quickly throughout the 2000s, congestion and increased security measures are top causes.

For decades, the population in the border regions of both the U.S. and Mexico has grown faster than the respective country's general population, which has put significant strain on many of the fragile ecosystems that make up the region. Further complicating environmental management is the fact that neither wind nor water nor wildlife respect national boundaries. Cooperative, binational approaches are the only sustainable solutions. Recognizing that fact, the United States and Mexico came together in 2012 to sign a five-year agreement managing their shared water supply from the Colorado River. The agreement is a major milestone in many ways, as it sets a precedent for managing the impact of water shortage through negotiation rather than conflict and for codifying a system in which Mexico can use a U.S. reservoir to store its water.

The border region environment is in many ways delicate, but it is also very resource rich when it comes to both traditional and renewable energy. The advent of new hydraulic fracturing (fracking) techniques has made accessible major reserves of shale oil and gas, some of which cross the border itself. Fracking offers major benefits, promising to lower electricity costs and boost regional manufacturing, but it can also threaten water quality and requires the use of significant water resources, which are in short supply in the border region. Cooperation and care will be needed to take advantage of these resources in a way that benefits all and protects the natural environment.

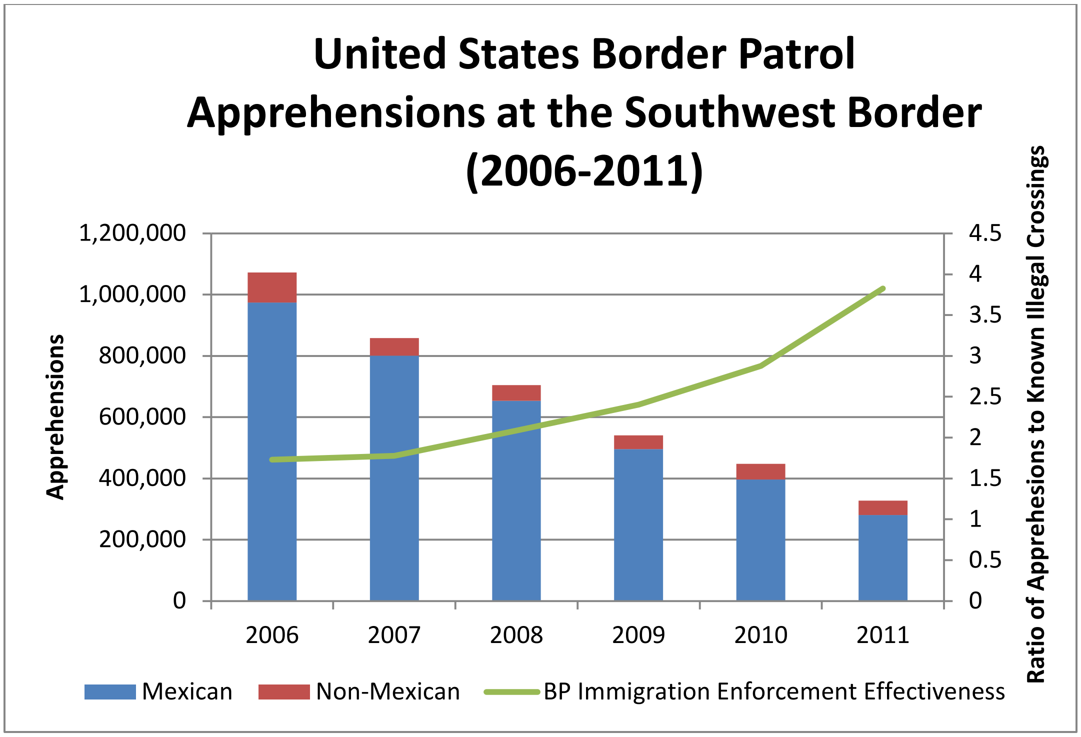
Solar, wind, and biogas resources are all abundant near the U.S.-Mexico border. They are being developed in some areas more than others, but overall their potential is much greater than has so far been realized. One special opportunity lies in developing renewable energy production in Mexico to supply U.S. states with power to meet the renewable portfolio requirements they have legislated. The development of stronger cross-border transmission infrastructure would go a long way to encouraging such mutually beneficial renewable energy projects.

For two decades now, the Border Environmental Cooperation Commission and the North American Development Bank have worked together to fund the development of needed environmental infrastructure. They have achieved considerable success, but more could be done with an expanded mandate.

Immigration and Border Staffing

Illegal immigration is at its lowest level in four decades. The Border Patrol's level of staffing is at a historic high, and the relationship between the two phenomena is a question with important policy implications. The causes of the drop in unauthorized migration are manifold, but the single largest factor is probably the U.S. recession. The strengthening Mexican economy, high levels of organized crime violence in parts of northern Mexico, and increased state and federal immigration enforcement away from the border may also be contributing factors.

With over 23 thousand full-time employees, the Border Patrol, which is responsible for enforcement between the legal ports of entry, is now more than five times larger than it was in the early 1990s. Data from a recent Government Accountability Office report offers new evidence suggesting that as it has grown, the Border Patrol has also become more effective in performing its task of securing the border in between ports of entry. The chart below shows both the decline in unauthorized immigration, as measured by apprehensions, and the increase in the effectiveness of the Border Patrol in apprehending unauthorized border crossers, which is measured by comparing the number of apprehensions to the number of known illegal entries into the United States at the southwest border. The scale is set up so that if a larger portion of those who attempt to cross the border are caught, the measure of effectiveness will increase. In fact, since 2006, the ration of apprehensions to known illegal entries has increased from 1.7 to 3.8, a significant improvement that suggests (does not prove) an increasingly secure border has contributed to the decline in illegal immigration.



Note: Some caution should be exercised in interpreting the measure of immigration enforcement effectiveness due to inconsistencies in how each sector defines and measures apprehensions and known illegal crossings. While measuring illegal entries is far from an exact science and the numbers reported by the Border Patrol as known entries probably greatly undercount actual illegal entries, the Border Patrol has collected these statistics for several years with a degree of methodological consistency within each sector. The measure of immigration enforcement effectiveness compares the number of unauthorized immigrants caught crossing the border (apprehensions) to the number of known unauthorized crossings (got aways). Unlike the recent GAO report in which the data was reported, this measure ignores the number of unauthorized crossers that returned to Mexico due to Border Patrol presence (turn backs), assuming that the majority of 'turn backs' attempt to reenter and should therefore not be double-counted.
Source: United States Government Accountability Office, "Border Patrol: Key Elements of New Strategic Plan Not Yet in Place to Inform Border Security Status and Resource Needs," December 2012, http://www.gao.gov/assets/660/650730.pdf.

With fewer and fewer unauthorized immigrants entering the country between the ports of entry and after such a major buildup of Border Patrol agents along the border, it makes sense to focus greater attention in the coming years on security and trade facilitation at the ports of entry, which have not received nearly as much policy attention. In fact, with declining apprehensions, the number of migrants caught by the Border Patrol is quickly approaching the number of people denied admission at official border crossings. The CBP Office of Field Operations, which is responsible for running the official ports of entry, has seen its staffing and funding levels surpassed by the Border Patrol in recent years (see the chart below).

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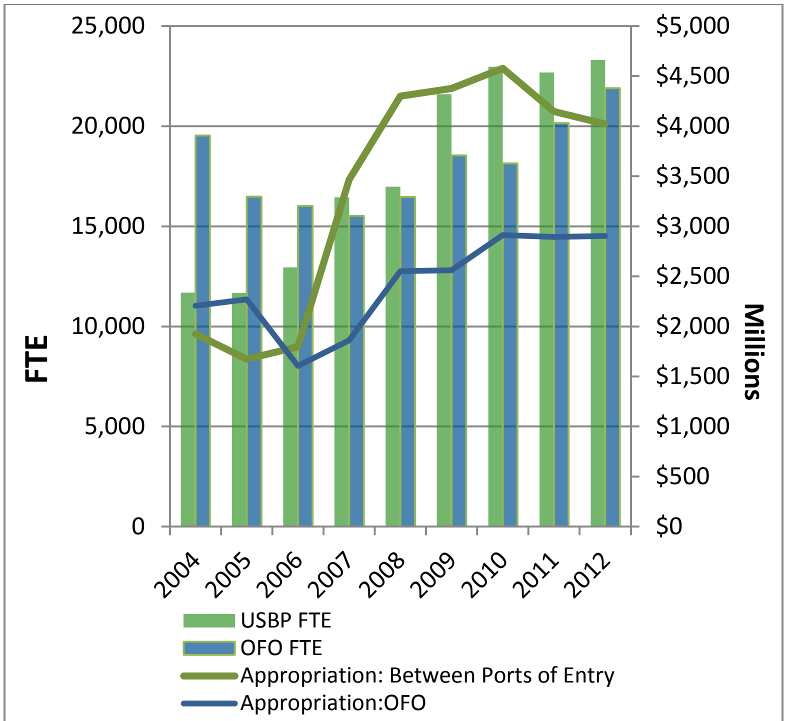

Note: Total appropriations between the ports includes US Border Patrol and Fencing, Infrastructure, and Technology funding.
Source: Marc Rosenblum (Congressional Research Service), Testimony on Measuring Border Security before the Subcommittee on Border and Maritime Security, Committee on Homeland Security, U.S. Congress, May 8, 2012.

Mexican border cities have been hit hard by organized crime violence in recent years, but some trends have begun to emerge that offer reason for cautious optimism. As shown in the chart below, Tijuana and Ciudad Juarez, the two largest Mexican border cities, have experienced major declines in organized crime related violence. Northeastern Mexico has seen violence increase during the past two years, though the latest data suggests violence has probably at least stopped rising if not begun to fall. Still, with key drug trafficking corridors to the United States flowing through the region, border states continue to bear an outsized share of organized crime related violence in Mexico, and much effort is still required to address the issue. The declining rates of violence in five out of the six Mexican border states does, though, open an opportunity to focus greater attention on longer-term efforts to strengthen the rule of law institutions—police, prosecutors, judges, prisons—in these areas, which is the only way to guarantee that violence does not return to its previous levels.

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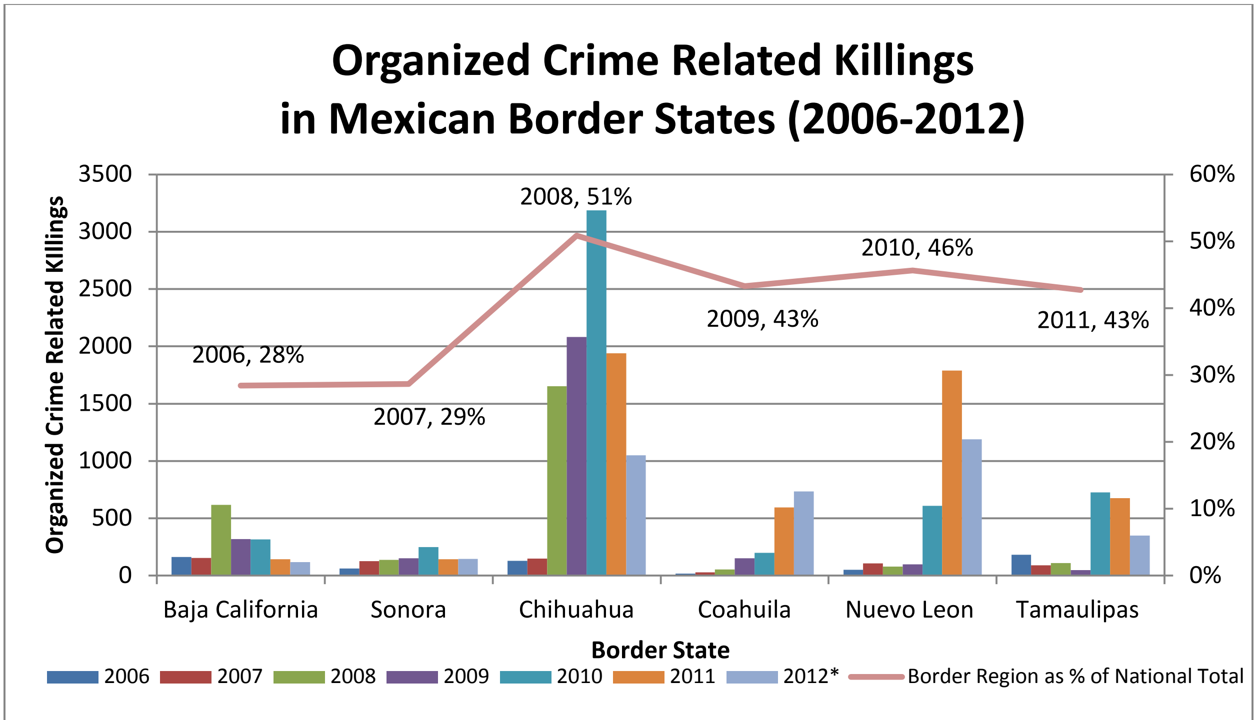

* 2012 figures are through November 29, while all other figures are yearly totals.
Source: Grupo Reforma, Ejecutometro 2012, http://gruporeforma.reforma.com/graficoanimado/nacional/ejecutometro2012/.

Despite the widespread perception that the border region is violent and lawless, U.S. border cities have not experienced a wave of violence corresponding to their Mexican counterparts. Many, such as El Paso and San Diego, remain among the safest cities of their size in the country.[2] Nonetheless, perception matters, and cities like El Paso have seen tourism and the number of conventions hosted in the area decline.

Despite the widespread perception that the border region is violent and lawless, U.S. border cities have not experienced a wave of violence corresponding to their Mexican counterparts.

The gap in attention that has been focused on prioritizing border security efforts on the areas *between* the ports of entry as opposed to *on* the ports of entry, as described above in the section on migration, has important security policy implications. Recent U.S. National Drug Threat Assessments have suggested that most hard drugs—like cocaine, methamphetamines and heroin—are more likely to be smuggled

[2] Christopher Wilson, "Crime Data and Spillover Violence in the Border Region," Woodrow Wilson International Center for Scholars, October 2011, http://mexicoinstitute.files.wordpress.com/2011/10/border-violence-brief-10-14-2011.pdf; Eric Olson and Erik Lee, The State of Security in the U.S.-Mexico Border Region, Border Research Partnership Working Paper Series on the State of the U.S.-Mexico Border, August 2012, http://www.wilsoncenter.org/sites/default/files/State_of_Border_Security_Olson_Lee.pdf.

through ports of entry rather than around them.[3] Increased attention by policymakers is needed to identify and implement strategies that simultaneously strengthen security and efficiency at the ports of entry.

Like everything else in border management, border security is best achieved through cooperation. There are preliminary indications that the gendarmerie of 10,000 officers planned to be created by the Peña Nieto government could be, in part, used to combat the criminal groups that prey on migrants in the border region. Such an initiative would open opportunities for increased collaboration with U.S. border and other law enforcement agencies.

The 21st Century Border

The 21st Century Border initiative, outlined in a declaration by the U.S. and Mexican presidents in 2010, codified the notion that security gains do not have to come at the expense of efficiency and economics. The initiative has built on the earlier idea of Smart Borders to promote the implementation of creative policy options to simultaneously make the border safer and more efficient, which include trusted traveler programs and customs preclearance.

Trusted traveler and shipper programs (i.e. the Global Entry programs, which include programs such as SENTRI, FAST, and C-TPAT) allow vetted, low-risk individuals and shipments expedited passage across the border. Improving these programs and significantly expanding enrollment could increase throughput with minimal investments in infrastructure and staffing—all while strengthening security by giving border officials more time to focus on unknown and potentially dangerous individuals and shipments.

Customs preclearance, which involves the placing of customs processing centers or agents within another country, can, when properly implemented, improve safety, efficiency and binational coordination by identifying potentially dangerous cargo away from crowded ports of entry, allowing pre-cleared shipments quick passage through border lines, and allowing customs officers to work side by side with their foreign counterparts. Three pilot projects (Tijuana, BC, San Jeronimo, CI, and Laredo, TX) are being developed that have the potential to become models for future cooperative border management efforts.[4]

Final Thoughts

With all the serious challenges the border region faces, from organized crime to long wait times at crossings to an extended drought, it is perhaps surprising that one of the biggest stumbling blocks to better border management lies in something much simpler: communication and cooperation. This is not to say that significant progress in terms of policy coordination has not been achieved—the advances within the 21st Century Border structure and the recent signing of the Colorado River agreement demonstrate it has. Still, all too often coordination on things as simple as lining up and separating out express lanes on each side of the border to expedite traffic go undone because consensus is not reached regarding how to align them. Coordination is a challenge along the length of the border as well. Without a doubt, the border region is anything but uniform, ranging from the great wealth of San Diego to the pockets of severe poverty in the Rio Grande Valley, from high-tech manufacturing in Baja California to the vast deserts of

[3] U.S. Department of Justice, "National Drug Threat Assessment: 2011," August 2011, http://www.justice.gov/archive/ndic/pubs44/44849/44849p.pdf.

[4] Sandra Dibble, "U.S., Mexico to open joint inspection stations," San Diego Union Tribune, January 2, 2013, http://www.utsandiego.com/news/2013/jan/02/us-mexico-open-joint-inspection-stations/?page=1#article-copy.

Sonora and Coahuila. Despite this tremendous diversity and even a fair bit of competition, border communities have more than enough common interests to warrant border-wide planning, stakeholder organization, and the sharing of best practices. Recently, crime and violence in certain Mexican border communities has dominated national perceptions of the region in both the United States and Mexico. To the extent that the border communities and border states speak with a unified voice, they will have a better opportunity to put forth their own narrative about the region and to call for appropriate revisions to national border policies.

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