



# CHARTING A NEW COURSE: Policy Options for the Next Stage in U.S.-Mexico Relations

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Next Stage in U.S.-Mexico  
Relations



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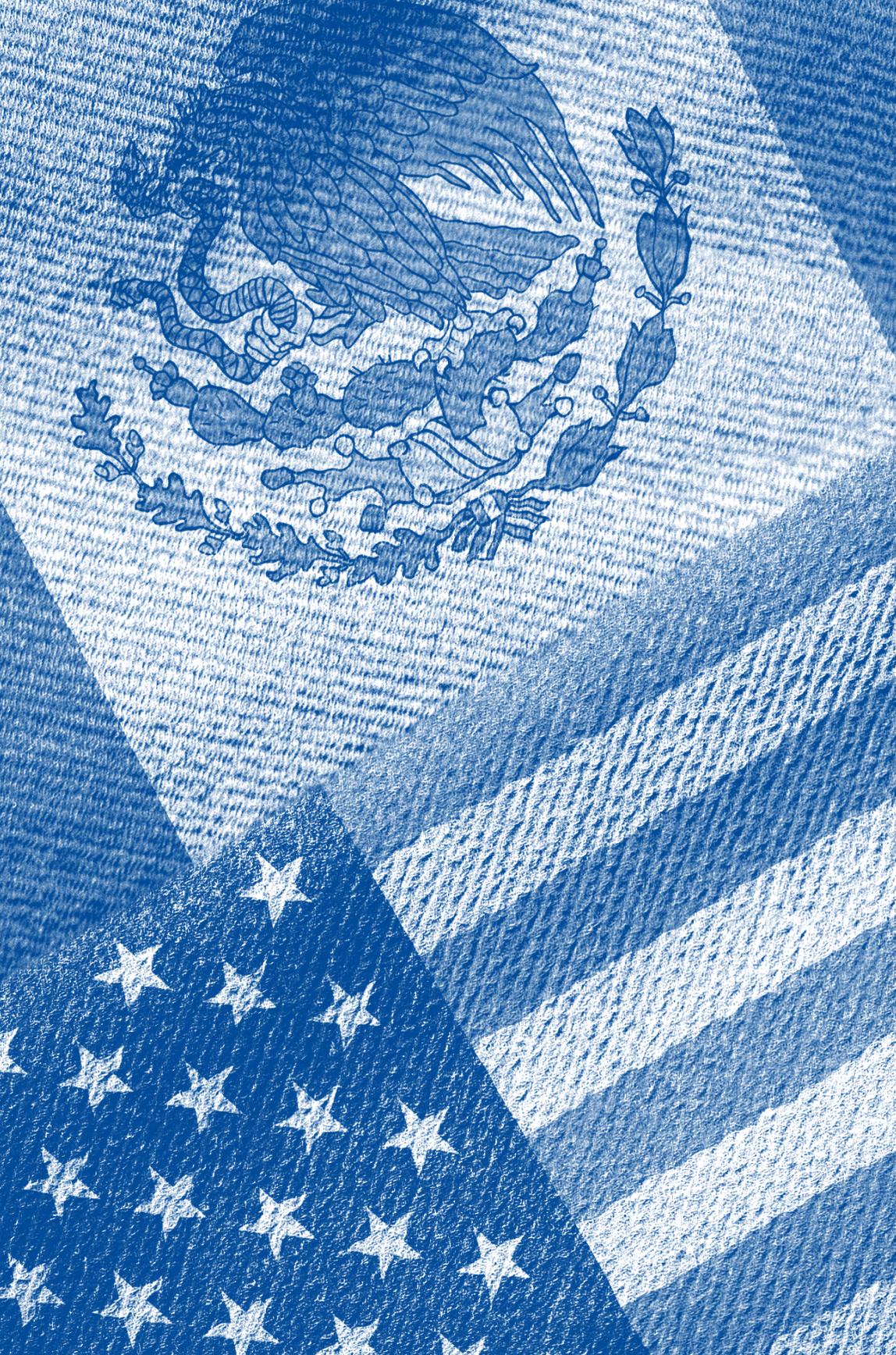
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## TABLE OF CONTENTS

- 1** Introduction: Charting a New Course: An Agenda for U.S.-Mexico Relations
- 10** Leveraging the U.S.-Mexico Relationship to Strengthen Our Economies
- 32** The Evolving Merida Initiative and the Policy of Shared Responsibility in U.S.-Mexico Security Relations
- 66** A New Migration Agenda Between the United States and Mexico
- 82** U.S.-Mexico Energy and Climate Collaboration
- 116** Towards a North American Foreign Policy Footprint
- 135** Key Recommendations at a Glance
- 142** About the Authors



# CHARTING A NEW COURSE:

## An Agenda for U.S.–Mexico Relations

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**T**he relationship between Mexico and the United States, although undoubtedly facing its most severe test in decades, remains strong. The underlying economic and security fundamentals of close neighbors that have shared an extraordinary journey of closer integration for the last 25 years mean that there is a force of gravity at work that makes it difficult to sever the ties that bind the two nations. However, it is also true that we should not take the strength of the relationship, nor the good will that exists between the two nations, for granted. In fact, the events of January and February 2017 have shown us what is at stake and should focus minds on how to preserve the very real mutual benefits of the relationship.

The challenge to the status quo of the relationship in early 2017 also highlights the need to think about this relationship in a radically different way. In addition to reaffirming the truths of economic interdependence and mutual security support, it is clear that the time has come to focus on new issues in the relationship, to adopt a new tone, and to propose a new course. In each of the five issue areas addressed by this publication (economic competitiveness, security, migration, energy, and foreign policy), there are intriguing new directions that bilateral affairs can and should follow. The authors of each of these chapters identify existing trends and initiatives, and look to the need to move the agenda forward to take into account the priorities of the Trump administration as well as the changing reality of the global economy and global system.

Some of these ideas are new; others have been discussed before but have not had the opportunity to be adopted due to underlying

political and economic realities or the priorities of previous U.S. and Mexican administrations. What is critical is the need to recognize the enormous benefits that accrue to both nations from the relationship, and the need to adequately compensate those groups in both societies that lose out from it.

If we fail to focus minds and policies on these issues, and the huge achievements of the past 20 years are squandered, then we will place the short- and even long-term future of the relationship in jeopardy, and rising nationalism and prejudice on both sides could dominate and direct bilateral affairs down a more difficult and perilous path.

## **ECONOMIC COMPETITIVENESS**

The corner stone of the bilateral relationship since 1994 has been the North American Free Trade Agreement (NAFTA) and its provisions promoting commerce, investment, and most importantly, a cross-border manufacturing platform. Studies have shown that both Mexico and the United States benefit from the existence of NAFTA and that almost 5 million jobs in the United States depend on the bilateral trading relationship with Mexico. The ability to manufacture goods, both for sale in North America and the world, across the borders of North America, allowing producers to take advantage of the respective factors of production of each of the three NAFTA members, has allowed them to advance their competitiveness in national and foreign markets.

But it is clear that NAFTA is an “old lady” of free trade agreements, one that was designed and signed before the arrival of the modern economy, before the invention of e-commerce, smart phones, and before the adhesion of China to the WTO. Pro-NAFTA analysts have for years been arguing that the agreement needs updating, and there is an opportunity to do that now that President Trump has called on Mexico to renegotiate. However, there are very real risks that a renegotiation process that is not carefully handled will produce a sub-optimal outcome and may risk the loss of very important elements of the original treaty, such as investor protections and tariff-free access to regional markets.

The nearly \$600 billion-a-year trading relationship in goods and service between the two economies is extraordinarily diverse and is of critical importance to both nations. Mexico is the United States' second most important export market after Canada, with more than \$240 billion in U.S. goods consumed in Mexico in 2015. The energy trade with Mexico is one that has swung dramatically in the United States' favor in recent years, and stands to grow in the future as Mexican demand for natural gas and refined petroleum products increases. What's more, although the goods trade deficit with Mexico stands at almost \$60 billion, the United States has an almost \$10 billion surplus in the services trade with its southern neighbor. Finally, we must recognize that trade with Mexico has lowered the price of consumer goods in the United States, both helping to tame inflation and improving the spending capacity of millions of U.S. households.

Christopher Wilson's chapter on the economic relationship proposes that any NAFTA renegotiation take into consideration four main concerns: including products and types of commerce that were not around when the treaty was negotiated; adjusting the agreement's rules of origin provisions to maximize content from the region without pricing final products out of the market or jeopardizing the regional production platform; updating and creating enforcement mechanisms for the labor and environmental side agreements; and raising the *de minimis* levels for cross-border shipments to improve small business participation in regional trade.

Wilson also focuses on the importance of strengthening mechanisms such as the U.S.-Mexico High-Level Economic Dialogue (HLED), and promoting existing collaboration on the issues of education, innovation, and entrepreneurship (FOBESII and MUSEIC). These institutional mechanisms were also emphasized by Secretary of State Rex Tillerson on his February 2017 visit to Mexico City, and their resilience will be tested during this time of uncertainty in bilateral affairs. Lastly, Wilson argues convincingly for boosting regional competitiveness by improving the efficiency of border crossings, investing in border infrastructure, and designing new procedures and technologies to improve cross-border flows.

## SECURITY COOPERATION

The past decade has seen ever-closer cooperation on questions of public security, justice reform, and the fight against organized crime and drug trafficking. Thanks to the Merida Initiative, signed during the Calderon and Bush presidencies, and enduring through the 8 years of the Obama administration and 4 years of the Peña Nieto administration, security and intelligence agencies on both sides of the border have come to understand and trust each other at levels that would have been considered unthinkable 10 years ago. While the problems of organized crime, impunity, institutional weakness, and violence continue to plague Mexico, the ongoing security collaboration has created a security bond between the two countries that is remarkable when put in historical perspective.

Eric Olson's chapter in this volume on bilateral security relations reaffirms the importance of the concept of shared responsibility. This means recognizing the need for joint action, coordinated responses, that the drug violence problem has causes and effects on both sides of the border, and that this is a multidimensional problem. Olson specifically recommends focusing on building resilient communities, funding impact evaluation studies to determine where resources are best spent, and that a joint effort is made to stem the flow of weapons south from the United States to Mexico. He also emphasizes the importance of strengthening institutions in Mexico, including the process of justice reform and the professionalization of the police force. Human rights must also be more strongly protected and respected in the fight against organized crime.

Olson closes his piece with a focus on military-to-military cooperation. This is perhaps the most remarkable element of the bilateral security relationship over the past few years, with formerly reticent elements of the Mexican army coming forth and engaging in dialogue with their U.S. counterparts and even visiting U.S. Northern Command (USNORTHCOM) facilities. Olson's emphasis on this achievement raises the prospect of even closer bilateral collaboration, with Mexico playing a fundamental role not just in fighting the drug business and organized crime in its own territory, but also help-

ing to protect the U.S. homeland from external threats. This is one of the most intriguing potential elements for future cooperation, should the current rocky state of the relationship be overcome.

## MIGRATION

The intense focus on immigration, refugees, and deportations early in the Trump administration at a time when Mexican migration to the United States is at a forty year low makes Andrew Selee's chapter on migration policy in the bilateral relationship especially relevant. Mexico has transformed itself from a country of origin to a country that now both receives large numbers of migrants and is a country of passage for Central Americans and others who are trying to get to the United States. The correct approach to migration policy, Selee argues, is therefore to look to Mexico for help in controlling migration flows and to continue existing collaborations and even deepen that process, as our southern neighbor has become a valuable partner in both stabilizing the region and in stopping undocumented migrant flows north through its *Plan Frontera Sur* (Southern Border Plan) operating on the border with Guatemala and Belize.

Selee proposes a number of policy ideas, all of which are based on the greater complexity of the migration relationship between the United States and Mexico, and he emphasizes the importance of distinguishing between concerns over immigration and those over organized crime and drug trafficking. First, he proposes establishing a balance between enforcement and encouraging economic development in both Mexico and Central America, as both have been shown to have a significant effect on deterring migration. Enforcement, when it occurs, should focus on unauthorized immigrants with criminal records, while also strengthening the use of technological solutions for detection at the border.

Second, there is an urgent need to increase the number of visas for Mexican and Central American workers to legally satisfy the demand for their labor in the United States. On partnering with Mexico, Selee proposes that collaborative efforts on Mexico's southern border con-

tinue while emphasizing the need to show full respect for human rights. Mexico is also a vital partner on stabilizing Central America through economic development and support in fighting organized crime.

## **ENERGY COOPERATION**

The past four years have seen unprecedented highs in U.S.-Mexico energy cooperation, both bilaterally and as part of the broader regional dialogue. With Mexico's landmark 2013 energy reform, a meaningful conversation over energy policy became feasible for the first time in over 75 years. This opportunity was not wasted and the two countries have engaged in an intense dialogue.

The North American Energy Dialogue between the United States, Canada, and Mexico has brought policy makers together in meaningful ways to plan for the future of energy policy in the region. Achievements include mapping out the region's energy infrastructure and resources, producing harmonized statistical data bases, and working together on responsible and sustainable best practices for unconventional oil and gas developments. Lastly, the energy ministers have discussed collaborative approaches towards the goal of a more modern, resilient energy infrastructure for North America, including policies, regulations, workforce, innovation, energy efficiency practices, and sustainable technologies.

The change in administration in Washington has caused many to question whether this collaboration will continue. The chapter by Duncan Wood argues that there is good cause to be optimistic on this front as long as the overarching concerns between the Mexican and American governments are resolved, and if new cooperative proposals focus on the energy priorities of the Trump administration. Wood proposes not only embracing the North American Energy Dialogue as a tried and tested mechanism for cooperation, but also recognizing the importance of Mexico as a friendly supplier of crude oil to the U.S. market and an increasingly important market for U.S. natural gas and refined products exports. Secondly, a constructive agenda that focuses on efficient regulation would be of benefit and interest to both nations. Third, energy infrastructure planning makes

perfect sense as pipelines and transmission lines need to cross borders and refining capacity should be located where it makes the most economic sense. Lastly, the United States should work with Mexico to build a pipeline network to bring natural gas to Central America and to connect renewable energy resources in both countries to overcome the intermittency problem.

Although climate is unlikely to feature as a leading element of cooperation during the Trump administration, Mexico will find numerous partners at the level of states and municipalities in the United States. Working with them and with regional systems operators will provide ample avenues for further progress.

## **A NORTH AMERICAN FOREIGN POLICY FOOTPRINT**

As Mexico has increased its prestige and presence in world affairs, there is now the opportunity to partner with the United States on the regional and global stage. Although Mexico has a long and proud tradition of foreign policy independence and, in many ways, splendid isolation, the transformation of its economy since the 1980s has meant that Mexico now has both regional and global interests.

Ambassadors Earl Anthony Wayne and Arturo Sarukhan posit a daring and innovative approach to foreign policy collaboration in their chapter in this volume. Working from the assumption that Mexico is willing to work with the United States and Canada, and that such collaboration would increase the impact of their joint efforts in the world, the authors call for greater cooperation on fighting terrorism, organized crime, and building the recently-created North American Dialogue on Drug Policy.

In Central America, the authors argue, the North American nations can work together effectively to have a deeper impact on questions of economic development, public insecurity, and managing migrant flows. In the Americas more generally, the three nations could push for meaningful reform of the Organization of American States. Globally, North America acting jointly stands as one of the most important centers of energy production, and this strength should be used

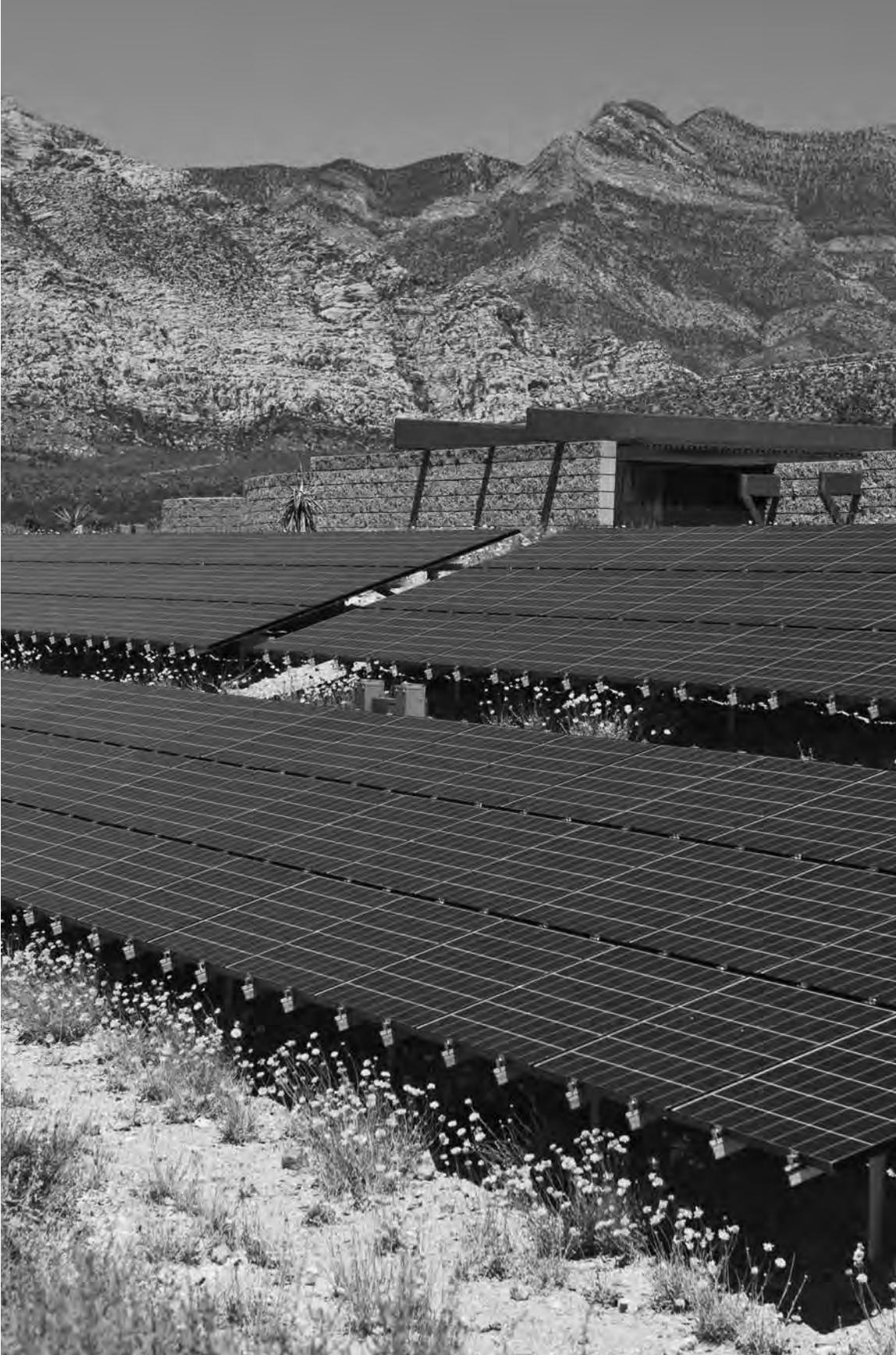
to influence policy in international forums. With Mexico's decision to participate in peacekeeping efforts, there is an opportunity to bring their forces together to deploy a joint regional disaster relief mission. Finally, cybersecurity cooperation will be crucial to maintaining the safety of systems and critical infrastructure.

## **CHARTING A NEW COURSE**

The ideas contained in this volume are all designed to recognize the national interests of the United States and Mexico but also to find areas where these interests intersect. The uncertainty in the U.S.-Mexico relationship in the first few weeks of 2017 has emphasized the need to both focus on the fundamentals of bilateral affairs and to explore new avenues for collaboration. It is our belief that these policy proposals are not only viable, but that they are of enormous political and economic importance.

### **Duncan Wood**

Director, Mexico Institute  
Wilson Center



## KEY POLICY RECOMMENDATIONS

- In order to support job creation and business opportunities, the focus of the U.S.-Mexico economic agenda should be on strengthening competitiveness and growing exports.
- Ensure that any update to the North American Free Trade Agreement or broader bilateral economic policy framework will enhance—not diminish—the competitiveness of the regional production networks that have come to characterize bilateral trade. Potential elements of such a revision could include:
  - Adding products and modes of trade that did not exist when NAFTA was negotiated;
  - Increasing small business participation in trade by simplifying customs paperwork and raising the Mexican *de minimis* value for cross-border shipments;
  - Creating enforcement mechanisms for labor and environmental standards;
  - Adjusting NAFTA’s rules of origin to promote the use of regional suppliers (a detailed study will be needed to ensure the proposed adjustments will not create unwanted negative effects on regional industry.)
- Continue the U.S.-Mexico High-Level Economic Dialogue to provide sustained leadership and coordination for the complex bilateral economic agenda.
- Boost regional competitiveness by improving border management:
  - Facilitate regional commerce by cutting the time it takes to cross the U.S.-Mexico border;
  - Expand trusted traveler and trader programs to enroll a larger portion of cross-border traffic;
  - Create additional joint inspection programs at the border so that U.S. and Mexican border officials can work side-by-side to safely and quickly clear individuals and cargo shipments;
  - Prioritize investment in infrastructure at border crossings, and create incentives for public private partnerships.
- Strengthen collaboration on issues relating to education, innovation, and entrepreneurship.

# LEVERAGING THE U.S.-MEXICO RELATIONSHIP TO STRENGTHEN OUR ECONOMIES

Christopher Wilson<sup>1</sup>

Tied together by both an accident of geographic proximity and through the deliberate integration institutionalized in the North American Free Trade Agreement (NAFTA) and other economic accords, the United States and Mexico have seen their economies become deeply intertwined. Since the 1990s, trade between the United States and Mexico has grown tremendously, with bilateral goods and services trade in 2015 reaching a total six times greater than before the North American Free Trade Agreement (NAFTA) was implemented in 1993.<sup>2</sup> In 2015, bilateral trade reached \$584 billion dollars, meaning that the United States and Mexico trade more than a million dollars' worth of goods and services every minute. The United States is Mexico's top export market, and Mexico is the second-largest foreign buyer of U.S. goods, second only to Canada. The bilateral trade relationship is enormous in size, and the U.S. and Mexican economies each depend significantly upon one another.

The crux of the partnership, though, lies in the way that cooperation within North America supports the region's competitiveness in the global economy. The U.S.-Mexico economic partnership has the potential to play a key role in boosting regional exports to the rest of the world, which would support job growth in the United States and Mexico while helping to address the trade deficits currently run by both countries.

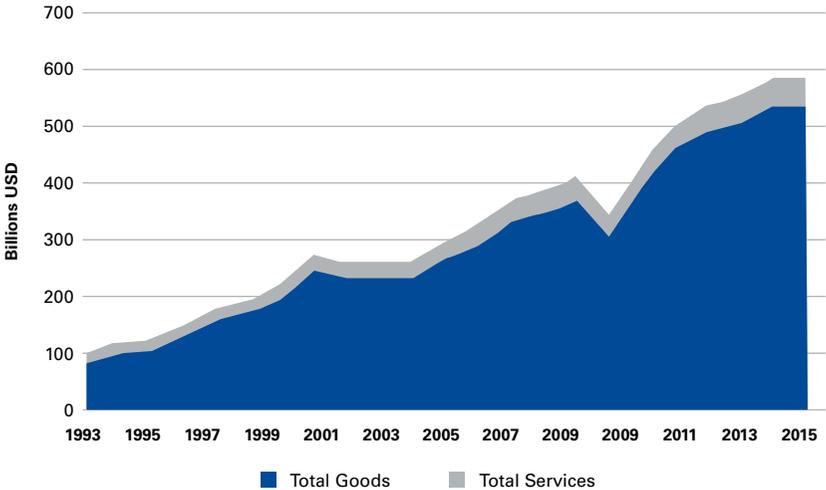
## REGIONAL VALUE CHAINS LINK OUR ECONOMIC PROSPECTS

The immense importance of U.S.-Mexico economic collaboration can only be appreciated when one considers the unique nature of U.S.-Mexico trade. While imports from most countries are what they appear to be, foreign products, the United States and Mexico actually work together to manufacture products, with parts and materials zigzagging their way back and forth across the border as finished goods, from flat screen televisions to automobiles, are produced. In fact, approximately 50 percent of all U.S.-Mexico merchandise trade is in parts and materials, fueling each other's industries.<sup>3</sup> Further evidence of the way in which co-production has come to characterize U.S.-Mexico trade is the fact that the top four broad categories of U.S. exports to Mexico are also the top four Mexican exports to the United States: machinery, vehicles, electrical machinery, and mineral fuels.<sup>4</sup> We trade goods in the same categories because industries—including the automotive, aerospace, and medical devices industries—have built their supply chains across the binational region in ways that make the most of the advantages and specialization of each country. The construction of these regional value chains has fundamentally altered the way we must understand the U.S.-Mexico economic relationship. They link our business cycles, productivity, and long term competitiveness in such a way that the prosperity of our nations tightly bound together.

To build up the highly competitive and tightly integrated North American production platform that now exists, U.S. and Mexican companies have made huge investments across the border. The total stock of U.S. and Mexican foreign direct investment in each other has risen more than six-fold since 1993 and now totals \$109 billion dollars (Figure 1).<sup>5</sup> In 2015, U.S. direct investment—the direct ownership of businesses like a manufacturing plant or retail store—in Mexico reached \$93 billion dollars (Figure 2). Mexican investment in the United States, at \$17 billion dollars, is smaller but growing quickly. It has quadrupled since 2005, and the United States is the largest destination for Mexican FDI abroad.<sup>6</sup>

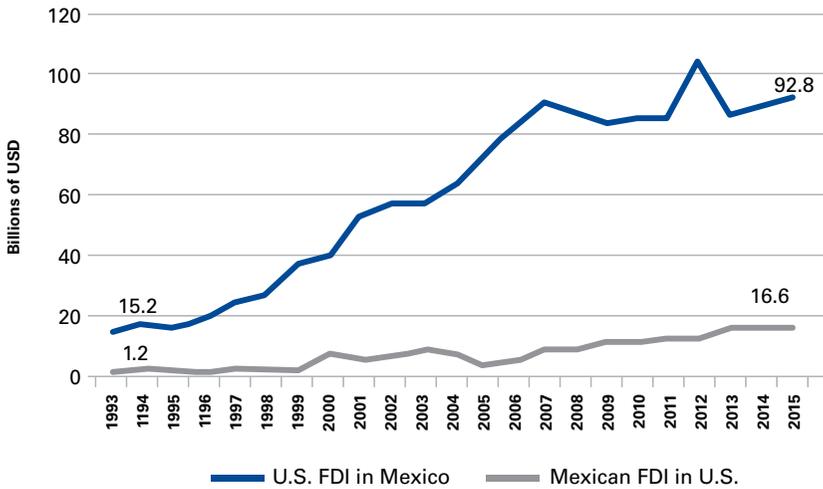
U.S. investments to build factories in Mexico and other countries have faced considerable criticism recently, understood as representing a loss for the U.S. economy. To be sure, there are times when firms close their factories in the United States and move to Mexico. However, there is strong evidence that investment by U.S. firms in Mexico is more often associated with job growth in their U.S. operations than with job losses. Theodore Moran and Lindsay Oldenski have analyzed U.S.-Mexico trade and investment data from 1990 to 2009, and find that on average a 10 percent increase in employment at U.S. companies' operations in Mexico leads to a 1.3 percent increase in the size of their U.S. workforce, a 1.7 percent increase in exports from the United States, and a 4.1 percent increase in U.S. research and development spending.<sup>7</sup> There is also evidence that the jobs created in the United States by this phenomenon require higher skill levels, reinforcing the need for training and re-training to ensure that workers benefit from this transition and qualify for these higher-paying positions.

**Figure 1. U.S.-Mexico Trade in Goods and Services, 1993-2015**



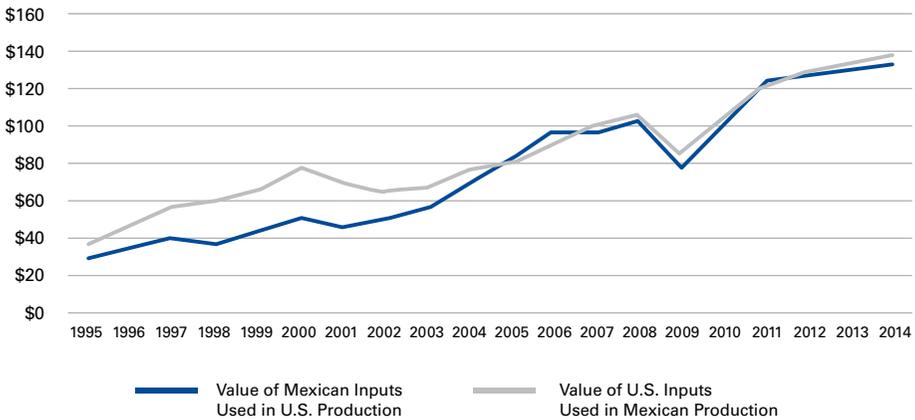
*Source: U.S. Census Bureau for goods trade; U.S. Bureau of Economic Analysis and OECD for services trade. See endnote two for more details.*

**Figure 2. U.S.-Mexico Foreign Direct Investment Positions, 1993-2015**



Source and Note: Historical cost basis data. U.S. Department of Commerce, Bureau of Economic Analysis, 2016.

**Figure 3. Value of Foreign Inputs for Domestic Production, Billions of USD, 1995-2014**

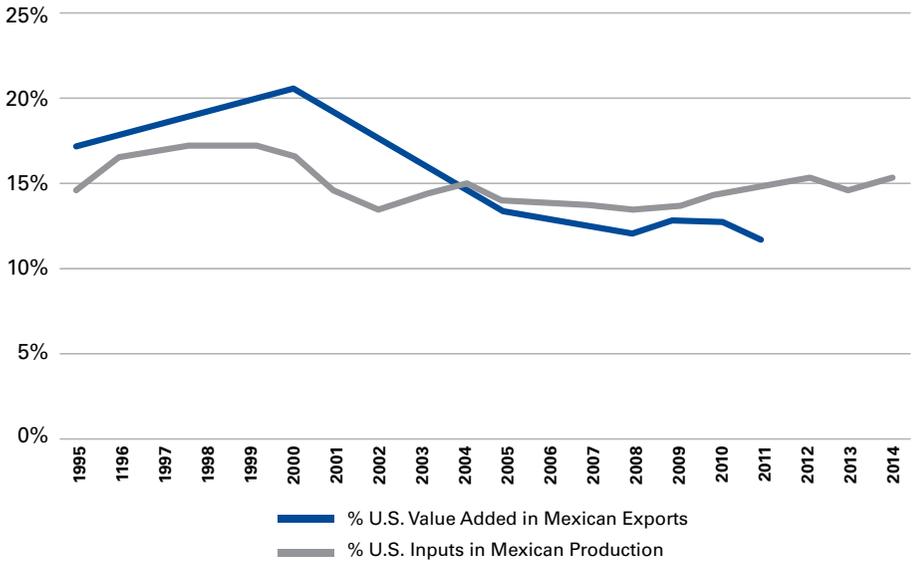


Source: Author's calculations with data from World Input-Output Database, <http://www.wiod.org/>, 2016.

Even as the value of U.S. and Mexican participation in each other's supply chains has continued to grow in absolute terms, some important developments can be appreciated by viewing how the relative share of this participation has changed over time. As shown in Figure 3, the United States sells even more inputs to Mexico than Mexico sells to the United States. Given that Mexico sends approximately 80 percent of its gross exports to the United States, it should be no surprise that the vast majority of the inputs sent from the United States to Mexico make their way back to consumers in the United States. In this sense, a study using data from 2004 found that U.S. imports of final goods from Mexico contained 40 percent U.S. value added, a number significantly larger than was found for U.S. imports from any other country save Canada (25% for Canada vs. 4% for China and 2% from the E.U.).<sup>8</sup>

Nonetheless, the portion of total inputs used in Mexican production that come from the United States, as well as the U.S. value embedded in Mexican exports, has experienced some ups and downs (Figure 4). During the 1990s, after NAFTA was passed, both measures rose, but as value chains became more global and China in particular grew its participation in global systems of production, the U.S. share fell.<sup>9</sup> Rising wages in China and improved productivity in U.S. manufacturing operations may mean that the tide is again turning, but the United States and Mexico should not leave the health of their regional value chains to chance. Therefore, the principal recommendation derived from this research is that the best way to grow U.S. exports and industry is by working closely with Mexico and Canada, our partners in production. The U.S.-Mexico relationship is not zero-sum, and there are significant risks that any effort to support U.S. industry by suppressing imports from Mexico could backfire. Instead, efforts are needed to strengthen regional value chains, make regional industries more competitive, and as a result grow exports from both countries to the rest of the world.

**Figure 4. U.S. Share of Inputs for Mexican Production and U.S. Value in Mexican Gross Exports, 1995-2014**



Source: OECD-WTO, *Trade in Value Added Database*, 2016; and author's calculation based on data from the *World Input-Output Database*, <http://www.wiod.org/>, 2016.

## TRADE AND EMPLOYMENT: TRAINING A 21<sup>ST</sup> CENTURY WORKFORCE

**Figure 5.** U.S. Jobs that Depend on Trade with Mexico



At the heart of President Donald Trump’s successful campaign was a promise to fight for the well-being of American workers, and indeed attending to the needs of each country’s workforce is vital to the prosperity of the United States and Mexico. Two key points follow from this. First, nearly five million U.S. jobs and a similar number of Mexican jobs depend on bilateral trade. Raising significant tax or tariff barriers to bilateral trade would threaten a significant number of those jobs in both countries. Second, for different reasons (outlined below), both the United States and Mexico are in need of significant human capital investments. The global economy is transforming at a very fast pace. A failure to adequately and effectively invest in educa-

tion and workforce development leaves huge segments of our populations in danger of being excluded from the benefits of the global economy, putting support for the international economic system and the health of our national economies at risk.

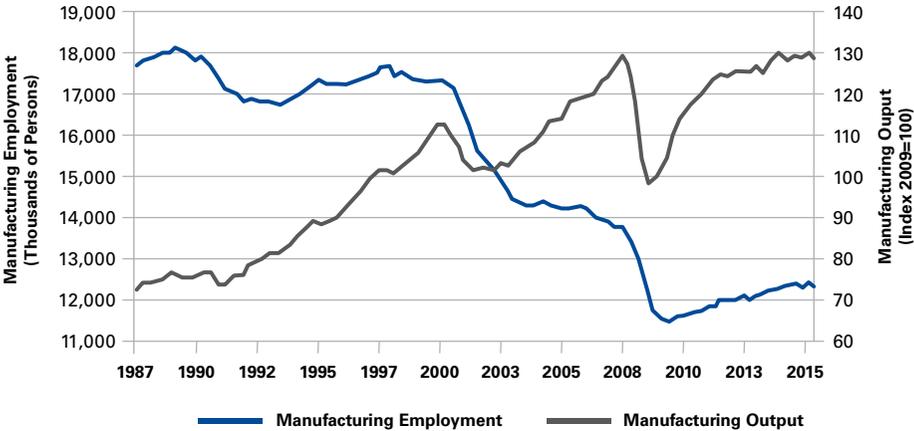
New research commissioned by the Mexico Institute (Figure 5) shows that nearly five million U.S. jobs depend on trade with Mexico.<sup>10</sup> This means that one out of every 29 U.S. workers has a job supported by U.S.-Mexico trade. The model utilized in our study shows that if trade between the United States and Mexico were halted, 4.9 million Americans would be out of work. To be clear, trade expansion between the United States and Mexico, like trade between any two countries, both creates and destroys jobs; the study takes this fact into consideration and finds a *net* gain of 4.9 million U.S. jobs as a result of bilateral trade. These jobs are spread throughout the U.S. economy, both in terms of industries and geography, and policies are needed that not only preserve these jobs but also expand the benefits of the regional economy.

The U.S. labor market is in the process of a major, long-term economic transition. Productivity gains, driven mainly by automation and technology but accelerated by trade, are pushing manufacturing employment down even as output continues to rise. In this era of increasing service sector employment and a growing need for workers with technological know-how to design and run automated production processes, education and training are at a premium. In fact, since the financial crisis, more than 95 percent of the jobs created in the United States have gone to workers with at least some college education.<sup>11</sup>

Mexico is still experiencing employment growth in its manufacturing sector, but that trend will not continue indefinitely. Indeed, industries that depend heavily on low-cost labor, such as large-scale textile or shoemaking, have in large part already left Mexico. In their place, industries that require greater human capital, such as the auto and aerospace industries, have grown significantly as productivity in these sectors has risen. This evolution is healthy for Mexico's development, and the next step on the path is for Mexico to grow

its knowledge economy. As the World Economic Forum’s 2016 competitiveness report puts it, Mexico is in transition from being an efficiency-driven economy to an innovation-driven economy.<sup>12</sup> A top-notch workforce is a prerequisite to successfully complete such a transition.

**Figure 6. U.S. Manufacturing Employment and Output,**



Seasonally Adjusted, July 1987-April 2016

Source: Saint Louis Federal Reserve, with data from U.S. Bureau of Labor Statistics, 2016.

**DEFICITS, JOBS, AND COMPETITIVENESS: SETTING THE RIGHT GOALS**

During the 2016 U.S. presidential campaigns, two key economic issues—jobs and the trade deficit—were discussed extensively in the context of the U.S.-Mexico relationship. Competitiveness was perhaps not discussed enough. Both jobs and the trade deficit are important economic issues for the United States, but care needs to be taken in the way that they are understood and used to create goals in the context of bilateral relations. Though not without its own conceptual pitfalls,<sup>13</sup> putting regional competitiveness (and productivity) at the center of conversations on economic relations can help ground the discussion in the reciprocal nature of the U.S.-Mexico economic relationship and opportunities for mutual benefit.

Clearly, creating high-quality jobs deserves to be a priority in the U.S.-Mexico economic relationship. Mexico is not the cause of the vast majority of manufacturing job losses in the United States. (In fact, the impact of bilateral trade is net positive for U.S. manufacturing jobs.<sup>14</sup>) As such, there are no potential changes in the U.S.-Mexico relationship that could reverse the decades old decline in U.S. manufacturing employment shown in figure 6. Other goals are needed. The development of the regional production platform has played an important role in maintaining the overall health of U.S. manufacturing, and while improvements in the system of coproduction will not be able to reverse the overall trend in manufacturing employment, they can preserve some manufacturing jobs while growing employment opportunities in design, engineering, research, and business services. Similarly, efforts to strengthen the regional climate for innovation, entrepreneurship, and business growth can help ensure that the jobs and earnings associated with new companies and product lines accrue to the region. Most importantly, and unsurprisingly, the majority of work needed to improve employment opportunities for U.S. and Mexican workers has to do with workforce training and education. This is predominately a domestic task for each nation, but there are some ways that the U.S.-Mexico relationship can be leveraged to facilitate and strengthen workforce development in both countries.

The last time the United States had a trade surplus was in 1975.<sup>15</sup> By 2016, the U.S. trade deficit had reached a half-trillion dollars. The main reason that countries export goods is so that they earn the income needed to purchase imported goods. From this perspective, when running a deficit a country is getting more of the benefits of trade (imports) than what they are paying for with the work and capital needed to create goods for export. Credit fills in the gap, and so a nation's trade deficit can only be maintained for as long as other countries are willing to continue lending that country more and more. Despite the near-term benefits of the U.S. trade deficit, many are concerned that the debt load being taken on by the U.S. government and society will need to be reined in over the coming decades in order to maintain low borrowing costs and to ensure economic

stability. Related to this is a concern that some countries have kept their currencies undervalued in order to boost exports and thereby accumulate capital, which is often invested back in the United States through bond purchases. The issue is more complicated than often portrayed, but there are legitimate reasons to be concerned about the U.S. trade deficit.

Trade with Mexico accounts for approximately 11 percent of the U.S. goods and services trade deficit.<sup>16</sup> Trade with China makes up the majority (66%) of the trade deficit. However, in an era of global supply chains, these figures end up being distorted. Parts from outside the region used as inputs for products assembled in Mexico are incorrectly added to the U.S.-Mexico trade deficit. Using data from the OECD Trade in Value Added database, which takes into account the international movement of parts through the production process, one finds the traditional measure of the U.S. goods and services trade deficit with Mexico is 36 percent higher than the deficit calculated in value-added terms.<sup>17</sup> Mexico also runs its own trade deficit with the world, meaning it is on the same side as the United States of the global imbalance that results in the U.S. trade deficit.<sup>18</sup> In fact, given that Mexico's annual exports to the world contain billions of dollars of U.S. content, growing U.S.-Mexico trade could actually play an important role in boosting U.S. exports and thereby reducing the overall U.S. trade deficit.

The overarching goal of U.S. and Mexican officials as they construct the next chapter of the bilateral economic agenda should be strengthening regional competitiveness. Each country can logically put the greatest focus on improving its own ability to attract and sustain investments and increase productivity, but this should be done with an understanding that the competitiveness of the two nations is complementary and mutually reinforcing. Given the integrated nature of regional value chains and the dependence that industry in each country has on imported inputs from the other country, productivity gains in one country drive increased competitiveness in the other. For example, Mexico's 2013 telecom reform has driven down prices in that sector, and businesses throughout Mexico have lower phone bills as a result. This helps keep down the cost of goods

produced in Mexico, and consequently increases the competitiveness of U.S. industries that import parts and materials from Mexico. In the same way, successful tax reform or productive infrastructure investments in the United States would be a boon for the Mexican economy. Many approaches to cutting the costs of doing business in the region can be enacted jointly, whether by simplifying customs procedures, making regulations in the two countries more compatible, or by other means. These types of mutually beneficial efforts to boost regional competitiveness ought to form the core of the bilateral economic relationship.

## **POLICY RECOMMENDATIONS**

In order to support job creation and business opportunities, the focus of the U.S.-Mexico economic agenda should be on strengthening competitiveness and growing exports. As Wilbur Ross, President Trump's nominee for secretary of commerce, suggested during his confirmation hearing, "I think the pro-growth thing is stimulating exports, much more than just curtailing imports."<sup>19</sup> The best way to achieve this is in cooperation with Mexico. Because the United States and Mexico build products together, the two countries have the opportunity to combine comparative advantages and utilize economies of scale in ways that improve the competitiveness of each nation. Similarly, the fact that half of U.S.-Mexico trade is in parts and materials used as inputs for production suggests that the imposition of greater barriers to bilateral trade would raise the costs of production in North America, making regionally produced products more expensive for domestic consumers and less competitive abroad. In this section, several priority areas for the binational agenda are suggested. They in no way represent the entirety of the bilateral economic agenda, which spans a vast number of important issue areas.

## **UPDATING NAFTA**

An outright withdrawal from the North American Free Trade Agreement would raise costs for industry in the region, thereby putting

jobs at risk and diminishing competitiveness. Nonetheless, as an agreement created a quarter-century ago, there is ample opportunity for the Trump and Peña administrations to negotiate an update to NAFTA that would serve the interests of both countries and address the concerns of many of the constituencies for whom the agreement did not live up to its promises. There is not space in this chapter to fully address the many potential facets of a renegotiation of NAFTA, but these are some of the issues that could be addressed:

- A simple update to include products and modes of trade—especially trade in digital products—that did not exist in the early 1990s.
- E-commerce tools have made it much easier for small businesses to find buyers abroad, but complicated customs procedures are still an intimidating hurdle for companies looking to begin exporting. Simplifying customs paperwork and raising the threshold for the value of shipments before they face customs revisions, known as *de minimis*, would boost U.S. small business exports to our neighbors. Congress passed legislation to raise the U.S. *de minimis* value to \$800 dollars in 2016. Mexico and Canada, each of which begin requiring customs processing for significantly lower value shipments, should reciprocate.
- The NAFTA side agreements on labor and the environment are essentially toothless. Incorporating them into the agreement itself and strengthening enforcement provisions could alleviate concerns that companies might be choosing to leave the United States as a way to avoid higher labor or environmental standards.
  - Though NAFTA and the recent bilateral aviation agreement have eliminated many restrictions, both the United States and Mexico still have many transportation rules that limit the freedom of companies or carriers when they operate on the other side of the border.
  - There might be areas in which NAFTA's rules of origin, which set the threshold for the amount of regional content needed to qualify for NAFTA's tariff benefits, could be adjusted in order to

encourage the use of more North American parts. During the review, care would need to be taken to also identify regional industries that could be pushed out of North America by stricter regional content requirements, preferring to forgo NAFTA benefits rather than pay tariffs on inputs they currently source from outside the continent.

## **THE HIGH-LEVEL ECONOMIC DIALOGUE**

As the U.S. and Mexican economies have become more integrated, the number of issues on the agenda has grown. Topics of economic importance addressed through bilateral coordination and cooperation now include food safety, agricultural pest control, the protection of sensitive industries, customs facilitation, regulatory compatibility, anti-money laundering provisions, transportation infrastructure, energy security, natural resource management, economic development in border regions, financial literacy, educational exchange, research collaboration, innovation, entrepreneurship, trade policy, and many more. To coordinate such a complex agenda and to be sure that the many U.S. and Mexican agencies responsible for such topics work together to advance regional competitiveness, the two governments have created the U.S.-Mexico High-Level Economic Dialogue, or HLED. The HLED brings together U.S. and Mexican cabinet members on an annual basis. To push through bureaucratic roadblocks and ensure progress is made across a wide range of agenda items, pressure from the highest level is essential, and the best way to ensure that kind of ongoing leadership is to institutionalize cabinet level meetings. To manage the complex bilateral economic agenda, the HLED needs to continue, even as important negotiations become the focus of the relationship. A single-issue economic agenda is simply not feasible given the depth of bilateral economic ties, and therefore a coordinating mechanism and leadership commitment is needed.

## **A COMPETITIVE BORDER**

There are significant opportunities to boost regional competitive-

ness through improved border management. Right now, both nations lose out on billions of dollars of economic activity because of congestion at the busy U.S.-Mexico border, which adds costs to regional manufacturers and discourages travel and investment in the region.<sup>20</sup> A framework has been constructed over the past 15 years for U.S.-Mexico cooperation to simultaneously strengthen security and efficiency in border management, but further investments and the implementation of programs in development is needed.<sup>21</sup> Top priorities should include:

- Trusted traveler and trader programs offer companies and individuals expedited border crossings in exchange for undergoing background checks and committing to security standards, thereby allowing officers at the border crossings to focus their efforts on travelers and cargo that are not known to be low-risk. These programs, which cover cross-border private travelers (Global Entry and SENTRI in the United States; Viajero Confiable in Mexico), commercial drivers and shipping companies (FAST), and corporate supply chains (C-TPAT in the United States; Operador Económico Autorizado in Mexico), should be encouraged to enroll a larger portion of cross-border traffic.
- Furthermore, under current procedures, cargo is processed twice as it crosses the border—first as it leaves a country and then as it enters the other. Joint inspection programs, in which U.S. and Mexican border officials work side-by-side at facilities on either side of the border to clear cargo, are the future. By working together, U.S. and Mexican inspectors can better share information, reduce double inspection, increase the percentage of cargo that each inspects, and decrease staffing needs. These measures all facilitate trade while saving money and increasing border security.
- Even with efficiency gains, significant investments in infrastructure will be needed. The federal government must play a central role in funding border crossings, but public private partnerships can act as a multiplier in many cases. Big advances have already been made in developing a framework for such projects, but fur-

ther work is needed to fully take advantage of private (as well as state and local government) participation. In addition to contributing funding, local stakeholders bring fresh energy and ideas to the governments. A prime example of this is the CBX passenger bridge that connects the Tijuana airport directly to the U.S. side of the border. Staffed by border officials from both countries, this privately funded and built project allows passengers from both sides of the border to access the airport directly, saving passengers time, increasing profitable airport traffic, and effectively expanding the number of flights arriving to and departing from San Diego.

Additional efforts will be needed to continuously strengthen the use of technology at border crossings, to expand pre-inspection projects, to fully staff the crossings, to implement and eventually integrate U.S. and Mexican single windows for import and export processing, and to coordinate and prioritize broader transportation network investments.

## **INNOVATION, EDUCATION, AND ENTREPRENEURSHIP: FROM BUILDING TO INVENTING**

Because of the massive volume of merchandise trade between the United States and Mexico—over a half-trillion dollars per year—the bilateral economic relationship has tended to focus on ensuring the free and secure movement of goods between the two countries. Without doubt such an agenda has yielded significant results. Further progress along these lines is still possible and desirable, but as the Mexican economy has developed and economic integration has deepened, new areas of economic cooperation are growing in importance. Mexico has evolved from an economy using low-cost labor as its principal comparative advantage to a middle-income country with a large middle class and an economy oriented toward higher value and higher skill manufacturing, exemplified by its large auto and aerospace industries. The next step in the development of the Mexican economy is the growth of a knowledge-based economy, an economy that not only builds products but also dreams them

up and designs them. Such a transformation is underway and offers major benefits not only for Mexico but also for the United States. In the creative industries, for example, Mexican and American television and film makers have developed numerous partnerships and joint projects to create content in English and Spanish for regional and global audiences. Software developers from the Mexican tech industry in Guadalajara and Monterrey are working with counterparts across the United States to co-develop apps and other business tools. Investment flows, once almost entirely southbound, are quickly becoming more balanced, with well over 100,000 jobs in the United States now directly supported by Mexican direct investment.

To continue this trend, the two countries should strengthen collaboration on issues relating to education, innovation, and entrepreneurship. The Mexico-U.S. Entrepreneurship and Innovation Council (MUSEIC), for example, was created in 2013 to “promote and strengthen the cross-border design and innovation system to complement our cross-border production system.”<sup>22</sup> MUSEIC has several subcommittees focusing on topics ranging from promoting women entrepreneurs to sharing best practices on commercialization and financing entrepreneurs with high impact ideas. Another example of the expanding economic agenda is the U.S.-Mexico Bilateral Forum on Higher Education, Innovation and Research, known by its Spanish acronym FOBESII, which seeks to “expand opportunities for educational exchanges, scientific research partnerships, and cross-border innovation to help both countries develop a 21st century workforce for both our mutual economic prosperity and sustainable social development.”<sup>23</sup> Both FOBESII and MUSEIC have achieved some important results, but at the same time they are in many ways still nascent initiatives that can and should grow over time as successful pilots are replicated and scaled. Partnerships with subnational governments, civil society, and the business community are vital to their future success and should be actively expanded.

## CONCLUSION

The U.S.-Mexico economic relationship, as constructed over the past several decades, offers concrete benefits to millions of Americans and Mexicans. It is composed of a large and deep trade relationship in which the two countries co-produce products across regional manufacturing networks that enhance the competitiveness of each. This current state of interdependence and mutual gain also naturally means that a deterioration of the relationship could put the economic security and prosperity of citizens of both countries at risk. Instead, the two countries should work together to boost productivity and strengthen the competitiveness of the regional economy. They should aim to not only build things together but to also invent them, to design them, and to open markets around the world in which to sell them. The economic challenges of each country are real. They require significant improvements to the domestic economic policies of each. But to the extent that they are international, they are best faced together.

## ENDNOTES

- 1 In the writing of this chapter, I draw on the various essays of the Mexico Institute project, *Growing Together: Economic Ties between the United States and Mexico*.
- 2 Author's calculation with data from the U.S. Census Bureau, Bureau of Economic Analysis, and the OECD. Please note there was a change in definitions used to collect services trade data, so the 1993-1998 OECD data and the 1999-2015 BEA data are not directly comparable. Total trade refers to the sum of imports and exports.
- 3 Author's calculations with data from World Input-Output Database, <http://www.wiod.org/>, 2016, and the U.S. Census Bureau, 2016. Data for the calculation comes from 2011, the most recent year available from the WIOD dataset at the time of publishing. See page four of [A Regional Manufacturing Platform](#) for more information on how the calculation was made.
- 4 Though the order of importance of the four categories differs for Mexico and the United States, at the two digit HS level these are the top four export categories for each. United States Trade Representative, <https://ustr.gov/countries-regions/americas/mexico>, 2016.
- 5 This is the sum of U.S. direct investment position in Mexico and Mexican direct investment in the United States, using 2015 data from the U.S. Department of Commerce, Bureau of Economic Analysis, 2016.
- 6 When possible, this chapter relies on U.S. data in order to maintain consistency. In this case, the data to support the quadrupling of Mexican FDI in the U.S. is based on U.S. BEA data, but the data to support the U.S. being the largest recipient of Mexican investment abroad is the IMF, CDIS, 2016.
- 7 Theodore H. Moran and Lindsay Oldenski, "How U.S. Investments in Mexico have increased investment and jobs at home" in *NAFTA 20 Years Later*, Washington, DC: Peterson Institute for International Economics, November 2014.
- 8 Robert Koopman, William Powers, Zhi Wang, and Shang-Jin Wei, "Give Credit Where Credit Is Due: Tracing Value Added in Global Production Chains," NBER Working Paper No. 16426, Cambridge, MA, September 2010, Revised September 2011.
- 9 Other potential drivers of this decrease include dual recessions in the United States, the thickening of the U.S.-Mexico border following the terrorist attacks of September, 2001, and China joining the WTO.
- 10 See [Growing Together: How Trade with Mexico Impacts Employment in the United States](#) for more information on the model used by the Mexico Institute, run by Joseph Francois and Laura Baughman of The Trade Partnership.
- 11 Anthony Carnevale, Tamara Jayasundera, Artem Gulish, *America's Divided Recovery: College Haves and Have-Nots*, Washington, DC: Georgetown University Center on Education and the Workforce, 2016, <https://cew.georgetown.edu/wp-content/uploads/Americas-Divided-Recovery-web.pdf>.

- 12 World Economic Forum, The Global Competitiveness Report 2016-2017, p. 38 [http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017\\_FINAL.pdf](http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf).
- 13 See, for example, Paul Krugman, "Competitiveness: A Dangerous Obsession," *Foreign Affairs*, March/April 1994, p. 28, <https://www.foreignaffairs.com/articles/1994-03-01/competitiveness-dangerous-obsession>
- 14 See [Growing Together: How Trade with Mexico Impacts Employment in the United States](#) for more information on the model used by the Mexico Institute, run by Joseph Francois and Laura Baughman of The Trade Partnership.
- 15 U.S. Census Bureau, <https://www.census.gov/foreign-trade/statistics/historical/gands.pdf>.
- 16 Author's calculations, combining the most recent available data: 2016 goods trade from the U.S. Census Bureau, and 2015 services trade data from the U.S. Bureau of Economic Analysis.
- 17 Author's calculation using 2011 data from the OECD TiVA database.
- 18 See: Michael Pettit, "Trade Deficit with Mexico Is Good for America," Bloomberg View, February 8, 2017, <https://www.bloomberg.com/view/articles/2017-02-08/trade-deficit-with-mexico-is-good-for-america>.
- 19 Wilbur Ross, as quoted in: Adam Behsudi and Doug Palmer, "Ross: NAFTA is Job One," *Politico*, January 18, 2017, <http://www.politico.com/story/2017/01/wilbur-ross-confirmation-hearing-commerce-department-233756>.
- 20 See the table on page 46 of the Congressional Record of "Improving Security and Facilitating Commerce with Mexico at America's Southern Border," Hearing before the Subcommittee on the Western Hemisphere of the Committee on Foreign Affairs, House of Representatives, One Hundred Thirteenth Congress, First Session, December 9, 2013, <http://docs.house.gov/meetings/FA/FA07/20131209/101563/HHRG-113-FA07-Transcript-20131209.pdf>.
- 21 See the Wilson Center publication, *Anatomy of a Relationship: A Collection of Essays on the Evolution of U.S.-Mexico Cooperation on Border Management*, <https://www.wilsoncenter.org/publication/the-anatomy-relationship-collection-essays-the-evolution-us-mexico-cooperation-border>.
- 22 U.S. State Department Website, 2017, <https://www.state.gov/e/eb/cba/entrepreneurship/museic/>.
- 23 U.S. Embassy in Mexico website, 2017, <https://mx.usembassy.gov/education-culture/education/the-u-s-mexico-bilateral-forum-on-higher-education-innovation-and-research/>.



## KEY POLICY RECOMMENDATIONS

- Reaffirm and preserve the framework of shared responsibility. The United States and Mexico are safer working in tandem than when the countries are at odds with one another.
- Acknowledge the multiplicity of threats and factors contributing to insecurity. Investing in and expanding work on building resilient communities can be an effective way to reduce violence, increase public support for local governments, and improve overall security.
- Fully fund impact evaluation programs that provide evidence for further improving prevention work. Expand the geographic reach of evidence-informed and evaluated programs that can demonstrate a positive impact on reducing crime and violence.
- Acknowledge that firearms trafficked from the United States are a contributing factor to high violence incidence in Mexico. Establish a high-level interagency working group to tackle the issue of firearms trafficking to Mexico, and prioritize investigations and prosecutions of straw purchases in the United States.
- Continue support for the full implementation of Mexico's adversarial criminal justice system through continued technical assistance, support for training of justice operators, and strengthening of the independence and professionalization of prosecutors and judges.
- Encourage and support the adoption of police career and professionalization laws that establish clear standards for each professional rank and objective procedures for promotions. Strengthen internal and external oversight mechanisms for police and prosecutors that are based in professional standards and where accountability mechanisms are clear.
- Elevate human rights practices in both countries to a public dialogue and establish reporting mechanisms that set a bilateral agenda for improvements in human rights in both countries.
- Build on and foster greater military-military cooperation. Increase academic and cultural activities that put Mexican and U.S. cadets in contact with each other for specific periods of time. Develop joint war games that can blend U.S. and Mexican units together with the common goal of the defense of North America.

# THE EVOLVING MERIDA INITIATIVE AND THE POLICY OF SHARED RESPONSIBILITY IN U.S.-MEXICO SECURITY RELATIONS<sup>1</sup>

By Eric L. Olson<sup>2</sup>

The election of Donald J. Trump as President of the United States opens a new era in U.S.-Mexico security cooperation. Whether the framework of “shared responsibility” that has guided security cooperation between both nations will be deepened and strengthened, as it has been over the past decade, or completely overhauled is still unclear. This chapter seeks to place the security relationship in its most recent historical context and reviews how the bilateral security cooperation framework has evolved and deepened beyond the original “Mérida Initiative” set out by Presidents George W. Bush and Felipe Calderón Hinojosa. The chapter ends with a series of policy options for building on and improving the relationship.

The safety and security of the United States and Mexico have always been intertwined. Nevertheless, suspicions based on historic conflicts; skepticism and distrust on both sides of the border, and, frankly, neglect by both governments left security cooperation (with a few notable exceptions) as an afterthought in bilateral relations throughout much of the 20<sup>th</sup> century. The United States was often frustrated with what it perceived as Mexican inaction against drug traffickers, seeming tolerance for elevated levels of corruption and penetration of the state by criminal interests, and the lack of focus in confronting drug traffickers in a systematic and robust way. For its part, Mexico often felt blamed and victimized by crime and corruption that resulted from criminal groups seeking to supply a vast consumer market for illicit drugs in the north. Mexicans felt pressured to deal with a problem that they viewed as largely a United States

issue and pointed to U.S. failure to reduce consumption and better regulate access to firearms as the source of many of Mexico's own problems with corruption, violence, and impunity.

Not until the early 21<sup>st</sup> century, when escalating violence and the undeniable impact of transnational organized crime on the safety and wellbeing of all Mexicans became apparent, did both countries seek to define a policy of "shared responsibility" and mutual action to address these challenges. The new security framework hammered out between the Felipe Calderón and George W. Bush governments in 2007 became known as the "Mérida Initiative" after the Mexican city where the framework agreement was signed.

While consistent in its commitment to a shared approach to addressing common security concerns, the Mérida Initiative has not been static. It has evolved and expanded during the subsequent Obama and Peña Nieto administrations. Each successive government has added its own emphasis to the relationship that now extends well beyond the initial programmatic focus of the Mérida Initiative to include a robust framework for dialogue on multiple security fronts, despite decreasing monetary commitments from the United States. With the new Trump administration, the security relationship is likely to undergo further review and modification. The question is whether the security relationship will continue to deepen or experience a reversal to the more distant relationship of the past.

## **ORIGINS OF THE MÉRIDA INITIATIVE**

While the U.S. – Mexico security relationship extends back many years,<sup>3</sup> it entered a particularly turbulent time during the mid-eighties and through the end of the next decade. The murder of DEA agent Enrique "Kiki" Camarena in Mexico in 1985 and the 1997 downfall of Mexico's then-drug czar<sup>4</sup> for connections to trafficking organizations were two major stumbling blocks. Efforts in the U.S. Senate to "de-certify" Mexico for failing to cooperate with the U.S. on counter-narcotics efforts further exacerbated an already tense relationship.

Mexico also began to experience an uptick in crime-related violence in the later part of the nineties and the first years of the new millen-

nium. Some of the violence occurred as a result of Mexico's changing political landscape and the disintegrating centralized control of the long-ruling Partido de la Revolución Institucional (PRI), but shifts in international drug trafficking routes away from the Caribbean and into Mexico were also a factor.

Between the mid-90s and mid-2000s, Mexican criminal organizations and traffickers became major international players, often replacing Colombian organizations as the main buyers, transporters, and distributors of cocaine into the United States. What had once been primarily a Mexican marijuana trafficking business now became a lucrative transnational criminal enterprise with the capacity to move large quantities of cocaine and other illegal drugs into the United States. With major increases in the power and influence of Mexico's organized crime groups, conflicts over routes and control of territory became a driving force behind shocking new displays of brazen criminal violence.

In the aftermath of a tightly contested presidential election in July 2006, Mexico's President-elect Felipe Calderón reportedly became convinced that his country faced a dire situation in which the power and violence of criminal networks were threatening Mexico's national security and stability. At the time, government action against criminal groups was less focused and aggressive than many thought necessary. Calderón's alarm was so great that, according to one account, he raised the possibility of greater U.S. collaboration and support for his plans to confront criminal organizations during his inaugural meeting with President Bush.<sup>5</sup> This initial conversation became the impetus for developing the shared responsibility framework that eventually became known as the Mérida Initiative.

## **ORIGINAL FOCUS OF THE MÉRIDA INITIATIVE**

According to a report by the Congressional Research Service (CRS), the Mérida Initiative was designed to combat drug trafficking, transnational crime, and terrorism. Specifically, CRS explained:

The Mérida Initiative, as it was originally conceived, sought to (1) break the power and impunity of criminal organizations; (2) strengthen border, air, and maritime controls; (3) improve the capacity of justice systems in the region; and (4) curtail gang activity and diminish local drug demand. Initial funding requests for the Initiative focused on training and equipping Mexican security forces.<sup>6</sup>

Both Presidents described the Initiative as an attempt to “expand bilateral and regional counternarcotics and security cooperation.”<sup>7</sup>

In the months following the joint announcement in Mérida, officials from both countries met behind closed doors to craft the details of the Initiative. The results were presented publically for the first time when President Bush requested from Congress \$1.4 billion over three years to support the Initiative beginning in Fiscal Year 2008.<sup>8</sup>

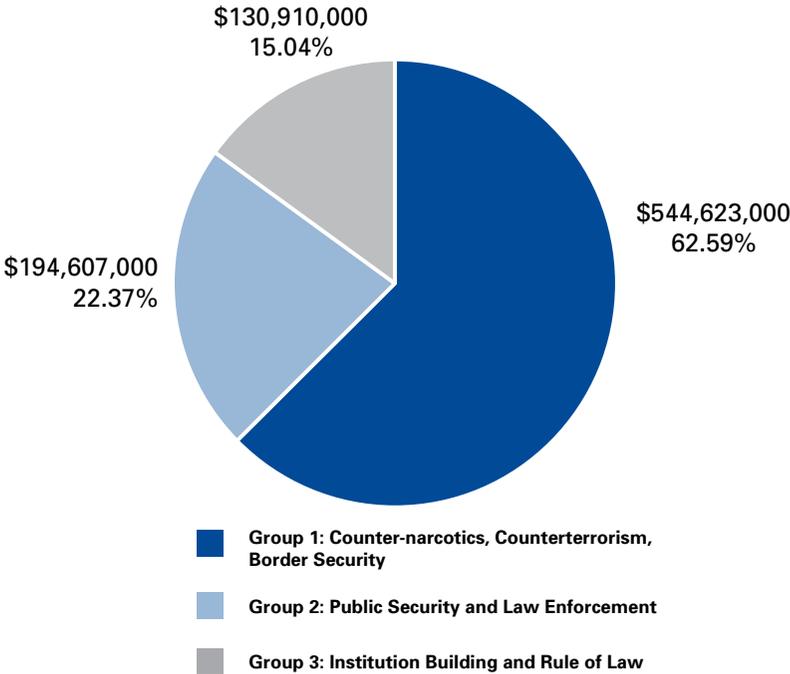
Thomas Shannon, then-Assistant Secretary of State for Western Hemisphere Affairs, described the Mérida Initiative as an “urgent” aid package composed largely of equipment and training that could have “an immediate and important impact in the fight against organized crime,”<sup>9</sup> and ultimately most U.S. legislators agreed to support the new plan.<sup>10</sup>

The Bush Administration’s original proposal to Congress was broken down into three broad baskets of assistance. The first of these baskets was the largest and included counter-narcotics, counter-terrorism, and border security assistance. Together, it represented roughly 62.59 percent of the Bush Administration’s budget request and included such high-priced items as fixed and rotor-winged aircraft for use by Mexican security forces.

The second basket was primarily for public security and law enforcement programs including training, technology, and information management programs to improve the capacity of Mexico’s civilian law enforcement agencies and support their modernization. This group represented roughly 22.37 percent of the Administration’s overall request to Congress.

Finally, the third basket included programs related to institution building and rule of law promotion, such as support for Mexico’s judicial reform process, strengthening human rights, and programs to combat substance abuse in Mexico. This group represented roughly 15.04 percent of the Bush Administrations funding request to Congress.

**Figure 1. Bush Administration Requests for Mérida Initiative**



*Amounts represent combined Bush Administration 2008 Supplemental Appropriations request and the Fiscal Year 2009 budget request to Congress. See, "Six Key Issues In U.S. – Mexico Security Cooperation," Eric L. Olson. Mexico Institute, Wilson Center. 2008. Page 3.*

The announcement of such close security cooperation with the United States generated some controversy in Mexico, where questions were once again raised about national sovereignty and the extent to which United States law enforcement, military, and intelligence

personnel would be operating in Mexican territory and whether they would be armed.

Moreover, some questioned the program's heavy emphasis on hardware to facilitate the deployment of security forces. By placing greater emphasis on aircraft, scanners, and x-ray technology, the program emphasized a traditional coercive approach to combating drugs. The need for institutional reforms in the justice system and strengthening the institutional capacity of law enforcement agencies to conduct investigations and combat crime was a lesser priority.

Additionally, while the presidents and cabinet secretaries of both countries were involved in the formulation of the "shared responsibility" approach of mutual support and bilateral collaboration in confronting a common enemy, the traditional language of foreign assistance and aid to Mexico re-emerged in the U.S. Congress and press in a way that seemed to undermine the original purpose. Was the Mérida Initiative simply the United States "helping" Mexico combat organized crime in the same way the U.S. "helped" Colombia battle armed groups and drug traffickers? Or was this a different model whereby a common enemy is confronted jointly with each side assuming its own responsibilities for action? More importantly, public commitments by U.S. officials to disrupt firearms trafficking and crack down on money laundering and bulk cash transfers across the southwest border, along with renewed efforts to reduce consumption of illegal drugs in the United States, were not tied to specific targets or funding initiatives that could better insure their fulfillment. As a result, there were doubts about how serious the U.S. was in addressing its own responsibilities in the struggle against criminal groups.

Adding to the controversy around the Mérida Initiative was the insistence by the U.S. Congress that human rights language be included in the funding package, further infuriating Mexican authorities who wanted to avoid the appearance of being "certified" by the United States on human rights grounds. The final 2008 funding package required the State Department to report to Congress on specific steps taken by Mexico to address human rights concerns. The areas to

be reported on included: 1) efforts to improve the transparency and accountability of Federal, State, and Municipal police; 2) “conduct regular consultations with Mexican human rights and civil society organizations on the implementation of the Mérida Initiative;” 3) progress in ensuring civilian led investigations of police and military forces for alleged human rights violations; and 4) enforcement of the prohibition against the use of testimony obtained through torture.<sup>11, 12</sup>

Despite the doubts expressed in both countries, the U.S. Congress released a first installment of \$400 million in Mérida Initiative money for Mexico in 2008, and though U.S. legislators initially delayed the second installment in 2009 due to human rights concerns in Mexico, the Obama administration remained supportive of the policy.<sup>13</sup>

While the early focus of the Mérida Initiative was mostly on the budgetary and programmatic elements of the initiative, it is also worth noting that the plan called on intelligence, counter-narcotics and law enforcement personnel in both countries to work together across agencies on both sides of the border. Many of the agencies had developed extensive individualized relationships with their cross-border counterparts prior to the Mérida Initiative, but cross border inter-agency coordination was infrequent and fears that these relationships could be weakened and intelligence information could be leaked when shared with a broader set of agencies was a major concern initially. Nevertheless, according to Sigird Arzt, former National Security advisor to President Calderón, once the coordination plans and ground rules were clarified and the agency heads were convinced that operational information would not be put at risk in the cross-border inter-agency process, all participants understood the roles they could play to improve efficiency in the fight against organized crime.<sup>14</sup>

## **THE EVOLUTION OF MÉRIDA UNDER THE OBAMA ADMINISTRATION**

The arrival of the Obama administration in 2009 represented an important opportunity to reconsider U.S. security assistance with Mexico. With a new Democratic Party majority in Congress (elected in 2006), it could have been an opportunity for the Obama team to dramatically cut back on the Mérida Initiative, which by then was in the final year of the original three-year budgetary commitment. Nevertheless, the Obama Administration decided to re-think and re-orient some of the strategy but not dramatically alter it. Led by then-U.S. Ambassador to Mexico, Carlos Pascual, the Administration gave the security relationship a new framework built on the existing strategy but modifying it and adding new elements.

The new approach took shape around four strategic priorities, or “pillars.”<sup>15</sup> The four-pillar strategy combined both short-term and long-term approaches to addressing the security concerns posed by organized crime. The short-term collaborative efforts focused on improving intelligence collaboration to arrest the leadership of criminal networks and dismantle their networks as well as intercepting the money and weapons flowing south that supported their criminal organizations. These strategies were laid out in the first two pillars (Pillar I: Disrupting and dismantling criminal organizations; and Pillar II: Institutionalizing the rule of law) and represented a continuation of the strategy pursued under the initial Mérida Initiative.

Figure 2



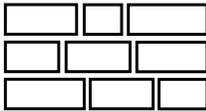
**PILLAR 1: DISRUPTING AND DISMANTLING CRIMINAL ORGANIZATIONS**

- Improving intelligence and intelligence sharing
- Disrupting trafficking from the U.S. to Mexico



**PILLAR 2: INSTITUTIONALIZING THE RULE OF LAW**

- Support for civilian institutions responsible for maintaining rule of law
- Implementation of the new adversarial criminal justice reform



**PILLAR 3: BUILDING A 21ST CENTURY BORDER**

- Changing the concept of border from geographical line to one of secure flows
- Risk segregation
- Prevent flows of illicit goods while allowing legitimate commerce



**PILLAR 4: BUILDING A STRONG AND RESILIENT COMMUNITY**

- Addressing the drivers of violence
- Investment in prevention and violence reduction efforts
- Strengthening communities

Two additional elements of the Mérida Initiative’s reformulation included a greater focus on the border and violence prevention. Pillar III introduced the “21<sup>st</sup> century border” initiative, and Pillar IV sought to refocus efforts to “build strong and resilient communities” in Mexico that could better resist and prevent violence.

Support for border security (Pillar III) has long been a policy priority for the U.S. and was very much a part of the original bilateral security strategy between the U.S. and Mexico. The focus, however, was primarily on the U.S. – Mexico border where the U.S. was concerned about “spillover violence” from Mexico’s trafficking organizations engaged in serious battles for control of territory and access points to the United States, as well as possible terrorist threats utilizing a relatively porous border to threaten the United States. Over time, these two concerns proved to be less pressing, as violence was not “spilling over” from Mexico to the U.S. in significant amounts (U.S. border cities are some of the safest in the entire country), and no publically known terrorist attack in the United States has used Mexican territory as an entry point to the U.S.

During the Obama Administration, the border security framework shifted to a border management strategy that sought to balance security, commerce, and human movement using the tools of “risk segregation” to more effectively manage the border. Rather than viewing every migrant or commercial shipment across the U.S.-Mexico border as a potential threat, greater emphasis was placed on separating the risky from the ordinary. To do so, greater emphasis was placed on pre-screening programs such as trusted traveler or trusted shipper programs that enabled those who were pre-cleared to move across the border with greater ease. Such preclearance programs not only benefited frequent travelers and shippers but had the added benefit of allowing border and customs authorities to spend less time examining low-risk entries and refocus their energies and resources to the unknown and thus, potentially more risky entries.

The final pillar - building strong and resilient communities - called for a comprehensive approach to violence reduction through prevention programs. Pillar IV represents a significant evolution from the original Mérida Initiative vision from one primarily focused on a security and law enforcement approach to dealing with drug trafficking and organized crime to include a strategy that addresses the social determinants and drivers of violence. The original focus of the Pillar IV efforts were in three of Mexico’s most dangerous cities – Tijuana, Ciudad Juárez, and Monterrey. These efforts included the creation of

violence reduction programs with civil society's input and collaboration that entailed the improvement of public spaces, creation of jobs, and efforts to reduce demand for illegal drugs.

## **THE PEÑA NIETO PERIOD**

The presidential campaign leading to the 2012 election of Enrique Peña Nieto was notable in one important regard: Mexico's security crisis, while constantly present in the minds of many Mexicans, was not the centerpiece of the electoral contest. Candidate Peña Nieto successfully converted the election into a referendum on twelve years of PAN rule arguing that he represented a new, more modern PRI that could govern more effectively and efficiently than any other party. He promised better policy coordination on security issues within the federal government and between local, state, and federal authorities.

The centerpiece of this argument was what the Peña campaign characterized as the under-performing and inefficient Mexican economy, which he promised to restore to robust growth with numerous market-friendly reforms. He also made the case that it was time to turn the page on Mexico's security challenges and place them in the context of Mexico's enormous economic promise and potential. The campaign saw no focused debate on security policy and Peña Nieto did not present a comprehensive alternative to Calderón's policy of aggressive confrontation.

To the extent security matters were discussed, Peña Nieto simply rejected the Calderón strategy as ineffective and one which produced elevated levels of violence, widespread fear, and growing distrust of government. Instead, he promised a plan consisting of four goals that he would develop if elected: to reduce violence, to transition the military from its public security functions while standing up a specialized police force he called a "gendarmerie," to prioritize prevention programs; and to more effectively coordinate all aspects of the new security strategy.

Furthermore, neither the PAN candidate, Josefina Vázquez Mota, nor the PRD's Andrés Manuel López Obrador, were inclined to engage in this kind of debate, each for their own reasons. Vázquez Mota did not want to break entirely with Calderón by offering a dramatically different approach to improving public security and combating organized crime, preferring instead to offer modifications on the existing policy. She also recognized that the public was overwhelmed by the violence that erupted so dramatically during the Calderón years, so a full embrace of the Calderón legacy was not politically viable. López Obrador offered critiques of the Calderón strategy, suggesting problems of violence and organized crime reflected underlying problems of poverty and inequality. He suggested his approach would prioritize creating economic opportunity for at-risk youth and greater support for prevention programs. Ultimately, it was difficult to distinguish the López proposals from those of Peña Nieto.

And if security strategy was not a focus of Mexico's presidential campaign that year, then U.S.-Mexico security cooperation even less so. Only brief mentions were made of the commitment to continue working together with the U.S. within the framework of shared responsibility.

It came as a surprise to U.S. officials and analysts when in the post-election period the Peña Nieto government signaled that it wanted a pause in the security cooperation agenda with the U.S. to give the new team a chance to assess the status of bilateral cooperation. Based on personal interviews with those close to the new government, several expressed concern that Mexico had lost control of the cooperation agenda, that the Calderón government had been too hands-off in coordinating the relationship, and that "collaboration" was taking place outside of the normal channels and without the knowledge of a central coordination point within the Mexican government.

The example most cited in this regard was the August 2012 armed attack on two alleged CIA agents traveling with Mexican naval officers south of Mexico City. Their vehicles were assaulted by numerous federal police believed to be working for an organized crime

network.<sup>16</sup> What was particularly alarming, even galling, to those close to the Peña Nieto government was that the CIA agents were reportedly operating with Mexican naval personnel but without the specific knowledge of civilian authorities. The existence of broad cross-national cooperation without centralized control and coordination was upsetting to many in Mexico's Secretariat for External Relations (SRE) and among Peña Nieto's incoming political and security advisors.

As a result, one of the first major announcements related to Mexico-US security cooperation from the Peña Nieto government was intended to improve bilateral coordination on security matters. In preparation for a visit to Mexico by President Obama in May 2013, Peña Nieto's new Interior Minister, Miguel Osorio Chong, announced the government would present President Obama with its new security plan including improved coordination through a "*ventanilla única*", or single coordinating office within the Secretariat of the Interior (*Secretaría de Gobernación* – SEGOB).

Secretary Osorio reportedly said, "(This) is the order that is being given to the (bilateral) relationship through the Secretariat of the Interior. Agencies will not be allowed to determine with whom they are collaborating. That is how it was being done before."<sup>17</sup>

Secretary Osorio added, "Now there is only one channel, the Secretariat of the Interior, and from there, we can engage in orderly cooperation so that efforts aren't duplicated."

While the intention to promote greater coordination was merited, the new policy had the immediate effect of freezing many ongoing collaboration efforts. The message to Mexican security forces was that continued and new collaboration had to be cleared first through the central point of the Secretariat of the Interior, so many agency plans quickly ground to a halt as they sought to ensure full coordination and ultimately approval from the coordinating office.

Many U.S. officials, while concerned, sought to portray this process as a normal transition between governments, with the new one seeking to assess the full nature of the security relationship with the U.S. and evaluating its priorities going forward. Nevertheless, U.S. officials privately expressed alarm when the process of taking stock and defining a new Mexican security strategy took longer than expected. Peña Nieto's governing priorities elsewhere, including introducing significant energy sector and educational reforms, and his desire to change the narrative about Mexico's security challenges likely resulted in a slower redefinition of the government's security strategy than many in the U.S. had expected or wanted. The U.S. was willing to support Peña Nieto's pivot to an economic agenda and certainly supported the new government's efforts to modernize its energy and education sectors, but the U.S. was also anxious that progress in collaboration around anti-drug operations not be squandered and carefully, pressed the Peña Nieto government to continue those programs.

Ultimately, the collaboration agenda got back on track later in 2013 and early 2014 with a series of high-profile operations, arrests, and assassinations of cartel leaders. Many of these benefited from U.S. intelligence assistance, including, most notably, the February 2014 capture of Joaquín "El Chapo" Guzmán Loera in the Pacific resort town of Mazatlán.

Such a spectacular capture signaled two important things to Mexico. First, that the U.S. could be a trusted and responsible partner in sensitive operations by playing a quiet, behind-the-scenes role providing important intelligence information and support. Second, the capture of high profile cartel leaders continued to be politically popular and thus not a strategy the Peña Nieto government was likely to jettison despite campaign rhetoric suggesting they would take a new approach.<sup>18</sup> What became increasingly evident to the U.S. and Mexican public was that the Peña Nieto strategy for dealing with trafficking organizations was not significantly different from that of the Calderón government, and the policy differences were more a matter of style (better coordination) and emphasis than in substance.

By late 2013 and early 2014, U.S.-Mexico security cooperation was back on track. No longer the primary issue in bilateral relations, as it had been throughout much of the Calderón administration, the countries nevertheless returned to the framework of shared responsibility established in the original Mérida Initiative. In effect, Mexico ratified the “four-pillar” strategy articulated by the Obama government in 2009 and continued to collaborate in all four areas as the Peña government moved forward.

Within the “four-pillar” Mérida strategy four priorities seem to have emerged during the Peña Nieto years: promotion of rule of law, support for justice sector reform, border security, and crime prevention.

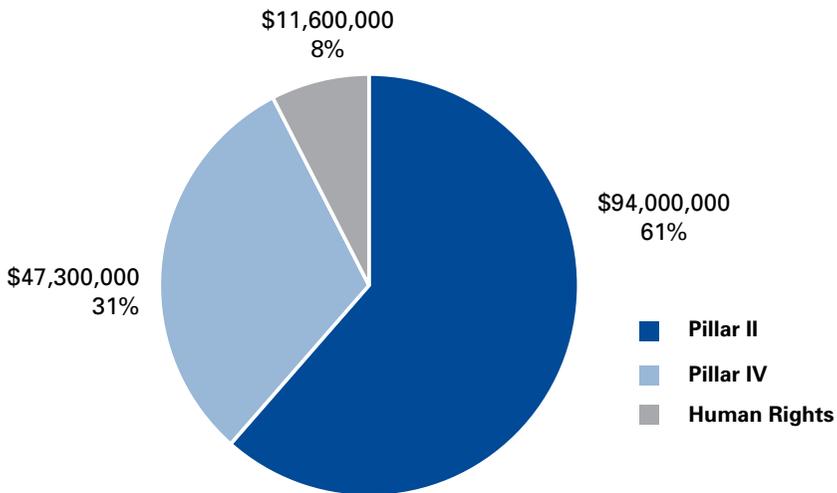
As can be observed in the charts below, funds for these programmatic areas come from two sources within the Department of State: The Bureau of International Narcotics Control and Law Enforcement (INCLE) and the U.S. Agency for International Development. The amount of assistance passing through the INCLE bureau is roughly four times greater than that passing through USAID.

Regarding support for rule of law and justice sector reform, it is worth noting that both INCLE and USAID have devoted a majority of their funding to Pillar II (Institutionalizing the Rule of Law) programs since Fiscal Year 2012. In the case of INCLE roughly 58 percent of funding is Pillar II related, while USAID spends 61 percent of its Mérida-related budget in the same area. In budget terms, this makes justice sector reform by far the largest single component of U.S. funding for the Mérida Initiative. It suggests a significant redirection of priorities for U.S. assistance since the Mérida Initiative was originally announced in 2007.

U.S. support for justice sector reforms has come in the form of three major projects implemented by a U.S. firm, Management Systems International, Inc. (MSI). The first of these programs, known as PRODERECHO (2004-2007), predated the Calderón era’s constitutional and criminal procedure reforms, reflecting efforts by the Fox government to reform the criminal justice system. While Fox’s proposed reforms lingered in the Mexican Congress, preliminary technical legal

studies and proposals supported by the MSI program enabled Mexican legal scholars to begin the process of developing what became eventual Constitutional reforms passed in 2008 that transformed Mexico from an inquisitorial to an adversarial criminal justice system (see chart below for a description of the two systems). Additionally, a significant portion of the PRODERECHO resources were destined to state-level reform efforts, especially in Chihuahua, a state that became one of the earliest to adopt the adversarial criminal procedure reforms.

**Figure 3. USAID FY 2012-2016, Total Funding for Mexico**

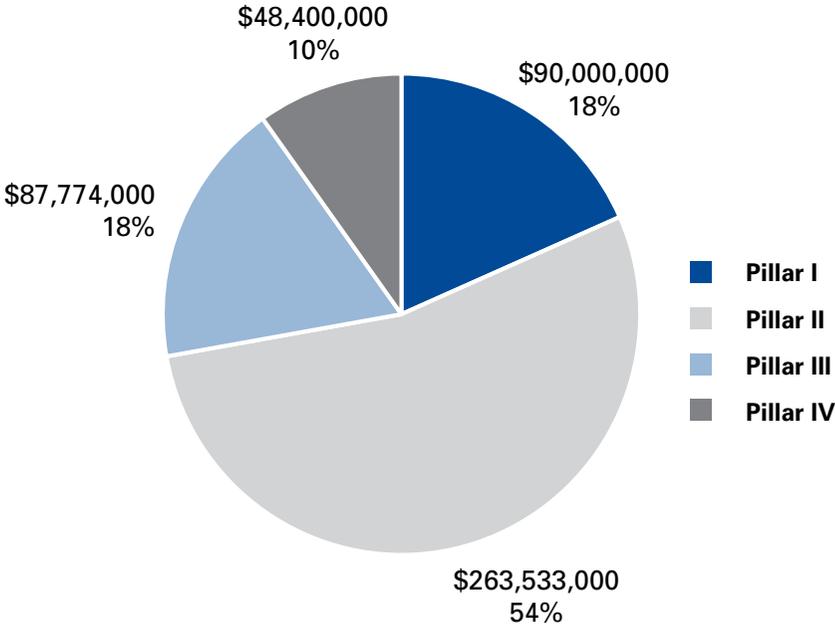


*Source: Numbers provided by USAID. Note: These figures include some funds transferred from INL to work on anti-corruption issues and counted as Pillar II here. As a result, these figures do not match up with figures in Congressional Budget Justification documents. Furthermore, these figures only include actual program funds, excluding funds spent on salaries and evaluations.*

The PRODERECHO project was replaced by the Justice and Security program (2009-2014). In this case, the goal and objectives were to support Mexico’s transition to an adversarial justice system that resulted from a 2008 constitutional reform. The Justice and Security program provided technical assistance, training, and expanding professional capacity within federal, state, and municipal law enforcement agencies to better align these with the new judicial system.

Finally, the PROJUST (Pro Justicia) program (2014-2019), also managed by MSI, represents the flagship effort by the U.S. to support the judicial transition in Mexico. Worth roughly \$3 million, it represents approximately 10 percent of Mérida Initiative funds to support the judicial reform process. When taken together, all three projects represent a significant commitment by the U.S. to support Mexico’s judicial and institutional reform efforts and their desire for a more effective and efficient justice system.

**Figure 4. FY 2013-2016, Mérida Budget Summary  
INCLE Funding**



Support for border security (Pillar III) during the Peña Nieto era has included improvements on the U.S. – Mexico border as well as an expanded focus on Mexico’s southern border with Guatemala. Using the same Pillar III framework described above, the U.S. has increased its investments in Mexican and Guatemalan border areas in coordination with both governments. Much of this investment has been to improve border infrastructure, force mobility, and support the capacity of security and immigration personnel to enforce migration laws. Additionally,

funds have been used to provide new technology, such as “mobile bio-kiosks” to improve the processing of migrants. Investments in Mexico’s southern border have mostly taken place in the context of the Central American migrant crisis that has resulted in tens of thousands of migrants fleeing violence and economic hardship in Central America’s Northern Triangle countries seeking relief in Mexico and the United States. Increasing migrant flows and the relative ease with which organized crime groups can transit international boundaries such as the Guatemala-Mexico border has been a growing concern for U.S. policymakers for some time and reflects the increase in funding directed to southern Mexico.

In the area of prevention, the U.S. has quietly increased its programming with the full support of the Mexican government. In particular, the U.S. has expanded its support for Pillar IV projects that were originally focused in three specific cities (Tijuana, Ciudad Juárez, and Monterrey). As of 2015, USAID has used Mérida Initiative funds to support a project called “Juntos para la Prevención de la Violencia.” This project is administered by a U.S.-based implementing company called Chemonics International Inc. and has as its primary objective to “...contribute to strengthening the capacities of the different levels of government to design, implement, and evaluate public policies to prevent violence and crime.”<sup>19</sup> To accomplish this objective, the project has pursued three initiatives, including establishment of a network of cities engaged in youth prevention work; a special funding mechanism (Fondo para la Prevención de la Violencia) to fund local prevention initiatives and encourage private sector investment in prevention projects; and a Public Safety and Violence Prevention Laboratory to “investigate, test, evaluate, and promote programs and successful models of prevention.”<sup>20</sup>

Finally, the issue of human rights has become increasingly relevant to the relationship as Mexico has struggled with several high-profile and deeply troubling incidents of human rights violations. Two emblematic cases include the apparent massacre of approximately twelve civilians by army personnel in the city of Tlatlaya in June 2014.

A second case involved the disappearance and presumed death of 43 students from a rural teachers' school from Ayotzinapa, Guerrero in September 2014. Serious accusations of cover-up by authorities occurred in the aftermath of each case, and in the particular case of the 43 students, evidence of local police involvement and the use of torture for extracting confessions from alleged perpetrators lies at the heart of the matter.

These and other troubling cases of human rights violations by security forces has presented a challenge for U.S. assistance programs because, by law (the Leahy law) U.S. support for training and equipping foreign security force units is prohibited when there is credible evidence of human rights violations. To ensure against training and equipping alleged human rights violators, the U.S. must carry out what is known as the Leahy Law vetting process.

## Past & Present Criminal Justice Systems in Mexico

INQUISITORIAL	ADVERSARIAL
 <p>All cases brought to a judge follow a similar path</p>	 <p>An estimated 80% of cases will be resolved without resorting to a trial, thanks to plea bargaining, mediation, and alternative resolutions</p>
 <p>Criminal proceedings are initiated by the Ministerio Público (Public Prosecutor)</p>	 <p>Criminal proceedings are initiated by the Ministerio Público (Public Prosecutor) and the victim</p>
 <p>Prosecutor assembles case file with physical evidence and written declaration file is presented to judge for review</p>	 <p>Police agencies are empowered to investigate</p>
 <p>One judge oversees the entire process, reviews case files, makes determination, and oversees sentencing</p>	 <p>The criminal justice system is overseen by three separate judges: pre-trial, trial, and sentence</p>
 <p>Trials are conducted in written form in closed sessions</p>	<p>Trials are public and held in open court</p> 
 <p>Processes are long with many formalities</p>	 <p>Oral trials lead to greater efficiency in the presentation of evidence at trial</p>

Source: Parada, L., & Orielson, V. (2005). *El ABC del nuevo sistema acusatorio penal. El juicio oral*, Bogotá: Ecoe.

Shirk, D. A. (2010). *Justice Reform in Mexico: Change & Challenges in the Judicial Sector. Shared Responsibility*, 205.

In terms of the bilateral security agenda, human rights issues have been handled in two ways. First, in relation to the human rights criteria and reporting required of the Department of State by Congress (see discussion above), the Secretary of State took the unusual and largely symbolic decision in October 2015 to transfer \$5 million in counter-narcotics assistance for Mexico to Peru.<sup>21</sup>

This action was necessary to comply with a provision Congress included in the Fiscal Year 2014 U.S. Foreign Assistance Act stating that 15 percent of counter-narcotics assistance to Mexico could be obligated only when the Secretary of State provided a written report to the Congressional Appropriations Committees outlining Mexico's progress in four human rights areas. While human rights reporting requirements have been standard since the Mérida Initiative began in 2008, the criteria were broadened with the 2014 funding bill. Congress added criteria requiring the Secretary to report on steps taken by the Government of Mexico to enforce "prohibitions against torture," to promptly transfer military detainees "to the custody of civilian judicial authorities," to devote government efforts to search for the victims "of forced disappearances," and to investigate and prosecute those responsible.<sup>22</sup>

According to a State Department official familiar with the issue, the Department was "unable to confirm that Mexico fully met all of the criteria in the FY 2014 appropriation legislation and thus did not submit the report (to Congress)." The State Department believed that Mexico had complied with earlier requirements, including those contained in the FY 2013 funding bill, and had taken significant legal steps, including instituting constitutional reforms to improve the legal framework for human rights, but had not reported sufficient progress related to the expanded criteria accompanying the 2014 legislation.<sup>23</sup>

In response to the U.S. decision, Mexico's Secretary of Foreign Affairs reportedly said the following:

"The U.S. government has recognized Mexico's determination and progress to address particular human rights challenges...Bilateral

dialogue and cooperation are the appropriate ways to address the current challenges in this regard.”<sup>24</sup>

In effect, Mexico and the United States have started a separate “bilateral human rights dialogue” that brings together the relevant governmental actors – security forces, attorneys general, and foreign ministries – from each country to consider human rights concerns on both sides of the border. This group has met seven times to discuss human rights concerns in both countries and the government of Mexico would prefer that this become the primary forum for discussing human right issues and thus avoid potential embarrassments and sensitivities that arose with the decision to transfer U.S. funds to Peru.

Despite the controversy surrounding several serious human rights cases, and perhaps in light of it, U.S. funding specifically directed to support human rights programming in Mexico has increased significantly in the last year. In particular, USAID has devoted approximately \$8 million for human rights projects separate from its support for the implementation of the adversarial judicial reforms, and separate from the Mérida Initiative. One of the principle human rights programs supported by USAID is to be administered by Chemonics International, Inc., the same firm that is implementing the new violence prevention programs. According to the Chemonics website, “The EnfoqueDH project is supporting the Mexican government to integrate human rights-based approaches in its legislative frameworks and institutional processes.”<sup>25</sup> Furthermore, “A key objective of this five-year program is incorporation of a human rights perspective within regulatory, federal, and state frameworks. To achieve this, the program supports public servants and civil society stakeholders in identifying and meeting their needs for National Human Rights Plan implementation.”

## THE FUTURE OF U.S.-MEXICO SECURITY COOPERATION

It is also worth noting that, despite the importance the U.S. places on its security cooperation agenda with Mexico, the amount of money Congress has approved for the Mérida Initiative has declined. See budget table below:

**Table 1. FY2012-FY2017 Mérida Funding for Mexico**  
(\$ in millions)

Account	FY2012	FY2013	FY2014	FY2015	FY2016 Requested	FY2016 (est.)	FY2017 Requested
ESF	33.3	32.1	35.0a	33.6b	39.0	39.0	49.0
INCLE	248.5	195.1	148.1	110.0	80.0	100.0	80.0
Total	281.8	227.2	194.2	143.6	119.0	139.0	129.0

*Source: U.S. Department of State, Congressional Budget Justification for Foreign Operations FY2013-FY2017.*

*Notes: ESF = Economic Support Fund; FMF = Foreign Military Financing; INCLE = International Narcotics Control and Law Enforcement.*

*a. \$11.8 million of ESF was designated for Global Climate Change (GCC) programs in Mexico.*

*b. \$12.5 million was designated for GCC programs.*

Such figures seem paltry in comparison to U.S. assistance for Central America, where President Obama requested \$1 billion in Fiscal Year 2016 resources and Congress approved \$750 million. A second billion dollar aid package for Central America was requested by the Obama administration for FY 2017, and it would appear that the U.S. Congress is likely to approve somewhere close to another \$700 million, or \$1.4 billion in two years for Central America at a time when Mexico would receive roughly \$268 million, or 80 percent less, in the same timeframe.

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...the security relationship has moved beyond the strictly programmatic components as defined by Mérida Initiative assistance programs, heralding a new era of security cooperation.

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From one perspective, this might signal that Central American security is more important to the U.S. than Mexico's, but nothing could

be further from the truth. Instead, it signals that the security relationship has moved beyond the strictly programmatic components as defined by Mérida Initiative assistance programs, heralding a new era of security cooperation. The current U.S.-Mexico security framework now extends to the kind of high-level strategic dialogue with a much broader agenda that is more in line with the kind of high-level economic dialogue already in place between both countries.

In effect, both the Obama Administration and the Peña government decided to expand the security cooperation agenda when they established the Bilateral Security Cooperation Group (Grupo Bilateral de Cooperación en Seguridad - GBCS). According to the Secretariat of Interior: “The Bilateral Security Cooperation Group is the main high-level US-Mexico forum for the strengthening of strategies on issues that are of common interest. Also, it provides a strategic framework for coordination of security based on the principles of shared responsibility, mutual trust and respect for the sovereignty, jurisdiction and laws of both nations.”<sup>27</sup>

Among the various issues addressed by the GBCS are: “joint actions ... underway to stop drug trafficking, money laundering, arms trafficking, smuggling and human trafficking. It is worth noting, specifically the strengthening of the accusatory criminal justice system, the prison system, and the professionalization of the police. Also the fight against drug trafficking, including reducing drug demand and illicit crops, as well as possible areas of cooperation to strengthen actions on cybersecurity.”

The expanded bilateral security agenda reflected in the GBCS was also recently confirmed in a White House communique following the July 22, 2016 meeting between Presidents Obama and Peña. Among other things, the White House “Fact Sheet on United States-Mexico Relations” framed bilateral security cooperation into three areas: improving migration and refugee protection protocols; cooperation in combating heroin trafficking and poppy cultivation; and “Security and Justice Cooperation - Mérida Initiative.” The implication is that the security relationship has transcended the Mérida Initiative and encompasses a range of emerging issues that are dealt with in the context

of dialogue. Bilateral security issues are no longer constrained by a predefined programmatic agenda. As a result, the security relationship has evolved, matured, and is probably at its highest point in history.

## **MILITARY-TO-MILITARY RELATIONS ON THE RISE**

Another element of the U.S. – Mexico security relationship is the military-to-military (mil-mil) relationship, which occurs outside the immediate confines of the Mérida Initiative. As in the civilian realm, mil-mil relations historically have been hampered by mistrust and the unfortunate and misguided military interventions by the U.S. during the first decades of the 20th century. More recently, mil-mil relations have also seen moments of significant collaboration, and the current state of the relationship is at a high point.<sup>28</sup>

The relationship mirrors many of the challenges of the growing civilian security relationship, but has by and large avoided public scrutiny and thus occurred within a limited scope of activities. The most important activities include training and expanded educational opportunities for the militaries of both countries, the transfer and/or sale of equipment from the U.S. to Mexico, and simultaneous patrols along the U.S.-Mexico border designed to improve communications between institutions as well as build confidence and trust between them.

Nevertheless, Guevara argues that, “Despite a rapprochement process that began in 2006 and remains ongoing in 2016, the U.S.-Mexico military relationship still has ample room for growth... Bilateral trust needs to be a key goal for both militaries and once obtained, it needs to be constantly nurtured and reinforced... Bilateral trust is unfortunately not a commodity that countries can procure; it is rather the product of a well-planned investment strategy.”<sup>29</sup>

Depending on the priorities and emphasis the new Trump Administration brings to the security relationship, the mil-mil component may provide the greatest opportunity for growth. Whether the framework of shared responsibility continues or is set aside by the new

U.S. government to focus on other priorities, it seems likely that the mil-mil relationship will continue and strengthen even in the midst of other developments in the civilian security relationship.

What has the potential to undermine the relationship is an overly nationalistic, vitriolic, and ultimately unilateral U.S. border policy that will force the Mexican military, as well as the entirety of the Mexican government to reevaluate the bilateral relationship and potentially become more defensive in its posture with the United States. Such a development would indeed be unfortunate.

## **SOME EARLY CHALLENGES FOR THE TRUMP ADMINISTRATION**

Since the framework of shared responsibility in security cooperation was established in Mérida in 2007, successive governments in the U.S. and Mexico have refocused and/or expanded the security relationship without fundamentally abandoning the concept of shared

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Security in both countries is enhanced through cooperation rather than each country “going it alone.”

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responsibility. A core rationale for this policy has been the belief that security in both countries is enhanced through cooperation rather than each country “going it alone.” From the U.S. perspective, issues such as border security are

greatly facilitated and enhanced when both countries are working together rather than at cross-purposes. And it would be impossible for the U.S. to influence the security agenda on the Mexico-Guatemala border without a cooperative Mexico.

Furthermore, the delicate balance between security and preserving the economic, cultural, and social ties that benefit both countries requires constant communication, coordination, and ultimately trust between government agencies on both sides of the border.

Conversely, a policy focused narrowly on security at the borders or one that is based exclusively on counter-narcotics operations is likely

to undermine the benefits of a fuller relationship and ultimately fail in its own traditional view of the war on drugs. Decades of the war on drugs has produced many outcomes – some good, like putting brutal criminals in jail; others bad, like the mass incarceration of low-level non-violent drug offenders, unacceptably high levels of violence, and more importantly, the failure of the war on drugs to actually stop drug cultivation, processing, trafficking, and consumption in any country in the region.

These are the challenges that an incoming Trump Administration will face. Will the Administration pursue policies that preserve the framework of shared responsibility and a cooperative security strategy that requires the countries to work together with a common purpose? To adopt a cooperative agenda implies a U.S. willingness to continue investing in demand reduction efforts in the United States with greater emphasis on treatment options and programs with a proven track record of reducing recidivism.

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...it would be impossible for the U.S. to influence the security agenda on the Mexico-Guatemala border without a cooperative Mexico.

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It also implies taking serious steps to disrupt the flow of firearms south and implementing new initiatives to make money laundering more difficult and more costly to criminals.

The history of security cooperation between the two countries has shown that coordination and collaboration are far more effective tools for enhancing outcomes than purely unilateral approaches. Such unilateral approaches would undermine the spirit of cooperation that has imbued the relationship for nearly a decade of Republican and Democratic administrations in the U.S., and PAN and PRI governments in Mexico. Ultimately, the Trump Administration will have to decide whether the U.S. is safer and its national security is best served by a collaborative or antagonistic relationship with Mexico.

Below are a series of policy options that the new administration might consider as it takes the reins of government.

## **A POLICY FRAMEWORK FOR THE NEW ADMINISTRATION**

### **Reaffirm and preserve the framework of shared responsibility.**

The United States and Mexico are safer working in tandem than when the countries are at odds with one another.

**Acknowledge the multiplicity of threats and factors contributing to insecurity.** Violence and insecurity are not solely caused by international drug trafficking. Issues of youth violence and community-level violence are often driven by other factors such as extortion, ineffective state response to criminality, and lack of educational and economic opportunity targeted to at-risk youth. Investing in and expanding the work encompassed in Pillar IV – building resilient communities – can be an effective way to reduce violence, increase public support for local governments, and improve overall security.

**Continue support for crime prevention and violence reduction programs.** Fully fund impact evaluation programs that provide evidence for further improving prevention work. Expand the geographic reach of evidence-informed and evaluated programs that can demonstrate a positive impact on reducing crime and violence.

### **Acknowledge that firearms trafficked from the United States are a contributing factor to high violence incidence in Mexico.**

Establish a high-level inter-agency working group to tackle the issue of firearms trafficking to Mexico, and prioritize investigations and prosecutions of straw purchases in the United States.

**Continue support for the full implementation of Mexico’s adversarial criminal justice system through continued technical assistance, support for training of justice operators, and strengthening of the independence and professionalization of prosecutors and judges.**

**Encourage and support the adoption of a police career and professionalization laws that establish clear standards for each**

**professional rank and objective procedures for promotions.**

**Strengthen internal and external oversight mechanisms for police and prosecutors that are based in professional standards and with clear accountability mechanisms.**

**Elevate human rights practices in both countries to a public dialogue and insert reporting mechanisms that set a bilateral agenda for improvements in human rights in both countries.**

**Build on and foster greater mil-mil cooperation.** Increase academic and cultural activities that put Mexican and U.S. cadets in contact with each other for specific periods of time and develop joint war games that can blend U.S. and Mexican units together with the common goal of the defense of North America.

## **CONCLUSION**

The framework of shared responsibility first articulated in the context of the Mérida Initiative agreement between Presidents Bush and Calderón continues to provide the architecture for bilateral security cooperation between Mexico and the United States. But the range of issues addressed in the bilateral context and the level of bilateral engagement and dialogue is no longer limited to strict programmatic areas that emerged in the original Bush request to Congress for the Mérida Initiative and subsequent initiatives undertaken by the Obama administration. The bilateral security agenda has evolved, as it should, and is no longer confined to four pillars or any specific assistance program, regardless of their importance. Instead, the fact that there is an institutional space for ongoing bilateral dialogue that can address new and emerging threats is a sign of the maturity of the relationship.

What is lacking from the current strategy is a framework for evaluating progress. Dialogue is taking place at the highest levels, intelligence and law enforcement cooperation continue to deepen, and funds are being disbursed to improve police capacity and transform Mexico's justice system. While these are positive steps and signs,

the disturbing increase in homicides in Mexico during 2016 should raise concerns. It may be too early to predict a long term rise in violence, but it may also be a warning sign that increased dialogue and engagement, better cooperation, and continued funding are not enough to reduce the violence and manage the risks associated with organized crime. It may be time to re-examine the strategy itself to determine if the dialogue, collaboration, and funding are directed in the right way.

To continue dialogue and funding without assessing the success of the strategy in objective terms – such as less violence and homicides, increased public trust and collaboration with the state, reduced numbers of at-risk youth, and the successful transformation of criminally active youth into positive contributors to society– then Mexico and the United States risk failing to take advantage of good relations to define a more successful approach to the security challenges faced by both countries. Hopefully, this kind of reflection will help inform the decisions taken by the incoming Trump Administration when it inherits what has been a historic partnership between neighbors.

It is not unusual for a new administration to take time to take stock of the complex and multilayered relationship between the United States and Mexico. Both the Obama and Peña Nieto administrations did so, and each decided to make adjustments to the relationship within the framework of collaboration. Therefore, it will not be a surprise if the new Trump Administration takes some time to evaluate the relationship and its priorities with Mexico. The fundamental question the incoming administration will have to answer is whether to continue the path of collaboration with Mexico or pursue a policy that is more narrowly security focused and based in unilateral actions. Given the complex and serious issues on the security agenda between both countries, a collaborative approach with both nations committing to addressing their own challenges and working together to solve mutual concerns is the preferred approach.

## ENDNOTES

- 1 An earlier Spanish version of this article will appear in the “Atlas de la Seguridad y la Defensa de México 2016,” *Instituto Belisario Domínguez*, Senado de la República, México, Colectivo de Análisis de la Seguridad con Democracia. Forthcoming.
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- 7 W. Cook, Clare Ribando Seelke, and R. Rush, “Mérida Initiative: Background and Funding,” CRS Report for Congress, 2008.
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- 9 Ibid.
- 10 The “Mérida Initiative” was never put to a vote in the Mexican congress.
- 11 Act, Omnibus Appropriations. “Pub. L. No. 111-8, § 509.” *Stat* 123 (2009): 363-364.

- 12 While often referred to as “human rights conditionality” the provision is not, strictly speaking, a traditional certification process. The Department of State does not certify Mexico, it simply reports to Congress on progress made on the established human rights criteria. It is then be up to Congress to decide whether to continue or freeze the affected funds if it agrees with the State Department’s findings. In theory, the State Department could report to Congress progress in Mexico on human rights grounds and proceed with disbursing funds without waiting for Congressional approval. Congress can act to “hold” or freeze the funds, but the Department of State is not technically required to wait for congressional approval before proceeding to disbursement. While the difference between a “report to Congress” and “certifying to Congress” progress on human rights cases may seem minor, the Mexican government saw the rhetorical difference as an added benefit because Mexico bristled at the notion of a unilateral “certification,” essentially the U.S. passing judgment on Mexico’s human rights practices.
- 14 Sigrid Arzt was National Security Advisor to President Felipe Calderón until April 2009. See Olson, E. L., Shirk, D. A., & Selee, A. D. (Eds.). (2010). *Shared responsibility: US-Mexico policy options for confronting organized crime*. Woodrow Wilson International Center for Scholars, Mexico Institute. P. 362 U.S.-Mexico Security Collaboration: Intelligence Sharing and Law Enforcement Cooperation.
- 15 E.L. Olson & C.E. Wilson, “Beyond Merida: The Evolving Approach to Security Cooperation,” *Woodrow Wilson International Center for Scholars* (2010): 3.
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- 18 It should be noted that the capture, escape, and re-capture of “El Chapo” ultimately resulted in even greater cooperation with the U.S. despite the obvious disappointment with “El Chapo’s” escape. The fact that the Peña government ultimately agreed to consider a U.S. extradition request suggests that the Government of Mexico understood the limit to its ability to handle such a powerful criminal figure, and, consequently, demonstrated its willingness to consider favorably his extradition to the U.S.
- 19 “Juntos para la Prevención de la Violencia,” USAID, <http://www.chemonics.com/OurWork/OurProjects/Documents/JPV%20Brief.pdf>.
- 20 “Juntos para la Prevención de la Violencia,” USAID.

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- 22 Ibid.
- 23 Ibid.
- 24 Elisabeth Malkin and Azam Ahmed, "U.S. Withholds \$5 Million in Antidrug Aid to Mexico in Human Rights Rebuke," *New York Times*, October 19, 2015, [http://www.nytimes.com/2015/10/20/world/americas/us-withholds-5-million-in-antidrug-aid-to-mexico-over-human-rights.html?\\_r=0](http://www.nytimes.com/2015/10/20/world/americas/us-withholds-5-million-in-antidrug-aid-to-mexico-over-human-rights.html?_r=0).
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- 26 "Building a Human Rights-Based Approach to Public Policy in Mexico," *Chemonics*.
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- 29 Ibid.

## KEY POLICY RECOMMENDATIONS

- Develop policies that address greater complexity in the migration relationship between the United States and Mexico.
- Ensure a balance between enforcement, which plays a legitimate deterrent effect on unauthorized immigration, and encouraging continued progress on economic gains in Mexico, which is the single most important factor for limiting out-migration from Mexico.
- Separate out concerns about illegal immigration from those about organized crime and drug trafficking.
- Continue to focus enforcement efforts on unauthorized immigrants with criminal records, while also continuing to enhance the technological capacities for detection of unauthorized crossings at the border.
- Increase legal visas for Mexicans to help reduce the flow of unauthorized workers.
- The Mexican government will need to ensure that greater enforcement takes place in the context of rule of law, with full respect for the rights of immigration detainees in Mexican territory.
- Develop a common approach to Central America, addressing the underlying conditions of poverty and extreme violence.
- Develop a coordinated approach to managing migrant and refugee flows from Central America.
- Ensure expatriate services and consular protections to both U.S. and Mexican citizens living in the other country.

# A NEW MIGRATION AGENDA BETWEEN THE UNITED STATES AND MEXICO

Andrew Selee<sup>1</sup>

Almost 16 years ago, two recently inaugurated presidents, George W. Bush and Vicente Fox, met at Fox's ranch in Guanajuato to discuss matters of state and ended up tracing the broad outlines of a potential agreement on migration. Back then, they were both concerned with the large numbers of Mexicans coming across the border without documents, and wanted to make efforts to reduce and regularize this flow.

Today, the reality could not be more different. The number of Mexicans crossing the border illegally has dropped to a 40-year low, and there are almost certainly more Mexican immigrants leaving the United States than arriving. A majority of the immigrants crossing the U.S.-Mexico border illegally are now Central Americans, and the U.S. and Mexican governments have been working closely to find ways to limit this flow and keep people from making the dangerous journey north. And, perhaps most surprisingly, the number of Americans in Mexico has been growing rapidly, reaching somewhere around a million people, almost as large a group of U.S. citizens as live in all of the countries of the European Union combined.

The migration agenda between the two countries needs to be radically different today from what it was 16 years ago. Both countries have an interest in limiting unauthorized flows of migrants, ensuring an orderly, legal flow of people between the two countries, and ensuring expatriate services and consular protections to their citizens living in the other country. But each government will need the cooperation of the other to achieve these goals.

While public discussions of migration in both the United States and Mexico will continue to focus on the emotional issue of unauthorized migration between the two countries, the most important flows northward will continue to be from Central America, making the task of addressing unauthorized migration at the U.S.-Mexico border one that requires bilateral cooperation rather than unilateral efforts. Furthermore, public polls show that the American public cares less about overall unauthorized immigration and more about getting the legal immigration system fixed.

Today, Mexico is a sending country, a country of transit, and a re-

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The migration agenda between the two countries needs to be radically different today from what it was sixteen years ago.

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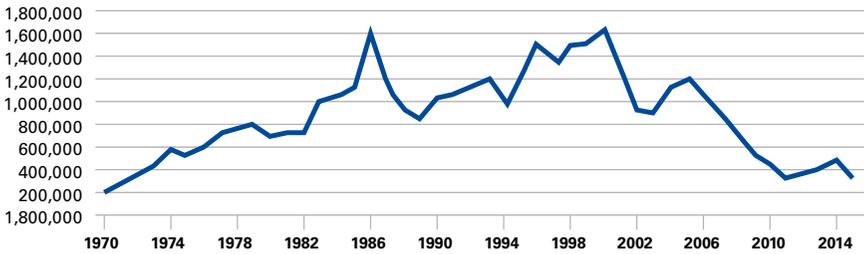
ceiving country for migrants, while the United States is both a sending and a receiving country. We need to adjust our frameworks to recognize this new reality and begin to develop policies that address greater complexity in the migration relationship between the two

countries. Fortunately, over the long-term, this greater complexity will actually present a source of balance for the bilateral agenda and an opportunity for creative engagement, although it may take a while for both public perception and public policy to catch up to these changed circumstances.

## **MEXICAN MIGRATION TO THE UNITED STATES**

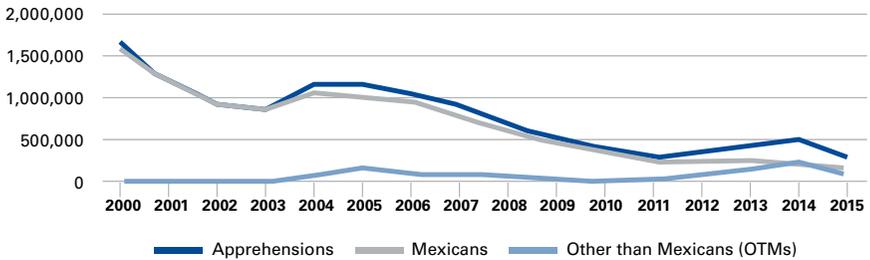
Unauthorized migration from Mexico to the United States once dominated the bilateral relationship, but it has reached a low point after four decades, according to apprehension statistics kept by the U.S. Department of Homeland Security (figure 1). As the numbers of Mexicans crossing the border illegally has dropped, the number of Central American unauthorized immigrants, fleeing both poverty and violence in the Northern Triangle countries of Guatemala, El Salvador, and Honduras, has increased and now has surpassed Mexican unauthorized migration in both 2014 and 2016 (figure 2).<sup>2</sup>

**Figure 1. Apprehensions of Unauthorized Mexican Immigrants at the Border**



Source: U.S. Customs and Border Protection (CBP), "United States Border Patrol Southwest Border Sectors Total Illegal Alien Apprehensions By Fiscal Year (Oct. 1st through Sept. 30th)."

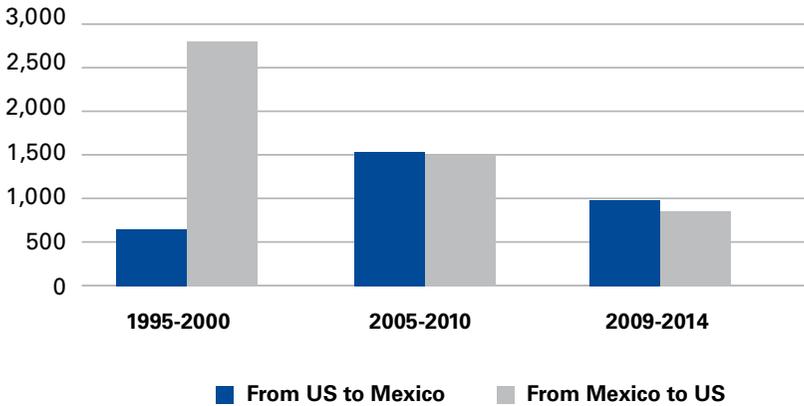
**Figure 2. Apprehensions at the U.S-Mexico Border by Origin**



Source: U.S. Customs and Border Protection, "United States Border Patrol Total Illegal Alien Apprehensions By Fiscal Year (Oct. 1st through Sept. 30th)."

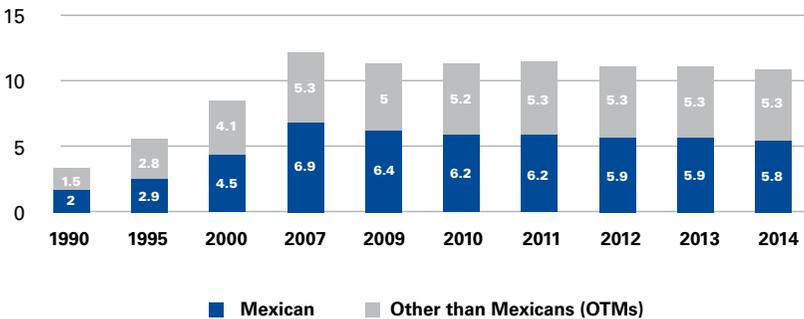
There has also been a marked uptick in the number of Mexicans returning to Mexico, including large numbers of unauthorized immigrants, according to research by the Pew Research Center. Today, more Mexican immigrants are leaving the United States than are entering (figure 3), and they are a declining percentage of the unauthorized population as a whole (figure 4).

**Figure 3. Mexicans Migrating North and South**



Source: Ana Gonzalez-Barrera, More Mexicans Leaving than Coming to the United States, Washington, DC: Pew Research Center, November 19, 2015.

**Figure 4. Unauthorized Population in the U.S. by Origin (in Millions)**



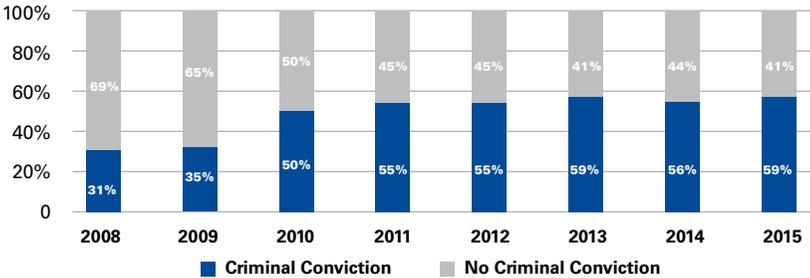
Source: Jeffrey S. Passel and D'Vera Cohn, "Overall Number of U.S. Unauthorized Immigrants Holds Steady Since 2009," Pew Research Center, September 20, 2016.

By all appearances, this shift is a result of three factors. First, better opportunities in Mexico and a slower-than-usual U.S. economy have made it more attractive for Mexicans to stay in their own country than migrate northward. Mexico's economy has been growing slowly over the past two decades, and incomes are roughly a third great-

er than what they were 20 years before while education completion has expanded by more than 50 percent.<sup>3</sup> Second, Mexico is facing the end of the demographic youth boom, with fewer young people ages 15 to 29 willing to migrate north for the first time.<sup>4</sup>

Finally, tighter border security and internal immigration enforcement have made it harder and more expensive to cross the border. This has included a 15-fold increase in immigration enforcement agencies' budgets since 1986, which now spend more than all other federal law enforcement agencies put together; a gradual expansion of E-Verify to determine work eligibility at nearly a quarter of all places of employment; and significant new technology that makes detection of unauthorized border crossers easier.<sup>5</sup> The expansion of cooperation between local law enforcement and U.S. Immigration and Customs Enforcement (ICE) has also made it easier to identify and deport unauthorized immigrants with criminal convictions, who today comprise roughly 59 percent of all deportations (figure 5).<sup>6</sup>

**Figure 5. Percentage of Deported Immigrants with a Criminal Conviction**



*Source: Muzaffar Chishti and Michelle Mittelstadt, "Unauthorized Immigrants with Criminal Convictions: Who Might Be a Priority for Removal?" Washington, DC: Migration Policy Institute, November 2016.*

Immigration enforcement accounts for a significant part of the decline in unauthorized immigration, especially at the U.S.-Mexico border, but economic factors—the laws of supply and demand—have played an even greater role in this decline. Part of the challenge

going forward will be to ensure that there is a balance between enforcement, which plays a legitimate deterrent effect on unauthorized immigration, and encouragement for continued progress on economic gains in Mexico, which is the single most important factor for limiting out-migration from Mexico. The United States has a powerful self-interest in ensuring that the Mexican economy continues to grow and develop, since that is the primary anchor preventing a return to large-scale migration north.

There are also good reasons to continue to focus enforcement efforts on unauthorized immigrants with criminal records, a number that the Migration Policy Institute estimates at a little more than 800,000 individuals, of which roughly 300,000 have felony convictions, as a priority,<sup>7</sup> while continuing to enhance the technological capacities for detection of unauthorized crossings at the border.

Policymakers would be wise to separate out concerns about illegal immigration, which occurs primarily between ports of entry and is dropping, from those about organized crime and drug trafficking, which overwhelmingly use ports of entry to traffic illegal narcotics,

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Policymakers would be wise to separate out concerns about illegal immigration, which occurs primarily between ports of entry and is dropping, from those about organized crime and drug trafficking, which overwhelmingly use ports of entry to traffic illegal narcotics, cash, and weapons and, by all appearances, have not abated.

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cash, and weapons—and, by all appearances, have not abated. This concern argues for a renewed focus on border enforcement at ports of entry, rather than between them, but by using risk management techniques and investments in technology and infrastructure that make these ports both safer and more efficient, as is argued in the chapter on border management in this report.

The U.S. and Mexican governments will also need to have a sustained conversation about procedures for deporting

migrants who are returned to their country of origin. In the past, the two governments have reached agreement on interior repatriations, which allows migrants to be flown into the interior of Mexico, nearer to their hometowns. This has the advantage of discouraging repeated attempts to cross the border and avoiding a large concentration of unemployed returnees in border cities, where they become prey to the efforts of criminal groups to recruit them.

Of course, a change in economic fortunes on either side of the border could reignite migration, but it seems increasingly unlikely since Mexican migration has only continued to drop since 2007. It is likely that the financial crisis served as a tipping point in the migration relationship between the two countries, while long-term structural changes have helped preserve this shift. Like Ireland, Italy, Germany, and other countries that once went through long periods of intense out-migration, Mexico may simply have reached the point where migration has ceased to be a necessary escape valve for a weak labor market.

This is not to say that all is well in the Mexican economy or that Mexican migration will cease completely. As long as gross domestic product (GDP) per capita in Mexico is more than four times lower than it is in the United States, there will be a reason for some Mexicans to move north, whether with legal visas or not. But slow and consistent economic growth in Mexico, together with a rapid expansion of education and healthcare availability, have created greater opportunities for those who stay.

The U.S. Congress has attempted to address unauthorized immigration—which is not Mexico-specific—through a three-pronged approach that would create new legal visas, regularize the status of those in the country who have established community ties, and provide enhanced border security and interior enforcement. To date, these efforts have failed, and it appears doubtful that this will be attempted again any time soon. This opens up possibilities for new kinds of thinking for how to address this issue, such as those laid out in influential reports from the American Enterprise Institute (AEI) and the Migration Policy Institute (MPI).<sup>8</sup>

One recent report from a high-level task force convened by the Center for Global Development suggests that increasing legal visas for Mexicans, in particular, would help reduce the flow of unauthorized workers substantially, and past evidence suggests that even modest increases in temporary visas for work do reduce these flows.<sup>9</sup> In the past, both Republican and Democratic administrations have expanded existing visa categories to accommodate additional workers, which appears to have contributed to the drop in unauthorized immigrants from Mexico, and additional categories that are more flexible might achieve this same purpose.

Many young Mexican immigrants who came to the United States as children have become eligible for Deferred Action for Childhood Arrivals (DACA), which now provides more than 800,000 young immigrants, roughly 77 percent of them Mexicans, with the ability to remain legally in the country and to attend school or work.<sup>10</sup> President Donald Trump has indicated that he would like to end this program, which he argues skirted existing laws and was an overreach of presidential authority, and his administration and legislators would do a great service by finding a more permanent legislative solution for these young people who came to the United States as children and know no other country but this one.

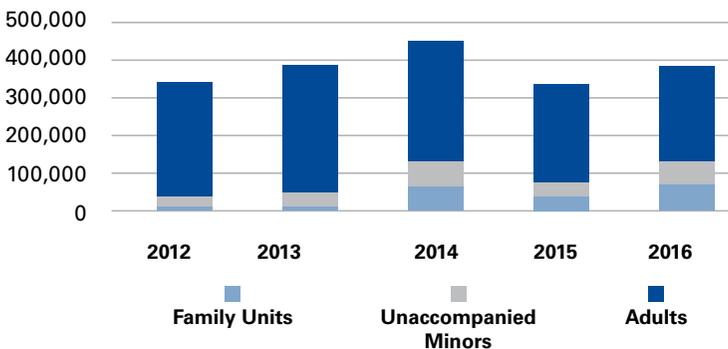
Unauthorized Mexican migration to the United States will remain a politically sensitive issue for the future, but the reality on the ground has shifted dramatically, and policies will have to catch up quickly. While the U.S. government has good reasons to invest in border security and interior enforcement to ensure that existing laws are respected, it also has equally good reasons to ensure fluid cooperation with Mexico on Central American migration, help Mexico strengthen its economy, and find creative ways to expand legal flows.

## CENTRAL AMERICAN MIGRATION

The number of Mexican migrants has dropped dramatically, but the number of Central Americans migrating to the United States through Mexico has increased substantially. Many of these migrants come as full family units or are composed of unaccompanied minors, fleeing not only extreme poverty but also rising violence in El Salvador, Honduras, and Guatemala (figures 6 and 7). While overall flows across the U.S.-Mexico border still remain far lower than experienced a few years ago, this sudden spike has focused renewed attention on the border and contributed to a new public backlash against immigration in some parts of the United States.

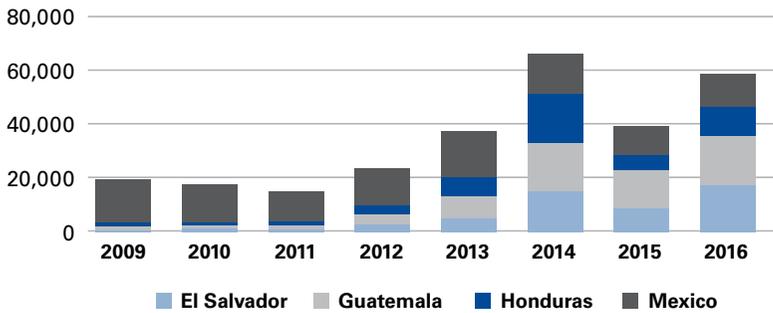
It has also taxed scarce resources for housing and adjudicating the cases of minors, who require special protection, and raised humanitarian concerns about the fate of minors who suffer severe mistreatment on the journey from their home countries, especially in Mexico. Many school districts have also faced strains as a result of the sudden influx of students with limited English skills.<sup>11</sup>

**Figure 6. Apprehensions at the Southwest Border by Type**



*Source: CBP, "United States Border Patrol Southwest Family Unit Subject and Unaccompanied Alien Children Apprehensions Fiscal Year 2016."*

**Figure 7. Unaccompanied Minors Apprehended at the Border by Country of Origin**

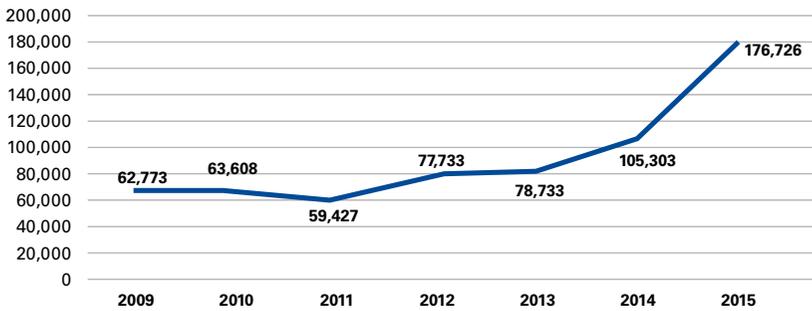


*Source: CBP, "United States Border Patrol Southwest Family Unit Subject and Unaccompanied Alien Children Apprehensions Fiscal Year 2016."*

The U.S. and Mexican governments have worked closely to try to stem the tide of Central American migrants. Indeed, the number of apprehensions of Central Americans in Mexico has skyrocketed, with U.S. know-how, equipment, and funding underpinning what both governments call "The Southern Border Strategy" (figure 8). In fact, in 2015, more Central Americans were deported by the Mexican government than by the U.S. government, reducing pressure on the U.S.-Mexico border.

If the U.S. government hopes to preserve this cooperation, which has raised concerns in Mexican public opinion, it will have to work carefully with the Mexican government to craft the parameters of this cooperation. Meanwhile, the Mexican government will need to ensure that greater enforcement takes place in the context of rule of law, with full respect for the rights of the increasing number of immigration detainees in Mexican territory.

**Figure 8. Central American Immigrants Deported/Returned by Mexican Authorities**



*Source: Boletines Estadísticos de la Secretaría de Gobernación.*

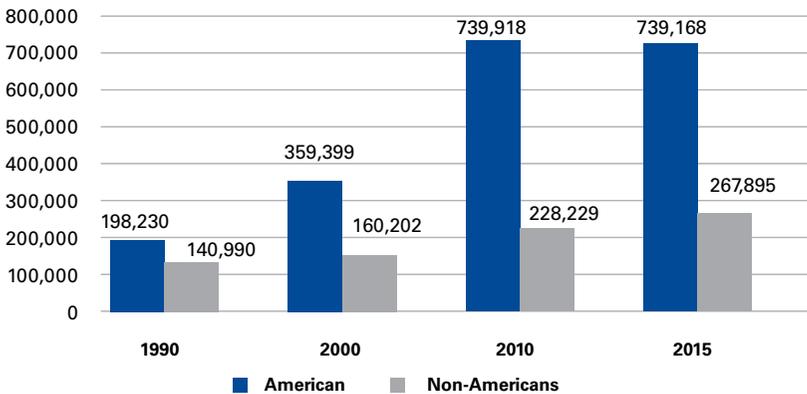
One prong of the strategy to stem the flow of migrants from Central America has been to try to determine those who have legitimate asylum claims before they leave their home countries. The U.S. government has begun receiving some asylum applications in Honduras, Guatemala, and El Salvador, although this is currently limited to those who have immediate family members already in the United States.<sup>12</sup> It would also be worth considering whether the two governments could work together, possibly with the UNHCR as a partner, to adjudicate asylum claims in Mexico's southern border region. This would require building a legal and physical infrastructure to process claims of migrants detained in southern Mexico to see if they have legitimate asylum claims and could be placed in either the United States or another country willing to resettle them.

Finally, both Mexico and the United States have an interest in addressing the underlying conditions of poverty and extreme violence that are leading people to abandon their home countries in Central America.

## AMERICANS IN MEXICO

The U.S. Department of State estimates that there are roughly a million Americans in Mexico, and the Mexican population bureau puts the number slightly lower at 739,168 out of slightly more than a million foreign-born.<sup>13</sup> Americans comprise roughly three-quarters of all immigrants in Mexico, and they are geographically distributed throughout the country (figure 9). Ironically, only a few of these U.S. immigrants have applied for legal residency in Mexico; technically, most are unauthorized immigrants.

**Figure 9. Immigrants in Mexico**



*Source: CONAPO, "Características de los inmigrantes residentes en México, según región de nacimiento, 1990 – 2015."*

At least half or more of these immigrants are almost certainly children and spouses of Mexicans who have returned to their country of origin. According to INEGI, most returnees have come back of their own free will, though a substantial number have been deported with family members following them. These U.S. citizens (especially children) often have Mexican heritage and speak Spanish at home, but they are usually culturally and educationally American, and they face both personal and logistical barriers integrating into life in Mexico. These range from discrimination against children who do not speak Spanish perfectly to difficulties in registering for school or for local

services because they have only U.S. birth certificates and school documents, which are not always accepted by Mexican local governments and school systems. Many college-age students with only U.S. high school certificates, for example, find that they cannot apply to public universities in Mexico.<sup>14</sup>

There are also two other sets of Americans living in Mexico—those who moved there for work opportunities and those who moved there for retirement. These groups, which together number several hundred thousand people, are more geographically concentrated in major cities and in a few regions that have become magnets for retirees and self-employed Americans, including the Lake Chapala region of Jalisco, San Miguel de Allende in Guanajuato, Puerto Vallarta in Nayarit, and several border cities, including the coastline of Baja California.

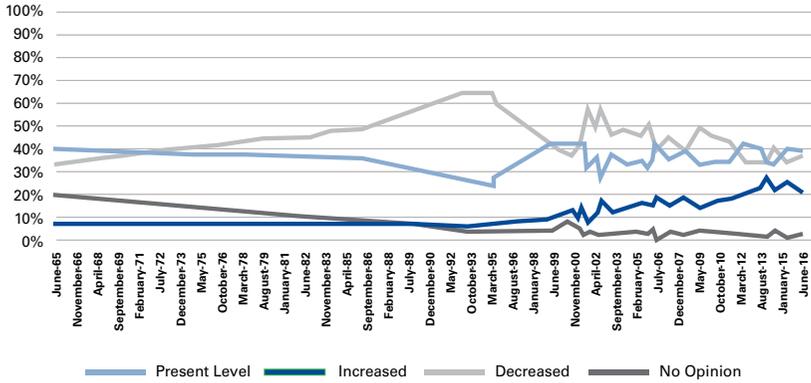
There will be an increasing need for U.S. consular services to address basic needs of U.S. citizens living in Mexico and a growing flexibility of Mexican local authorities to adapt their practices to a growing immigrant population. Mexico has rarely thought of itself as a country of destination for migrants—with the partial exception of temporary flows of refugees from Central America in the 1980s and of small flows of refugees from Spain and South America in earlier periods—but increasingly, it is a country that is receiving a large number of immigrants from abroad and needs to be able to adjust policies, especially in education and healthcare, to address these new populations.

## **CONCLUSION**

The public debate in both countries will likely be dominated by the issue of Mexican migrants to the United States for the foreseeable future because of political sensibilities in both countries. Nevertheless, public polls show immigration declining over time as a source of concern among Americans (figure 10), and even the recent presidential elections polls suggest that 70 percent of Americans would prefer to legalize rather than deport those who are in the country illegally.<sup>15</sup>

**Figure 10. Public Opinion on Immigrants to the U.S.\***

*\*Thinking now about immigrants - that is, people who come from other countries to live in the United States, in your view, should immigration be kept at its present level, increased or decreased?*



Source: Gallup.

The government-to-government agenda, while continuing to focus on Mexican migration to the United States, increasingly will also have to pay attention to Central American migration through Mexico, which requires cooperation between the two neighboring countries, and to the large number of Americans migrating to Mexico. Over time, this will create a more nuanced and balanced migration agenda between the two countries, where cooperation is more useful than conflict, and where interests converge in a way that would have been unthinkable a decade-and-a-half ago. However, this shift will take time to develop, and there may be initial conflicts about migration policies before both countries realize their need for greater cooperation.

The United States and Mexico each have interests in protecting their sovereignty and enforcing their immigration laws, but they also will need to work together to address Central American immigration, ensure robust growth in Mexico that keeps migration from starting up again, and protecting their own citizens living in the other country.

## ENDNOTES

- 1 Special thanks to Ana Isabel Abad Bagnasco and Miguel Toro for research assistance.
- 2 Figures for FY2016 had not yet been released as of this writing, but Secretary of Homeland Security Jeh Johnson confirmed that apprehensions of Central American unauthorized immigrants exceeded the number of apprehensions of Mexicans again in FY2016 in a written statement published on October 17, 2016.
- 3 Andrew Selee, "A Changing Mexico," *Journal of International Affairs*, Vol 66, Issue 2, Spring/Summer 2013.
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- 5 Doris Meissner, Donald M. Kerwin, Muzaffar Chishti, and Claire Bergeron, *Immigration Enforcement in the United States: The Rise of a Formidable Machinery*, Washington, DC: Migration Policy Institute, 2013.
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- 7 Rosenblum, *Understanding the Potential Impact*, 2015.
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## KEY POLICY RECOMMENDATIONS

- Embrace the existing North American energy dialogue as it has become a critical resource in preparing for the future of global and regional energy markets. Greater coordination to improve energy system efficiency.
- Ensure “friendly” oil suppliers such as Canada and Mexico—Mexico’s continuing status as a “friendly” oil supplier means that the United States has an interest in assisting its southern neighbor to maximize the potential of its oil fields
- Develop a dialogue between Mexican and U.S. counterparts that focuses on efficient regulation. Mexico should work with the United States to reduce the burden of its own regulatory system for energy firms. Share the successful U.S. experience in energy regulation in reducing regulatory burden, which will help Mexico succeed and integrate its energy markets.
- Energy infrastructure planning presents an opportunity to coordinate investments across the border to ensure that benefits are optimized for both countries. Embrace opportunities for ongoing energy infrastructure projects that take into account the increasingly integrated nature of energy markets. Plan cross-border electricity transmission in such a way as to benefit both producers and consumers with lower-cost and shorter-distance options for transmission.
- Export U.S. natural gas via pipeline to Mexico and to Central America. A focus on increasing natural gas production and use in the United States is entirely compatible with the change underway in Mexico. Continued Mexican consumption of cheap gas from the United States will ensure both stable prices and improve Mexican economic competitiveness.
- Create agreements between regional systems operators in the U.S. southwest with the CENACE and CFE to overcome intermittency problems and allow for the optimization of existing and future renewable resources.
- Continue working on climate and energy issues with Mexico at the level of U.S. states, such as California.

# U.S.-MEXICO ENERGY AND CLIMATE COLLABORATION

Duncan Wood 

Four years ago, as the administration of Enrique Peña Nieto began, the Mexico Institute outlined a number of areas in which productive collaboration could take place between the Mexican and U.S. governments. Those areas focused on non-oil related energy issues for an obvious reason: at the time, Mexico's oil and gas sector remained closed to private and foreign investment, and collaboration in this area was stifled at best.

The constitutional reforms of December 2013 (and the implementing legislation of the following year) changed this scenario dramatically and profoundly. A full opening of the hydrocarbons value chain to private and foreign investment, and the gradual construction of a competitive marketplace for energy suppliers have revolutionized the Mexican energy model. This is not just the case in oil and gas, of course: the electricity sector too has been extensively liberalized and 2016 saw two major generation auctions successfully carried out by the government. There has been impressive progress in developing Mexico's renewable energy potential, and remarkably (given the expected expansion of its hydrocarbons sector), ongoing commitments to limit carbon gas emissions.

This chapter will examine the progress that has taken place in Mexico's energy sector and the energy relationship between Mexico and the United States over the past four years. More importantly, it will propose meaningful paths for collaboration based on three main factors: 1) the transformation of energy systems worldwide; 2) the opportunities presented by a liberalized energy sector in Mexico; and

3) the interest shown by the incoming Trump administration in the energy sector. Most importantly, the incoming administration should embrace the existing North American energy dialogue as it has become a critical resource in preparing for the future of global and regional energy markets.

## **WHY ENERGY MATTERS**

Before analyzing the progress that has been made in the bilateral and regional energy relationship, it is worth remembering why energy matters so much. Of course it is a major component of both countries' economies, responsible for wealth creation, innovation, and employment. Across Mexico and the United States, millions of people work in the traditional energy sector, and millions more are finding work in the areas of renewable energy and energy efficiency.<sup>1</sup>

But secure access to comparatively low-priced energy is also crucial for economic competitiveness. Prior to Mexico's energy reform, high prices for industrial consumers of electricity compromised manufacturing competitiveness in the country, and natural gas shortages meant repeated stoppages at factories in the north of the country. Since the reform was passed, prices have been reduced dramatically in Mexico, falling by between 21 percent and 30 percent for industrial consumers between September 2014 and September 2015.<sup>2</sup> This has significantly improved the economic competitiveness of Mexican manufacturers.

## **WILSON CENTER ENERGY COOPERATION RECOMMENDATIONS FROM 2013**

- 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 trans-boundary 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 impressive 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.

## **MEXICO'S NEW ENERGY MODEL**

After 75 years of running a closed and monopolistic model in its energy sector, in December 2013 the Mexican government won Congressional approval for a far-reaching reform package that liberalized both the hydrocarbons and the electricity sectors. This paradigm shift happened in the face of considerable opposition from left-wing parties and nationalists, but the Peña Nieto government was still able to win a two-thirds majority in both chambers of Congress and approval

from a majority of the state legislatures. Over the next two years, implementing legislation was passed by Congress, and regulatory frameworks and organisms have been constructed.

In December 2014, Energy Secretary Pedro Joaquin Coldwell announced the nation's first oil bidding round (Ronda 1) since 1938, and over the following two years successful auctions were held for fields in shallow and deep waters and for onshore blocks. Although the first of these auctions (Ronda 1.1), in July 2015, was a disappointment with only 2 out of 14 blocks awarded, the National Hydrocarbons Commission (CNH) and Energy Ministry (SENER) listened to investor feedback and changed the process for subsequent auctions, to impressive effect. In Ronda 1.2, 3 out of 5 blocks were allocated (with impressive winning bids ensuring higher than expected revenue for the government), and Ronda 1.3 saw all 25 available blocks awarded. The "jewel in the crown" of Ronda 1, however, came in December 2016, one year after the completion of Ronda 1.3, and three years after the signing of the constitutional reform. In this auction, the CNH was successful in allocating 8 out of 10 deep-water fields, with the winning bids coming in with royalty commitments far above the levels expected by the government (Figure 1). On the same day as Ronda 1.4, the CNH also oversaw the bidding process for the historic Trion Deepwater field farm-out, in which firms competed to partner with Pemex in an existing field in the Perdido belt. In total, the first bidding round of the new hydrocarbons model saw the signing of 39 contracts and is expected to generate \$49 billion dollars.

**Figure 1. Ronda 1.4 Results\***

<b>Area 1: Cinturon Plegado de Perdido</b>		
<b>Contractual Area</b>	<b>Winner</b>	<b>Royalty Rate %</b>
1	China Offshore Oil Corporation	17
2	Total & Exxon	5
3	Chevron, Pemex & Inpex	7.44
4	China Offshore Oil Corporation	15.01

<b>Area 2: Cuenca Salina</b>		
<b>Contractual Area</b>	<b>Winner</b>	<b>Royalty Rate %</b>
1	Statoil, BP & Total	10
2	No winner	0
3	Statoil, BP & Total	10
4	PC Carigali & Sierra	22.99
5	Murphy, Ophir, PC Carigali & Sierra	26.91
6	No winner	0

*Source: Oil and Gas Mexico*

The success of this extraordinary change in Mexico’s hydrocarbons industry was brought about in large part by the willingness of the Mexican government to engage in dialogue with the investor community. When Energy Secretary Pedro Joaquin Coldwell announced the Ronda 1 terms in December of 2014, he declared that the government was open to feedback from the private sector and foreign investors to be able to improve on the investment climate. Although this may be seen as standard practice in other jurisdictions, in Mexico this marked a dramatic departure from the traditional, state-imposed reality in the hydrocarbons sector. Not only did Mexico welcome foreign investment, it invited the investors to help shape the rules of the new system.

Mexico's petroleum markets are also being revolutionized on the downstream side. Beginning in January 2016, private companies are now allowed to compete with Pemex in the retail market and, in April 2016, private companies were allowed to import refined products without having to go through Pemex. This liberalization of the refined products market has seen enormous interest from foreign oil companies, with Gulf already opening its first gasoline stations in the country in mid-2016. Lastly, 2017 has seen the partial liberalization of gasoline prices in Mexico, which has brought a consumer backlash as prices have risen dramatically.

However, significant challenges still remain for Mexico's hydrocarbons sector. Pemex continues to face enormous financial pressure due to an overwhelming tax burden from the government, crippling labor liabilities and dramatically reduced revenues due to falling production and low international oil prices. Pemex's production decline has been profound and dramatic, falling from 3.4 million barrels per day in 2004 to less than 2 million per day in 2017. Pemex has also been hemorrhaging money on its downstream operations: its six refineries have been operating at only 66 percent capacity over the past few years, and it is estimated that they result in a US\$9 billion loss every year for the company. This also means that Mexico has been importing record supplies of gasoline, reaching 867,000 barrels per day in July of 2016.<sup>3</sup>

Having said this, Pemex is finally beginning to adapt to the new environment. In February 2016, the company brought in a new CEO, Jose Antonio Gonzalez Anaya, who has committed to partnering with the private sector across the value chain. The proof of this commitment came in December 2016, when Pemex not only participated in a winning consortium in December 2016 for a deep-water block in the Perdido Belt in Round 1.4, but also entered an association within the Trion field through a farm-out. The winning bid in the farm-out process, from Australia's BHP Billiton, not only ushered in a new era of collaboration for Pemex, it also brought a \$624 million cash payment for the company, a most welcome injection at the end of what had been a very difficult year. These events suggest that change is

coming fast for the company and that there is significant reason to be optimistic about the future.

At the same time as this extraordinary process was unfolding, Mexico was continuing with a transformation of its natural gas sector. During 2011 and 2012, the country had experienced severe natural gas shortages, leading to industrial consumers being cut off from supplies at critical moments, compromising their ability to meet orders. Building on existing commitments, the Peña Nieto administration has continued to expand Mexico's natural gas pipeline network, and even more importantly, has overseen new cross-border pipeline projects that have brought much needed low-cost gas in from the United States.

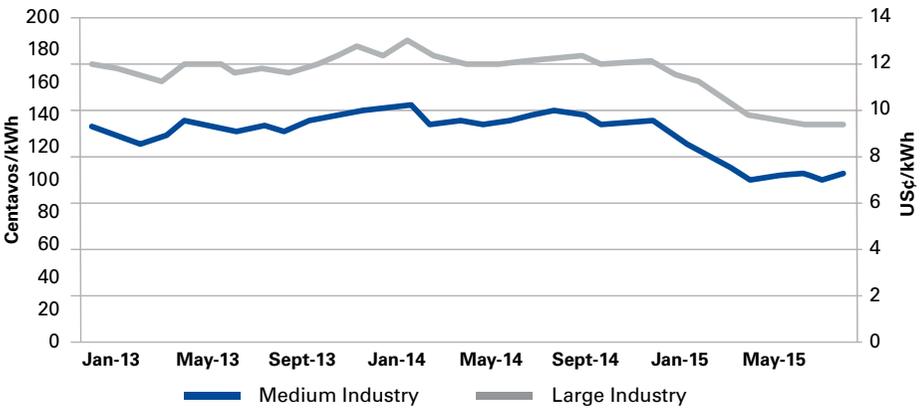
The influx of natural gas into Mexico is also helping the transformation of the electricity system (Figures 2, 3). As with the hydrocarbons industry, Mexico's power sector has been completely opened up to competition thanks to the 2013 constitutional reform. Before the reform, the power sector was dominated by the state-owned utility, the Comisión Federal de Electricidad (CFE), a monopolistic system that only allowed private power generation under certain conditions. The electricity reform consists of the following major elements:

1. The power sector is transitioning from a vertically integrated industry with a dominant state-owned utility to a decentralized market.
2. Private investment is now permitted throughout the electricity value chain.
3. Power generation is becoming a fully competitive activity.
4. An independent body, the CENACE, now runs the wholesale electricity market.
5. Open access is guaranteed to the power grid for all market participants.

The CFE itself is also being transformed. From its formerly monopolistic position, the utility is now being unbundled so that it will be split into several companies that will compete with each other and with private firms.

Access to stable supplies of natural gas in Mexico is bringing a massive transformation of generating capacity. It is estimated that 44 percent of generation capacity additions up to 2029 will be natural gas based, as well as a number of conversions of existing fuel oil powered plants to gas.

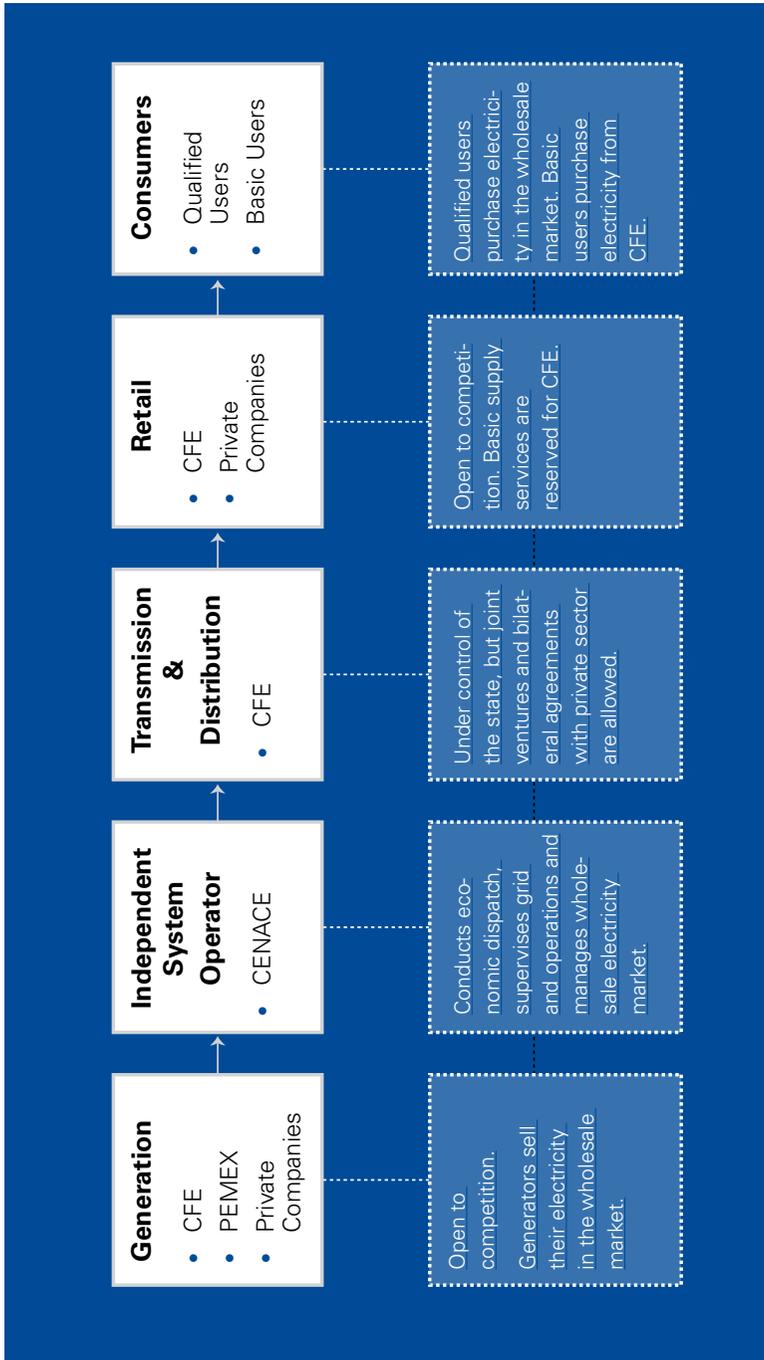
**Figure 2. Mexico’s Industrial Power Prices**



Source: Wood Mackenzie

The importance of the power sector reforms was made clear by Mexico’s Energy Minister, Pedro Joaquin Coldwell, when he called it, “the economic competitiveness reform.” As Alejandro Chanona Robles has argued, “access to reliable and affordable power can give businesses a competitive edge over their rivals, stimulate job creation and spur economic growth...Studies suggest that cheaper electricity can substantially boost Mexico’s manufacturing base.”<sup>4</sup>

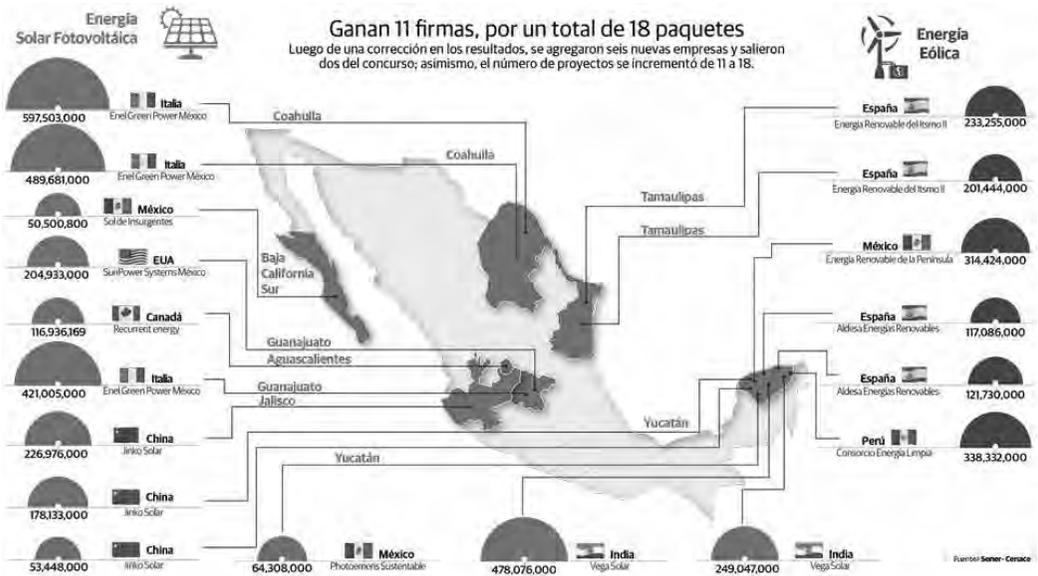
**Figure 3. Mexico's New Power Sector Structure**



Source: Alejandro Chanona Robles (2016)

But Mexico’s power sector transformation has also already brought significant investment in new renewable energy capacity. In March 2016, the country’s first electricity generation auction was held, with 18 renewable power contracts awarded, attracting record-low prices per MW of power generated (Figure 4). This was followed by a second auction in September, which saw even lower prices guaranteed.

**Figure 4. Results of Mexico’s First Renewable Energy Auction, 2016**



Source: [awstruepower.com](http://awstruepower.com)

Further changes will follow in Mexico’s power markets, with an opening of the capacity market in February 2017 and the launch of a market for Clean Energy Certificates (CECs) in 2018. This latter initiative will cement the government’s already impressive commitment to reducing carbon emissions and boosting renewable energy production in Mexico.

## THE LIBERATION OF THE U.S.-MEXICO ENERGY DIALOGUE

For decades, Mexican sensitivities regarding the connection between energy and national sovereignty prevented the development of a modern and multi-faceted dialogue over energy cooperation between the two countries. The 2013 reform, however, has opened the way for comprehensive interaction on energy policy. In February 2014, only two months after the approval of the reform, the three North American heads of government met in Toluca, in the State of Mexico, to discuss the future of regional integration. Energy featured high on the agenda, and it was agreed that the energy ministers of the three countries would begin a regular dialogue. The first meeting took place in December of that year, in Washington, DC, with the ministers agreeing on an agenda for cooperation focused on:

1. Collaboration on the generation of North American energy data, statistics and mapping to be made available to the public;
2. Responsible and sustainable best practices for the development of unconventional oil and gas;
3. Modern, resilient energy infrastructure for North America in all aspects, physical as well as institutional, including policies, regulations, workforce, innovation, practices to promote energy efficiency and sustainable technologies.

The breadth of this agenda helps to emphasize the potential for collaboration now that the Mexican energy system has been transformed. The MOU signed by the energy ministers institutionalized a framework for sharing information among the participants with the goal of promoting dialogue and cooperation. Under the North American Cooperation on Energy Information initiative (NACEI), the three ministers agreed to set up a working group that would facilitate this coordination, including the following agencies:

- Canada: Department of Natural Resources, Statistics Canada and the National Energy Board;

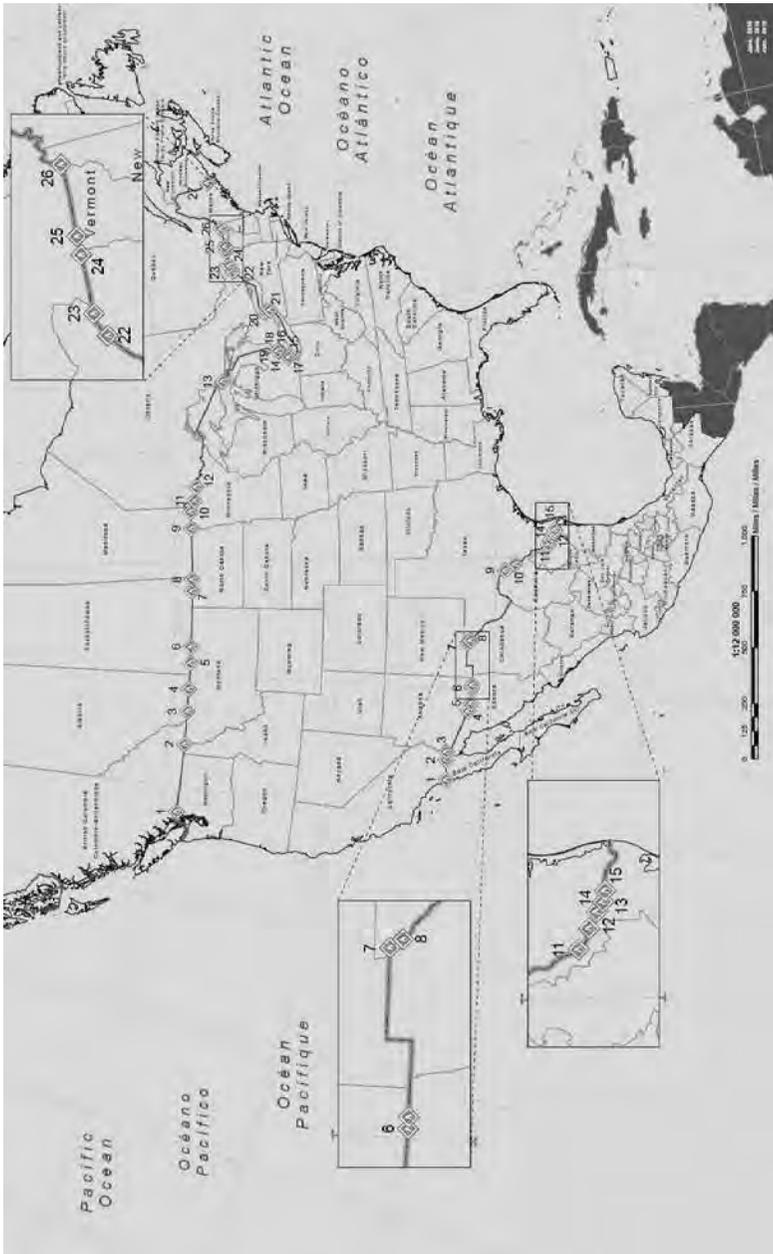
- Mexico: the Secretaría de Energía (SENER) (Secretariat of Energy), Comisión Reguladora de Energía, Comisión Nacional de Hidrocarburos, Petróleos Mexicanos, Comisión Federal de Electricidad, Centro Nacional de Control de Gas Natural, Centro Nacional de Control de Energía and the Instituto Nacional de Estadística y Geografía (INEGI) (National Institute of Statistics and Geography);
- United States: the Energy Information Administration (EIA) of the Department of Energy and the U.S. Census Bureau.

The group was specifically tasked with the following activities:

- a. comparing, validating, and improving respective energy import and export information;
- b. sharing publicly available geospatial information related to energy infrastructure;
- c. exchanging views and information on projections of cross-border energy flows;
- d. harmonizing terminology, concepts, and definitions of energy products.

The NACEI began work immediately on the gathering of statistics and mapping resources. Available to the public at [www.eia.gov/special/trilat/](http://www.eia.gov/special/trilat/), the result is an impressive resource that allows for a truly regional understanding of energy resources for the first time. The maps created thus far are an extraordinary resource that allows for a visualization of energy infrastructure across the North American region and expands the potential for cross-border cooperation and planning in a way that had not been possible before (Figure 5). What's more, the harmonization of statistics from all three countries allows for meaningful and simple comparisons. In this way, the North American energy dialogue has opened the way for deep long-term collaboration.

Figure 5. Border Crossings of Natural Gas Pipelines



Source: U.S. Energy Information Administration

Crossing points / Puntos de cruce / Points de passage

	United States/ Estados Unidos/États-Unis	Canada/ Canadá
ID	Name / Nombre / Nom	Name / Nombre / Nom
1	Northwest Pipeline Puget Sound Energy Cascade Natural Gas Ferndale Pipeline	Hipco Import/Export Line  Us-Can Border -11+12+17+18+19
2	Gas Transmission Northwest LLC	ANG Mainline
3	Northwestern Energy	Carway Line
4	NorthWestern Energy	Aden Pipeline
5	Havre Pipeline	Loomis-Herbert
6	Northern Border Pipeline	Line 1- Zone 9 Sask
7	Williston Basin Pipeline	Steelman-North Portal
8	Alliance Pipeline	Mainline
9	Great Lakes Transmission Viking Gas Transmission	Line 400-1, Line 400-2, Line 400-3
10	Central Pipeline Minnesota	TCPL/Sprague Pipeline
11	Central Pipeline Minnesota	Rainy River/Fort Frances
12	Central Pipeline Minnesota	Fort Frances
13	Great Lakes Transmission	Line 900-1, Line 900-2
14	Panhandle Eastern PL	Detroit River/Windsor 1 And 2
15	Vector Pipeline Co	Vector
16	Michigan Consolidated Gas	St. Clair River Crossing Pipeline
17	Great Lakes Transmission	Line 500-1, Line 500-2
18	ANR Pipeline Co	The Link Pipeline
19	Bluewater Pipeline Co	Bluewater River Crossing Replacement
20	Tennessee Gas Pipeline Co	Line 200-1, Line 200-2
21	Empire Pipeline	Line 1700-1
22	Iroquois Pipeline Co	Line 1400-1
23	St. Lawrence Gas	Cornwall Pipeline
24	North County Pipeline Co	Line 1600-1
25	Vermont Gas System	Line 800-1
26	Portland Gas Transmission Co	PNGTS
27	Maritimes & Northeast Pipeline Co	Mainline

Crossing points / Puntos de cruce / Points de passage

	United States/ Estados Unidos/ États-Unis	Mexico / México / Mexique
ID	Name / Nombre / Nom	Name / Nombre / Nom
1	San Diego Gas and Electric	Transportadora de Gas Natural de Baja California
2	Southern California Gas Co	Ecogas México
3	North Baja Pipeline Co	Gasoducto Rosarito
4	Sierrita Gas Pipeline	Gasoducto de Aguaprieta
5	El Paso Natural Gas Pipeline	Compañía de Autoabastecedores de Gas Natural de Nogales
6	El Paso Natural Gas Pipeline El Paso Natural Gas Pipeline	Naco Gasoducto de Aguaprieta
7	Norteno Pipeline	Gas Natural de Juarez
8	El Paso Natural Gas Co Gasoductos de Chihuahua	Tarahumara Pipeline
9	West Texas Gas	Compañía de Autoabastecedores de Gas Natural Acuña
10	West Texas Gas	Compañía Nacional de Gas (Río Bravo)
11	Kinder Morgan Texas Pipeline NET Mexico Pipeline	Kinder Morgan Gas Natural de México Gasoducto Noreste
12	Houston Pipeline – Edinburgh Lateral	Argüelles pipeline
13	Tennessee Gas Pipeline	Reynosa – TENNESSE
14	Texas Eastern Pipeline	Reynosa – TETCO
15	Tennessee Gas Pipeline	Gasoducto del Río

Source: U.S. Energy Information Administration

The leadership role played by the United States in this regional approach was underlined by the 2015 Quadrennial Energy Review (QER), which focused extensively on the North American region and on the opportunities for energy cooperation. The two major conclusions of the QER chapter on North America were:

1. The United States has significant energy trade with Canada (\$140 billion per year) and Mexico (\$65 billion).
2. Greater coordination will improve energy system efficiency and build resiliency to disruptions of the North American energy market, data exchanges, and regulatory harmonization.

In 2015, the EIA, Canada's National Energy Board and SENER produced a 2015 Trilateral Energy Outlook ([www.eia.gov/special/trilat/pdf/2015trilateral.pdf](http://www.eia.gov/special/trilat/pdf/2015trilateral.pdf)). This report established projections for crude oil, refined products, and natural gas and electricity markets across the region to 2029. Although the report's authors emphasize that "it does not reflect results of an integrated North American energy model" nor should it "be construed as an official outlook for any of the Trilateral members," there is, for the first time, the possibility of a more holistic approach to planning the future of North America's energy sector.

The December 2014 meeting of the energy ministers was followed in May of 2015 by a meeting on the margins of the Energy and Climate Partnership of the Americas Ministerial and the Clean Energy Ministerial meetings in Merida, Mexico. The three ministers agreed to form a new Working Group on Climate Change and Energy, involving regular interactions between teams from all three countries. The agenda that was laid out in Merida included:

- Reliable, resilient, and low-carbon electricity grids;
- Modeling and deployment of clean energy technologies, including renewables;

- Energy efficiency for equipment, appliances, industries, and buildings, including energy management systems;
- Carbon capture, use, and storage;
- Climate change adaptation and resilience; and
- Emissions from the oil and gas sector, including methane and black carbon.

Mexican Secretary of Energy Coldwell emphasized that this agenda demonstrated a commitment to “a path to achieve deep de-carbonization.” U.S. Secretary Moniz instead emphasized the potential for “facilitating cooperation to deploy innovative renewable energy technologies, modernize the grid, and increase energy efficiency to combat climate change and reach greenhouse gas targets while growing low-carbon economies in North America.”

This institutionalization of an energy and climate agenda in the region has been identified as a pre-requisite for meaningful and sustained cooperation.<sup>5</sup> Building on the experience of the North American Energy Working Group (NAEWG) in the early 2000’s, the new working group will facilitate coordination by a dual process of socialization and harmonization. The first process has already shown its value: the coming together of the energy policy representatives of the three countries has been successful in encouraging both mutual understanding and increased interaction between the ministries. The second process will take longer, and we should not expect it to be a linear or an even process. Harmonization of regulations and standards makes more sense in some areas than others (and sometimes bilateral rather than trilateral), and in most areas the goal should be compatibility and coordination rather than full homogenization.

As Mexico has opened its sector to private participation, its regulatory agencies have been strengthened and their power expanded. The Comision Nacional de Hidrocarburos (CNH) has been charged with running the bidding process for oil blocks in Rounds 1 and 2, and the Comision Reguladora de Energia (CRE) has overseen both the opening of the electricity market alongside SENER and the CENACE,

and the regulation of transportation, storage and distribution of hydrocarbons, including natural gas. Furthermore, a new environmental regulatory agency, the Agencia de Seguridad, Energía y Ambiente (ASEA), was created by the energy reform to oversee the industrial safety and environmental protection aspects of the hydrocarbons sector. Operating under the control of the environmental ministry (SEMARNAT), the ASEA has had to progress rapidly since its inception in 2015. In fact, all three regulatory agencies have had to adapt to dramatically altered circumstances during the first three years of Mexico's new energy model. To do so, they have made a concerted effort to acquaint themselves with international best practice and Mexican contact with U.S. (and Canadian) regulators has been an integral part of that process. Regulatory exchanges with California and Texas (and Alberta) have been particularly significant, as have exchanges with U.S. federal organizations such as the Bureau of Safety and Environmental Enforcement (BSEE), the Bureau of Ocean Energy Management (BOEM), the Bureau of Land Management (BLM), the Environmental Protection Agency (EPA), the Federal Energy Regulatory Commission (FERC) and the Pipeline and Hazardous Materials Safety Administration (PHMSA).

## **U.S.-MEXICO CLIMATE COOPERATION**

Mexico has long been recognized as an emerging market leader in international climate change negotiations. Beginning with the presidency of Felipe Calderon, Mexico has attempted to develop an aggressive approach to global climate talks that is backed up by progress on climate mitigation and renewable energy policy at home. President Peña Nieto's continuation of this policy surprised some who had predicted a hydrocarbons-friendly approach, and has even strengthened Mexico's global climate position by securing legislation in Mexico's Congress that commits the country to a 50 percent reduction in carbon emissions by 2050, alongside ambitious targets for electricity generation from renewable sources. Mexico was also the first developing country to declare its Intended Nationally Determined Contribution (INDC) under the Paris Accord process in April 2015, and has undertaken a commitment to reduce its black

carbon emissions by 51 percent by 2030. Largely thanks to this commitment, Mexico and the United States became partners in pushing the Paris Accord in December 2015, setting the stage for further cooperation at a regional level.

The North American energy dialogue has been an important force driving cooperation on climate issues. In July 2016, at the Ottawa North American Leaders' Summit (NALS), Mexico agreed to join the existing U.S.-Canada agreement on methane emissions reductions. The trilateral accord commits the countries to reducing methane emissions from the hydrocarbons industry by up to 45 percent by 2025. Mexico had previously resisted a commitment to reduce its emissions, partly due to opposition from Pemex, and partly due to an overwhelming policy agenda thanks to the energy reform implementation. Alongside pressure from the Canadian and U.S. governments, extensive efforts by civil society groups, including the Environmental Defense Fund (EDF) to promote the emissions reductions were successful in convincing the Peña Nieto administration of the importance of a trilateral accord. The EDF, quoting Mexican government figures, estimates that methane emissions from the hydrocarbon industry make up 19 percent of total methane emissions in the country.

Trilateral cooperation can also be credited with 2016's most important global climate accord, the Kigali Agreement on phasing out hydrofluorocarbons (HFCs) in October. In 2009, during a meeting of the Montreal Protocol, the United States, Canada and Mexico (plus the Maldives) pushed for international cooperation to reduce HFC emissions as a crucial component of fighting climate change.

## **BUILDING A NEW AGENDA: REGULATION AND INFRA-STRUCTURE LEAD THE WAY**

The beginning of the administration of President Donald Trump in January 2017 presents an opportunity to move the energy relationship between Mexico and the United States in exciting new directions, in addition to consolidating existing areas of agreement.

Although the specifics of the new administration's energy policy are far from clearly defined at the time of writing, four clear priorities emerged during the presidential election campaign that are likely to persist and have implications for the energy relationship with Mexico. First, the Trump campaign emphasized the need to eliminate U.S. dependence and focus on importing oil from friendly nations. The second goal is a concern with reducing the regulatory burden faced by private energy firms. Though much of this regulation takes place at the level of state agencies, it is likely that the EPA will see its mandate to regulate carbon gas emissions greatly reduced. Furthermore, the appointment of former Texas governor Rick Perry as Energy Secretary signals a move to cut back on red tape and to promote the exploitation of America's shale, oil and natural gas reserves. Third, throughout the campaign, Trump emphasized the need to invest in U.S. infrastructure to generate jobs and improve competitiveness. This is likely to have ramifications for the energy sector. Lastly, the new administration has signaled its intent to boost the use of natural gas, both as a way of reducing emissions and lowering energy costs for the consumer.

### *Donald J. Trump Campaign Platform on Energy*

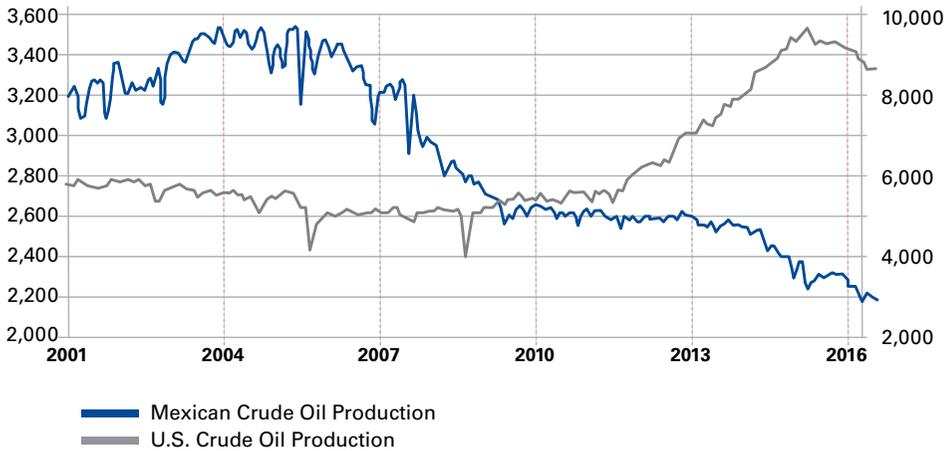
- Make America energy independent, create millions of new jobs, and protect clean air and clean water; conserve natural habitats, reserves and resources.
- Declare American energy dominance a strategic economic and foreign policy goal of the United States.
- Exploit untapped shale, oil, and natural gas reserves, plus hundreds of years in clean coal reserves.
- Become, and stay, totally independent of any need to import energy from the OPEC cartel or any nations hostile to our interests.
- Open onshore and offshore leasing on federal lands, eliminate moratorium on coal leasing, and open shale energy deposits.

- Encourage the use of natural gas and other American energy resources to reduce emissions, reduce the price of energy and increase economic output.
- Reduce and eliminate all barriers to responsible energy production.

Each of the Trump administration's energy priorities has important implications for the bilateral relationship. The first element of the Trump energy platform that has direct relevance for Mexico is the goal of becoming "totally independent of any need to import energy from the OPEC cartel or any nations hostile to our interests." Ensuring "friendly suppliers," such as Canada and Mexico, has long been a goal of U.S. energy policy, and Mexico stands to benefit from this. Although the Trump administration will seek to boost national production to ensure independence, most experts recognize that North American, rather than U.S., oil independence is a much more reasonable target at which to aim. This means that the Trump administration should recognize the importance of ensuring the long-term success of Mexico's energy reforms.

Two factors make this point particularly relevant. First, Mexico has seen a prodigious decline in oil production in recent years and the reforms are the best hope of reversing that decline in the years to come (Figure 6). Secondly, the reform is coming under attack from opposition parties in Mexico and, with the possibility of a shift to the left in the 2018 presidential election, there is a risk that the reform will stall or be rolled back. This would be an alarming prospect for both the United States and for a number of its companies that have been successful in winning oil contracts in Ronda 1.

**Figure 6. Mexican vs. U.S. Oil Production 2001-2016**  
(thousands of barrels per day)



Source: [tradingeconomics.com](http://tradingeconomics.com)

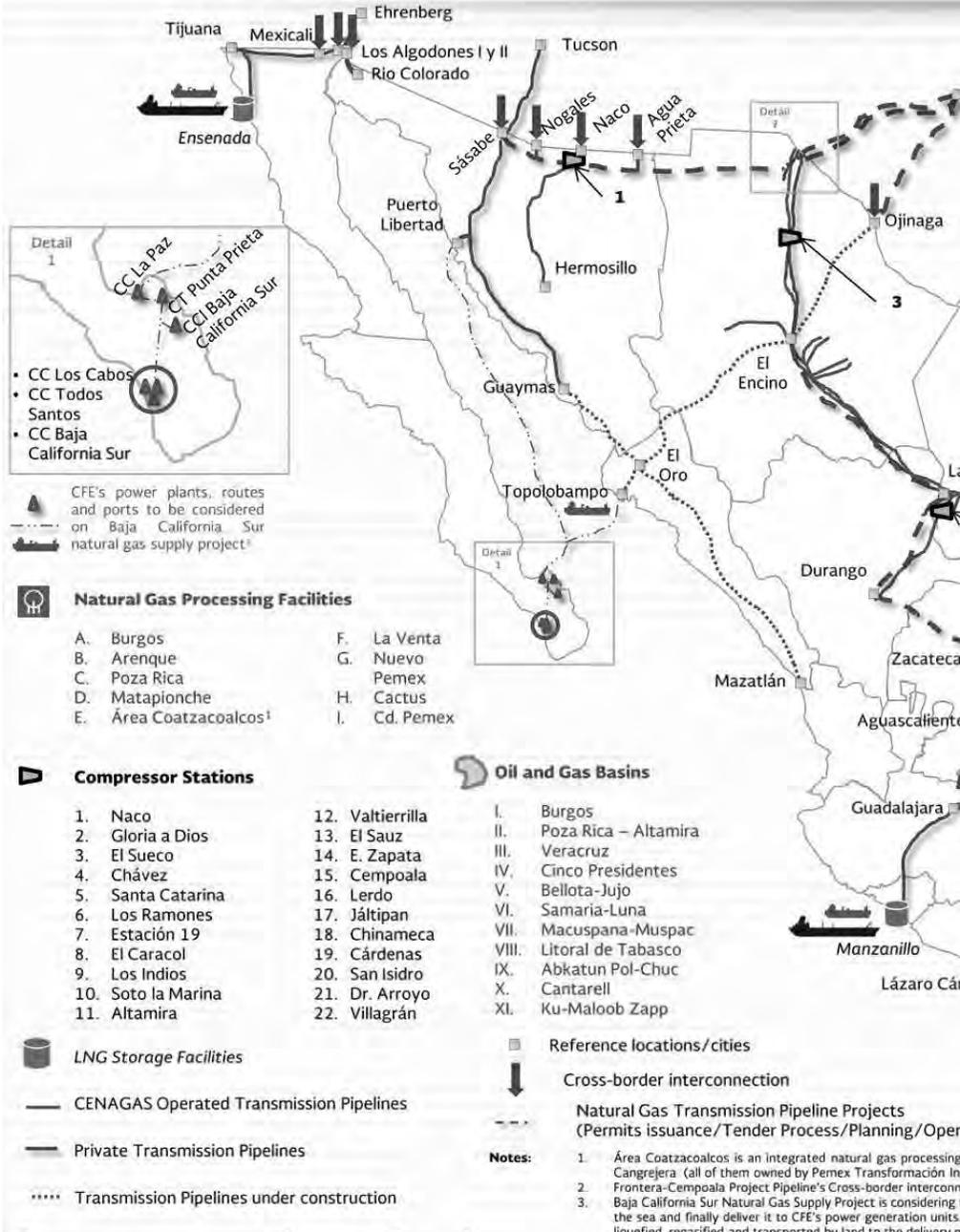
The second element, regulatory simplification, provides a compelling opportunity for Mexico to work with the United States to reduce the burden of its own regulatory system for energy firms. Although its regulations and regulatory bodies have seen substantial progress since the reforms of 2013, Mexico still has a regulatory system in place that seeks to prohibit, rather than facilitate activity by the energy industry. The change of tone in Washington provides an opportunity for Mexico's regulatory agencies to develop a dialogue with their U.S. counterparts that focuses on efficient regulation, something that the emerging private oil and gas industry is crying out for in Mexico. Critical issues concern repetitive paperwork, inter-agency coordination, permitting, and the use of online compliance mechanisms. If the United States is about to see a concerted push towards more efficient regulation, then it behooves Mexico to follow suit, to maintain competitiveness and to facilitate the integration of energy markets. Existing dialogue with state regulators in Texas have already emphasized the importance of a paradigm shift in Mexican

regulation; the approach of the new U.S. government offers a chance to take that conversation even further. The existing North American dialogue provides the forum in which this can take place.

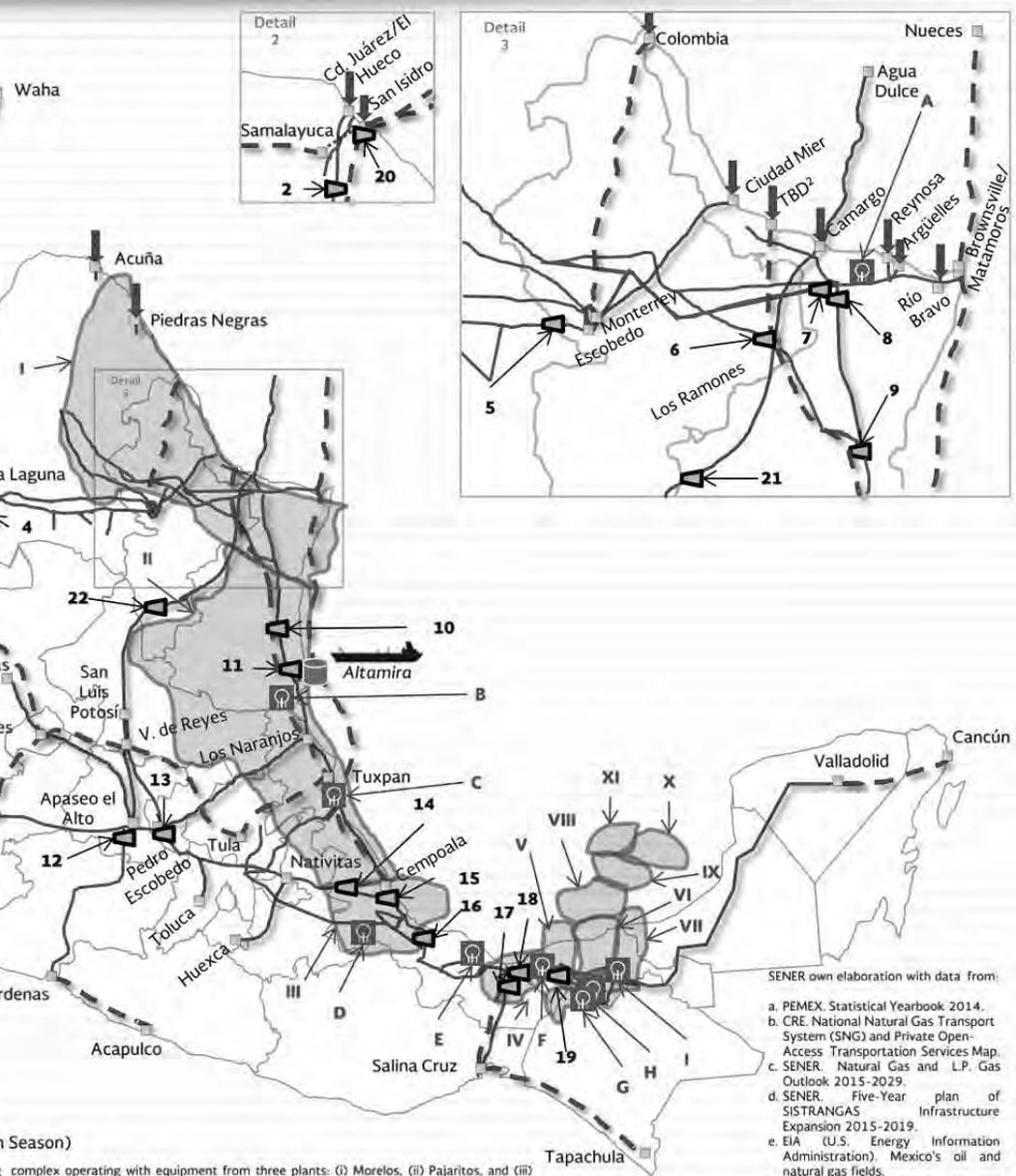
With regards to the third energy priority, infrastructure spending, there are ample opportunities for ongoing energy infrastructure projects that take into account the increasingly integrated nature of energy markets, from oil and gas pipelines to cross-border transmission lines and a coordinated approach to refining capacity. A crucial element of the success of the Mexican energy reform has been the arrival of natural gas from the United States, through pipeline projects that cross the border (Figure 7). These took years to plan and build, and it is vital that future Mexican demand is considered with enough anticipation to ensure that pipeline capacity exists to carry gas to market. Mexico's refineries are likely to see an overhaul in the next few years as Pemex seeks partners for its refining division that consistently loses around U.S. \$9 billion a year. If Mexico plans to invest in building new refining capacity, it would be wise to consider the current and future state of the U.S. refining sector, which is aging and has limited capacity.



Figure 7. U.S.-Mexico Cross-Border Natural Gas Pipelines



Source: Secretaría de Energía de México (SENER)



- SENER own elaboration with data from:
- a. PEMEX. Statistical Yearbook 2014.
  - b. CRE. National Natural Gas Transport System (SNG) and Private Open-Access Transportation Services Map.
  - c. SENER. Natural Gas and L.P. Gas Outlook 2015-2029.
  - d. SENER. Five-Year plan of SISTRANGAS Infrastructure Expansion 2015-2019.
  - e. EIA (U.S.). Energy Information Administration). Mexico's oil and natural gas fields.
  - f. CFE. Natural Gas Supply to Baja California Sur Data Sheet and Tender Process Annex.
  - g. SENER. National Electric Sector Development Program 2015 - 2020.

(Winter Season)

... complex operating with equipment from three plants: (i) Morelos, (ii) Pajaritos, and (iii) industrial (TRI).

... decision point to be defined.

... that the carrier will receive natural gas at some point in the country, then transport it across

... The carrier could choose the best technology. So that, if necessary, the natural gas can be

... plants.

Electricity is also ripe for cross-border cooperation. Little has been done over the past four years to increase the interconnections between Mexico and the United States, with only 10 connections linking the markets of the two countries (four connections to the Western Electricity Coordinating Council or WECC, and six to the Electricity Reliability Council of Texas or ERCOT). However, given the increase in capacity in Mexico and the rapid growth of the renewable energy industry on both sides of the border, there now exists an opportunity to plan cross-border transmission in such a way as to benefit both producers and consumers with lower-cost and shorter-distance options for transmission. A prime example of this is the concept of an electricity transmission line in Mexico's northern border states that would allow electricity to travel not only between Mexican states and across the border to U.S. consumers, but also permit electrons generated from wind energy projects in Texas to travel across the border to Mexico, move along the border and then cross back over into California, where demand for renewable energy is growing rapidly (Figure 8). In January 2017, the United States and Mexico signed a new cooperation agreement on grid reliability, setting the stage for increased connectivity between the two countries' electricity systems.<sup>6</sup>



**Figure 8. Mexico's Planned Electricity Transmission Projects**

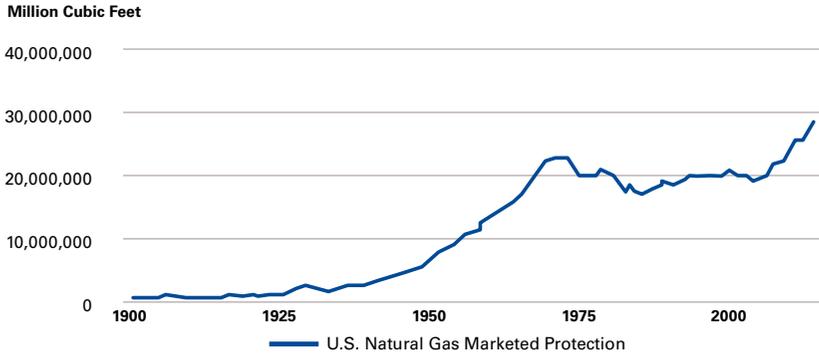


*Source: Cesar Hernandez Ochoa, Third Annual North American Energy Forum*

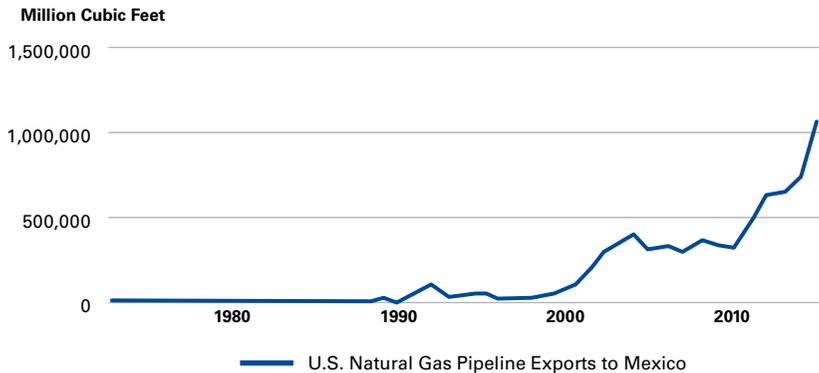
Finally, it is worth focusing on the Trump administration's goal of boosting the production and use of natural gas. If gas production is to grow in the United States, new consumers will be needed to sustain a price that allows for investment in the sector. Fortunately for gas producers, it is expected that Mexico will see its demand for natural gas grow rapidly, and it is estimated that exports to Mexico will soon reach between 8-10 percent of U.S. production (Figure 9). Mexico plans to dramatically boost its internal natural gas pipeline network over the next few years, and it is expected to grow more than 90 percent before the end of this decade. In addition to satisfying demand in Mexico, in the long-term there is the opportunity to export U.S. natural gas via pipeline to Central America and through LNG facilities built along the Mexican coast. Although this could also, of course, be achieved in the United States, zoning restrictions and social license problems often make these projects costly and difficult

to complete on time. In Mexico, there would likely be an easier path to construction (although social opposition to energy projects has been a growing problem in recent years).

**Figure 9. U.S. Natural Gas Production and Exports to Mexico**



## U.S. Natural Gas Pipeline Exports to Mexico



*Source: U.S. Energy Information Administration*

It is less obvious where a meaningful agenda can emerge between Mexico and the United States on the issue of climate change. Much will depend on the incoming administration's attitude toward the Paris Accord and to reducing carbon emissions. However, collaboration between Mexico and the United States on renewable energy goes back a long way<sup>7</sup> and we should expect that meaningful cooperation would continue on this issue. The question of transmission for renewables has already been mentioned, but it would also make sense to consider the creation of agreements between regional systems operators in the U.S. southwest with the CENACE and CFE to overcome intermittency problems and allow for the optimization of existing and future renewable resources. The experience of the Midcontinent Independent Systems Operator (MISO) in combining hydroelectric resources from Manitoba with wind power produced in Minnesota highlights the potential for linking Mexican and U.S. resources.<sup>8</sup> Furthermore, the government of California has indicated its desire to continue working on climate and energy issues with Mexico, bringing attention to the potential for ongoing collaboration at the level of U.S. states.

## **CONCLUSION**

As the Trump administration takes office, the energy relationship between Mexico and the United States is at a historic high point. Mexico's new energy model, based on market dynamics and attracting private and foreign investment, has opened the way for a highly constructive and productive dialogue between national authorities and their counterparts in Canada and the United States. The regular meetings that have taken place between the energy ministers of the three NAFTA countries have served to deepen mutual understanding and to further energy cooperation at both the regional and global levels.

Four areas can be added to the existing agenda of energy and climate cooperation. Ensuring Mexico's continuing status as a "friendly" oil supplier means that the United States has an interest in assisting its southern neighbor to maximize the potential of its

oil fields. Second, sharing the successful U.S. experience in energy regulation, and in particular in reducing regulatory burden, will help Mexico succeed and integrate its energy markets. Third, energy infrastructure planning presents an opportunity to coordinate investments across the border to ensure that benefits are optimized for both countries. Lastly, a focus on increasing natural gas production and use in the United States is entirely compatible with the change underway in Mexico. Continued Mexican consumption of cheap gas from the United States will ensure both stable prices and improve Mexican economic competitiveness.

Mexico has an unprecedented opportunity at the beginning of the new administration to build an even stronger energy relationship with the United States. Existing North American cooperation, the progress seen under the energy reform and the interest of the Trump administration in helping the U.S. energy sector to grow provide the ideal platform for a vibrant dialogue on these issues, one that can drive prosperity and employment creation in both nations.

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## KEY POLICY RECOMMENDATIONS

- Expand North American cooperation on regional and foreign policy under a paradigm of common prosperity and common security.
- Deepen U.S.-Mexico and U.S.-Canada efforts—as well as trilateral efforts where appropriate—to prevent terrorist attacks and, more broadly, to prevent entry into North America of potential terrorists.
- Build on the recent North American Dialogue on Drug Policy to share best practices and to evaluate the regional implications of domestic drug policy changes.
- Significantly strengthen regional and bilateral efforts to fight international criminal networks and illicit trafficking of drugs, money, arms, and people.
- Develop a common North American approach to Central America, supporting the Northern Triangle countries' efforts to fight crime; manage migration; upgrade customs facilities and transportation corridors; and improve energy infrastructure.
- Develop a coordinated approach to managing migrant and refugee flows from Central America; engage in a global dialogue on refugees.
- Counter illicit activities at the border and increase the efficiency of legitimate cross-border commerce and travel as dual goals in the broader North American agenda for security and prosperity.
- Evaluate opportunities regarding upgrade and modernization of NAFTA with new disciplines, the future of transpacific and transatlantic trade and investment flows, and the implications of a potential border adjustment tax or any similar mechanism. Dialogue and cooperation on the trade and investment agenda is vital to the competitiveness of all three North American countries.

- Take steps to enhance the continent's energy security and cooperation on international energy issues.
- Implement commitments made in past administrations for biannual meetings to identify opportunities for policy coordination at the United Nations and other multilateral fora.
- Work together to create a plan and engage other partners in the hemisphere to revitalize the Organization of American States.
- Build on Mexico's recent commitment to peacekeeping by working toward the establishment of a common peacekeeping facility where trainers and troops from all three countries could work together; consider making a first joint regional deployment for disaster relief or peacekeeping. More broadly, continue to deepen defense cooperation bilaterally and trilaterally in North America.
- Develop shared protocols and standards regarding cyberattacks and cybersecurity, including identifying opportunities for shared rapid response to support neighbors when they suffer an attack.
- Maintain and deepen readiness to counter pandemics and respond to natural disasters.

# TOWARDS A NORTH AMERICAN FOREIGN POLICY FOOTPRINT

E. Anthony Wayne and Arturo Sarukhan

Every electoral cycle in the United States or Mexico brings the opportunity to explore how both nations can deepen their coordination on a range of international issues. The particularities of this U.S. presidential electoral cycle—and the way Mexico and Mexico-related issues were cast during the past 18 months—make this coordination a unique challenge. The resilience and strength of the relationship will be tested over the coming months, and possibly years. Crucial issues may well be revisited in profound ways. Yet the benefits of an enhanced bilateral collaboration for the security and economic well-being of both countries and all of North America, continue to be immense, particularly now if differences can be overcome and a longer-term strategic vision for bilateral and regional ties is adopted.

The North American strategic framework and its potential international footprint continues to be of unique importance for the United States and Mexico, as well as Canada. This is the moment to review existing cooperation and blue-sky thinking about how both Mexico and the United States, and the three North American partners, can expand areas for common regional and international approaches to foreign policy, international economic policy, and aspects of public security policy. This will probably be a case-by-case and an a la carte approach, sometimes working bilaterally and sometimes trilaterally with Canada. There are, however, without doubt a range of advantages to a greater North American strategic footprint covering aspects of international policies in the region and beyond.

Given a U.S. administration that seems to be intent on reviewing paradigms and a new Canadian government that has recommitted to expanding Canada's global and regional engagement, the situation calls for forward-looking, strategic thinking among the three North American partners as well as between Mexico and the United States. Asymmetries of power exist—and will persist—between the three nations, however, and thus their respective appetites, capabilities, and interests may also diverge, given the nature and scope of specific opportunities and challenges worldwide. The campaign rhetoric and the post-election comments have left wounds, particularly amongst public opinion, that will take time to heal. But in several areas, enhanced or new collaboration should be of mutual benefit and be a plus for international problem-solving, and therefore should be pursued. For the good of both countries, bilateral problem-solving should begin immediately.

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There are certainly several areas where enhanced or new collaboration should be of mutual benefit and be a plus for international problem-solving, and therefore should be pursued.

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The United States and Canada have been cooperating on international security issues since the inception of NATO, building from the common effort during World War II, and they took first steps to forge a bilateral free trade agreement before the North American Free Trade Agreement (NAFTA) was crafted. U.S.-Mexican foreign and international policy cooperation was much more limited in the post-World War II years. The 1993 NAFTA accord marked the breakthrough for economic cooperation, which has continued to deepen over the past 23 years. Today, Mexico is the United States' second largest customer in international trade, and Canada is the largest, and the United States is the largest export and foreign investment market for its neighbors. The United States' two neighbors are integrated into a continental production chain that makes its North American partners essential for its economic well-being. After 9/11, the United States and Mexico started to build a wider range of

cooperation on security issues as well, mostly focused on bilateral threats and the Western Hemisphere, which has widened and deepened over the past 15 years.

Today, under a paradigm of common prosperity and common security, the United States and Mexico, along with Canada, could deepen their partnership in Central America, for example, in addition to enhancing efficient commerce and security on shared borders. The Northern Triangle countries (Guatemala, Honduras, and El Salvador) would benefit from additional assistance from their northern neighbors in fighting crime and poverty, tackling the challenges of migration and refugee flows, upgrading customs facilities and transportation corridors, and strengthening access to energy resources.

Along with Canada, Mexico and the United States have set shared objectives and an action agenda in climate, environmental, and energy cooperation. This set of commitments and cooperation pledges is one of the world's most ambitious regional agendas for implementation of the commitments to the Paris Climate Agreement, which took effect in 2016. Given the positions enunciated during the U.S.

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North America could become a serious energy power in the world for decades to come, helping to reduce significantly dependence on energy resources from other areas of the globe.

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presidential campaign and during the transition, the new U.S. administration may want to rethink aspects of this cooperation, though some aspects make great sense for maintaining the quality of the continental environment independently of the climate change issues. The ability to take a longer strategic view of energy security across the continent could also

help the economic well-being of all three countries and their global geo-strategic clout in important ways. If handled well, North America could become a serious energy power in the world for decades to come, helping to reduce significantly dependence on energy resources from other areas of the globe.

Also, at the 2016 summit meeting of the North American leaders (NALS), the three countries agreed to deepen synchronization on international issues in the United Nations and other fora and to meet at least twice yearly to identify how and on what issues to better coordinate. That agenda has yet to be defined and the mechanism needs to be implemented, but it provides a range of opportunities for the new U.S. administration to forge new multilateral, regional and global cooperation with its two large neighbors.

Moreover, Mexican president Enrique Peña Nieto has publically called for his country to play a bigger role in the world, as seen in Mexico's groundbreaking commitment to participate, for the first time, in peacekeeping operations. That objective has not yet seen much concrete manifestation for a variety of reasons, including limited capacity and available funds. During the 2016 NALS, both Canada and the United States expressed their willingness to provide support to help build Mexico's peacekeeping capacities.

## **HOW FORMERLY DISTANT NEIGHBORS BUILT A COMMON AGENDA**

Even if the current agenda for Mexico-U.S. and Mexico-U.S.-Canada cooperation should expand, the progress in collaboration is impressive. In the 1980s, the most well-known English language book about Mexico and the United States described them as "distant neighbors."<sup>1</sup> That characterized their coordination on foreign policy issues as well as bilateral affairs. Central America was a case in point with sharp public disagreement over the U.S. policies of intervention in Nicaragua and El Salvador as stark examples of the clash between Mexican and U.S. international approaches and the primary objectives of their respective foreign policies at the time.

In the 1990s, Mexico and the United States began a major shift in how they dealt with each other through the negotiation of the North America Free Trade Agreement (NAFTA), which brought senior-level officials with trade-related topics into regular contact and established unprecedented ties among the U.S., Mexican, and Canadian private sectors. The important role that the United States played in helping

to stabilize the peso in the mid-1990s solidified and expanded that economic and financial cooperation and built trust between the two financial teams. Thus, the United States was an enthusiastic supporter of Mexico joining the G20 when it was established in 1999, as it was when Mexico joined the Paris-based Organization for Economic Cooperation and Development (OECD) in 1994, as the first “developing” or “emerging” economy to join that exclusive club.

Still, through 2000, while U.S. cooperation with Mexican officials was very close on the range of economic and financial issues, there was much less trust and cooperation between the two foreign ministries, let alone among law enforcement and justice agencies. The list of areas of foreign policy cooperation was short. Jeffrey Davidow, the U.S. ambassador at the time characterized the prickly relationship as “The Bear and the Porcupine.”<sup>2</sup>

Under the presidency of Vicente Fox, however, the Mexican government began to separate its foreign policy from the so-called Estrada Doctrine<sup>3</sup> and other constitutionally mandated foreign policy tenets.<sup>4</sup> These tenets had operated with a maximalist view of sovereignty claiming that foreign governments should not judge, for good or bad, changes or events in governments in other nations, because doing so could be seen to impinge on their sovereignty. This doctrine had limited the ability of Mexico and the United States to collaborate on many foreign policy issues, most notably over human rights. However, Mexico started speaking out more frankly than ever before about democracy and human rights in Cuba, as well as in Venezuela, during the Fox years.

Mexico also made a series of forays to demonstrate international leadership, winning a rotating seat on the UN Security Council, running unsuccessfully for the head of the World Health Organization (WHO), and winning the position of OECD Secretary General in 2006. In response to Hurricane Katrina in 2005, Mexico also dispatched military personnel, a navy ship and civilian experts to help in disaster recovery—the first uniformed deployment of Mexican military personnel to the United States since World War II.

These endeavors generated more U.S.-Mexico dialogue and coordination, and witnessed the launch of biannual policy planning talks between the U.S. State Department's Policy Planning Office and the Mexican foreign ministry's (SRE) Coordinación General de Asesores to discuss relevant global and regional issues and, in fact, purposefully setting aside all issues of the bilateral relationship itself. Mexico also replicated this model with Canada and other nations, and included consultations between the three North American UN missions. The United States also actively campaigned for José Ángel Gurría to head the OECD, based in part on his strong role in deepening U.S.-Mexico cooperation in the 1990s.

From 2006 to 2012, President Felipe Calderón inspired efforts to expand Mexico's dialogues and outreach in Latin America, with Europe and with Asia. He increased funding for the foreign ministry, established a small foreign assistance agency; balanced comments on human rights with dialogues with Cuba, Venezuela, and others; and agreed to a strategic dialogue with the European Union (EU). His government also successfully launched a series of free trade agreements, including (along with Canada) the incorporation of Mexico into the Trans-Pacific Partnership (TPP) negotiations, which has made Mexico the country with the greatest number of free trade partners in the world. During this period, Mexico also launched the Pacific Alliance with free trade partners Colombia, Chile, and Peru (of which two, Peru and Chile, are also TPP partners). Mexico participated in relief efforts in Haiti following the 2010 earthquake, an example of a willingness to help regional neighbors in need and collaborate in international humanitarian efforts at least in the Western Hemisphere.

Calderón also greatly expanded practical U.S.-Mexico security and intelligence cooperation with the creation of the Merida Initiative in 2008, aimed at deepening U.S. support for Mexico in its struggle against organized crime.<sup>5,6,7</sup> This expanded cooperation on security matters included the two governments working together to foil an Iranian plot to use Mexican criminals to attack a target in Washington, D.C.<sup>8</sup> and to deter a plot by one of Muammar Gaddafi's sons who illicitly was seeking refuge in Mexico.<sup>9</sup> On health security, Mexico and its North American partners collaborated successfully in

responding to the outbreak of the H1N1 pandemic in 2009, and have continued to collaborate and respond to health threats. Similarly, under President Calderón, the two countries began cooperating much more closely on bilateral and international environmental issues.

During the Calderón years, the U.S.-Mexico foreign policy dialogue expanded, but in general Mexico's willingness to get involved in international issues, especially outside of international economic and financial themes and the Western Hemisphere, remained limited. The three North American nations decided to channel efforts and resources to pre-position resources and capabilities for disaster relief and emergency response in Central America and the Caribbean, an area where synergies and complementarities could help shape a truly North American rapid response capability. Unfortunately, this initiative has not yet materialized.

President Peña Nieto made clear his priority on strengthening North American collaboration and building Mexico's international role. An unprecedented number of bilateral U.S.-Mexico mechanisms now exist to manage and guide policy cooperation on the economy, commerce, finance, public security, immigration, defense, the environ-

ment, education, science, and business collaboration.

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An unprecedented number of bilateral U.S.-Mexico mechanisms now exist, including several important innovations, to manage and guide cooperation across economic, commercial, financial, public security, immigration, defense, environmental, educational, scientific, and business collaboration, among others.

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As part of a deeper dialogue between assistance agencies, for example, the United States and Mexico launched their first joint development project in El Salvador. The two countries also are collaborating on efforts to manage surging migrant flows from the Northern Triangle through the U.S. Department of Homeland Security and Mexico's SEGOB. Mexico has participated in key meetings with the United States,

Guatemala, Honduras, and El Salvador on how to better support the latter three countries in facing their public security and economic problems. Mexican and U.S. officials have also worked closely to help address energy needs in those three countries by exploring natural gas pipelines and expanded electricity flows from Mexico southward in a series of meetings with Central American leaders and officials.

The United States has called for Mexico to stop punching below its weight and to more actively participate in the multilateral handling of international issues outside the immediate North American region. U.S. diplomats believe that Mexico's reasoned approach and resources could be beneficial to international coalitions, such as in dealing with refugee challenges or in helping to fulfill international peacekeeping needs. From a Mexican perspective, and particularly in the aftermath of the harsh rhetoric of the presidential campaign, there is a hope that the United States will stop taking Mexico for granted on all fronts and acknowledge that Mexico is the key strategic partner of the United States in the Americas.

As most things in life, you need two to tango. However, there is a positive change that has occurred in the past two decades. Octavio Paz, a Mexican Nobel Prize winner for Literature, once wrote that Mexicans and Americans had a hard time getting along because Americans did not know how to listen and Mexicans did not know how to speak up. In recent years, Americans have been doing a better job at listening, and Mexicans are also doing a better job of speaking up. This improvement bodes well for the relationship and for the type of frank and constructive, case-by-case collaboration on foreign policy issues.

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The United States and Mexico are collaborating on trying to manage surging migrant flows from the Northern Triangle countries of Central America through the U.S. Department of Homeland Security and Mexico's SEGOB.

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## THE ROAD AHEAD

Of course, major questions remain unanswered about what approach will emerge regarding NAFTA and on trade negotiations with the Pacific nations. The paths taken on these issues will have a major impact on a number of domains, including prospects for international collaboration. Recall, for example, that the TPP was a vessel for upgrading and modernizing NAFTA, in addition to its objectives of expanding trade and strategically linking the Americas with Asian and Pacific nations. Given the current U.S. administration's disinclination to pursue the TPP, the North American partners will need to sort through the issues related to modernizing NAFTA, and to decide if they will pursue, either together or individually, alternative efforts to construct a hemispheric and transpacific coalition of those open to free trade. They also need to consider how they will respond if others take the initiative to fill the space left by TPP with other visions. Similarly, the two nations need to sort through the tough issues related the proposed border wall, a potential Border Adjustment Tax (BAT) in the United States and U.S. criticism of new investment in Mexico aimed at producing for the U.S. market.

While considering the provisions of NAFTA, Mexico and the United States will need to intensify efforts to ensure that their common border is more efficient in promoting commerce and legitimate travel and more secure against terrorists and illicit trafficking in drugs, arms, money and people. Improving the efficient movement of people and goods across the U.S.-Mexican and U.S.-Canadian borders will save many billions of dollars for North American producers and consumers.

All of this work on commerce and investment is vital for North America's global competitiveness.

A related aspect of global cooperation is how the countries build new trade and investment bridges with other regions such as Europe. Canada, for example, already has a new arrangement with the EU, and Mexico is scheduled to renegotiate its agreement with the

EU. The United States has been negotiating with the EU, too, but it is not clear where that project will go under the new U.S. administration.

Even if the Mexican government is embarking on areas of closer work with the United States and Canada, as expressed in the 2016 meeting of North America's leaders,<sup>10,11</sup> it no doubt will want to retain its independent profile on many issues. For example, on nuclear disarmament issues, Mexico and the United States have long taken and still maintain divergent approaches. Canada also likely will have areas where it will prefer to take positions or offer initiatives independently of its North American neighbors. Yet there is good reason to hope that the United States and Mexico, and Canada, can expand the scope and substance of foreign policy cooperation.

**Central America:** Coordination in North America and the Western Hemisphere will likely remain a key area for joint foreign policy work given Mexico's focus and limited strategic projection resources. Helping the Northern Triangle countries is a natural area for closer practical on-the-ground cooperation. Those governments have been struggling to fight criminal gang

violence, improve governance, and grow their economies. They are also facing substantial flows of migrants, including families and unaccompanied children heading north through Mexico toward the United States. The United States has already committed hundreds of millions of dollars of assistance to help the Northern Triangle countries.

Mexico and the United States are collaborating to help strengthen Mexico's national immigration service (IMS). And, as noted, Mexico and the United States are coordinating efforts to build energy connectivity to the three Central American countries. Mexico must decide if it is willing and able to expand its on-the-ground presence in these countries to coordinate

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Helping Central America's "Northern Triangle" countries of Guatemala, El Salvador, and Honduras is a natural area for closer and practical "on-the-ground" cooperation, which can give a big boost to those governments.

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more closely with the United States on specific capacity building efforts. Canada could be a welcome addition, as a big step forward would be either bilateral or trilateral coordination in practical capacity-building assistance.

**The rest of the Americas:** The democracy and trade agenda in the Americas has a potentially rich cooperation agenda, whether in a three-way group or as part of larger coalitions. The Organization of American States (OAS) needs to be revitalized and its institutions and practices supporting democracy and human rights must be reinforced and protected. Supporting OAS Secretary General Luis Almagro in his efforts could be vital. In this connection, Venezuela is likely to present a major humanitarian and diplomatic problem set for the region—a coalition for action is needed, one that includes but expands far beyond the three North American partners. Similarly,

the Colombian peace process will need international partners, particularly Mexico, the United States, and Canada, to provide support and engagement in fields as diverse as social resilience, and economic sustainability and opportunity programs. U.S. success and experience with place-based strategies and Mexico's with conditional cash transfer programs could be relevant in supporting the Colombian government's efforts to bring opportunity and growth to

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Venezuela is likely to present a major problem set for the region from a humanitarian as well as a democracy perspective—a coalition for action is needed which includes but expands far beyond the three North American partners.

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former conflict areas. And the challenges and opportunities in Cuba will need positive inputs from a range of countries, including the North American partners and the EU to move toward more respect for human rights and democratic practices.

On the trade and economic agenda, the three North American partners will no doubt want to collaborate on next steps with the other negotiating partners from the Americas (Chile and Peru) once

the United States sorts out its internal debate on the TTP trade pact. And the Pacific Alliance, to which Mexico belongs, might serve as a conveyor belt between like-minded countries in the hemisphere trying to build a 21st century, rules-based trading system working with the United States and Canada. Argentina, for example, has signaled its strong interest in helping to build new trade bridges in the hemisphere.

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The challenges and opportunities in Cuba can use positive inputs from a range of countries, including the North American partners.

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### **International and Multilateral**

**Coordination:** As noted above, Mexico and the United States have in this century greatly expanded their coordination on these issues, and along with Canada, in June 2016 committed to an effort to improve that coordination through twice-a-year cooperation among senior foreign policy officials. The United States and Canada also have expressed willingness to support Mexico as it further develops its nascent peacekeeping capacities. Eventually, perhaps the three countries could support a common peacekeeping facility where their trainers and troops could work together. A common deployment for **disaster relief or peacekeeping** should also be considered. These areas for augmented cooperation deserve concerted bilateral and trilateral efforts.

There is also good potential for cooperative efforts on a range of international governance issues such as **refugees and migration**. All three countries have long histories of accepting refugees, and Mexico now shares with the United States the challenge of managing increased migration of families and unaccompanied children from Central America. Mexico and Canada joined the United States in co-hosting a leaders' summit on refugees on September 20, 2016, on the margins of the 2016 UN General Assembly.

In the area of law enforcement, justice, and drug policy, Mexico, Canada, and the United States are working to fight transnational criminal organizations (TCOs) and trafficking of persons. At the June

2016 North American Leaders' Summit, the three North American leaders agreed to convene an annual North American Dialogue on Drug Policy to exchange information on drug trends, increase trilateral coordination on drug policy, and develop government actions to protect citizens from harmful drugs and drug trafficking.

On October 27, 2016, officials from all three governments convened for the first dialogue meeting. The meeting focused on the shared illicit drug problem, from production and trade to consumption and misuse. Specifically, participants discussed various domestic challenges, including the opioid crisis, and how each country is responding to them. This discussion resulted in the identification of best practices, methods to gather data from multi-sectoral perspectives, and possible trilateral lines of cooperation to address North American drug challenges.<sup>12</sup> As both the United States and Mexico re-think the effectiveness of their policies and as U.S. states change their

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As both the United States and Mexico re-think the effectiveness of their policies and as U.S. states change their treatment of marijuana, there will be additional need and room for new thinking and cooperative approaches in international forums on how to treat illicit drugs.

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treatment of marijuana, there will be additional need and room for new thinking and cooperative approaches bilaterally and in international forums on how to treat illicit drugs. Given this new legal and regulatory landscape regarding cannabis in the United States, business as usual or old collaboration paradigms will not suffice.

Reinforced bilateral, trilateral, and broader cooperation on efforts to fight international criminal networks must be a priority

at the borders, on the smuggling routes that cross the continent, and via the trafficking into North America from elsewhere. These efforts also will help combat the trafficking of arms, people, and illicit money.

Meanwhile, Mexico, the United States, and Canada can look to support policy initiatives in such institutions as the G20 on **finance and development** issues, including tax havens. Regarding international **environment and energy** arenas, they can reinforce or reshape cooperative initiatives on the ground in North America and mobilize the private sector, while sharing best practices internationally. The three energy ministers have already established a common work agenda, which should produce work areas and initiatives for the North Americans to take to wider energy forums (see chapter by Duncan Wood in this publication). This should be an area of continued intense cooperation to establish as much synergy as possible between approaches to development of all energy sources and the energy industries across the continent.

**New threats to security:** North American common domain awareness and defense cooperation are critical components of the respective bilateral relationships and regional interests. Given the investment in shared production and trading networks across North America and the increased threats of the weaponization of social media and digital platforms, as well as international cyberattacks on public and private infrastructure, the three North American countries need to develop shared protocols and standards as well as a rapid response capacity to support neighbors and sectors in the event of an attack. The three have been having conversations on these topics, but there is much to do to build reinforcing capacity and cooperation, and the existing protocols still do not interface adequately. A shared trusted traveler program, a simple but important piece of the puzzle, is under development and should be put into place as swiftly as possible.

The three countries are also working bilaterally to enhance information sharing so that all three governments can be alerted if a person of interest for possible terror or extremist ties tries to enter North America.<sup>13,14</sup> This trilateral cooperation against **terrorists and violent extremists** should become an even more important layer of defense.

U.S.-Canadian **military-to-military cooperation** has been very tight since World War II and the two have been integrated in the NORAD defense network since 1958. The U.S.-Mexico military-to-military relationships were more distant but have steadily improved over the previous decade. Mexico has sent liaisons (Navy/SEMAR and Army/SEDENA) to U.S. Northern Command in Colorado Springs. U.S.-Mexico defense consultations, exercises, and joint training have increased, and Mexico is now buying more defense supplies than ever before through foreign military sales (FMS). Mexico should, however, be more intent on ensuring its inter-operational capabilities with its North American partners as it acquires new material and equipment, whether through FMS, direct purchases or indigenous development. The U.S., Canadian, and Mexican defense ministers also have been meeting every two years, which should provide a common basis for interacting with others in the hemisphere in areas such as disaster response and relief, a natural and logical area of convergence for their armed forces.

## THE POTENTIAL FOR COMMON PURPOSE

Given current budgetary constraints, Mexico is unlikely to have many new resources to make available for such cooperation, but its willingness to participate even in a limited range of topics can be useful in many international fora, including in building coalitions with other more moderate, mid-sized countries that are venturing toward collaboration with developed countries on issues where North-South or Developed-Developing divides used to define issues.

For its part, Mexico, and Canada too, will not want to be seen as mere “me too” partners of the United States but will want to retain independent profiles. Both neighbors will also look to the United States to show flexibility when developing common policy approaches. There will be international issues where the United States and Canada are more natural partners as they are in NATO, and issues where the United States will seek to move ahead with or without its North American neighbors, yet these cases still leave a large and po-

tentially fruitful field for expanding a valuable North American foreign policy footprint.

There is great potential for enhanced cooperation on international issues between Mexico and the United States as well as across all North American countries. The relationship between both neighbors is not optional; we are uniquely, even singularly, relevant to each other's security, wellbeing, and prosperity. From a strategic perspective, each of the three North American countries can enhance the security of their neighbors if they build, solidify, and improve cooperation and collaboration against threats like terrorism and crime. Similarly, if they can work through current differences, there

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From a strategic perspective, each of the three can enhance the security of their neighbors if they build, solidify, and improve cooperation and collaboration against threats like terrorism and crime.

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is great potential for an enhanced economic and energy platform across North America that would make all three more prosperous and competitive. It will take hard and determined efforts to work through these issues, but the long-term benefit could be enormous.

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## KEY POLICY RECOMMENDATIONS AT A GLANCE

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### ECONOMICS AND BORDER

- In order to support job creation and business opportunities, the focus of the U.S.-Mexico economic agenda should be on strengthening competitiveness and growing exports.
- Ensure that any updates to NAFTA or broader bilateral economic policy framework will enhance—not diminish—the competitiveness of the regional production networks that have come to characterize bilateral trade. Potential elements of such a revision could include:
  - Adding products and modes of trade that did not exist when NAFTA was negotiated;
  - Increasing small business participation in trade by simplifying customs paperwork and raising the Mexican de minimis value for cross-border shipments;
  - Creating enforcement mechanisms for labor and environmental standards;
  - Adjusting NAFTA's rules of origin to promote the use of regional suppliers (a detailed study will be needed to ensure the proposed adjustments will not create unwanted negative effects on regional industry.)
- Continue the U.S.-Mexico High-Level Economic Dialogue to provide sustained leadership and coordination for the complex bilateral economic agenda.

- Boost regional competitiveness by improving border management:
  - Facilitate regional commerce by cutting the time it takes to cross the U.S.-Mexico border;
  - Expand trusted traveler and trader programs to enroll a larger portion of cross-border traffic;
  - Create additional joint inspection programs at the border so that U.S. and Mexican border officials can work side-by-side to safely and quickly clear individuals and cargo shipments;
  - Prioritize investment in infrastructure at border crossings, and create incentives for public private partnerships.
- Strengthen collaboration on issues relating to education, innovation, and entrepreneurship.

## SECURITY

- Reaffirm and preserve the framework of shared responsibility. The United States and Mexico are safer working in tandem than when the countries are at odds with one another.
- Acknowledge the multiplicity of threats and factors contributing to insecurity. Investing in and expanding work on building resilient communities can be an effective way to reduce violence, increase public support for local governments, and improve overall security.
- Fully fund impact evaluation programs that provide evidence for further improving prevention work. Expand the geographic reach of evidence informed and evaluated programs that can demonstrate a positive impact on reducing crime and violence.
- Acknowledge that firearms trafficked from the United States are a contributing factor to high violence incidence in Mexico. Establish a high-level interagency working group to tackle the issue of

firearms trafficking to Mexico, and prioritize investigations and prosecutions of straw purchases in the United States.

- Continue support for the full implementation of Mexico's adversarial criminal justice system through continued technical assistance, support for training of justice operators, and strengthening of the independence and professionalization of prosecutors and judges.
- Encourage and support the adoption of police career and professionalization laws that establishes clear standards for each professional rank and objective procedures for promotions. Strengthen internal and external oversight mechanisms for police and prosecutors that are based in professional standards and where accountability mechanisms are clear.
- Elevate human rights practices in both countries to a public dialogue and reporting mechanisms that sets a bilateral agenda for improvements in human rights in both countries.
- Build on and foster greater military-to-military cooperation. Expand existing exchange programs for undergraduate and graduate education levels through creation and expansion of Semester Abroad programs. Increase academic and cultural activities that put Mexican and U.S. cadets in contact with each other for specific periods of time. Develop joint war games that can blend U.S. and Mexican units together with the common goal of the defense of North America.

## MIGRATION

- Develop policies that address greater complexity in the migration relationship between the United States and Mexico.
- Ensure a balance between enforcement, which plays a legitimate deterrent effect on unauthorized immigration, and encouraging continued progress on economic gains in Mexico, which is the single most important factor for limiting out-migration from Mexico.

- Separate out concerns about illegal immigration from those about organized crime and drug trafficking.
- Continue to focus enforcement efforts on unauthorized immigrants with criminal records, while also continuing to enhance the technological capacities for detection of unauthorized crossings at the border.
- Increase legal visas for Mexicans to help reduce the flow of unauthorized workers.
- The Mexican government will need to ensure that greater enforcement takes place in the context of the rule of law, with full respect for the rights of immigration detainees in Mexican territory.
- Develop a common approach to Central America, addressing the underlying conditions of poverty and extreme violence.
- Develop a coordinated approach to managing migrant and refugee flows from Central America.
- Ensure expatriate services and consular protections to both U.S. and Mexican citizens living in the other country.

## ENERGY

- Embrace the existing North American energy dialogue as it has become a critical resource in preparing for the future of global and regional energy markets. Greater coordination to improve energy system efficiency.
- Ensure “friendly” oil suppliers such as Canada and Mexico—Mexico’s continuing status as a “friendly” oil supplier means that the United States has an interest in assisting its southern neighbor to maximize the potential of its oil fields.
- Develop a dialogue between Mexican and U.S. counterparts that focuses on efficient regulation. Mexico should work with the

United States to reduce the burden of its own regulatory system for energy firms. Share the successful U.S. experience in energy regulation in reducing regulatory burden, which will help Mexico succeed and integrate its energy markets.

- Energy infrastructure planning presents an opportunity to coordinate investments across the border to ensure that benefits are optimized for both countries. Embrace the opportunities for ongoing energy infrastructure projects that take into account the increasingly integrated nature of energy markets. Plan cross-border electricity transmission in such a way as to benefit both producers and consumers with lower-cost and shorter-distance options for transmission.
- Export U.S. natural gas via pipeline to Mexico and to Central America. A focus on increasing natural gas production and use in the United States is entirely compatible with the change underway in Mexico. Continued Mexican consumption of cheap gas from the United States will ensure both stable prices and improve Mexican economic competitiveness.
- Create agreements between regional systems operators in the U.S. southwest with the CENACE and CFE to overcome intermittency problems and allow for the optimization of existing and future renewable resources.
- Continue working on climate and energy issues with Mexico at the level of U.S. states, such as California.

## FOREIGN POLICY

- Expand North American cooperation on regional and foreign policy under a paradigm of common prosperity and common security.
- Deepen U.S.-Mexico and U.S.-Canada efforts—as well as trilateral efforts where appropriate—to prevent terrorist attacks and, more broadly, to prevent entry into North America of potential terrorists.

- Build on the recent North American Dialogue on Drug Policy to share best practices and to evaluate the regional implications of domestic drug policy changes.
- Significantly strengthen regional and bilateral efforts to fight international criminal networks and illicit trafficking of drugs, money, arms, and people.
- Develop a common North American approach to Central America, supporting the Northern Triangle countries' efforts to fight crime; manage migration; upgrade customs facilities and transportation corridors; and improve energy infrastructure.
- Develop a coordinated approach to managing migrant and refugee flows from Central America; engage in a global dialogue on refugees.
- Counter illicit activities at the border and increase the efficiency of legitimate cross-border commerce and travel as dual goals in the broader North American agenda for security and prosperity.
- Evaluate opportunities regarding upgrade and modernization of NAFTA with new disciplines, the future of transpacific and transatlantic trade and investment flows, and the implications of a potential border adjustment tax or any similar mechanism. Dialogue and cooperation on the trade and investment agenda is vital to the competitiveness of all three North American countries.
- Take steps to enhance the continent's energy security and cooperation on international energy issues.
- Implement commitments made in past administrations for biannual meetings to identify opportunities for policy coordination at the United Nations and other multilateral fora.

- Work together to create a plan and engage other partners in the hemisphere to revitalize the Organization of American States.
- Build on Mexico's recent commitment to peacekeeping by working toward the establishment of a common peacekeeping facility where trainers and troops from all three countries could work together; consider making a first joint regional deployment for disaster relief or peacekeeping. More broadly, continue to deepen defense cooperation bilaterally and trilaterally in North America.
- Develop shared protocols and standards regarding cyberattacks and cybersecurity, including identifying opportunities for shared rapid response to support neighbors when they suffer an attack.
- Maintain and deepen readiness to counter pandemics and respond to natural disasters.

## ABOUT THE AUTHORS

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