

A NEW AGENDA WITH MEXICO

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SUMMARY

The depth of economic ties with Mexico, together with declines in illegal immigration and organized crime violence in Mexico, Open up an opportunity for U.S. policymakers to deepen the economic relationship with Mexico and to engage Mexico more on major global issues. Security cooperation, especially strengthening institutions for rule of law and disrupting money laundering, will remain important to the relationship, and there are clear opportunities to reform the U.S. legal immigration system over the next few years, which would have important implications for the relationship with Mexico. The strongest engagement, going forward, is likely to be on the economic issues that can help create jobs for people on both sides of the border, and on the shared global challenges that both countries face.

Few countries will shape America's future as much as Mexico. The two countries share a 2,000 mile border, and Mexico is the second largest destination for U.S. exports and third source of oil for the U.S. market. A quarter of all U.S. immigrants are from Mexico, and one in ten Americans are of Mexican descent. Joint security challenges, including both terrorist threats and the violent operations of drug cartels, have forced the two governments to work more closely than ever. What's more, cooperation has now extended to a range of other global issues, from climate change to economic stability.

Nonetheless, the landscape of U.S.-Mexico relations is changing. Illegal immigration is at the lowest level in four decades, and organized crime violence, which has driven much of the recent cooperation, is finally declining. Violence will remain a critical issue, but economic

issues—bilateral and global—have risen to the fore as both countries struggle to emerge from the global slowdown. Trade has increased dramatically, connecting the manufacturing base of the two countries as never before, so that gains in one country benefit the other.

To keep pace with these changes, U.S. policymakers will need to deepen the agenda with Mexico to give greater emphasis to economic issues, including ways to spur job creation, and they will have opportunities to strengthen cooperation on global issues. Security cooperation will remain critical, and determined but nuanced follow-through to dismantle the operations of criminal groups on both sides of the border will be needed to continue the drop in violence. With less illegal immigration, it will be easier to address legal migration in new ways. However, economic issues are likely to dominate the bilateral agenda for the

first time in over a decade.

STRENGTHENING ECONOMIC TIES AND CREATING JOBS

In most trading relationships, the U.S. simply buys or sells finished goods to another country. However, with its neighbors, Mexico and Canada, the U.S. actually co-manufactures products. Indeed, roughly 40 percent of all content in Mexican exports to the United States originates in the United States. The comparable figures with China, Brazil, and India are four, three, and two percent respectively. Only Canada, at 25 percent, is similar.

With the economies of North America deeply linked, growth in one country benefits the others, and lowering the transaction costs of goods crossing the common borders among these three countries helps put money in the pockets of both workers and consumers. Improving border ports of entry is critical to achieving this and will require moderate investments in infrastructure and staffing, as well as the use of new risk management techniques and the expansion of pre-inspection and trusted shipper programs to speed up border crossing times. Transportation costs could be further lowered — and competitiveness further strengthened — by pursuing an Open Skies agreement and making permanent the cross-border trucking pilot program. While these are generally seen as border issues, the benefits accrue to all U.S. states that depend on exports and joint manufacturing with Mexico, including Michigan, Ohio, Nebraska, Iowa, South Dakota, New Hampshire, and Georgia, to name just a few.

Mexico also has both abundant oil reserves and one of the largest stocks of shale gas in the world. The country will probably pursue a major energy reform over the next couple years that could spur oil and gas production, which has been declining

over the past decade. If that happens, it is certain to detonate a cycle of investment in the Mexican economy, could significantly contribute to North American energy security, and may open a space for North American discussions about deepened energy cooperation

REINFORCING SECURITY COOPERATION

Organized crime groups based in Mexico supply most of the cocaine, heroin, and methamphetamines, and some of the marijuana, to U.S. consumers, who, in return, send six to nine billion dollars to Mexico each year that fuels the violence associated with this trade. The U.S. and Mexican governments have significantly improved intelligence sharing, which has helped weaken many of these criminal networks and disrupt some of their financial flows. At the same time, the congressionally funded Merida Initiative, which has provided \$1.6 billion to Mexico for national and public security since 2008, has been successfully strengthening the Mexican government's capacity and rule of law institutions. These efforts appear to be yielding some success as violence has dropped noticeably since mid-2011.

Going forward, the two countries will need to do more to disrupt the southbound flows of illegal money and weapons that supply the criminal groups, strengthen communities under the stress of violence, and improve the performance of police, prosecutors, and courts in Mexico. In many ways, Mexico has been successful at turning a national security threat into a public security threat, but the country now requires significant investment to create an effective and accountable criminal justice system and to slow the flow of illegal funds from the U.S. that undermine these efforts.

As Mexico's security crisis begins to recede, the two

countries will also have to do far more to strengthen the governments of Central America, which now face a rising tide of violence as organized crime groups move southward. Mexico is also a U.S. ally in deterring terrorist threats and promoting robust democracy in the Western Hemisphere, and there will be numerous opportunities to strengthen the already active collaboration as growing economic opportunities reshape the region's political and social landscape.

MANAGING LEGAL MIGRATION FLOWS

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 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 specifically at how to reform the legal immigration system.* Almost all sides agree that the current immigration system, originally developed in the 1960s, fails to address the realities of a twenty-first century economy. A renewed discussion on this issue could focus on how to restructure the U.S. visa system to bring in the kinds of workers and entrepreneurs the United States needs to compete globally in the future. This includes both high-skilled and lower-skilled workers, who fill important gaps in the U.S. economy. Policymakers should consider whether those already in the United States, who have set down roots and are contributing effectively to the economy and their communities, might also be able to apply through a restructured visa system.

Mexican policymakers, on the other hand, have huge opportunities to consolidate Mexico's burgeoning middle class in those communities where out-migration has been a feature of life so as to make sure that people no longer need to leave the country to get ahead. There are a number of ambitious efforts, including some led by Mexican migrants that can serve as models for this. Mexican policymakers 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.

ADDRESSING MAJOR GLOBAL ISSUES WITH MEXICO

Over the past few years, the U.S. and Mexican governments have expanded beyond the bilateral agenda to work closely together on global issues, from climate change to international trade and the economic crisis. *The U.S. government should continue to take advantage of the opportunities this creates for joint problem-solving.* Mexico's active participation in the G-20, which it hosted in 2012, and in the U.N. Framework on Climate Change, which it hosted in 2010, have helped spur this collaboration, and the recent accession of Mexico into the Trans-Pacific Partnership negotiations provides one obvious avenue to continue it. The two countries also coordinate more extensively than ever before on diplomatic issues, ranging from the breakdown of democratic order in Honduras to Iran's nuclear ambitions. Mexico is likely to play an increasingly active role on global economic and environmental issues, areas where the country has significant experience, and through cooperative efforts the U.S. can take advantage of Mexico's role as a bridge between the developed and developing worlds, and between North America and Latin America.

The bilateral agenda will remain critically important—and the increasingly deep integration of the two economies and societies means that efforts on trade, security, and migration will remain vital for the future of both countries. In addition, the maturation of the bilateral relationship means that it may one day resemble that between the United States and Canada, in which global issues can be as important as the strictly bilateral issues.

A balanced and wide-ranging U.S.-Mexico agenda—one that seeks creative and collaborative approaches on topics ranging from local gangs to global terrorist networks and from regional supply chains to international finance—promises significant mutually beneficial results in the coming years.

KEY RECOMMENDATIONS:

- Work together with Mexico and Canada to strengthen regional competitiveness and to grow North American exports to the world. Economic issues can drive the next phase in deepening U.S.-Mexico cooperation. Investments in trusted shipper programs, pre-inspection programs, and enhanced border infrastructure will be crucial.
- Deepen support for Mexico's criminal justice institutions, and strengthen U.S. anti-money laundering efforts in order to combat organized crime and violence.
- Reform the legal immigration system to ensure U.S. labor needs are met for both high-skilled and low-skilled workers, and incorporate those who are already contributing to the U.S. economy and their communities.
- Engage Mexico more actively on hemispheric and extra-hemispheric foreign policy issues, ranging from terrorism to international trade and finance, as Mexico's role as a global power grows.

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