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Recommendations for a New Administration: Safeguarding Progress with Mexico

By Duncan Wood | December 10, 2012

When Enrique Peña Nieto took office as president of Mexico on December 1, he already had a list of priority issues, a few of which he had briefly discussed with his U.S. counterpart on a last-minute visit to Washington on November 27. But lists and priorities must be understood in the context of the relationship that already exists, the successes and failures of the past 6 to 12 years, and the economic and security concerns of both partners.

More importantly, the intensity of the bilateral relationship, the high level of trade and investment flows, and the cultural and political interdependence between the two countries means that we will not see a dramatic departure from what we have seen in recent times. Over the past two decades, the countries have become true partners, and the depth of this partnership will in

many ways guide the way forward. From the Mexican perspective, the election of a president from the formerly hegemonic *Partido Revolucionario Institucional* (PRI) after 12 years of government by the *Partido Accion Nacional* (PAN) signals a change in style rather than substance.

Of course the new government arrives with its own priorities for the U.S.-Mexico relationship, and it is essential that the follow-on Obama administration recognizes them. During the presidential campaign in Mexico, the PRI made repeated statements calling for a new focus in the bilateral relationship, one that emphasizes the positive elements of cooperation rather than just Mexico's serious security problems. Moreover, Mexico's new president has a number of domestic policy priorities that are of immediate

interest to the United States, which will provide useful opportunities for engagement. Based on these, one might identify a number of areas for bilateral cooperation:

- Continue assistance to and cooperation with Mexico on security issues through the Mérida Initiative or a similar arrangement. Cooperation on security, in particular intelligence sharing, has the potential to become the backbone of the relationship in the years to come and has already brought a deeper and closer understanding on both sides of the border.
- Continue to support the slow but steady move toward modernization of the energy sector, focusing on the issues of energy security, a diverse energy matrix, and boosting Mexican oil and gas production. This will require continued sensitivity to Mexican concerns over sovereignty and privatization, but technical assistance and public education will be key components.
- Intensify investment at the border to bring about smoother, more secure cross-border traffic. The best way to ensure this would be to continue to work toward smart borders that allow for pre-screening and fast-pass lanes.

Security

It is in this area that the most dramatic progress has been seen in the bilateral relationship over the past six years. The decision by President Felipe Calderón to launch a multidimensional attack on drug trafficking organizations (DTOs) in Mexico in 2006 began a six-year war that has claimed over 55,000 lives (although the government has long since stopped releasing official estimates). Support from the U.S. government, institutionalized in the signing of the Mérida Initiative in October 2007, has been impressive, with appropriations totaling more than \$1.6 billion and involving the transfer of equipment, training, and intelligence sharing.

While true that the Mexican government has complained that delivery of aid from the United States has been slow, the true significance of Mérida lies not in the amount or



kind of aid received, but rather in the intense cooperation that has developed between both governments and their security agencies. A central goal of the Mérida Initiative has been to develop a “shared security vision” that has been greatly aided by the creation of a bilateral implementation group that meets regularly to discuss progress, challenges, and future advances.

This institutionalization of the security relationship has been matched by increasingly close ties between personnel from both countries. The opening, in August 2010, of a bilateral implementation office in Mexico City allows for ongoing daily interaction between technical staffers. The sharing of intelligence information, though seen as highly problematical at first and requiring a leap of faith by both sides, is becoming the heart of the security relationship and is resulting in advances in mutual trust and respect.

This is of particular importance when we think about the future of the battle against the DTOs. It is clear that there will be a change in the way in which the Mexican government attacks the problem. Calderón’s confrontational approach has brought a high cost to the daily life of citizens in large areas of the country, and it has brought calls for an alternative approach to dealing with the drug problem. President-elect Peña Nieto has pledged that he will seek to replace the troops on the streets of Mexican cities with a new federal paramilitary force or gendarmerie, but this change will take time, and the armed forces are likely to continue to lead the fight against DTOs for the next three years. At the same time, however, one should expect that



there will be less emphasis on direct confrontation and more on intelligence gathering and sharing and on non-violent means such as attacking money laundering. The United States should be prepared to advance cooperation in these areas and encourage swifter action to strengthen Mexico's weak justice system.

The Economy and Energy

Despite disappointing growth figures over the past decade, Mexico currently presents itself as one of the most attractive emerging markets for international investors. With an estimated GDP growth rate of 3.5 to 4 percent, Mexico has recently surpassed Brazil as the main focus for economic optimism in Latin America and is well placed to continue that trajectory. The fact that the two countries not only trade with each other, but make things together, has led to a high level of interdependence between the production chains in Mexico and the United States (and, of course, Canada), and this is a continuing source of strength for NAFTA partners.

Still, one of the reasons behind Mexico's recent lackluster economic performance has been its failure to implement the structural reforms needed to bring about higher levels of growth. Of primary importance here is the area of energy policy. The decline of oil production and reserves, and the multiple financial and administrative challenges facing Pemex, were not adequately addressed by the Calderón government and are now a priority area for the new PRI administration. If the new Congress that took over in September 2012 could pass a significant energy reform that allows more private investment in the oil sec-

tor and frees up Pemex to work with private firms, there will be important new opportunities for U.S. energy firms. Continuing to engage with Mexican authorities and civil society over the question of effective energy policy, while at the same time respecting Mexican sensitivities, should be a priority for the new U.S. government.

Beyond oil, the energy sector in Mexico would also benefit from close cooperation with U.S. partners in the areas of shale gas development and the construction of a modern and adequate transborder gas pipeline network to bring natural gas to market. Integrated North American production stands to benefit from historically low energy prices thanks to the shale gas revolution—but only if that gas can find its way to the industrial consumers and electricity generators that currently lack access. Investing in and coordinating policy on such regional energy infrastructure must be a theme for bilateral relations.

Transborder Enhancements

Questions of infrastructure do not, however, end with energy. Further investments in transportation and logistical infrastructure are desperately needed to make the North American economy more agile, responsive, and efficient. Mexico offers the prospect of new deep-water ports that could relieve much of the pressure on U.S. ports such as Long Beach and significantly increase the capacity for trade with Asia. In terms of linking production centers in the region, more investment is needed in developing NAFTA highways and the capacity for multimodal transport networks. Far too many goods are delayed at



the border because of a lack of border infrastructure, and this should be an obvious policy goal for both new administrations.

Lastly, it would be neglectful to ignore the question of migration. Although the last few years have seen dramatically reduced numbers of undocumented workers from Mexico, and with reverse migration picking up significantly since the onset of the economic crisis in 2008, the system is still broken. A prolonged period of economic and employment growth in the United States, particularly in the construction industry, will surely bring a new wave of Mexican migrants seeking work. At the border itself the joint questions of controls and migrant safety must be addressed, and the United States must work alongside Mexico to devise a system for labor mobility in North America, while supporting Mexico in its efforts to improve job opportunities south of the border.

Conclusions

Mexico's current political environment offers better probabilities of real legislative progress than at any point since the mid-1990s. With the governing PRI party close to a majority in the legislature, and with a policy program that is similar to that of the outgoing PAN administration, there is the chance for even more fruitful cooperation. Although the U.S. Congress may not offer the same optimistic outlook, the U.S. administration should seize this opportunity to work with the new PRI government to encourage constructive change.

Duncan Wood is director of the Mexico Institute at the Woodrow Wilson Center for Scholars and a professor at the Instituto Tecnológico Autónomo de México (ITAM) in Mexico City.

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