

Contemporary U.S.–Latin American Relations

Cooperation or Conflict in the
21st Century?

Second edition

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2 U.S.–Mexican Relations

Coping with Domestic and International Crises

Jorge I. Domínguez and Rafael Fernández de Castro

Once per year, during each of the first three years of Mexican President Felipe Calderón's six-year term (*sexenio*, 2006–2012), the world seemed to be coming to an end. Within 11 days of the start of his presidency, Calderón ordered the Mexican army to enter the State of Michoacán, at the request of Governor Lázaro Cárdenas Batel, to combat the drug-trafficking gangs that were posing a severe threat to public order and citizen security; in 2007, Calderón would send the Mexican military to enter combat, for a similar purpose, in the States of Baja California, Chihuahua, Durango, and Sinaloa. Calderón's predecessor, President Vicente Fox (2000–2006), had already deployed Mexican troops to secure public order in eight cities in Tamaulipas, Sinaloa, and Baja California. These criminal gangs were nested in transnational criminal organizations that threatened citizens and alarmed the governments of Mexico and the United States. Criminal violence would constitute the core topic between the two governments during the Calderón *sexenio*.¹ The crises and policies associated with this severe security challenge marked the bilateral relationship also into the *sexenio* of President Enrique Peña Nieto (2012–2018).

The next two seemingly world-terminating events were felt in Mexico as exogenous shocks whose causes at first were poorly understood and for which remedies seemed elusive. The second event was the financial collapse in the United States in late 2008, which would launch the deepest and longest worldwide economic downturn since the 1930s. In mid crisis, the U.S. Federal Reserve Board, the agency most directly responsible for oversight of the U.S. financial system, noted in its annual report to the U.S. Congress:

The second half of 2008 saw an intensification of the financial and economic strains ... The ensuing turmoil in global credit markets affected asset values, credit conditions, and business and consumer confidence around the world. Over the summer, a weakening U.S. economy and continued financial turbulence led to a broad loss of confidence in the financial sector. In September, the government-sponsored enterprises Fannie Mae and Freddie Mac were placed into

conservatorship by their regulator, and Lehman Brothers Holdings filed for bankruptcy. The insurance company American International Group, Inc., or AIG, also came under severe pressure, and the Federal Reserve, with the full support of the Treasury, agreed to provide substantial liquidity to the company. In addition, a number of other financial institutions failed or were acquired by competitors.²

Fannie Mae and Freddie Mac, notwithstanding their whimsical names, were major U.S. federal government financial institutions in the housing and commercial financial businesses. Lehman Brothers had been one of the most important U.S. investment banks for over a century and the AIG was the largest private insurer in the United States. U.S. government intervention to bail out financial institutions was itself an extraordinary step. The U.S. financial system would transmit this shock to the world, resembling a transnational disease pandemic. President Barack Obama (2009–2017) led his country out of this economic disaster, but the undertaking commanded much of his time and political capital during his presidency.

From the 1970s through the 1990s, even a mild U.S. economic crisis would shock Mexico, generating severe hardship there. This time was different. Mexico had adopted sounder macroeconomic policies in response to its major economic crisis in 1994–1995, and with slight variations these more effective policies were sustained through the presidencies of Ernesto Zedillo (1994–2000), Fox, and Calderón. Thus, Mexico's gross domestic product (GDP) dropped in 2009 by 4.7 percent but it rebounded in 2010 by 5.2 percent; GDP grew about twice the U.S. growth rate in 2010–2012, outpacing also the growth rates of the Eurozone and Japan.³

The third consecutive plague to afflict Mexico was a type of influenza called H1N1, which broke out virulently in central Mexico in early 2009. Its disease epicenter was Mexico City. At first, little was known about it; it seemed a first-order killer, generating widespread panic in Mexico and beyond. International tourist and business visits to Mexico, notably from the United States, dropped precipitously. Upon advice from specialists, Calderón gambled with his popularity and authority. He went on national television, invoking the majesty of the presidency, to ask Mexicans in the capital city to stay home from work and to keep their children home from school. This approach worked. The citizens of Mexico City were heroes in addressing this health-care crisis. H1N1 stopped spreading in Mexico City, breaking the epidemic.

Unbowed by criminal violence and the effects of the worldwide financial crisis, Mexico had demonstrated its competence in overcoming a health-care emergency. In the words of the Director-General of the World Health Organization:

Mexico was the first country to experience a widespread outbreak. Mexico bore the brunt of these consequences at a time when the new

virus had not yet been identified and nothing was known about the disease it causes. Mexico gave the world an early warning, and it also gave the world a model of rapid and transparent reporting, aggressive control measures, and generous sharing of data and samples. Canada and the United States supported the early control measures in Mexico, and then followed this model of transparent reporting and generous collaboration as their own outbreaks began to spread.⁴

Mexico led, but Canada and the United States proved to be good partners in North America, assisting Mexico in the early stages of the crisis and then learning from Mexico. The successful management of this third catastrophe built domestic and international confidence that Mexico's president and government were competent. This helped to ward off the perception, fanned by the criminal violence crisis, that Mexico was a "failed state." The defeat of H1N1 implied that the state could indeed protect its people.

For the United States, as noted above, the economic crisis that broke out in 2008–2009 consumed time, attention, and vast resources for much of the Obama presidency. Obama also inherited the continuation of wars in Iraq and Afghanistan. Although he downsized the U.S. commitment to both wars, the enduring warfare in Afghanistan, its renewal in Iraq, and its spread to Syria demanded a sustained U.S. focus on Middle East military conflicts and sapped the capacity of the U.S. government and the Obama administration for other purposes.

During the Calderón and the Obama years, the ardor of each government for cooperation with the other did not abate, but the opportunities to cooperate were constrained by the pressures of domestic circumstances on Los Pinos and the White House. The 2008–2009 economic crisis befell both Mexico and the United States, but the maladies that otherwise affected both countries were rather different in the first decade and a half of the twenty-first century. This made cooperation possible but also intermittent and more difficult to sustain, not out of lack of interest or concurrence but because there were other more pressing matters pulling each government along a different path.

In this chapter, we argue that international factors were the key explanations for the patterns in U.S.–Mexican relations during the first decade of the twenty-first century but that domestic considerations in both countries and transnational relationships (migration, criminality) acquired greater explanatory salience during the century's second decade. Second, we argue that the effectiveness in the management of bilateral U.S.–Mexican relations depended on the presence or absence of institutions and procedures. Where institutions had been established and their procedures were implemented, bilateral relations were not conflict-free but the patterns were generally constructive and stable and the conflicts were managed well within existing frameworks, preventing damages to other issues.

NAFTA – the North American Free Trade Agreement – is the best example of such an institution; its procedures now work routinely. Where there were no such well-established institutions and where unilateral initiatives prevailed over established bilateral procedures, bilateral relations were much more contentious, and even small incidents could rapidly escalate out of control to generate bilateral conflict. Transnational migration and criminal violence and drug trafficking are the pertinent examples; in these issue areas, the unilateral actions of U.S. or Mexican governments, sometimes coordinated but often not, were pervasive but frequently ineffective. Both countries can do better.

The International System's Effects on Bilateral Relations: Between the Domestic and the Transnational

By the end of the first decade of the twenty-first century, crises at the intersection between the domestic and the transnational shaped U.S.–Mexican relations, reorienting them away from the issues that had seemed dominant only a decade earlier. First, at the start of the century, the changes in the structure of the international system – sketched in Chapter 1 of this volume – deeply shaped U.S.–Mexican relations. The U.S. government had come to look at the world through the prism of international terrorism (none of which had hit the United States from Mexico), severely constraining its willingness to contemplate the freer movement of people across North America and contributing to killing a decade's worth of efforts at changing U.S. immigration policy. The outbreak of severe criminal violence in Mexico focused both governments on security but with special attention to the violence originating in Mexico, not in the Middle East. Security remained at the core of the bilateral relationship but the problem was domestic and bilateral, not global, insecurities. Because the embryonic bilateral security institutions, built in the late 1990s, to counter criminal violence had been allowed to atrophy, the United States and Mexico had to invent new instruments for cooperation over security topics.

Second, at the start of the century another change in the international system, also noted in Chapter 1, was the rise of China and the displacement of Mexican exports by Chinese exports in the U.S. market. With the slowdown in China's economic growth in the century's second decade and the increase in its domestic costs of production, the growth of U.S.–Mexican trade facilitated by NAFTA, of which Canada is also a founding member, became an engine for joint U.S. and Mexican economic growth. Mexico pulled its economy out of the 2009 economic decline, and Mexican businesses learned to compete more effectively with Chinese exports. NAFTA thus mitigated some of the adverse effects for Mexico of the rise of China in world markets.

Third, specific international events and processes, far from North America, distracted the U.S. government from attention to Mexico or to South and Central America. The 2008–2009 economic crisis had a longer-lasting

impact on the European Union (EU) and on Japan, requiring U.S. attentiveness as well. Russia's seizure of Crimea from Ukraine in 2014, China's new territorial assertiveness toward islets and maritime zones to its east and south in 2013–2014, and renewed violent conflict in the Middle East refocused U.S. attention to classic inter-state issues far from the Western Hemisphere. These events exacerbated U.S. policy inattention to Mexico.

The effect of the domestic political context on bilateral relations also changed during the first 15 years of the twenty-first century. At first, domestic politics had only a modest impact on the conduct of bilateral relations. However, executive-legislative gridlock became severe in Washington as the century unfolded. Mexico's interest in obtaining U.S. cooperation on transborder gun control measures made zero progress in the halls of the U.S. Congress, for example.

In contrast, the Mexican Congress approved the federal budget each and every year on schedule. Moreover, of Calderón's 122 bills submitted to Congress, only two were rejected, although 25 remained "pending," and these included some of the president's more important bills seeking structural change. Executive-legislative cooperation in Mexico improved dramatically in the first 20 months of the Peña Nieto *sexenio* thanks to an agreement between the three largest parties, called the *Pacto por México*, which facilitated approval of 11 significant bills left pending under Calderón.⁵ For the future of U.S.–Mexican relations, the most significant outcome from the renewed capacity to approve major structural reforms was the change in Mexico's domestic energy regime to permit the engagement of private domestic and international companies in aspects of petroleum exploration and production.

In general, explanations anchored in the international system were persuasive at the start of the century. As the decade progressed, the specifics of transnational relations rose in salience, including criminal violence, the U.S.-originated economic crisis, the proper functioning of NAFTA, and each president's challenges at home and in relations with the respective federal congresses. In this chapter, we examine the ongoing positive trend of bilateral economic relations including but not limited to the workings of NAFTA, and then look at security and migration issues, taking note of the domestic context for foreign policy decision making.⁶

The Economic Context and NAFTA's Continuing Impact

NAFTA is at the heart of U.S.–Mexican economic relations and it is also the core of the wider architecture for cross-country relations in North America. For NAFTA to serve the three partner countries, Mexico must hold its side of the bargain and, in this century, it has. Mexico, as noted, weathered the 2008–2009 global economic crisis more effectively than the United States, the European Union, or Japan. Its economy fell only in 2009 and rebounded over the following three years, to decelerate only in

2013 and 2014. Two keys to this success were the prudent management of Mexico's macroeconomic policy and NAFTA's continued effectiveness. Mexico's good economic record – a competent and increasingly prosperous neighbor – and NAFTA's good record serve U.S. interests as well.

Mexico's international reserve assets doubled from 2001 to 2008 (see Table 1.3) – that is, the eve of the world's international financial crisis. The accumulation of such reserves was testimony to Mexico's sound macroeconomic policy during the Fox presidency. It prepared Mexico for the 2008–2009 financial crisis and the sharp downturn of Mexico's GDP in 2009. By 2011, Mexico's international reserve assets had climbed to \$144 billion. In September 2014, as President Peña Nieto presented his annual state of the nation report, Mexico's international reserve assets had reached \$193 billion, testimony to the sustained good macroeconomic policies of consecutive presidential administrations.⁷

Above all, a key to Mexico's continued success is that NAFTA has continued to work.⁸ As evident in Tables 2.1 and 2.3, U.S. exports to, and U.S. imports from, Mexico (and Mexican exports to, and Mexican imports from, the United States) had risen in the years preceding the 2008–2009 crisis but fell sharply in 2009. Both exports and imports soon recovered, however.⁹ From 2009 to 2014, U.S. exports to, and imports from, Mexico increased uninterruptedly and impressively. Also from 2009 to 2013, Mexican exports to, and imports from, the United States increased comparably uninterruptedly and impressively. This growth of trade greatly outpaced the growth rates of the Mexican and U.S. economies, helping to lead both countries out of recession. NAFTA had not been imagined as a recession-fighter when first conceived in the late 1980s, but it played exactly that role in both nations in the aftermath of the 2009 crisis. Mexican exports to the United States increased more than six-fold from 1994, the year NAFTA came in effect. At over \$318 billion dollars in Mexican exports in 2014, NAFTA contributed to Mexico's prosperity.

NAFTA also illustrates the workings of open trade liberalism. Even as Mexican imports from the United States climbed during the two decades following NAFTA's implementation, the U.S. share of Mexican imports fell during the early twenty-first century to settle at about half of Mexican imports. China became a principal beneficiary of this growth in Mexico's economy and trade; the rise in China's share of Mexico's imports nearly matched the decline in the U.S. share. NAFTA fostered trade connectedness without barring imports from outside North America – this openness is the essence of a liberal trade regime.

Thus, the significant uptick in Sino-Mexican trade (Tables 1.1 and 1.2) reflected North American economic recovery as well, now in part in cooperation with Chinese trade. The United States exports more to Mexico than it does to China, and Mexico is the third most important source of U.S. imports after China and Canada. As evident in Table 2.2, between 2011 and 2014 the increment in the value of U.S. exports to Mexico exceeded

Table 2.1 U.S. Exports to, and Imports from, Mexico, 2005–2014 (billion dollars)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Exports to Mexico	120	134	136	151	129	164	198	216	226	240
Imports from Mexico	170	198	211	216	177	230	263	278	281	294

Source: Computed from U.S. Department of Commerce, International Trade Administration, Office of Trade and Economic Analysis (OTE), TradeStats Express™, accessed July 17, 2015, <http://tse.export.gov/TSE/TSEHome.aspx>.

Table 2.2 U.S. Top Trade Partners: Exports and Imports, 2000–2014 (billion dollars)

	U.S. Exports					U.S. Imports				
	2000	2008	2011	2013	2014	2000	2008	2011	2013	2014
Canada	176.4	261.1	281.3	301.6	312	229.2	339.5	315.3	332.6	346
Mexico	111.7	151.2	198.3	226.1	240	135.9	215.9	262.9	280.5	294
China	16.3	69.7	104.1	121.7	124	100.1	337.8	399.4	440.4	467
Japan	65.3	65.1	65.8	65.2	67	146.6	139.3	128.9	138.6	134

Source: U.S. Department of Commerce, U.S. Census Bureau, Foreign Trade, accessed July 17, 2015, www.census.gov/foreign-trade/index.html.

Table 2.3 Mexican Exports to, and Imports from, the United States, 1993–2014 (billion dollars and U.S. percentage shares)

	1993	1994	2000	2008	2009	2010	2011	2012	2013	2014
Exports to U.S. billion dollars	42.9	51.6	147.4	233.5	185.1	238.7	274.4	287.8	309.9	318.4
U.S. share	83	85	89	80	80	80	79	78	82	80
Imports from U.S. billion dollars	42.3	54.8	127.5	151.3	112.4	145.0	174.4	185.1	187.3	195.3
U.S. share	72	69	73	49	48	48	50	50	49	49

Source: Mexico, Secretaría de Economía, Subsecretaría de Comercio Exterior, "Exportaciones totales de México" and "Importaciones totales de México," accessed July 17, 2015, www.economia.gob.mx.

Table 2.4 U.S. Annual Direct Investment Flows into Mexico, 1999–2014 (billion dollars and U.S. percentage shares)

	1999	2000	2005	2008	2009	2010	2011	2013	2014
U.S. dollar flows	7.6	13.2	11.8	11.8	7.7	6.9	12.3	13.3	6.4
U.S. share	55	72	48	41	43	27	52	32	23

Source: México, Secretaría de Economía, "Flujos totales de IED hacia México," accessed July 17, 2015, www.economia.gob.mx.

the increment in the value of U.S. exports to China. China's share of Mexican imports did not yet reach 1 percent in 1994 when NAFTA came into effect, and it had not yet reached 2 percent on the eve of China's joining the World Trade Organization (WTO) in 2001. It had risen to 10 percent of Mexican imports in 2007 and to 16.6 percent of such imports in 2014, at a value exceeding \$66 billion. Since 2009, Mexico imported far more from China than from the entire European Union (the EU's share of Mexican imports was 11.6 percent in 1994 and 11.1 percent in 2014; a free trade agreement between Mexico and the EU had come into effect in July 2000).¹⁰ A portion of Mexico's low-cost imports from China became inputs to Mexican engagement in trade within NAFTA.

Early in this century, Mexico and the United States came to function more as economic partners than as competitors. For many businesses in these two countries, "exports" and "imports" are not "foreign products"; instead, they are inputs that move within the same firm. In the cycle of joint production, materials and parts often cross the U.S.–Mexican border numerous times as U.S. and Mexican factories work together to manufacture a product. Approximately 40 percent of the value of U.S. "imports" from Mexico consists of content produced in the United States (the comparable input percentage for the rest of the world is 4 percent). Intra-industry trade, an indicator of production sharing, represents over 40 percent of U.S.–Mexico trade.¹¹ Think no longer of a U.S. car – think forevermore about a NAFTA car.

NAFTA facilitated cross-border private direct investment. Let us highlight a novelty. Consider iconic U.S. brands: Sara Lee, Weight Watchers, Thomas' English Muffins, Entenmann's, Mission Foods, and TracFone cell phones. All are now owned by Mexican companies. Mexican direct investments in the United States had been negligible when NAFTA negotiations began. They increased in the late 1990s and early 2000s, reaching \$17.6 billion in 2013. The more familiar story is, of course, that of U.S. direct investments in Mexico, which quadrupled from NAFTA's implementation in 1994 to 2013 when they reached \$177 billion.¹² Except during the financial crisis and the Mexican economic slowdown in 2014, U.S. direct investment flows into Mexico have exceeded \$10 billion per year; the United States characteristically accounts for a third of these annual flows into Mexico (see Table 2.4).¹³

NAFTA was also designed to facilitate the resolution of trade disputes. Given the large volume of trade, such disputes were to be expected. During the 20 years following NAFTA's start on January 1, 1994, Mexico requested the establishment of 36 binational panels under NAFTA Chapter 19 in complaints it filed against the United States; during the same time period, the United States filed 12 complaints against Mexico (the United States and Canada accounted for 65 of the 113 NAFTA panel disputes).¹⁴ NAFTA's Chapter 19 enables signatory countries to use binational panels to challenge final anti-dumping and countervailing duty measures issued by the administrative authorities of other NAFTA

countries. These panels act as a substitute for judicial review by the national courts of the three countries and thus constitute NAFTA's most powerful tool against unilateral protectionist measures.

U.S.–Mexico NAFTA panel trade disputes accounted for 42 percent of the total of empaneled NAFTA disputes. Considering trade values between the United States and its two neighbors (Table 2.2), Mexico's U.S. trade ranged between 38 and 45 percent of total NAFTA trade. There is, therefore, a reasonable correspondence between trade value and the frequency of empaneled disputes. The chronological distribution of disputes also reveals a fairly normal process. Of the 36 Mexican complaints against the United States, 13 took place during Calderón's presidency and the first half of Peña Nieto's; that is, 36 percent of the disputes took place during 40 percent of the time period. The NAFTA dispute settlement mechanism under Chapter 19 served the United States and Mexico well.

Mexico and the United States were also members of the WTO, which came into effect on 1 January 1995. The WTO provides a supplementary mechanism for dispute resolution. Between 1995 and 2014, Mexico filed nine complaints against the United States at the WTO (Mexico filed a worldwide total of 23 WTO complaints during those years). Mexico also joined a larger group of countries as an affected third party in complaints against the United States in 33 instances (Mexico was a third party in a worldwide total of 74 cases). The United States filed a complaint against Mexico six times (Mexico was a respondent in a total of 14 cases). The WTO cases mirrored the NAFTA cases and, together, NAFTA and WTO provided means for the two countries to consult, discuss, negotiate, and settle their trade disputes.¹⁵ This process has worked well to the benefit of both countries. In general, relative to the respective participation in world trade, Mexico was much less likely to file a complaint with the WTO, or to be the target of a complaint filed by some other WTO member, than was the case for Argentina, Brazil, Chile, Colombia, or Peru.¹⁶

Mexico won in several trade dispute cases with the United States thanks to the NAFTA and WTO processes. Mexico challenged U.S. protectionist measures before the WTO regarding tuna trade and the labeling of bovine beef; the WTO process found for Mexico and the United States complied. NAFTA and WTO procedures also set the stage for U.S.–Mexican negotiations regarding shrimp and tomato trade, with an outcome favorable to Mexico in both instances.¹⁷

At times, when there was a clear judgment against one of the countries and no compliance by the other, retaliation was authorized. The most notorious case of a violation of NAFTA obligations has been the U.S. refusal to open its roads to Mexican trucks. These trucks were supposed to be able to operate in the four southwestern U.S. states by December 1995 and then throughout the continental United States by January 1, 2000. However, 15 years after the latter provision, the vast majority of Mexican trucks are still not allowed on U.S. roads. Mexico has won clear panel

judgments via NAFTA and WTO, which authorized it to retaliate, blocking the movement of U.S. trucks within its borders and lawfully introducing retaliatory tariffs to be applied on a yearly rotating basis to various U.S. imports. The U.S. rationalization for the delay has been safety. The U.S. government has developed several pilot programs, which consistently demonstrated that participating Mexican drivers and trucks had equal or better safety records than their U.S. counterparts. The opposition to Mexican trucks has been, simply, political – the U.S. teamsters union has exercised its clout. In 2014, only 45 Mexican trucks were authorized to travel U.S. roads out of 14,000 trucks that cross the border from Mexico daily. As a result, Mexican trucks drive to the border, unload their goods on the Mexican side, to be picked up by a short-haul truck. That truck moves the goods to a warehouse on the U.S. side, where they are unloaded again, to be packed onto a third truck for delivery to a final U.S. destination.¹⁸ This is a costly and illegal U.S. violation of NAFTA.

NAFTA worked mainly, however, as a self-executing and self-implementing agreement to liberalize trade and investment, which is why the trucking case, albeit important, is the only one of its kind. NAFTA's language is precise; it avoids ambiguities that may create the need for interpretation or adjudication. The obligations on member states are binding, clearly applied, and on a posted schedule for application. There is little room in NAFTA for delegation to supranational entities other than the panels just noted.¹⁹

NAFTA covers a narrower and well-specified set of topics than the European Union. NAFTA does not permit the free movement of peoples. Mexican real wages have risen little since NAFTA's enactment because of the low growth of Mexican productivity, not because of international trade.²⁰ Similarly, the wage gap between skilled and unskilled workers in Mexican manufacturing industries before and after NAFTA stems from the effect of technological change.²¹ And NAFTA's impact on the environment in Mexico has been negligible: it has neither improved nor detracted from the environmental performance of companies.²² NAFTA was not a panacea to solve all problems. Nevertheless, NAFTA's approach to liberal economic integration through legalization has generated valuable shared public goods for Canada, Mexico, and the United States, in particular the significant expansion of trade and investment, depoliticizing these processes and settling the normal disputes to which they give rise from time to time.

A Future Energy Integration in North America?

NAFTA excluded two important topics: the energy sector and the movement of peoples. Both remained on the bilateral U.S.–Mexican relations agenda (we discuss the migration of Mexicans later).

A new technology – hydraulic fracturing, commonly known as fracking – and advances in seismic technology and horizontal drilling enable oil and gas extraction from low-porosity and low-permeability rocks, boosting

U.S. crude petroleum output to its highest level since 1990. In 2014, the United States surpassed Saudi Arabia to become the top oil and natural gas liquids producer in the world. The United States is also the world's largest natural gas producer.²³

During the same time period, Mexican petroleum output fell consistently because of underinvestment, inefficiencies, and limits on technology at the state-owned energy company, *Petróleos Mexicanos* (PEMEX). With the support of two of Mexico's three largest parties, President Peña Nieto proposed, and in December 2013 the Mexican Congress enacted, changes (requiring a constitutional amendment approved by the requisite number of States) to end PEMEX's monopoly. In August 2014, Congress approved the secondary legislation to set up the contractual framework for private-sector participation. For the first time since the 1930s, Mexico encourages private domestic and international companies to invest in energy exploration and development as well as in refining, transport, storage, and distribution of oil, petroleum products, and natural gas. The energy sector reform will also make PEMEX a more competent company. Prior to the change, in 2013 the Mexican government took 99 percent of PEMEX's pre-tax dollars for the current use of the Mexican Treasury. With the reform, PEMEX gains much more investment and operating autonomy, with its tax burden likely to drop from 99 to the low-70s percentage range.²⁴

The energy relationship across North America is intense. Canada is the principal U.S. supplier of oil and petroleum products. Mexico sends over four-fifths of its crude oil exports to the United States. The United States is a major exporter of petroleum products to Mexico. U.S. exports of natural gas to Mexico doubled between 2010 and 2012 and are scheduled to expand. It may be efficient for the United States and Mexico to agree to U.S. petroleum exports to Mexico to make more effective use of installed capacities.²⁵ The implementation of Mexico's energy reform may make it possible to insert energy trade into NAFTA during its third decade.

In sum, within its scope and design, NAFTA continued to accomplish its objectives. It fostered trade and investment, prevented disputes, and facilitated the resolution of those that arose. By the late 2010s, NAFTA may include the energy sector. But NAFTA's successes and its promise depend on the capacity of the U.S. and Mexican governments to address three other topics: how to curb violence in Mexico, how to permit the freer movement of peoples across North America, and how to make the respective governments function more effectively. To these topics, we now turn.

Academic Exchanges, Innovation, and the New Economic Dialogue

From the outset of his administration, President Peña Nieto and his team were eager to change the narrative of Mexico and U.S.–Mexican relations

away from the war against drug traffickers. As part of this new effort, the High Level Economic Dialogue (HLED) was launched in May 2013, during President Obama's visit to Mexico City. Chaired by Vice President Joseph Biden and Treasury Secretary Luis Videgaray, the HLED aims to foster regional competitiveness and connectivity, promote economic growth, innovation, and entrepreneurship, and display joint regional and global leadership.²⁶

Under the umbrella of the HLED, the two governments launched an effort to improve human capital, creating the Forum on Higher Education, Innovation, and Research, known by its Spanish acronym FOBESII. In 2011, President Obama created the initiative "100,000 Strong in the Americas" to foster academic exchanges between the United States and Latin American countries. Speaking to Mexican students on May 3, 2013, President Obama stated, "when we study together, and we learn together, we work together, and we prosper together."²⁷

FOBESII seeks to expand bilateral efforts to increase academic mobility and exchanges, including research and job internships for Mexicans in the United States, and vice versa. FOBESII aims to facilitate coordination within and between Mexico and U.S. education officials and diplomats and many public and private universities.²⁸ Under FOBESII, Mexico's *Proyecto 100,000* sets very ambitious goals: the bilateral mobility of 150,000 higher education students and academics by 2018 (the last year of President Peña Nieto's term), with 50,000 U.S. students in Mexico and 100,000 Mexicans in the United States.²⁹ In 2013, the year *Proyecto 100,000* was launched, however, there were 14,199 Mexican students in the United States, and 3,815 U.S. students in Mexico.³⁰

Since its creation in 2013, the new bilateral mechanism for expanding academic exchanges has showered on academic exchanges an unprecedented level of attention, including from the presidents, expanded the level of contacts and coordination among public and private entities in both countries, and increased the number of Mexican students going to the United States for academic programs including English courses. According to the Mexican Foreign Ministry, in 2014 27,000 Mexican students received some type of academic training in the United States.³¹

International Security

International security remains a contentious arena in U.S.–Mexican relations. Managing their joint security relationship has been difficult because the fledgling bilateral security institutions created in the 1990s atrophied, in particular the High Level Contact Group to Control Drugs and the Binational Commission. Security policy also varied between the administrations of the past three Mexican presidents. The Fox administration was likely to react to U.S. security initiatives, whereas the Calderón administration took security policy initiatives on its own. During his first three

years in office, President Peña Nieto returned to the Fox approach, reacting to the United States regarding security policy implementation. Peña Nieto also centralized U.S.–Mexico security cooperation within the Interior Ministry (*Gobernación*).

The tensions in U.S.–Mexican security relations were illustrated by the Fox administration's response to the terrorist attacks of September 11, 2001. The initial expressions of horror at the terrorist attacks were overcome by an unseemly public debate on whether Mexico would "submit" to the United States and be drawn into the war on terrorism. Some Mexican politicians and mass media outlets even criticized Foreign Relations Secretary Jorge Castañeda for his prompt and unequivocal expression of solidarity with New York City, where he had lived and worked. Ironically, days before, Castañeda had contributed to weakening U.S.–Mexican security relations when he persuaded President Fox to give formal notice that Mexico would pull out of the Inter-American Treaty for Reciprocal Assistance (the Rio Treaty), a pact for mutual military defense, during Fox's triumphant state visit to Washington on the eve of the attacks.

Yet the strangest aspect of the Mexican response to the 9/11 attacks was President Fox's behavior. Here was a president who had worked for Coca-Cola, spoke fluent English, and had made the improvement of U.S.–Mexican relations the main pillar of his foreign policy as well as the key to the construction of a "new" Mexico. Fox had even cultivated a personal friendship with his U.S. counterpart, President George W. Bush, as the symbol of – and the instrument for – new relations between Mexico and the United States. Despite these efforts, the Mexican president allowed his cabinet members to squabble publicly about the merits of supporting the United States during this crisis. Not until two weeks later did Fox silence the cabinet ministers so that he could repair the damage inflicted on U.S.–Mexican relations.³²

In contrast to Mexico's response, British Prime Minister Tony Blair immediately flew to New York following the 9/11 attacks to show his support for the United States. Brazil invoked the Rio Treaty – the very treaty from which Mexico had given notice to withdraw – on the grounds that a country of the Americas had been subject to an international attack, and that an attack on one was an attack on all. The United Kingdom and Brazil understood that, in that time of crisis, the United States, above all, needed a hug.

By March 2003, Mexico had accepted that it must support the United States in its war on terror. Although Mexico officially opposed the U.S. decision to go to war against Iraq, President Fox felt that Mexico could not allow terrorists to use Mexico as the launch pad for an attack against the United States. Thus, immediately following the start of the Iraq War, Mexico launched Operation Sentinel to strengthen security along its northern and southern borders and secure airports, ports, oil platforms, and other key installations. Ten thousand soldiers were deployed to the northern border, 3,000 soldiers to the southern border, and roughly 5,000 to provide protection at specific sites. This was a significant commitment

given the limited capacity of the Mexican Armed Forces. Mexico also strengthened its cooperation with the newly created U.S. Department of Homeland Security (DHS).

The Fox and Bush administrations also reached an important agreement regarding bilateral cooperation against drug-trafficking organizations (DTOs). Starting with the 1986 Anti-Drug Act, the U.S. Congress had required certification that specific drug-exporting countries (including Mexico) cooperated fully with U.S. counternarcotics efforts in order to avoid U.S. sanctions. In September 2002, the United States formally suspended this measure and instead required the president to issue an annual report spotlighting countries that had "failed demonstrably to take appropriate counternarcotics measures." The abandonment of the certification procedure lifted a cloud from U.S.–Mexican relations and would pave the way for the launching of the Mérida Initiative in 2007.

By 2005–2006, however, the levels of drug-trafficking-related violence were soaring across Mexico, especially along the border with the United States.³³ Soon after his inauguration in December 2006, President Calderón unexpectedly made the fight against DTOs his top priority and launched a major assault on drug cartels and other violent organizations in Mexico. The president attributed his unanticipated emphasis on domestic security to his discovery, following his election in July 2006, of the enormous power of the DTOs. Calderón used a metaphor to express his newfound understanding: the DTOs were no longer in the backyard; they were in the living room with their feet up on the coffee table and the refrigerator ransacked.³⁴ Calderón deployed an unprecedented 27,000 troops to 11 Mexican states.

Calderón also sought to strengthen cooperation with Mexico's U.S. security counterparts. In March 2007, President George W. Bush was to visit Calderón in the City of Mérida. Calderón decided to use the meeting to press for more U.S. support for Mexico's efforts to thwart DTOs, premised on the notion that the United States shared responsibility for Mexico's drug-trafficking epidemic, given the demand for illegal drugs in the United States.

Before arriving in Mérida, President Bush met Central American leaders in Guatemala and was stunned by stories concerning the shocking use of violence by the rampant juvenile gangs known as *maras*. He insisted that Central American law enforcement institutions needed more resources to confront these gangs. Bush was receptive to Calderón's proposals concerning enhanced cooperation on security. At the conclusion of the Mérida visit, the two presidents announced their commitment to increase bilateral cooperation against organized crime, committing additional U.S. resources. The Mérida Initiative was born.

On October 22, 2007, President Bush announced a \$1.4 billion military and security package to assist Mexico and several Central American countries in their fight against DTOs. Bush requested from Congress an appropriation of \$500 million for Mexico and \$50 million for Central

America, with the remaining funds to be distributed over the next few years. The aid had four goals: "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."³⁵ The lion's share of resources would go to the first two.

The Mérida Initiative was a turning point in U.S.–Mexico security relations. Since the 1846–1848 Mexican–American War, the Mexican military had refused most U.S. aid, and it would not participate in joint exercises with U.S. forces or allow U.S. bases on its soil. The Mérida Initiative embodied an unprecedented U.S.–Mexican security cooperation, yet its implementation was littered with roadblocks. Washington had to overcome bureaucratic obstacles to transfer the promised funds to Mexico. President Calderón and his security team, in the midst of its battle against organized crime, had little tolerance for these delays. Calderón even had to ask Secretary of State Hillary Clinton to intervene to accelerate the initial disbursement of \$500 million in equipment and training, which were finally delivered in 2011.³⁶

Washington would soon develop its own frustrations with the Mérida Initiative. Despite U.S. support for the Mexican government, violence in Mexico rose drastically. The number of homicides escalated from 8,900 in 2007, the first year of Calderón's presidency, to a peak of 27,200 in 2011.³⁷ The total number of drug-related homicides over the course of Calderón's presidency came close to 60,000 by even conservative estimates.³⁸

Analysts attributed the unprecedented levels of violence to Calderón's own strategy of leveraging all of the state's might to put an end to DTOs.³⁹ Eduardo Guerrero argued that the killing and imprisonment of drug kingpins fragmented the organizations, leading to instability and more violence on the part of younger and more ruthless leaders.⁴⁰ A second explanation averred that the arrival of the National Action Party (PAN, in Spanish) to the presidency increased the level of violence. The resulting changes in protection offered to criminal groups caused greater instability within the DTOs and thus more violence.⁴¹ A third explanation flows from the greater complexity of coordination in a political system that became federal and decentralized in fact as well as multipartisan, where the president, the governor, and the mayor could belong to different political parties. Corruption at one level could undermine law enforcement at another; coalitions at one level with one party would counter the good policies of other actors at other levels.⁴² A fourth argument, also rooted in federalism, expected closer coordination in law enforcement between the national government under a PAN president and a PAN-headed municipal government, thereby increasing the level of violence in that municipality.⁴³

In response to these challenges, in early 2010 the Obama and Calderón administrations agreed to a new strategic framework to emphasize strengthening Mexican law enforcement institutional capacity and

building stronger communities. In 2010, the City of Juárez, across the border from El Paso, Texas, had become the most violent city in Mexico (and possibly the world) with a homicide rate of 229 per 100,000 inhabitants or 9.9 homicides per day.⁴⁴ The Calderón administration launched the comprehensive program *Todos Somos Juárez* (We Are All Juárez), a multimillion-dollar effort to rescue the city from violence and impunity. The new Mérida Initiative dedicated important resources to programs targeting young people involved with gangs and drugs.⁴⁵ The result was a success. By 2012, the homicide rate in Juárez had dropped to 56.⁴⁶

By the end of Calderón's term, the first pillar of the Mérida Initiative, disrupting the organizational capacity of organized criminal groups, had succeeded. From the most wanted criminals list, 25 out of 37 had been arrested or killed.⁴⁷ Nevertheless, violence in Mexico remained pervasive; its citizens were scared. According to a United Nations Development Program report, in 2012 55.9 percent of Mexicans considered that security had deteriorated in the country, 35.2 percent had changed their recreational choices, and 15.2 percent had moved to a different neighborhood for fear of violence.⁴⁸

President Peña Nieto began his mandate in December 2012 in this context of fear and dissatisfaction. His most notable strategic decision concerning violence during his first years in office was to change Mexico's narrative, avoiding the topic of security in public speeches and instead emphasizing Mexico's economic reforms. This strategy yielded clear results. The term "Mexico's Moment" (or MEMO), which signified Mexico's new position as an attractive destination for foreign investment as a result of Peña Nieto's rapid structural reforms, gained popularity.⁴⁹

Peña Nieto attempted to strengthen Mexico's security apparatus by improving coordination between Mexican agencies. The Interior Ministry absorbed the Ministry of Public Security and its arsenal of crime-fighting equipment stockpiled by the previous administration, and it became the lead agency responsible for security. Peña Nieto also created a Department of Prevention of Violence within the Interior Ministry. During his first two years, the rate of homicides fell from 23.5 per 100,000 inhabitants in 2011 to 19.3 in 2013 and 16.6 in 2014.⁵⁰

The United States apparently looked favorably upon Mexico's new direction in its security policy. In May 2013, President Obama visited Mexico City, stating that "it is up to the Mexican people to determine their security structures and how [to engage] with other nations, including the United States."⁵¹ In fact, the first two years of the Peña Nieto administration witnessed a dilution of U.S.–Mexico security cooperation. Peña Nieto's less ambitious security agenda implied that bilateral cooperation would play a lesser role. Consequently, in fiscal year 2015 the Obama administration requested only \$115 million under the Mérida Initiative, a sharp reduction from the original allotment of \$500 million per year.⁵² (See Table 2.5.)

Table 2.5 FY2008–FY2015 Mérida Funding for Mexico (million dollars)

Account	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014 (Est.)	FY08–14 Totals	FY2015 Request
ESF	20	15	15.0a	18	33.3	32.1	46.1	179.5	35
INCLE	263.5	406	365	117	248.5	195.1	148.1	1,743.20	80
FMF	116.5	299	5.3	8	N/A	N/A	N/A	428.8	N/A
Total	400	720	385.3	143	281.8	227.2	194.2	2,351.50	115

Source: U.S. Library of Congress, Congressional Research Service, *U.S.–Mexican Security Cooperation: The Mérida Initiative and Beyond*, by Clare Ribando Seelke, and Kristin Finklea, R41349 (May 2015), 8, accessed November 10, 2015, <https://fas.org/sgp/crs/row/R41349.pdf>.

Notes: ESF = Economic Support Fund; FMF = Foreign Military Financing; INCLE = International Narcotics Control and Law Enforcement; NA = not applicable.

The success of Peña Nieto's economic reforms took an unexpected backseat following the tragic events of September 2014 in Ayotzinapa, Guerrero, when 43 students from a rural teaching college were apparently assassinated and their bodies later incinerated. The resulting public outcry over the tragedy, along with the deceleration of Mexico's economic growth rate, ended the Mexico's Moment euphoria and bred distrust at home and abroad concerning Peña Nieto's handling of crime.⁵³

In conclusion, U.S.–Mexico cooperation on security in this century shows gains, but the bilateral relationship still suffers from a lack of mutual trust. The Mérida Initiative was an important collaboration but lacked the level of sophistication found in NAFTA. Four problems underlie U.S.–Mexico security relations:

- 1 The Mérida Initiative to combat DTOs was the most important collaboration on security between the two countries since World War II, but it has not reached its goals because of fundamental differences between the United States and Mexico.⁵⁴ Although the top U.S. priority remained the termination of the DTOs, Mexico's priority shifted to focus on reducing violence. The Mérida Initiative also failed to address key Mexican concerns – namely, reducing the demand for drugs in the United States and halting the traffic in illegal arms, drug precursors, and bulk cash through the U.S.–Mexico border.
- 2 U.S.–Mexico security relations also suffer from weak collaborative institutions. Following the withering of the high-level bilateral security institutions created in the late 1990s, there were no institutions for such security cooperation until the creation of the Mérida Office under the Mérida Initiative, which consisted of a shared office for Mexican and U.S. officials outside of the U.S. Embassy in Mexico City and the Mexican Foreign Ministry. The office opened in 2009 but it was never effectively utilized because of its shrinking budgets;⁵⁵ it closed in 2014. The weakness of bilateral security institutions and working groups has persistently impeded U.S.–Mexico cooperation because of the lack of centralized decision making in the United States.
- 3 Corruption is also pervasive on both sides of the U.S.–Mexico border. DTOs have enough resources to corrupt both Mexican and U.S. officials, making it difficult to develop trust at the bilateral operational levels to combat crime and drug trafficking. The Mérida Initiative sought to help Mexico vet its police officers, but this problem will take a sustained effort. And on the U.S. side of the southwest border, the U.S. General Accounting Office (GAO) reported that 144 Customs and Border Protection (CBP) employees were arrested or indicted from 2005 to 2012 for corruption-related crimes, including the smuggling of migrants and drugs.⁵⁶
- 4 U.S. monitoring of human rights in Mexico also makes security cooperation more difficult. Mexican diplomacy ordinarily refuses

resources from the United States because the acceptance of such aid would entail enhanced scrutiny of Mexican internal affairs. The Mérida Initiative departed from this rule; Mexico accepted human rights observation as a condition of receiving aid. Yet Calderón's decision to pursue DTOs with the military, a body untrained for police duties, resulted in increased human rights violations, which were duly recorded by the U.S. State Department and Human Rights Watch, among others.⁵⁷ Their reports in both Mexico City and Washington, DC, along with continued human rights violations in Mexico, discouraged U.S.–Mexican security cooperation.

Immigration

On November 20, 2014, President Barack Obama announced an Immigration Accountability Executive Action, also known as Deferred Action for Parental Accountability (DAPA) to extend temporary protection from deportation (principally to Mexico) to close to 5.2 million undocumented immigrants with U.S.-born children. His Deferred Action for Childhood Arrivals (DACA), implemented in the summer of 2012, had extended protection from deportation to about 800,000 unauthorized immigrants brought to the United States as children, so-called *DREAMers*. (Between August 15, 2012, and June 30, 2014, slightly over 525,000 DACA applications from Mexican-born youths were accepted, representing 77 percent of all applications accepted. More than 85 percent of these applicants were approved and granted temporary reprieve from deportation.⁵⁸) The announcement of DAPA created enormous expectations in immigrant communities, which had been suffering from unprecedented levels of deportation to Mexico since the U.S. debate over immigration reform started in 2004. Soon, however, Texas and 25 other states filed suit in U.S. federal court, successfully putting the policy on hold until the end of Obama's presidency. Thus, Obama's immigration legacy would be his demonstrated effort to fulfill his campaign promises regarding immigration reform. However, this effort did not succeed because ultimately conservative Republican Party opposition in Congress prevented the implementation of the policy change. Obama's decision to act unilaterally on immigration through deferred actions was one consequence of the U.S. Congress's gridlock over this area.

Mexico was a conspicuously absent player during the decade-long debate over U.S. immigration reform – odd given the considerable benefits that an immigration accord could represent to U.S.–Mexico relations, and given that 52 percent (or 5.9 million) of the undocumented immigrant population is of Mexican origin.⁵⁹

Paradoxically, the ongoing immigration debate in the United States began with a proposal in February 2001 by Mexican President Fox to U.S. President Bush to negotiate an immigration agreement between Mexico

and the United States.⁶⁰ Progress toward a bilateral accord had slowed to a crawl before the terrorist attacks on New York and Washington, DC, on September 11, 2001 (9/11), and the negotiations ended soon thereafter. The Bush administration's priorities shifted to security concerns to respond to the terrorist threat.

Bush returned to immigration reform during his re-election campaign in 2004, calling on Congress to change immigration law.⁶¹ The renewed attention foundered on a legislative impasse that has lasted over a decade. Three serious attempts were made to pass a comprehensive law⁶² to permit enhanced immigration enforcement, visa changes to increase legal inflows, and some paths for legalization open to the more than 10 million undocumented immigrants living in the United States.⁶³ No comprehensive immigration reform was enacted during these years, but Congress enacted various laws to build and expand enforcement programs. This process began in earnest in the weeks after 9/11, with the passage of the Patriot Act,⁶⁴ which regarding immigration set limits on judicial review and applied certain laws retroactively. In 2006, Congress enacted the Secure Fence Act,⁶⁵ which authorized construction of an 850-mile fence (expanded the next year by 700 additional miles) along five important segments of the U.S.–Mexico border. As Doris Meissner has noted, “enforcement first” has become de facto the nation’s singular response to illegal immigration.⁶⁶ Figure 2.1 shows the dramatic increase in apprehensions by the DHS’s Immigration and Customs Enforcement (ICE).

The last decade has also seen states and localities taking immigration into their own hands. In 2004, activists in Arizona put Proposition 200 on the ballot to deny public benefits to unauthorized immigrants and require public employees to report anyone suspected of being in the country illegally. Its passage inspired similar legislation across the country, at times supplemented by bans of languages other than English from public documents. In 2007, immigration bills became law in 46 states, including many states with relatively few immigrants, coinciding with the first years of the immigration debate prompted by President Bush. The most far-reaching state-level immigration law was Arizona’s SB 1070, the “Support Our Law Enforcement and Safe Neighborhoods Act,” enacted in 2010. It accorded the police broad power to detain anyone suspected of being in the country illegally who could not produce immigration papers. Its passage set off a domino effect, with 31 states introducing similar legislation in 2011.⁶⁷ The U.S. government filed suit to enjoin SB 1070 on constitutional grounds; the case made its way to the Supreme Court, which upheld the injunction of three of the law’s principal provisions.⁶⁸ The law has not come into effect.⁶⁹ Following the Supreme Court’s ruling on SB 1070, the tide turned. Many states and localities passed more welcoming laws to integrate immigrants into the community and mitigate some of the harsher consequences of immigration enforcement. These laws range

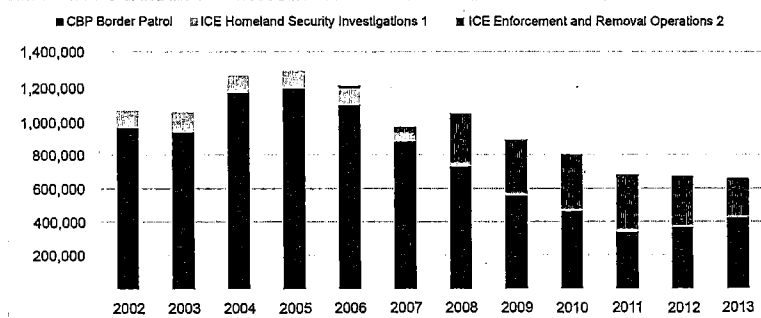


Figure 2.1 Apprehensions, by Program

Source: U.S. Department of Homeland Security, Yearbooks of Immigration Statistics 2011 and 2013, Enforcement Data Tables, Table 35: Aliens Apprehended by Program and Border Patrol Sector, Investigations Special Agent in Charge Jurisdiction, accessed July 17, 2015, www.dhs.gov/yearbook-immigration-statistics.

from providing driver’s licenses and in-state tuition to limiting cooperation with federal immigration authorities.

While this political debate over immigration intensified in the United States, the number of Mexicans crossing into the United States without documentation fell dramatically. Following peaks of 770,000 crossings of undocumented Mexican migrants in 2000 and 670,000 in 2004, the number of estimated crossings began a steady decline that dropped to a low of 140,000 in 2010.⁷⁰ These slowing migration flows, coupled with increasing return flows to Mexico, resulted in an outcome unseen since the 1930s: net zero migration from Mexico.

The recent drop in migration flows from Mexico can be explained by a number of factors. One is the 2007–2008 U.S. financial crisis, which adversely affected the U.S. job market, especially in the construction sector. Undocumented migration is very sensitive to the demand for workers.⁷¹ Figure 2.2 shows the relationship between the annual migration rate from Mexico to the United States and the annual unemployment rate.

The decreasing numbers of Mexican migrants can also be explained by U.S. enforcement actions. Beginning in 2006, U.S. policies targeted undocumented immigrants and their employers within the United States. Both Bush and Obama believed that enhanced internal enforcement was the precondition to make eventual regularization acceptable to Congress. Although they were mistaken in that belief, the budget for enforcement rose precipitously. By fiscal year 2012, spending for immigration enforcement within the Department of Homeland Security had reached almost \$18 billion, nearly 25 percent higher than the budgets for all other federal law enforcement agencies combined (including the FBI, DEA, and Secret

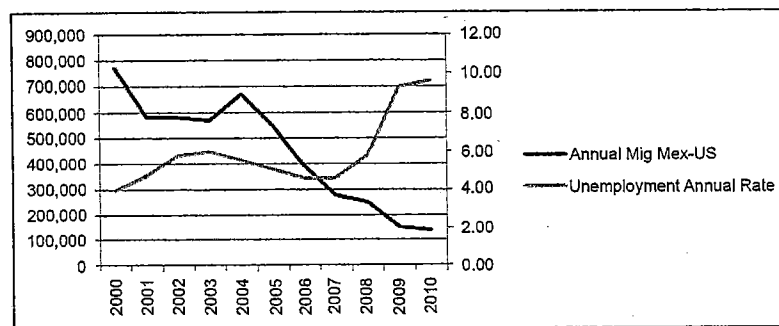


Figure 2.2 Annual Irregular Immigration from Mexico to the United States vs. Unemployment Rate

Source: Information on annual irregular immigration from Mexico to the United States: *Net Migration from Mexico Falls to Zero – and Perhaps Less*, by Jeffrey Passel, D'Vera Cohn, and Ana Gonzalez-Barrera (Pew Hispanic Center, April 2012), Appendix A. Additional Tables and Chart, Appendix Table A2: Annual Immigration from Mexico to the U.S.: 1991–2010, accessed July 17, 2015, www.pewhispanic.org/2012/04/23/appendix-a-additional-tables-and-chart. Information on unemployment rates: U.S. Bureau of Labor Statistics, Annual Averages, Employment status of the civilian noninstitutional population, 1944 to date, accessed July 17, 2015, www.bls.gov/cps/cpsaat01.pdf.

Service) during the same period.⁷² As Figure 2.3 shows, the increased removals were directly correlated with the immigration enforcement budget. Mexicans constituted the bulk of total removals, jumping from around 120,000 in 2002 to 300,000 in 2013.

These measures generated extreme uncertainty about the potential success of crossing the border and then working without detection in the United States. This concern is reflected in Figure 2.4, which shows the declining intention of Mexican migrants to re-enter the United States after deportation.

Improved conditions in key sectors in Mexico, such as employment, health, and education, have led to a lower propensity to migrate and higher rates of voluntary return to Mexico. According to Agustín Escobar et al., this phenomenon has led to a very large increase in the total number of returnees in Mexico.⁷³

The trend in the number of Mexican migrants lawfully entering the United States as permanent residents follows a similar trajectory. In the 1990s, an average of 275,742 persons entered the United States from Mexico every year as lawful permanent immigrants. That annual average fell to 170,417 in the 2000s and to 142,289 in 2010–2012.⁷⁴ This decline is unaffected by border fences, Border Patrol budgets, or other measures that target undocumented migrants. The decline in both undocumented and lawful migration flows from Mexico suggests that something more fundamental is under way.

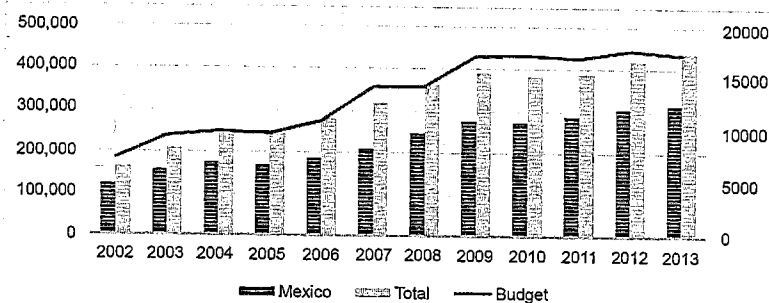


Figure 2.3 Removals and Immigration Enforcement Budget

Source: Information on removals: U.S. Department of Homeland Security, Yearbook of Immigration Statistics: 2013, Enforcement Data Tables, Table 41. Aliens Removed by Criminal Status and Region and Country of Nationality, accessed July 17, 2015, www.dhs.gov/sites/default/files/publications/table41d_1.xls. Information on budget: U.S. Department of Homeland Security, Budget in Brief, Fiscal Years 2003–2014, accessed July 17, 2015, www.dhs.gov/dhs-budget.

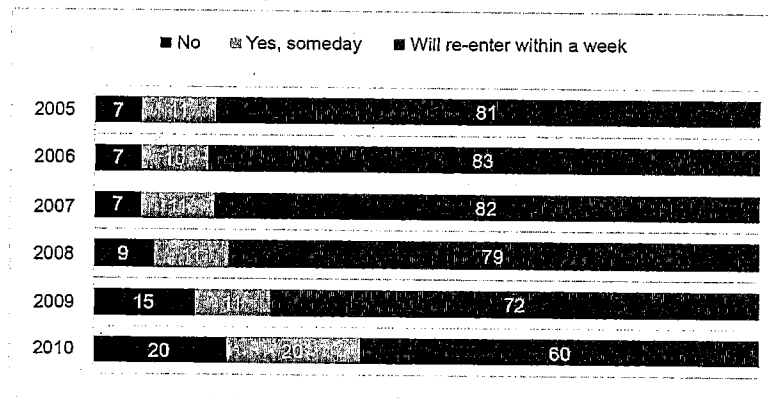


Figure 2.4 Intention to Re-enter the United States after Repatriation

Source: Mexico, El Colegio de la Frontera Norte, Secretaría del Trabajo y Previsión Social, Consejo Nacional de Población, Unidad de Política Migratoria, Secretaría de Relaciones Exteriores, Encuesta sobre Migración en la Frontera Norte de México, accessed November 10, 2015, www.colef.mx/emif.

The single most important long-term explanation for the decline of Mexican migration to the United States is that many fewer Mexicans are being born and, therefore, there are fewer young Mexicans available for emigration or border apprehension. The proportion of Mexican women who used contraceptive methods more than doubled from 30 percent in 1976 to 72 percent in 2009. In 1970, a Mexican woman aged 40–44 had

6.3 children; in 2010, a Mexican woman in the same age cohort had only 2.9 children. The Mexican birth rate fell below 2.1 children in 2007 and has remained below that level. Mexico's overall population growth rate plummeted from 3.4 percent in the 1960s to 1.4 percent in the 2000s. With so many fewer Mexicans, the various other measures and factors noted above simply reinforced, at the margin, this historic demographic shift.⁷⁵

This reduced flow of Mexican immigrants coming to the United States had little impact on the U.S. immigration debate. Even in 2014, 47 percent of Americans believed that the number of immigrants coming to the country illegally had increased over the last five or six years, with 63 percent of Republicans believing illegal immigration had increased as compared with 44 percent of Democrats.⁷⁶

The Mexican government under Presidents Calderón and Peña Nieto deliberately abstained from the U.S. immigration debate. During Obama's visit to Mexico City on May 2, 2013, Peña Nieto stated that immigration was seen by the United States as an internal matter, and Mexico would respect that view.⁷⁷ The result is an even lower level of binational cooperation on immigration than on security, and very far from the sophisticated collaboration regarding NAFTA. Examples of limited binational cooperation on immigration are agreements to facilitate deportations to the interior of Mexico and requests for Mexico's assistance in stemming the flow of Central American migrants to the United States.

Mexico has instead concentrated its efforts on serving the Mexican diaspora through programs that have become increasingly sophisticated and widespread. There are approximately 11.6 million Mexican-born residents in the United States, representing 28 percent of the 41.3 million foreign-born U.S. population.⁷⁸ The Mexican consular network in the United States is the world's largest, consisting of 50 consulates throughout the country, supplemented with mobile services. Soon after the events of 9/11, the consulates pioneered the use of *Matrículas Consulares*, or consular registration cards, to respond to the need for secure identification cards. The consulates also assist youth wishing to apply for DACA, providing information regarding eligibility and identifying the necessary documentation to apply for it. The documents for DACA application all required some form of consular assistance; consulates have stayed open overtime and on weekends to meet the demand. The Mexican Foreign Affairs Ministry (*Secretaría de Relaciones Exteriores* – SRE) has instituted plans for cooperation between the consulates and various agencies of the federal and state governments in Mexico. These plans call for Mexico's 32 state civil registries to issue birth certificates, the Education Ministry (*Secretaría de Educación Pública* – SEP) to issue school certificates, and the Defense Ministry (*Secretaría de Defensa Nacional* – SEDENA) to issue military service cards. The result has been over half a million young beneficiaries.

Conclusions

This chapter demonstrates the intensity and complexity of bilateral relationships. We first showed how international factors (terrorism, war, worldwide financial crisis) were especially salient during this century's first decade but much less so during the century's second decade. The Calderón, Peña Nieto, and Obama presidencies were more constrained by domestic challenges in their respective countries and by the salience of transnational factors (migration, criminal violence, drug trafficking) over which they could exercise very limited policy control. We further demonstrated that bilateral relations are handled far more effectively where there are well-established institutions and procedures (NAFTA) than where such institutions are lacking and unilateralism reigns.

At one end, NAFTA institutions and procedures fostered sustained bilateral cooperation and featured sophisticated conflict management regarding trade and investment. At the other end, with regard to the immigration issue area, there are no bilateral institutions, not even any mechanisms for bilateral consultation, and hence no bilateral cooperation. Washington acts unilaterally, and both the Calderón and Peña Nieto administrations refrained explicitly from attempting to participate in the immigration debate beyond providing the traditional consular protection to Mexican citizens who reside in the United States.

The institutionalization of the security issue area lies between NAFTA and migration. With regard to security, bilateral institutions, never strong, weakened in the century's early years. The Mérida Initiative is not yet a mature binational partnership but it may so develop. We identify four obstacles to cooperation over security. First, security objectives are not aligned; for Washington, drug interdiction and the dismantling of the principal drug organizations remains the key objective, whereas Mexico's government is more concerned with how violence and insecurity affects Mexicans. Second, the existing institutional architecture and bilateral mechanisms to address security challenges are woefully underdeveloped. Third, corruption is pervasive on these matters in both countries. Fourth, constant U.S. complaints regarding the Mexican military's human rights violations reduce the military's willingness to cooperate with U.S. counterparts. Respect for human rights is part of global, bilateral, and national commitments, yet the Mexican government has little room to maneuver because it has placed the army, an institution trained for war not for public safety, at the center of the offensive against the DTOs.

We also show that domestic politics and unilateral decisions in each country affect the neighboring country and bilateral relations. President Peña Nieto's energy sector reform, for example, created the prospects for bilateral energy cooperation, unthinkable a few years ago. President Calderón's unprecedented offensive against criminal organizations and drug traffickers led to the creation of the Mérida Initiative, which increased

both cooperation and frictions in bilateral relations. And in the United States, deep domestic polarization regarding the immigration issue and a focus on punitive law enforcement had an adverse impact on the Mexican migrant community and on perceptions regarding the United States in Mexico. These three examples illustrate what various authors have called the interstemic⁷⁹ nature of U.S.–Mexican relations – that is, the intense interdependence between the two countries and the subsequent conflation of their domestic and international politics, economies, and societies.

Mexico and the United States are joined at the hip. Cooperation between the two countries best serves their interests, their peoples, and the relations between them.

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