Center for American Progress

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Transcending the Rio Grande

U.S.-Mexico relations need to reach beyond the border

Recommendations of our Mexico Working Group

April 2009

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Forward

About the U.S-Mexico Working Group and this report

Political and economic relations between the United States and Mexico are at a defining moment. Exploding drug-related violence along the U.S.-Mexico border and the inability of both nations to stem the flow of drugs from the south—and lethal weaponry from the north—increasingly feeds powerful criminal groups in both countries. Add to this lethal mix the still reverberating consequences of the global financial and economic crisis and it's easy to see why U.S.-Mexico relations are rising to the fore of U.S. foreign, economic, and national security concerns.

Indeed, 60 days into his administration, President Obama unveiled in March a new border security strategy as a central component of the $1.4 billion Merida Initiative originally signed in 2008 to address growing bilateral concerns about the increasingly devastating effect drug-trafficking organizations are having on public safety and institutional integrity in Mexico, as well as the strain these organizations are placing on U.S. law enforcement agencies. Several weeks later, Mexico said it would turn to the International Monetary Fund for a $30 billion-to-$40 billion loan under an IMF program designed to help developing nations hit hard by the global financial crisis.

Neither of these critical steps to restore political and economic stability on both sides of the border was envisioned when a working group on U.S.-Mexico relations was first convened in February 2008 by former Senior Fellow and Director of the Americas Project at the Center for American Progress, Dan Restrepo. But the members of the working group understood in no uncertain terms the broader ramifications of deteriorating working relationships between the two countries. All realized the simmering crisis along the border was rapidly penetrating ever more deeply into the interiors of both nations.

The members of the working group assembled by the Center for American Progress, representing a diverse range of expertise and ideological perspectives on the U.S.-Mexico relationship, met four times between February to May 2008 before the Center embarked upon drafting the final report now in your hands. Our working group consisted of 11 members and two congressional staff observers, with several prominent experts with experience in the most critical aspects of U.S.-Mexico relations invited to address the group. Their insights and views were particularly invaluable to informing the content of this report.

We would like to thank all of the working group's members and observers who graciously gave their time and knowledge. Without their participation, our efforts to produce a timely report on the important U.S.-Mexico relationship would have been notably hampered. A complete list of working group members and congressional staff observers are located in the acknowledgements section at the end of the report.

A working draft of this document was completed in January 2009, at which time the conclusion of the report was handled by the Research Associate for the Americas Project, Stephanie Miller, and the Senior Vice President for National Security at the Center for American Progress, Rudy deLeon. It is important to note that this report reflects only the opinions of the authors and the Center for American Progress. The authors take full responsibility for any errors that may appear in it, and participation of members is not necessarily an endorsement of the content and opinions of this report.

This report contains concrete policy recommendations to help the Obama administration strengthen and deepen the U.S.-Mexico relationship, focusing on ways the United States can create a more progressive and robust relationship with Mexico in four critical areas:

- Improving the rule of law and judicial reform in Mexico.
- Stopping the illegal flow of arms and money from the United States to Mexico.
- Finding ways to enhance economic development.
- Promoting alternative energy cooperation and development.

We believe our policy recommendations in these four areas would go a long way toward tackling the hard issues both the United States and Mexico confront today. We hope you agree.

–Rudy deLeon and Stephanie Miller

Introduction and summary

Nearly 100 days into his term in office, President Barack Obama faces a myriad of challenges in restoring U.S. leadership in the world, chief among them the renewal of the U.S. relationship with Mexico. Although the U.S.-Mexico relationship exists in a larger context of a global economic recession and spreading drug use and drug-related violence up and down North and South America, understanding the evolving dynamics that make the bilateral relationship unique and complex is essential to formulating a strategic vision for enhanced cooperation.

Certainly President Obama and his top administration officials "get it." On March 24, the president announced a $700 million border security strategy as part of the wider Merida Initiative, a three-year, $1.4 billion initiative originally signed by former President George W. Bush in 2008 to address growing bilateral concerns about the increasingly devastating effect drug trafficking organizations are having on public safety and institutional integrity in Mexico, as well as the strain these organizations are placing on U.S. law enforcement agencies. On March 25, U.S. Secretary of State Hillary Clinton began a two-day visit to Mexico in order to discuss the border security strategy with Mexican officials and to signal the seriousness with which the United States takes its "co-responsibility" in the violence currently engulfing Mexico's border region.

Importantly, Secretary Clinton acknowledged the United States' "insatiable" demand for drugs was part and parcel of the violence engulfing Mexico, making clear the Obama administration intends to work with its Mexican counterparts with renewed cooperation and mutual respect. These initial steps were in prelude to president Obama's first trip to Latin America, beginning with a one-day trip to Mexico on April 16 followed by a trip to Trinidad and Tobago from April 17-19 to attend the Summit of the Americas, where the president is expected to reiterate and possibly elaborate on U.S.-Mexico policy considerations.

The U.S.-Mexico relationship affects us in countless ways. More than 25 million of the 38 million Hispanics in the United States trace their heritage back to Mexico. More than 1 million U.S. citizens, increasingly retirees, live south of the Rio Grande.[1] Mexico is the third most important producer of petroleum and crude oil to the United States, and is the United States' third most important trading partner, as well as the third-biggest purchaser of U.S. exports. The value of combined trade between the United States and Mexico exceeded

$300 billion in 2007.[2] And more than $24 billion in remittances is sent to Mexico a year from the United States—roughly 3 percent of Mexico's gross domestic product.[3]

Through the Merida Initiative, the United States is committed to investing more than $1 billion over the next three years on security cooperation with Mexico. This initiative couldn't be more timely: Roughly 90 percent of all cocaine that enters the United States is shipped across the U.S.-Mexico border, which is equally plagued by the vast quantity of guns, military weaponry, and cash being smuggled into Mexico from the United States.[4]

Despite these deep levels of healthy and unhealthy interconnectedness, U.S. policy toward Mexico has remained, at best, largely static over the past decade. U.S. policymakers have simply failed to treat the U.S.-Mexico relationship with the seriousness and strategic vision it requires. This must come to an end. The United States must understand its relationship with Mexico in strategic terms and act accordingly to advance core U.S. interests. Doing so will not only strengthen and deepen our bilateral relationship, but it will also pave the way to fortify the North American relationship in an evolving spirit of cooperation, and would represent an important first step to improving U.S. relations with and standing in the Americas.

A bilateral relationship built upon a complicated history of conflict and significant asymmetries can serve to magnify past and recent missteps. To place the U.S.-Mexico relationship on the proper strategic footing, the United States must work to capitalize on the opportunity presented by a more democratic Mexico and pursue policies that enrich the relationship and tackle some of most intractable issues the two countries face.* As such, this report argues that the Obama administration should pursue the following policy recommendations to reach a more progressive and mutually beneficial relationship with Mexico:

- Improving the rule of law and judicial reform in Mexico.
- Stopping the illegal flow of arms and money from the United States to Mexico.
- Finding ways to enhance economic development.
- Promoting alternative energy cooperation and development.

In the main body of this report we elaborate in detail on how these four arenas of mutual bilateral concern require sustained policy focus to help untangle the seemingly intractable issues that confront the two countries today. Briefly, however, we present here the overarching recommendations of this report.

Rule of law and judicial reform

Our core recommendation here is for the United States to provide more funding for drug demand reduction programs in the United States, and in particular to strengthen the country's addiction treatment system. Compared to other policy options for reducing drug consumption, treatment has shown itself to be especially cost-effective. In 1994, a landmark study by the RAND Corporation found treatment for heavy cocaine users to be 23 times more effective than drug crop eradication and other source-country programs, 11 times more effective than interdiction, and seven times more effective than domestic enforcement at reducing cocaine consumption. Improving access to high-quality treatment services would multiply the important benefits that treatment already delivers.

Secondly, the U.S. Senate must ratify the Inter-American Convention Against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives, or CIFTA, which was signed by former President Bill Clinton in 1997 but has yet to be ratified by the U.S. Senate. CIFTA aims to "prevent, combat, and eradicate the illicit manufacturing of and trafficking in firearms, ammunition, explosives, and other related materials; [and] to promote and facilitate cooperation and exchange of information and experience among States Parties to prevent, combat, and eradicate the illicit manufacturing of and trafficking in firearms, ammunition, explosives, and other related materials."

While CIFTA is consistent with current U.S. laws and regulations and would place no new requirements or obligations on the United States, ratifying this important regional convention would be an important expression of U.S. interest in playing a key role in the regional effort to address weapons trafficking.

* Renewing the bilateral U.S.-Mexico relationship is by definition not something U.S. actors can do alone. Creating a truly strategic relationship must be the shared work of U.S. and Mexican governmental and nongovernmental actors. The focus here, however, is on U.S. actors and what they should do to strengthen this crucial relationship.

Third, the United States must increase the sharing of information by the U.S. Drug Enforcement Agency and other entities within the Department of Justice to assist Mexico in the apprehension of criminals and their assets. This cooperation should include mechanisms to ensure that the information provided is being adequately used by Mexican authorities to investigate and prosecute individuals responsible for crimes. In tandem, the United States should consider additional funding for Mexico to support judicial reform undertaken at the federal and state levels. Possible support could include funding for revamping law school curriculums and textbooks, exchange programs for judges and lawyers to countries experiencing similar changes, programs to strengthen Mexico's judicial work in the areas of evidence handling and chain of custody and for equipment and training for expert services (ballistics, criminology), and Victim and Witness Protection and Restitution programs as an essential component for effective criminal investigations.

Finally, the Obama administration should work toward reaching an agreement with its Mexican counterparts to establish an annual bi-national review panel to assess progress in meeting the objectives of both countries in areas of reducing organized crime violence, strengthening judicial and law enforcement cooperation, and reduce demand for illegal drugs in both countries. The review panel would be made up of state and federal authorities, representatives of national legislatures, as well as academic and civil society experts from both countries. The panel would evaluate progress and make recommendations for enhanced cooperation and further reforms to strengthen institutions and the rule of law.

Reduce arms trafficking

The United States needs to define a comprehensive strategy aimed at disrupting the traffic of arms to Mexico. This strategy must emphasize preventive initiatives on both sides of the border alongside effective controls on the sale of weapons at gun shows in the United States. Renewing the U.S. ban on assault weapons would help curb some the movement of these lethal military weapons to Mexico.

The United States should also examine more southbound traffic, and in turn Mexico must examine a lot more of what is coming into the United States. Right now Mexico barely stops any cars coming into Mexico from the United States. Just as Mexico often says the United States has a drug-demand problem and needs to address it, the same can now be said for Mexico's firearms-demand problem, and can do more at the points of entry.

Just as Mexico often says the United States has a drug-demand problem and needs to address it, the same can now be said for Mexico's firearms-demand problem.

To improve the effective and timely exchange of intelligence on major U.S.-based trafficking of weapons handled by organizations with links to Mexican and Central American criminal organizations, the U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives needs increased resources to investigate straw purchasers and rogue licensed firearms dealers in the United States. Many of Mexico's guns seem to be coming from a combination of small minority of rogue gun dealers, legitimate gun dealers who unknowingly sell to non-prohibited purchasers who then intend to give the guns to a third party—so-called "straw purchases"—and sales at gun shows. More resources would greatly help investigations at these places.

In addition, the ATF needs to increase its presence in Mexico at our consulates and work more closely with Mexico law enforcement to trace weapons back to U.S. dealers. Much of this has already begun in the form of Spanish eTrace and Project Gunrunner, which were established to disrupt firearms trafficking between the United States and Mexico by allowing the ATF to identify drug trafficking firearm trends by facilitating the paperless exchange of gun crime data in a secure web-based format. But more can be done. The Department of Homeland Security, however, should remain the lead on these efforts and should direct the ATF to work closely with other law enforcement agencies, such as U.S. Immigration and Customs Enforcement, in operations to:

- Interdict weapons crossing U.S. borders.
- Devise new programs to share tracing capabilities with the appropriate Mexican authorities.
- Close off trafficking corridors.
- Expand actionable, real-time intelligence cooperation.
- Aggressively pursue prosecutions, interdictions and arrests of individuals seeking to move firearms across the border.
- Establish a specific program to trace and disrupt the trafficking to Mexico of high-powered, military grade weaponry.

Manage economic integration by linking trade and development

The United States, along with Mexico and Canada, need to redesign the North American Security and Prosperity Partnership. SSP working groups such as the Manufactured Goods & Sectoral and Regional Competitiveness working group, Movement of Goods working group, and Business Facilitation working group all have initiated some laudable efforts to improve infrastructure at the border and streamline regulations that make trade costly and difficult. Yet because the SPP effort only includes representatives of government and large corporations, it lacks the sweep of players needed to get the job done right. A redesigned and renamed SPP should include representatives of small- and medium-sized businesses and give priority to trade elements that allow these types of businesses to take advantage of trade opportunities. It should also include representatives of labor, environmental organizations, and other key stakeholders so that the SPP process is more fully representative for all stakeholders in an improved U.S.-Mexico trade.

In addition, the three countries should reopen a dialogue to share perspectives on the North American Free Trade Agreement 15 years after it came into effect, including a discussion to strengthen the labor and environmental commissions. These two side agreements to NAFTA created commissions designed to oversee concerns on workers' rights and the environment but have never had either sufficient funding or a sufficiently strong mandate to pursue their stated goals. The agreements should be renegotiated to give these commissions greater authority to resolve cases effectively in a way that elevates labor and environmental standards in Mexico, the United States and Canada.

Critical to improving labor and environmental conditions in all three countries would be a new investment fund to promote development. The United States can begin discussions with the Mexican government—and ideally with the Canadian government—on the possibility of creating a joint investment fund to bring Mexico's development closer to that of the United States and Canada. Ultimately, progress on achieving this would depend on a commitment by the Mexican government to make significant investments and to make progress on a series of domestic policies to promote development, including:

- Competition policy to reduce monopolies.
- Labor laws to democratize unions.
- Energy policy to promote sound management, including access to credit and technology, of Pemex, the government-owned oil company.
- Taxation policy to raise fiscal revenue to 18 percent of gross domestic product from current 11 percent levels.

If these conditions exist, then the U.S. government should consider one of several options for an investment fund that would make priority investments in human capital (education and training) and in infrastructure for roads, ports, and airports that link poorer regions to the global market.

Investing in renewable energy opportunities in Mexico

The United States needs to explore ways to make investing in alternative energy projects in Mexico more economically viable and profitable, including possible subsidies and tax breaks for companies looking to invest in alternative energy both within the United States and abroad. One way to do this is to make use of The Department of State, Foreign Operations and Related Programs Appropriations Act of 2008 (H.R. 2764) to finance renewable energy projects in Mexico. H.R. 2764 was passed in the 110th U.S. Congress in June 2007 and signed into law by former President Bush in December 2007 and encourages the Export-Import Bank of the United States to invest 10 percent of its financing capacity in promoting the export of clean energy products and services.

In addition, the United States must become a signatory of the Kyoto Protocol and any new international climate change initiatives on the horizon. The United States should take advantage of substantial financing opportunities in Mexico through the Kyoto Protocol's Clean Development Mechanism. The Clean Development Mechanism allows emission-reduction—or emission-removal—projects in developing countries to earn certified emission-reduction credits, which can then be traded and sold and used by industrialized countries to meet a part of their emission-reduction targets under the Kyoto Protocol. As of January 2008, Mexico accounted for 100 of the nearly 900 CDM projects registered worldwide, having been awarded with 2.3 million carbon emission reduction credits, making Mexico the second-largest creator of carbon credits in Latin America.

In the pages that follow, this report will first examine the key economic and political trends and issues affecting the U.S.-Mexico relationship before exploring in more detail the policy recommendations presented above. We believe policymakers who come to grips with the importance of this bilateral relationship will then understand why our recommendations would put us on the road to a more engaging and mutually beneficial relationship on both sides of the border.

Trends and issues affecting the U.S.-Mexico relationship

The formulation of a strategic vision for U.S. policy toward Mexico requires an understanding and appreciation for the major trends and issues affecting our two countries and the relationship between them. Unless policy approaches take these trends and issues into account, it is impossible to devise practical, concrete proposals for advancing core U.S. interests in the context of the bilateral relationship.

The major trends and issues shaping the U.S.-Mexico relationship today are our two nation's deep economic interconnections, the economic and social asymmetry of these interconnections, immigration, trans-national criminal networks, and Mexico's complex democratic transformation. In this section we will consider each of these bilateral dynamics in turn.

Economic interconnection

The interconnection between Mexico and the United States is of vital importance to both countries' economies, and makes the relationship all the more vital to securing the future prosperity of both countries. As a result, U.S. policymakers need to understand how the dynamics of the bilateral relationship, in the context of an increasingly globalized economy, have shaped the relationship to the present day and what recent trends mean for future relations.

As partners in the North America Free Trade Agreement, both the United States and Mexico have increasingly opened their economies to mutual trade and investment. Between 1993 and 2007, the total value of U.S. imports to Mexico climbed from $41.6 billion to $136.5 billion, while total imports of Mexican products went from $39.9 billion to $210.8 billion.[5] Much of the high-value producing goods traded between the two countries are materials that are exported from the United States to Mexico for assembly and then imported back into the United States for consumption.

Top exports from the United States to Mexico in 2007, for example, consisted of a range of manufactured goods, including auto parts and vehicle accessories, telecommunications equipment, industrial machinery, computers and electronics, and plastics.[6] In that same year, top imports to the United States from Mexico, in addition to crude oil and produce, consisted of automobile parts and accessories, electronics and telecommunications equipment, and industrial machinery.[7]

Men harvest corn near Serdan, Mexico. January 2008 marked the end of a 15-year import protections measure for the country's corn and beans crops, and farmers affirm Mexico has plunged deeply into a model of globalized agriculture where farmers are ill-prepared to compete.

The increased trade between the United States and Mexico has generated some controversy regarding the associated costs and benefits in both the United States and Mexico. This controversy is fueled in part by the difficulty in disaggregating the stimulating and dislocating effects of NAFTA from other phenomena that have shaped the economic dynamic in both countries over the past 15 years.

Case in point: an Economic Policy Institute study attributes the loss of 540,548 U.S. jobs, including 388,682 in the manufacturing sector, between 1994 and 2004 to trade with Mexico,[8] while a study by the National Center for Policy analysis found that since NAFTA was initiated U.S. employment in general rose from 110.8 million to 137.6 million—an increase of 24 percent.[9] On the other side of the border, as of 2005 nearly 840,000 people were employed by Mexican affiliates of U.S. companies, contributing 3.3 percent of Mexico's gross domestic product.[10] And yet another publication from the Peterson Institute of International Economics argues it is difficult to attribute the loss of U.S. jobs in manufacturing to trade alone with Mexico since Mexican auto employment itself has also declined reflecting substantial productivity gains.[11]

Some of the most vocal opposition to NAFTA is in the agricultural and manufacturing sectors of Mexico and the United States, respectively. Although Mexico is increasing its fruit and vegetable exports to the United States, and the United States is increasing its exports of grain and animal products to Mexico, small-scale farmers of key Mexican crops such as corn face competition from highly subsidized U.S. crops along with reduced Mexican public investments in small-scale agriculture, which has devastated farm income for up to 3 million Mexican small producers.[12] This competition today results in the increasing segmentation of Mexico's rural population between a number of asset-rich producers and a large class of asset-poor farmers who are increasingly marginalized.[13] The resulting dynamic boasts serious social and political implications in Mexico and immigration implications for the United States.

The decline in manufacturing jobs in the United States also spurs U.S. public opposition to trade and, more specifically, to NAFTA. While the economic rise of Asia—and particularly China—accelerated job losses in manufacturing in the United States (and Mexico) more than U.S. trade with Mexico, hourly manufacturing wages in Mexico are roughly 13 percent less than those in the United States, making Mexico's manufacturing labor supply enticing to U.S. corporations looking to keep operating costs as low as possible.[14] For 22 U.S. states, however, Mexico has become either their primary or secondary destination for state exports, illustrating that trade with Mexico is an increasingly important to significant segments of the U.S. economy,[15] even while other sectors are adversely affected by existing dynamics in the relationship.

Economic interconnection between the United States and Mexico is by no means confined to trade. Remittances from workers in the United States to families back in Mexico are now at staggering levels even as the global financial and economic crisis crimped remittances in 2008. Initial 2008 figures suggest that remittances to Mexico shrank by 8 percent in 2008, but among the top world-wide recipients of remittances in 2007, Mexico received $25 billion, ranked third behind India and China, dwarfing both on a per capita basis.[16]

The United States is the world's biggest "producer" of remittances, sending an estimated $42.2 billion abroad in 2006. More than half of U.S.-origin remittances are destined to Mexican families.[17] With Latino workers in the United States heavily concentrated in the service industry and small businesses,[18] a slowdown in remittance growth coinciding with the current U.S. economy slowdown only further underscores the inextricable links between the two economies.

Remittances and the social and economic connections they reflect tie together not just those states with traditionally large Mexican immigrant populations such as California, New Mexico, Arizona, and Texas, but also extend the reach of the relationship deeper into the United States to Washington, Colorado, and North Carolina.[19] On the receiving end, remittances spread across Mexico to states such as Jalisco, Michoacán, and Guanajuato.[20]

Energy is a third area where the U.S. and Mexican economies are extremely interlinked. Mexico is the third-largest provider of petroleum and crude oil to the United States—behind Canada and Saudi Arabia. It is only recently, however, that Mexico slipped behind Saudi Arabia as Mexican production has steadily declined during the past four years.

Mexico's oil industry suffers from an outmoded, although recently modestly reformed, fiscal policy that places enormous obligations on Petróleos Mexicanos, or Pemex, Mexico's state-run oil company, to provide almost one-fifth of federal revenue from exports,[21] as well as generate nearly 40 percent of all public-sector income.[22] Complicating matters is the fact that Cantarell, Mexico's largest oil field, is in decline and exploration activities have found no suitable replacement because Pemex lacks the technological capacity to drill in deep waters where new reserves may potentially be located. Furthermore, Mexico's almost spiritual connection to its oil makes partnering with foreign companies that do have the technological capacity to undertake deep water drilling constitutionally challenging if not politically impossible.

All of this has significant implications for the United States as it seeks to strengthen its energy security, in part by emphasizing imports from politically stable sources in an ever more complicated global energy architecture. For Mexico, declining oil production will force its political and economic establishment to find creative solutions to avert a possible energy crisis, which would also spell an economic crisis the effects of which would inevitably reverberate in the U.S. economy as well.

The vitality of Mexico's energy sector is thus not only crucial to Mexico, but also to the United States and the bilateral relationship in general. In crafting policy toward Mexico, U.S. policymakers must understand the reason for production declines and the surrounding internal Mexican dynamics and account for them in shaping a strategic vision.

Economic and social asymmetry

In juxtaposition to the ever-increasing economic integration between the United States and Mexico loom the persistent economic and social asymmetries between the two countries. It is imperative that U.S. policymakers understand these stark asymmetries, as well as those that exist within Mexico itself, while they formulate new policy approaches to the bilateral relationship.

Not only is there a significant mismatch in the sheer magnitude of the countries' economies—in 2007, the United States' estimated GDP was $13.79 trillion while Mexico's was $886.5 billion[23]—but profound socioeconomic disparities also exist between the two countries.

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According to the most recent United Nations Development Programme's Human Development Index,[24] the United States' GDP per capita in 2007 was approximately $42,000, whereas Mexico's GDP per capita was barely $11,000. Furthermore, the United States' most recent Gini-coefficient, which measures the level of income inequality, is 40.8 while Mexico's is 46,[25] making Mexico the country with the highest levels of income inequality across the Organisation for Economic Cooperation and Development area.[26] What's more, mortality rates for children under five in the United States are 8 deaths per 1,000 births, while in Mexico the number is 35.[27]


AP PHOTO/VICTOR R. CAIVANO

A young boy looks from inside his home in Mexico City where over 70 families live in rooms 9-square-feet, with no drainage or running water. Many families moved from the southern state of Oaxaca looking for better living conditions, and many eventually move beyond the U.S.-Mexico border in search of better paid work in the United States.

In addition, there are important regional asymmetries within Mexico as well that have implications for U.S. policy decisions. Mexico's northern states have benefited economically from geographic proximity to the United States whereas Mexico's central and southern states have suffered through the lowest levels of economic growth in the country during the past 15 years. The experiences of migrants from the Mexican state of Veracruz, located in the eastern and central-southern region of the country, highlight the internal migration patterns in Mexico that have fed into the increasing emigration to the United States during the past two decades.[28] Many residents of Veracruz left the region to find work in northern Mexico—where much of the interconnected manufacturing activity with the United States occurs—with many eventually moving beyond the U.S.-Mexico border in search of better paid work in the United States.*

It is thus from the regions of Mexico that have participated least in the nation's economic opening that have contributed the most to internal migration in Mexico and emigration to the United States. Emigration from Mexico to the United States has reached such large magnitudes that some Mexican states register significant percentages of their population living and residing in the United States. In 2004, for example, 35 percent of the population born in Zacatecas was living in the United States, followed by 25 percent of Michoacán and roughly 20 percent of Durango, Jalisco and Baja California.[29]

Economic asymmetry, in the form of wage asymmetry, also fuels cross-border migration. Mexican industries that export goods are located in Mexico's northern regions where

* As the financial crisis that hit the United States in 2008 has begun to reverberate in sectors far beyond the financial industry, however, there are reports of a reverse migration, or at the very least a reduction in migration flows from Mexico to the United States that will almost certainly have an impact on the U.S. economy and U.S.-Mexico bilateral relations in the near term.

there is a high level of foreign investment. These exporting companies pay salaries that are on average 37 percent higher than those that do not export,[30] thereby creating strong incentive for Mexican worker to migrate to Mexico's northern border. In the United States, real wages—after accounting for inflation—have grown 23.6 percent for the United States since NAFTA began,[31] while in Mexico real wages for most workers have declined.[32] This is partly attributable to the 1994-1995 peso crisis, but productivity gains in Mexico since NAFTA have not translated into wage convergence with the United States, but rather wage divergence,[33] thereby creating even stronger incentives for Mexican workers to immigrate to the United States in search of even higher wages.

A 2005 Pew Hispanic survey, for example, revealed that 95 percent of respondents who had been in the United States for two years or less had been employed in Mexico before imigrating to the United States.[34] It was the allure of higher paying work, rather than joblessness, which led to the migration decision.

Finally, the extent of the informal sector in the Mexican economy further illustrates the economic asymmetry between the United States and Mexico. By some estimates, the untaxed and unregulated portion of Mexican economic activity accounts for as much of a third of Mexico's economy.[35] In contrast, the informal economy of the United States accounts for only 8.8 percent of GDP.[36]

The impact of the difference in formal versus informal economic activity between Mexico and the United States extends throughout both societies and particularly in Mexico where informal economic activity implies little-to-no access to services, social safety nets, or financing for small businesses. Moreover, the extent of informal economic activity in Mexico undermines its institutions, its tax collection capacity, and the Mexican state itself. Having these conditions in a country with which the United States shares an extensive border, as well as profound economic and human links underscores U.S interests in helping solve such inequalities.

Immigration

No other issue defining the U.S.-Mexico relationship is as widely commented upon than immigration. Hispanics in the United States form the fastest growing minority while people of Mexican descent make up the largest portion of Latinos in the United States.[37] Immigration profoundly affects both Mexican and U.S. society, yet the issue is not always understood in similar terms on both sides of the border.

In the United States, immigration is often discussed in a national security or economic framework, while in Mexico the debate centers on economic and moral imperatives. Understanding the difference in how immigration is framed in the United States and Mexico is crucial to formulating a vision of a renewed U.S.-Mexico relationship that both societies can appreciate and accept.

In the United States, immigration is often discussed in a national security or economic framework, while in Mexico the debate centers on economic and moral imperatives.

For the United States, effectively addressing immigration requires achieving the right balance between enforcement, at our borders and at worksites, and addressing the challenge posed by the presence of an estimated 12 million undocumented immigrants in the United States—while also devising a means to regulate future immigration into the United States from Mexico and beyond. For Mexico, solving immigration requires not only providing more economic opportunity at home, but also "rescu[ing] the migration phenomenon from the security agenda [and] translating it to an agenda of development and human rights."[38] When considering that the number of annual border crossing deaths increased to 472 in 2005—the last year in which complete data from the Government Accountability Office is available—from 254 in 1998, the human and moral dimensions become even more apparent.[39]

Further complicating the bilateral dynamic with respect to immigration is Mexico's looming demographic shift relative to the United States' aging population. According to United Nations projections, by the year 2050 Mexico will have as many elderly people as children, putting one out of every five Mexicans above or at 65 years of age, which is the same share the U.N. projects for the United States.[40] For Mexico this means more investments in training and educating its workforce is required in anticipation of this shift. For the United States this means steady inflows of less-educated, low-wage labor will become less plentiful, putting even more importance on the need to have effective systems for managing future migration and for integrating the undocumented into society.

Transnational criminal networks

Trans-national illicit criminal networks operate in Mexico in a context and manner that increasingly likens Mexico's current experience to Colombia's in the late 1980s and throughout the 1990s. Given Mexico's proximity to the United States and the reach of these trans-national networks deep within the United States, the threat posed by their ascendancy in Mexico has profound implications for core U.S. interests.

According to the State Department's 2007 Narcotics Control Strategy Report, roughly 90 percent of the cocaine that enters the United States is trafficked through Mexico. Mexico is also the largest foreign supplier of marijuana to the United States, while 99 percent of all methamphetamine produced in Mexico is exported to the United States.[41] Equally troubling are the large amounts of cash, guns, and now increasingly present military weaponry making its way across the border from the United States into Mexico.[42]

With drug cartels waging increasingly violent turf wars among themselves and engaging in quasi-combat with Mexico's military forces, the demand for firearms in Mexico's black market has increased. Since the mid-1990s, the number of confiscated handguns decreased while the number of assault rifles confiscated increased, thus becoming evidence of the emerging sophisticated weaponry market in Mexico. The types of firearms being confiscated include AK-47 assault rifles, .30 caliber machine guns, AR-15 rifle models, 66-mm light anti-tank weapons, and 40-mm automatic grenade launchers. Ammunition and grenade confiscations also rose over the same period.[43]

Mexico is well aware of the dangers posed by the threat of becoming what Colombia was a decade or more ago. Some of the initial steps the Mexican government under President Felipe Calderón made to combat the illicit criminal networks include:

- The January 2007 extradition of 15 people wanted in the United States on charges related to drugs and violence, including the leader of the Gulf cartel and three other kingpins.
- Combining federal security forces creating the United Forces for Federal Support composed of Army and Air Force personnel in a May 2007 presidential decree.
- Public security reforms including creating internal affairs units for police forces, professionalizing the police force.
- Implementing judicial reforms at the state level and federal levels that emphasize oral trials and the presumption of innocence.

Despite the attention it has drawn, the recent militarization of Mexico's fight against drugs and growing drug cartels is not new. For example, in the 1990s then-President Ernesto Zedillo established the Federal Preventive Police whose original force included 5,000

Members of an alleged kidnapping gang are shown with their weapons to the media in Tijuana, Mexico. Mexico insists the U.S. do more to stop a little-publicized form of border smuggling that is arming the world's most powerful drug cartels with U.S. assault rifles. Cartels have killed more than 1,000 people so far this year south of the border.

AP PHOTO/GUILLERMO ARIAS

military personnel who were meant to comprise the force on a temporary basis. Since then, the militarization of Mexico's security forces and the use of the Mexican military in counter-drug operations have increased, as has drug-related violence in the country.

Recognizing that the United States and Mexico have a joint interest in working to dismantle transnational criminal networks, the United States and Mexico have recently taken strides to significantly expand security cooperation. As part of the resulting Merida Initiative, the United States secured an initial $400 million to provide Mexico with security assistance, as well as an additional $65 million designated for Central America, Haiti, and the Dominican Republic in fiscal year 2008 ending September 2008. At least $73.5 million of the $400 million designated for Mexico were reserved for rule of law activities, with the remaining funds to be used at the Bush administration's discretion.

For Central America, $25 million of its $65 million is set aside for an economic and social development fund for the region, acknowledging the need for greater emphasis on the economic and social conditions that give rise to an environment conducive to the proliferation of illegal criminal networks throughout the region.

On March 24, 2009, the Obama administration announced a new U.S.-Mexico border security strategy that allocated an additional $300 million for FY 2009 to the unused $400 million for FY 2008 under the Merida Initiative, totaling $700 million to work in collaboration with Mexico on law enforcement and judicial capacity. The strategy emphasizes the need to stem the flow of illegal guns and cash making their way from the United States to Mexico by increasing intelligence gathering capacities at the border, as well as the number of federal agents from a variety of federal agencies working to inspect and track vehicles and shipments leaving the United States.

Mexico's complex political transition

Mexico continues to undergo an extremely complex political transition that began with the historic defeat of the Partido Revolucionario Institucional, or PRI, in the 2000 presidential election, which marked a turning point in Mexico's political system. That election ended the PRI's 71 years of continuous rule. It also marked the beginning of an adjustment away from a system in which president, party, and state were the same thing.

Mexico's ongoing transition has greatly enhanced bilateral relations by allowing, for the first time, for an open dialogue between democratic governments. Democratic transitions are, however, always complex. Policy issues that were once settled by Mexico's president are now widely debated in congress, state and local governments, and public opinion. This includes Mexico's relationship with the United States as well as a number of key policy issues, such as economic development, public security, and energy. Understanding internal Mexican political dynamics is therefore crucial to shaping a strategic vision for U.S.-Mexico policy.

The ideologically center-right Partido Acción Nacional, or PAN, was victorious in the 2000 elections, and again in the disputed 2006 elections that brought current President Felipe Calderón to office. Winning the vote with 35.89 percent of the vote and a margin of victory of approximately 240,000 votes cast out of 41 million, President Calderón defeated Andrés Manuel López Obrador of the left-of-center Partido de la Revolución Democrática, or PRD.

The 2006 election results scrambled Mexico's political landscape. The narrow outcome left deep divisions between the PAN and the PRD—divisions exacerbated by López Obrador's claims of fraud, refusal to accept the outcome, and public protests following the elections and at the outset of Calderón's presidency. The results also left each of Mexico's three principal political parties facing significant questions regarding their path forward.

The narrow 2006 results left President Calderón in need of bolstering his public standing, which he soon did by attempting to tackle increasing insecurity from violent gangs and drug cartels in Mexico. Dispatching the military to combat rising violent crime, Calderón has gained public approval through his hard line approach to fighting the increasing personal, public, and destabilizing insecurity. Legislatively, President Calderón has enjoyed some success in building consensus for legislative reforms by pushing Congress to approve public-sector pension reform and fiscal reform packages in 2007.

The near total collapse of PRI support in the 2006 elections, in which it garnered only 22 percent of the presidential vote,[44] forced the party to begin shaping a new place in Mexico's national politics. Many of President Calderón's legislative accomplishments, for example, have been the result of some PRI legislators joining with the PAN to move reforms forward.

The fallout from the 2006 election and its aftermath have also created tensions within the PRD as it struggles to determine its proper place in Mexican political life. Divisions within the PRD are complex, and there is some division among those who see a need for finding a working accommodation with others in governing roles and those led by López Obrador, and who at times have sought confrontational stances toward President Calderón and his supporters in the aftermath of the highly contested 2006 presidential election.

This increasingly complex governing dynamic in Mexico underscores the need for U.S. policymakers to understand internal Mexican dynamics and pursue dynamic relationships not only with Mexico's president, but with the Mexican Congress, and other important political actors as well.

Policy recommendations

Any policy recommendations to improve and strengthen U.S.-Mexico relations must directly tackle the major trends and issues affecting our two countries which were detailed in the previous section. It will be impossible to devise practical, concrete proposals for advancing core U.S. interests in the context of the bilateral relationship without taking into account our two nation's deep economic interconnections, the economic and social asymmetry of these interconnections, immigration, transnational criminal networks, and Mexico's complex democratic transformation. To do this, we propose four areas in which U.S. policymakers need to concentrate:

- Improving the rule of law and judicial reform in Mexico.
- Stopping the illegal flow of arms and money from the United States to Mexico.
- Finding ways to enhance economic development.
- Promoting alternative energy cooperation and development.

In this section we will detail our policy recommendations in each if these four core bilateral areas of concern.

Rule of law and judicial reform

Historic constitutional reforms to Mexico's justice system and in the area of public security were approved by the Mexican Congress on February 26, 2008 and were subsequently ratified by the majority of the states. President Calderón signed the reforms into law on June 17, 2008. These judicial reforms represent an authentic procedural revolution of the judicial system, including conducting oral trials and opening up alternative means of conflict resolution in criminal procedures. In sum, they aim to strengthen the rule of law in the country and put pressure on law enforcement agents to carry out more professional investigations, as well as address corruption.

The breadth of Mexico's transition from an inquisitorial to an adversarial judicial system—including oral trials—implies an overhaul of the Mexican judiciary entailing dramatic changes to law school curricula and teaching methods as well as building court rooms, developing a reliable chain of custody for evidence, and establishing independent offices for expert witness. There is a transition period of up to eight years for these reforms to be fully in force at the federal as well as state level.

The U.S. government has been a firm supporter of judicial reform in Mexico, particularly through the U.S. Agency for International Development's Mexico rule of law program, which has been important in promoting judicial reforms in several states such as Chihuahua and Oaxaca. The first year of support under the Merida Initiative established $73.5 million in assistance to support judicial reform, institution building, anticorruption, and rule of law activities, and a portion of the $700 million announced on March 24 will also be put to the same end.

The Obama administration and Congress should consider additional funding for Mexico to support judicial reform undertaken at the federal and state levels. Possible support could include funding for:

- Revamping law school curriculums and text books.
- Exchange programs for judges and lawyers to countries experiencing similar changes.
- Programs to strengthen Mexico's judicial work in the areas of evidence handling and chain of custody and for equipment and training for expert services, such as ballistics and criminology.
- Victim and Witness Protection and Restitution programs as an essential component for effective criminal investigations.

As a basic tenet, the Obama administration and Congress should prioritize support for Mexico's civilian institutions.

Strengthening institutions

Further cooperation with Mexico to strengthen its institutions and the rule of law would be effective steps toward addressing the far-reaching problems of insecurity, violence, and corruption in the country. As a basic tenet, the Obama administration and Congress should prioritize support for Mexico's civilian institutions and not just the Mexican armed forces.

In the area of citizen security, this should include further support for Mexico's police to enhance internal and external controls and further police professionalization. Issues such as police corruption, lack of accountability, and poor training will never be fully addressed as long as the Mexican government continues to use the armed forces as a crutch for its public security needs.

Actions the United States should take

Mexico's institutional crises and weak rule of law are exacerbated by the drug war and the significant infiltration of drug traffickers into state institutions. Overcoming Mexico's drug-related violence and corruption will be difficult, but reducing this violence and corruption is necessary for Mexico to become a country governed by the rule of law. Given that U.S. demand drives drug trafficking in Mexico and loose regulations governing gun sales facilitate illegal arms trafficking into the country, U.S. policymakers need to recognize that responding to drug-related violence and organized crime in Mexico is a shared responsibility requiring significant action by the United States.

Actions the U. S. government should take that could have positive repercussions in Mexico include:

- Providing more funding for drug-demand-reduction programs in the United States to strengthen the country's addiction treatment system. Compared to other policy options for reducing drug consumption, treatment has shown itself to be especially cost effective. A landmark 1994 study by the RAND Corporation found treatment for heavy cocaine users to be 23 times more effective than drug crop eradication and other source-country programs, 11 times more effective than interdiction, and 7 times more effective than domestic enforcement at reducing cocaine consumption. Improving access to high-quality treatment services would multiply the important benefits that treatment already delivers.

- Ratifying the Inter-American Convention Against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives, and Other Related Materials, which was signed by President Bill Clinton in 1997 but has yet to be ratified by the U.S. Senate. The CIFTA convention aims to "prevent, combat, and eradicate the illicit manufacturing of and trafficking in firearms, ammunition, explosives, and other related materials; [and] to promote and facilitate cooperation and exchange of information and experience among States Parties to prevent, combat, and eradicate the illicit manufacturing of and trafficking in firearms, ammunition, explosives, and other related materials." While the convention is consistent with current U.S. laws and regulations and would place no new requirements or obligations on the United States, ratifying this important regional convention would be an important expression of U.S. interest in playing a key role in the regional effort to address weapons trafficking.

- Increasing the sharing of information by the U.S. Drug Enforcement Agency and other entities within the Department of Justice to assist Mexico in the apprehension of criminals and their assets. This cooperation should include mechanisms to ensure that the information provided is being adequately used by Mexican authorities to investigate and prosecute individuals responsible for crimes.

Obama administration officials also should work toward reaching an agreement with their Mexican counterparts that would establish an annual binational review panel to assess progress in meeting the goals and objectives of both countries in reducing organized crime violence, strengthening judicial and law enforcement cooperation, and reducing demand for illegal drugs in both countries. The review panel should be made up of state and federal authorities, representatives of national legislatures, and academic and civil society experts from both countries. The panel should evaluate progress and make recommendations for enhanced cooperation and further reforms to strengthen institutions and the rule of law.

Reducing arms trafficking

The Merida Initiative recognizes that successful efforts to combat drug trafficking depend on a partnership between the United States, the Mexican government, and the governments of Central America and the Caribbean. Though this initiative is long overdue, it falls short of what is required in stopping north-south arms trafficking.

American guns pass into Mexico through land ports of entry at the border every day. According to a Mexican government official, as many as 2,000 weapons enter Mexico each day and fuel an arms race between Mexican drug cartels. Mexican government officials suspect that corrupt customs officials (on both sides of the border) help smuggle weapons into Mexico. The weapons are often bought legally at gun shops and shows in Arizona and Texas.

Taking these weapons out of the hands of organized crime now would allow Mexican law enforcement to fight drug trafficking in Mexico before it reaches the U.S. border, and especially before it reaches U.S. communities. It also helps take the Mexican military out of the law enforcement role it has been assigned.

> "The [Mexican] military does not want to be involved in law enforcement any more than it has to."

According to a high-level official in Mexico's Armed Forces, or the Secretaria de la Defensa Nacional, "the military does not want to be involved in law enforcement any more than it has to, but it has no choice; regular police cannot compete with AK-47s and grenade launchers." And as one senior Mexican government official noted: "We understand your Second Amendment, but along the border states, thousands of gun shows occur a year, and little is done to make sure that those guns stay in the U.S."

U.S. embassy officials in Mexico confirm that the United States is a major source of weapons for Mexican gangs and drug runners. As the Merida Initiative goes forward, U.S. agencies must work closely with Mexican officials to address this problem. It is not in the U.S. interest to create a self-defeating situation in which a critical foreign assistance program meant to assist a neighbor and enhance U.S. security is being undercut by an illegal flow of weapons originating from within our own borders.

The Merida Initiative represents a rare opportunity to build a base for sustained cooperation with Mexico on a shared agenda. To pass on this opportunity would represent a significant blunder that would negatively affect the bilateral relationship as well as broader U.S. interests in the region. In order to increase the effectiveness of this initiative the U.S. Secretary of State in cooperation with the Mexican government should:

- Define a comprehensive strategy aimed at disrupting the traffic of arms to Mexico that emphasizes preventive initiatives and effective controls on the sale of weapons in gun shops and shows, and better coordination of information, especially along the border. Renewing the U.S. ban on the sale of assault weapons would help curb some of the movement of dangerous weapons to Mexico.

- The United States should inspect more southbound traffic, and Mexico should do the same with traffic coming across the border. Right now Mexico barely stops any cars coming into Mexico from the United States. Just as Mexico often says the United States has a drug-demand problem and needs to address it, the same can now be said for Mexico's firearms-demand problem, and it can do more at the points of entry.

- Improve effective and timely exchange of intelligence on major U.S.-based trafficking of weapons organizations with links to Mexican and Central American criminal organizations. The Bureau of Alcohol, Tobacco, Firearms, and Explosives needs increased resources to investigate straw purchasers and rogue licensed firearms dealers in the United States. Many of Mexico's guns seem to be coming from the combination of a minority of rogue gun dealers, legitimate gun dealers who unknowingly sell to nonprohibited purchasers who then intend to give the guns to a third party (so called "straw purchases"), and sales at gun shows. More resources would greatly help investigations at these places.

- Increase ATF's presence in Mexico at U.S. consulates and work more closely with Mexico law enforcement to trace weapons back to U.S. dealers. Much of this has already begun in the form of Spanish eTrace and Project Gunrunner. These programs were established to disrupt firearms trafficking between the United States and Mexico by allowing the ATF to identify drug trafficking firearm trends by facilitating the paperless exchange of gun crime data in a secure web-based format. But more can be done.

- The Department of Homeland Security should remain the lead on these efforts and should direct the ATF to work closely with other law enforcement agencies—such as U.S. Immigration and Customs Enforcement—in operations to interdict weapons crossing U.S. borders; devise new programs to share tracing capabilities with the appropriate Mexican authorities; close-off trafficking corridors; expand actionable, real-time intelligence cooperation; and aggressively pursue prosecutions, interdictions, and arrests of individuals seeking to move firearms across the border.

- Establish a specific program to trace and disrupt the trafficking of high-powered, military-grade weaponry to Mexico.

Manage economic integration by linking trade and development

Mexico and Canada account for over a quarter of U.S. trade, and trade among the three countries makes North America the largest trading bloc in the world. Despite this, discussions on economic integration with our neighbors over the past two decades have focused almost exclusively on increasing the volume of trade. Little thought was given to managing economic integration to produce the best results for workers in all three countries and therefore widening the circle of beneficiaries from trade. A new agenda for economic integration requires a strategic vision that matches trade promotion with policies that protect workers, strengthen small and medium businesses, and promote development.

The asymmetries in the U.S. and Mexican economies contribute to the uneven effects of economic integration between the two countries. The liberalization of trade in the early years of NAFTA contributed to a loss of manufacturing jobs in the United States and had uneven effects on the economic development of Mexico. Areas of Mexico closest to the U.S. border have benefited greatly by increased trade and have seen average income increase steadily since the early 1990s. Areas of Mexico farther from the border—especially rural areas in the south of the country—experienced a stagnation in average income or only very modest growth.

The chronic underdevelopment of Mexico's poorest regions is compounded by their physical isolation from global markets and the growing gap in human capital as compared to the wealthier north of the country. These problems are further aggravated by the displacement of agricultural producers through the importation of low-cost, subsidized grains from the United States and Canada, and the persistence of weak labor standards throughout the country. While GDP per capita in the United States is on average six times that of Mexico, this masks significant disparities among the different regions in Mexico.

A new U.S.-Mexico agenda for managing economic integration should be based on a strategy of inclusive growth that would help ensure that small- and medium-sized businesses in both countries have equal access to the market. It should also be based on higher labor standards and targeted investments in infrastructure and human capital to address disparities. While there is no question that the primary responsibility for Mexico's development lies with the Mexican government, a cooperative strategy focused not only on increasing trade but also on ensuring that trade is linked to development would underscore the importance of economic and social institutions to distributing the gains from trade more widely. It also would benefit U.S. workers by expanding the United States' second largest market for exports and gradually limiting the pressures for migration.[45]

A new U.S.-Mexico agenda for managing economic integration should be based on a strategy of inclusive growth.

Any cooperative efforts would have to be based on the willingness of the Mexican government to take the lead in promoting development, including promoting necessary changes in the Mexican economy. But the U.S. (and Canadian) governments could play an important supporting role by creating incentives for change, providing complementary funds for targeted investments, and ensuring fair standards for trade and labor rights. Specifically, a new agenda for economic integration should include at least three elements:

- Redesigning the Security and Prosperity Partnership so that it is more inclusive. The SPP is the working group that has initiated some laudable efforts to improve infrastructure at the border and streamline regulations that make trade costly and difficult. The SPP today only includes representatives of government and large corporations. A redesigned and renamed SPP should include representatives of small- and medium-sized businesses and give priority to those elements of trade that allow these types of businesses to take advantage of trade opportunities. It should also include representatives of labor, environmental organizations, and other key stakeholders.

- Mexico, the United States, and Canada should reopen a dialogue to share perspectives on NAFTA 15 years after it came into effect.[46] This discussion could include a group of topics chosen to be broadly palatable to all three parties. These topics could be strengthening the labor secretariats' capacity to monitor, adjudicate, and provide technical assistance in respect of labor standards enforcement; undertaking a broad assessment of North American environmental challenges with a view toward developing a regional strategy of environmental cooperation; and providing a major increase in funding for border environmental infrastructure needs for which the North American Development Bank was originally envisioned but never adequately funded to deliver. This could lead to the strengthening of the Labor and Environmental Commissions created as side agreements to NAFTA. These were designed to oversee concerns on workers' rights and the environment, but they have never had either sufficient funding or a sufficiently strong mandate to pursue their stated goals. The agreements should be renegotiated to give these commissions greater authority to resolve cases effectively in a way that elevates labor and environmental standards among the three countries.

- Creating a new investment fund, as outlined below, to promote development so that the United States (and Canada) can help balance economic development more equitably in North America. The United States can begin discussions with the Mexican government (and ideally with the Canadian government) about creating a joint investment fund to bring Mexico's development closer to that of the United States and Canada. Ultimately, progress on achieving this would have to depend on a commitment by the Mexican government to make significant investments and to make progress on a series of domestic policies to promote development. These policies would include competition policy (to reduce monopolies), labor law (to democratize unions), energy (to promote sound management of the state oil company), and taxation (to raise fiscal revenue to 18 percent of GDP from current 11 percent levels). If these conditions exist, then the U.S. government might consider one of several options for an investment fund that would make priority investments in human capital (education and training) and in infrastructure for roads, ports, and airports that link poorer regions to the global market.

Development fund possibilities

There are several ways this new investment fund could be organized to benefit Mexico, the United States, and Canada. Specifically, we propose:

- **A North American Fund.** The most ambitious option and the one most likely to succeed would be to create a highly capitalized fund run by the three governments to invest in infrastructure and human capital over a 10-to 15-year period. Some have suggested a fund of $20 billion over 10 years, which would include capital from Mexico (50 percent), the United States (40 percent), and Canada (10 percent). It could help close Mexico's development gap with its neighbors in a decade.[47]

- **Expand NADBank.** The North American Development Bank, created as a side agreement to NAFTA, has a limited mandate. NADBank is only allowed to invest in environmental projects in a limited area close to the U.S.-Mexico border (300 kilometers on the Mexican side and 100 kilometers on the U.S. side). A modest expansion of NADBank to allow for investments in other sorts of infrastructure, including some private-sector debt guarantees, would immensely increase its usefulness for the border region. The NADBank could also be expanded to include investments outside the border region (subject to a congressionally approved change in its statute), especially in important migrant-sending areas of Mexico and some of the poorest regions of the country. This expansion would require a significant recapitalization of the bank from both governments and a dramatic investment in the bank's own infrastructure, personnel, and capabilities.

- **Increase development aid.** A more modest approach would be to increase development aid to Mexico through a series of existing instruments, such as the U.S. Agency for International Development, the Inter-American Foundation, and special funds at the World Bank and Inter-American Development Bank. The U.S. government currently provides only limited development aid to Mexico. Only a fraction of the roughly $17 million budget of U.S. AID to Mexico is dedicated to development (most is for democratic governance) and the IAF has a few small-scale projects. While using traditional instruments for aid is unlikely to make a dramatic difference in Mexico's overall development—and has the disadvantage of being primarily unilateral—it may be a worthwhile way to start building confidence with Mexico on the U.S. government's willingness to invest in joint efforts. It may also create incentives for more ambitious thinking between the two governments in the medium- and long-term. By focusing on specific migrant-sending areas or a specifically targeted objective (infrastructure or human capital), it might be possible to generate some short-term practical results that help bolster the case for more ambitious collaborative efforts in the future.

None of these strategies will completely address the difficulties of economic integration in a highly asymmetrical economic relationship. Yet a sustained effort to widen the circle of beneficiaries from trade and link trade to the well-being of workers in both countries could have significant long-term benefits for the economies of both countries. It could also help to reduce migration pressures and create a new model for American trade policy around the world that would link the pursuit of market efficiency with a commitment to better standards of living.

Investing in renewable energy opportunities in Mexico

Cooperation between the United States and Mexico in alternative energy is not new. For at least the past 10 to 15 years, various partnerships between the Mexican government, the U.S. Department of Energy, and U.S. AID have been undertaken to develop renewable energy projects aimed at bringing electricity to Mexico's rural and poor regions. These were focused on small photovoltaic solar energy projects as a means to spread electricity generation to dispersed, rural, and poor communities. The U.S.-Mexico partnerships have successfully delivered electricity to schools and distance-learning projects throughout rural Mexico and Central America, as well as water pumping systems in areas of the country that remain off the national power grid.

Government cooperation through varied and small renewable energy projects, however, has not given way to a robust partnership in alternative energy exploration and development between the United States and Mexico. With Mexico's abundance of renewable energy resources and the U.S. public and private sectors' growing interest in investing in clean alternative energy sources, a more robust relationship should exist.

Mexico's energy consumption is growing more rapidly than more developed countries, and conventional energy sources are unable to meet a considerable portion of this growing demand.[48] As a result, renewable energy sources are uniquely suited to meet Mexico's growing energy demand as well as fulfill Mexico's renewed commitment to diversifying its energy matrix to include more sustainable sources of energy. Along with the highly noted energy reform legislation passed by the Mexican Congress in October of 2008, two laws were passed that focus exclusively on developing Mexican alternative energy and on the creation of a national program to expand Mexico's renewable energy matrix.[49] In addition, a Fund for the Energy Transition and Sustainable Use of Energy was established with resources of 3 billion pesos annually to support projects for energy efficiency, renewable energy, and diversification of sustainable energy sources.

Even though most attention was given to the question of private investment in Pemex—Mexico's state-run oil company—in the recently passed energy reform legislation, electric generation in Mexico has been open to private investment for years. The Public Electricity Service Act of 1992 opened up space for private-sector participation in things not considered a public service, including:

- Electricity generation for self-supply, cogeneration, and small production.
- Electricity generation of independent producers to be sold to the Federal Electricity Commission.
- Electricity generation for export that results from cogeneration, independent production, and small production.
- Electricity imports devoted exclusively to self-supply of persons or enterprises.
- Electricity generation devoted to emergencies resulting from electricity blackouts.[50]

Mexican renewable energy sources are abundant—particularly wind and solar energy. According to the Mexican Energy Secretary, the country has a potential wind energy generation capacity of over 40,000 MW.[51] More than half of Mexico's national territory presents an energy density of 5kWh per square meter of solar energy,[52] while the International Energy Agency estimates that the installed photovoltaic capacity in the country is only 14 MW, and most of it not connected to the national power grid.[53] Therefore, plenty of opportunity exists for foreign and domestic private investment in Mexican solar and wind energy industries.[54]

To foster a cooperative and mutually beneficial exploration of wind and solar energy investments between the United States and Mexico, the United States should:

- Explore ways to make investing in alternative energy projects in Mexico more economically viable and profitable, including possible subsidies and tax breaks for companies looking to invest in alternative energy both within the United States and abroad.

- Make use of The Department of State, Foreign Operations and Related Programs Appropriations Act of 2008 (H.R. 2764). H.R. 2764 was passed in the 110th U.S. Congress and signed into law in 2007. It encourages the Export-Import Bank of the United States to invest 10 percent of its financing capacity in promoting the export of clean-energy products and services.

- Become a signatory of the Kyoto Protocol and any new international climate change initiatives on the horizon. The United States should take advantage of substantial financing opportunities in Mexico through the Kyoto Protocol's Clean Development Mechanism. The Clean Development Mechanism allows emission-reduction (or emission removal) projects in developing countries to earn certified emission reduction credits, which can then be traded and sold and used by industrialized countries to meet a part of their emission reduction targets under the Kyoto Protocol. As of January 2008, Mexico accounted for 100 of the nearly 900 CDM projects registered worldwide. It was awarded with 2,333,150 carbon emission reduction credits, making it the second largest creator of carbon credits in Latin America.[55]

Conclusion

The U.S.-Mexico relationship is ready for renewed collaboration on a range of issues that bind the United States and Mexico together. The global economic crisis and increasing violence along the U.S.-Mexico border have raised the relationship to the forefront of U.S. national and economic security concerns. Indeed, within 60 days in office President Obama laid out a new border security strategy intended to target the ways in which the United States contributes to the violence raging just south of its border. This is a good first step, but more needs to be done and the United States needs to think about its relationship with Mexico beyond the Rio Grande.

The policy recommendations included in this report provide the Obama administration with a blueprint for ways to expand and strengthen U.S.-Mexico relations beyond the issue areas that have traditionally defined the relationship, as well as reinvigorate the issue areas that have historically dominated bilateral relations. This report focused on concrete policy recommendations in four areas:

- Improving the rule of law and judicial reform in Mexico.
- Stopping the illegal flow of weapons and money from the United States to Mexico.
- Exploring enhanced cooperation in economic development.
- Promoting alternative energy cooperation and investment.

By tackling these issues head on and in a sustained manner, the Obama administration can begin to build on the important first steps taken on March 24 to begin to repair and strengthen relations with one of the United States' most important and strategic allies in the hemisphere.

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45 See Richard Samans and Jonathan Jacoby, "Virtuous Circle: Strengthening Broad-Based Global Progress in Living Stands" (Washington, D.C.: Center for American Progress, December 2007). This report provides a comprehensive blueprint to resetting the priorities of U.S. international economic policy.

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47 Robert Pastor offered the idea in discussions with the working group. For more information on the architecture of this type of proposal, see Robert A. Pastor, "Solving Immigration: How to Rethink a Heated Debate," *Newsweek*, March 27, 2006, p. 22-24.

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49 The two laws passed as resolutions 6 and 7 on October 28, 2008 are *Ley para el Aprovechamiento Sustentable de la Energía* and *Ley para el Aprovechamiento de Energías Renovables y el Financiamiento de la Transición Energética*.

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54 Companies such as German photovoltaic cell manufacturer Q-Cells, Mexicana subsidiary of Japan's Kyocera Group, Sempra Generation subsidiary of Sempra Energy, Spanish alternative energy company Grupo Ibereólica, and Swiss firm Clean Hydrogen Producers are but a sample of the private companies investing heavily in Mexico's wind and solar energy industries.

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