

# Challenges for a Postelection Mexico

Issues for U.S. Policy

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## FOREWORD

Mexico took center stage in American politics in 2006 with the debate over immigration. Precisely during this time of heated tensions and sensitivities on both sides of the border, the Mexican people went to the polls to participate in what was to become a controversial and bitterly fought presidential election. Mexico's president-elect, Felipe Calderón, will face great difficulties at home, in the bilateral relationship with the United States, and in navigating the global economy. The United States has a stake in Mexico meeting these challenges, something that calls for imaginative American policies vis-à-vis immigration, border security, and the economic competitiveness of Mexico and North America.

This Council Special Report by Pamela K. Starr details the economic and political choices awaiting the new Mexican president and offers concrete policy recommendations to the U.S. government on how to help Mexico deal with its challenges and, in the process, help itself.

*Richard N. Haass*  
President  
Council on Foreign Relations  
November 2006



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*Pamela K. Starr*



# MAP



Source: [www.nationalgeographic.com/xpeditions/atlas/index.html?Parent=mexico](http://www.nationalgeographic.com/xpeditions/atlas/index.html?Parent=mexico).



# COUNCIL SPECIAL REPORT



## A DEFINING ELECTION

After two decades of profound yet incomplete economic and political reforms, Mexico stands at a crossroads. Its economy is now one of the most open to international trade and capital flows among emerging markets, in stark contrast to the insular development model on which Mexico relied for more than half a century. Mexico also carried out a transition to democratic politics during the last decade, after seventy-one years under single-party, authoritarian rule. Many commentators heralded the 2000 election of an opposition leader to the presidency as the capstone of this process, but it was only one important step in a long, gradual transition. President Vicente Fox promised additional steps that would consolidate previous economic and political advances and place the country on an irreversible path to becoming a fully competitive market democracy. The last six years in Mexico have been characterized instead by political stalemate, leaving an unfinished agenda of structural change that is essential for long-term economic growth, job creation, and the deepening of democratic practices.

Felipe Calderón Hinojosa, the victor in Mexico's July 2, 2006, presidential election as the candidate of the National Action Party (PAN), faces many of the same domestic policy challenges as his predecessor—fiscal dependence on volatile petroleum revenues, enormous pension liabilities expanding with Mexico's aging population, insufficient investment capital in the energy sector, declining global competitiveness, weak job creation and growth, corruption, inadequate rule of law, and increasing crime and violence. The narrow margin and contentious quality of Calderón's victory also make electoral reform and expanded investment in poverty alleviation necessary for effective governance and political stability. How these problems are addressed during President Calderón's six-year tenure will determine Mexico's economic and political course well into the future.

The stakes for the United States during Calderón's presidency are large as well. Finding a solution to the immigration question inevitably involves Mexico. A politically and economically stable Mexico is necessary to manage the flow of Mexicans into the United States, coordinate binational efforts to fight drug trafficking, and resolve a long

list of border issues. A stable Mexico plays an important role in fostering U.S. national security. And a stable and prosperous Mexico can contribute significantly to U.S. efforts to ensure its energy supplies and to enhance the global competitiveness of important sectors in the U.S. economy.<sup>1</sup> The United States has also come to rely on Mexico as an important ally in trying to secure a hemispheric free trade agreement and mitigating the efforts of Venezuelan President Hugo Chávez to build an anti-U.S. block of Latin American states. Felipe Calderón's December 1, 2006, inauguration will create an opportunity for the United States to reengage its southern neighbor and will therefore place Mexico squarely at the center of both the U.S. domestic and foreign policy agendas.

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<sup>1</sup> For analysis and recommendations about Mexico's relationship with the United States and Canada, see *Building a North American Community, Report of an Independent Task Force* (New York: Council on Foreign Relations, 2005), available at [www.cfr.org/publication/8102/building\\_a\\_north\\_american\\_community.html](http://www.cfr.org/publication/8102/building_a_north_american_community.html).

## RECENT MEXICAN POLITICS

Unlike most other transitions from authoritarian politics and statist economies at the end of the last century, the Mexican reform process was orderly, peaceful, and incremental, albeit punctuated by significant leaps forward. This evolution helped alleviate the inevitable dislocations associated with profound political and economic change, and, as such, was a great achievement. But Mexico's slow-motion transition to democracy and its guarded approach to market liberalization and to a closer relationship with the United States came at a price. Gradual change has often meant incomplete change, leaving a legacy of institutional obstacles to future policy advances.

In the political realm, Mexico's incremental transition comes from the remarkable ability of its long-standing authoritarian political regime to adjust its institutional structure in order to sustain political legitimacy. The origins of Mexico's transition date to the electoral reforms of the 1960s and 1970s. These changes increased opposition representation in the national Congress in a successful effort to lessen popular discontent with the government's violent response to the 1968 student protests. The 1980s brought additional steps designed to blunt the advance of opposition forces during a deep economic crisis, making it possible for the first opposition politician to be elected governor and for the Institutional Revolutionary Party (PRI) to lose its historic dominance in the national legislature. Unable to force legislation through a Congress that was no longer fully dominated by the PRI, Presidents Carlos Salinas (1988–94) and Ernesto Zedillo (1994–2000) negotiated policy concessions with the political opposition in exchange for congressional approval of their high-priority economic reforms. The opposition's price was a series of electoral reforms that ultimately produced Mexico's internationally respected independent election authority, the Federal Election Institute (IFE). That enabled the election of an opposition majority in the lower house of Congress in 1997, followed by an opposition president in 2000.

The euphoria that surrounded Fox's seemingly improbable election victory belied the history of incremental change that had facilitated this outcome. The powerful image of an opposition politician taking control of Mexico's traditionally all-powerful

presidency generated the misperception among many Mexicans and foreign observers that Mexico's transition to democracy was now complete. The Fox administration inadvertently reinforced this misperception with its governing style. Undoubtedly one of Mexico's most important democratic advances under Fox was the conscious effort that the president and his cabinet made to avoid the "hyperpresidentialism" that had characterized governance in Mexico for decades. This new model of presidential leadership was essential to solidifying the democratic potential inherent in the 2000 election victory of an opposition president. Yet it also obscured a political culture that had developed under an authoritarian order and concealed the need for more fundamental changes in Mexico's political institutions. Mexico's political transition therefore remains incomplete and vulnerable to stalemates and potential setbacks.

Mexico's approach to liberalizing the economy was equally guarded and incremental, but punctuated by striking advances and spectacular reversals. The mid-1980s decision to open up to international trade was sudden and traumatic, especially for small- and medium-sized firms unable to modernize their production fast enough to survive. Success was due to the government's ability to sell the measure as the only way to alleviate a greater economic evil—rampant inflation. Privatization and deregulation, however, proceeded in a much more measured way because of strong opposition from within the ruling party. Some of these politicians feared the weakening of the clientelist or patronage foundations of their political power produced by state participation in the economy. Others firmly believed that market openings would benefit only the wealthiest Mexicans while harming the well-being of the majority. Some of these ideologically motivated politicians publicly abandoned the ruling party in 1987 over this issue and formed a new political movement that nearly defeated the PRI in the 1988 presidential election. Given this polarization of opinion within the Mexican political elite, the resulting mix of economic reforms was not designed to reduce state involvement in the economy as an end in itself, but only to go just far enough to regain private sector confidence in the state's ability to manage the national economy and to rebuild the collaboration between private investors and the state that underwrote the Mexican economic miracle of the 1950s and 1960s (albeit now with a much smaller state sector than in the past). This truncated process left about 10 percent of the Mexican economy in

state hands and produced a costly maze of regulatory obstacles for private firms without improving market efficiency.

As investment capital returned to Mexico, encouraged in part by the North American Free Trade Agreement (NAFTA), which institutionalized Mexico's opening to the international economy, Mexico's political leaders lauded the resulting spurt in economic growth as clear evidence of the success of their market-based strategy. Unfortunately, many Mexicans blamed the ensuing collapse of the peso in 1994–95 and its associated economic crisis on the very same economic strategy. A 7 percent drop in economic activity in 1995, an increase in unemployment, and the spectacular and costly failures of the recently privatized banking and highway systems soured Mexicans on privatization and reinforced the position of politicians who opposed the neoliberal economic model. When the opposition took control of the Congress in the 1997 midterm elections, economic reform ground to a halt, leaving behind a broad array of structural weaknesses in the Mexican economy that today threaten the country's capacity to generate growth and jobs.

Mexico's transition in the 1980s and 1990s also affected its foreign policy, specifically its relationship with the United States. The process by which Mexico transformed its foreign policy mirrored its economic transition—striking policy shifts that reshaped important elements of Mexican foreign policy coupled with a reticence to go further because of domestic doubts. Before the 1990s, Mexican foreign policy was based on broad principles—self-determination, nonintervention, and the peaceful resolution of disputes—rather than specific national interests. This policy focus made pragmatic sense for a country that lacked the capacity to stop great powers from meddling in its internal affairs. It also was feasible because Mexico's insular model of economic development created very few economic interests that needed protection in the international arena. The opening of the Mexican economy to international trade, however, created Mexican national interests that could be protected only by engaging the international community, including the needs to ensure access to markets and to protect domestic producers from unfair competition. Since the vast majority of Mexico's international economic interactions involved the United States, foreign policy innovations focused on its relationship with the United States.

In less than five years during the Salinas administration, U.S.-Mexico relations rapidly evolved from a long history of suspicion and conflict coupled with neglect and behind-the-scenes cooperation to open engagement and active collaboration. This transformation was driven by Mexico's interest in a trade treaty with the United States, but the close collaboration that developed during the NAFTA negotiations spilled over into other areas of the bilateral relationship—migration, counter-narcotics, and security. The deepening of these bilateral ties, however, was hindered by domestic opposition in Mexico and the 1994–95 economic crisis. Important segments of the Mexican populace were never comfortable with this new foreign policy focus. Many in the political and intellectual elite, the media, and the urban middle class believed this institutionalization of Mexico's dependence on the United States was a mistake. NAFTA's role as the symbol of the new U.S.-Mexico relationship and its association with Mexico's broader economic opening also made the country vulnerable in the aftermath of the 1995 economic crisis. The crisis weakened the president, forcing him to choose his political battles carefully. Although President Zedillo solidified the bilateral cooperation established by his predecessor, he downplayed the significance of these cross-border ties and did little to promote their expansion or formal institutionalization.

#### MEXICO SINCE 2000

By the 2000 presidential election, Mexico's political, economic, and foreign policy transitions of the 1980s and 1990s had already shifted out of high gear. The victory of Vicente Fox, a pro-market, pro-United States, opposition leader, created enormous expectations in Mexico and abroad that the country would reignite the stalled reform process. To be sure, Mexico has scored significant advances in the past six years. The election of an opposition president who encouraged respect for the legislature, judiciary, and state governors greatly advanced the gradual transformation of Mexico's constitutional separation of powers and federal political order. Political accountability also increased markedly. Congressional approval of a transparency law opened many government activities to public scrutiny, and the solidification of a free press created an

actor willing to exploit the transparency law to publicize questionable practices of the federal executive. Mexico also reinforced its operational cooperation with the United States on security matters, in the fight against illegal drug trafficking, and on a long list of border issues affecting both countries.

On the economic front, the Fox administration reinforced and institutionalized the responsible fiscal policies initiated by its predecessor. Inflation fell below 5 percent in 2001 for the first time in a generation, and it remained below 6 percent over the next four years. Sophisticated management of the country's foreign debt further promoted exchange-rate stability. The federal government's primary budget deficit remained on a downward trajectory, reaching an effective balance in the 2006 budget. This progress enabled the approval of a new budget law that created legal obstacles to running budget deficits in the future and, equally important, institutionalized the budgetary approval process. Mexico also expanded its internationally respected antipoverty program, Progresa/Oportunidades, which helped to reduce poverty in Mexico from 54 percent to 47 percent and to cut extreme poverty from 24 percent to 17 percent (2000–2004). In addition, the federal government encouraged private investment that enabled increased production in the electricity sector.

Despite these real advances, the achievements of Mexico's first democratically elected opposition government in nearly a century fell short of the profound political and economic changes that Fox promised. While the elimination of "hyperpresidentialism" was a fundamental prerequisite for the democratization of Mexican politics, solidifying that achievement depended on eliminating the country's remaining authoritarian enclaves; building institutional capacity in the national legislature, judiciary, and state governments; increasing politicians' responsibility to the electorate; and strengthening the rule of law. Although the transparency law was an important step, the effectiveness and accountability of democratic governance in the future arguably require additional steps, such as consecutively reelecting mayors and legislators, ending union control over positions in the federal bureaucracy, guaranteeing free and fair elections in Mexico's states and municipalities, and reducing drug-related crime and violence that prevent many citizens from freely expressing their political preferences.

Furthermore, recent political missteps by President Fox and public relations mistakes by the IFE sharply undercut the legitimacy of Mexico's electoral institutions in the eyes of nearly a third of the electorate. Fox's 2005 effort to impeach Mexico City Mayor and presidential hopeful Andrés Manuel López Obrador, coupled with his 2006 decision to skirt the margins of Mexican law in order to promote Calderón's candidacy, gave the impression that Fox would do anything to prevent the left-leaning López Obrador, leader of the Democratic Revolutionary Party (PRD), from reaching the presidency. The IFE's poor handling of the information flow surrounding the vote count fed into the left's ingrained mistrust of electoral institutions and thereby helped to foster the perception of electoral irregularities. For a left that was excluded from representation on the IFE Council and had been the historic victim of electoral fraud, these events led to the predictable conclusion that Vicente Fox and the IFE had colluded to illegitimately ensure Calderón's victory. The July presidential election thus dealt a reversal to Mexican democracy, despite being one of the cleanest elections in Mexican history. As a result, President Calderón now faces the additional challenge of reinforcing the legitimacy of Mexico's electoral institutions.

In the economic realm, the Fox administration deepened and institutionalized previous policy advances rather than adopting additional measures to ensure future growth and democratic stability. Consequently, the competitiveness of the Mexican economy has fallen steadily over the past six years. (In 2003, Mexico surrendered its position as the number two exporter to the United States to China.) The country is still unable to generate more than a fraction of the formal sector jobs needed to absorb new entrants into the job market. The underlying causes of these economic problems are weak investment in human and capital infrastructure and inefficiencies in the country's energy and labor sectors. Mexico has not yet implemented fiscal reform to increase tax collection, which remains one of the lowest rates in the Western Hemisphere, at 11 percent of gross domestic product (GDP). Such a move could generate the funds urgently needed to finance investments in human and capital infrastructure while reducing the government's dependence on volatile petroleum revenues. The country has also failed to undertake changes to the national petroleum company, Pemex, in which declining production and a profound shortage of investment capital threaten the economic viability

of a firm that generates a quarter of Mexican exports. Finally, Mexican labor law has not been revised to allow for the increased flexibility characteristic of modern labor markets and to encourage union democracy and transparency in order to eliminate the traditional practice of Mexican union leaders enriching themselves at the expense of workers and economic efficiency. The pension liabilities of the Mexican government, meanwhile, are already greater than the country's GDP and growing rapidly.

President Calderón will inherit this pending political and economic agenda. The lack of progress during the past six years is not due to a poor understanding of the nature or depth of these problems. The Fox administration came into office on December 1, 2000, promising to deepen democratic practices and implement far-reaching changes in fiscal, energy, and labor policy. Since then, the political debate in Mexico has revolved around what kind of reforms would be best and how to carry them out, not whether they are required. As the 2006 presidential election made clear, Mexicans are sharply divided over the balance of state versus market forces that should define these reforms; however, economic policy paralysis over the last six years was not the inevitable outcome for three reasons. First, working with the political opposition to find a compromise is a challenge inherent to the democratic policymaking process. Second, Fox has been a very popular president throughout his term, which in part reflects Mexicans' traditional respect for the presidency, but is also due to popular affection for the man who defeated the PRI and brought democracy to Mexico. Third, the economic policy debate is no longer split between those who favor an almost exclusively market-based solution and those who prefer state direction of the economy. Over the past twenty years, the state versus market debate has gradually shifted to the political center, and today's disagreement is over the appropriate proportions of each. This moderation should have made designing and implementing policy measures easier at the outset of the twenty-first century than in the past. Instead, the Mexican executive was stymied.

The main culprit was a series of factors that undermined governability throughout the Fox administration. Understanding the nature of these obstacles, and particularly the balance between the structural and the more transitory barriers to effective governance, is essential to determining their probable long-term consequences. As the last six years have demonstrated, it is not sufficient to propose viable technical fixes to Mexico's political

and economic problems; converting proposals into policy requires the political capacity to act. The impact of the 2006 elections on Mexico and U.S.-Mexico relations, therefore, depends heavily on the policymaking climate that will greet Calderón, how it interacts with his particular policy preferences and political skills, and his consequent ability to deal with Mexico's pending reform agenda. In such complicated circumstances, achieving progress on any number of issues will be a delicate, difficult task.

## OBSTACLES TO GOVERNANCE IN MEXICO

Mexico's policymaking environment is characterized by structural obstacles to the formation, approval, and implementation of public policy. Though the country is culturally accustomed to a strong president, the legislative powers of the Mexican presidency are actually quite limited. The authoritarian powers traditionally associated with this office were the consequence of a political monopoly rather than the Mexican constitution. For decades, the PRI managed to control every level and branch of government. The hierarchical structure and discipline that characterized the PRI's internal operations ensured that party members followed the dictates of the president instead of responding to the needs of constituents or fulfilling the constitutional mandate of the political institution they populated. Repeated economic crises from the mid-1970s to the mid-1990s coupled with increasing education and urbanization, however, undermined the PRI's political monopoly. The election of an opposition-dominated Congress in 1997 and of an opposition president from a minority party in 2000 eliminated the enormous extra-constitutional powers of the Mexican presidency. The policymaking prowess of Mexico's democratic presidents is constrained as never before by constitutional limits to the office's political authority.

The Mexican Constitution, not unlike the U.S. Constitution, establishes a separation of powers among the executive branch, a two-house national legislature, and the judiciary. It also creates a federal system of governance that gives states and municipalities significant governing authority. Thanks to executive authority over a national bureaucracy with weak civil service laws, limits on presidential power are balanced by broad influence over policy design and implementation. The president also has the ability to veto all or part of most legislation. The president's ability to push his preferred policy agenda through the Mexican Congress, however, is constrained by a series of structural obstacles to forming a legislative majority. Voter preferences and election law in Mexico have divided seats in the national legislature among three large and several minor parties, preventing any single party from holding a majority since 1997. The challenge of constructing a majority is further complicated by the relative

unity and discipline that has traditionally characterized these parties, and the deep programmatic differences and personal enmities that separate them. The president also must deal with the governors' influence over their states' representatives in the national Congress, numerous legislators representing the interests of labor unions, and the political sway of the country's highly concentrated business interests.

This combination of obstacles to the formation of a cross-party congressional majority supporting presidential initiatives was reinforced by the contentious nature of the 2006 presidential election. The Mexican left refused to recognize the legitimacy of Calderón's victory and blockaded the main streets running through downtown Mexico City for eight weeks in an unsuccessful effort to overturn this result. The left has promised to use its power in the legislature, where it controls nearly one-third of the seats, and its proven ability to mobilize union supporters and activists on the street to block Calderón's market-based economic agenda. This decision makes legislative support from the PRI necessary for the formation of a congressional majority, something the PRI hopes to exploit to win large concessions from the Calderón government. The stunning defeat of Mexico's former ruling party in the 2006 election (the PRI lost half of its seats in Congress), however, has left its membership without a shared agenda or clear interlocutors for the Calderón team.

But this does not mean that President Calderón is destined to experience the same executive-legislative conflict and economic policy stalemate that characterized the Fox administration. Governing Mexico was particularly difficult following the election of the country's first opposition president because of an additional set of conditions associated with this early phase of Mexico's democratic transition. After over seventy years of single-party rule, Mexican political parties and politicians required time to adjust to the new rules of democratic politics. The concepts of a loyal opposition, a governing party institutionally independent from the president, the give and take of political negotiations, and even governing with a majority were foreign to most Mexicans until very recently. Furthermore, in a transitional democracy, the precise division of powers among the different branches of government is not clearly defined. Since 2001, Mexican legislators and governors have jealously guarded and even fought to expand their newly acquired policymaking role, often at the expense of governability.

The institutional suspicions that have hindered policy cooperation during the past six years have diminished with time, however. Rulings by Mexico's newly autonomous Supreme Court have shown its ability and willingness to prevent the presidency from reviving its historic dominance over the Congress and the states. The passage of time has also provided a shallow but important well of experience with democratic politics that has softened some of the authoritarian tendencies in Mexican political culture. And the strategic mistakes of the Fox administration have provided practical lessons about governing Mexico democratically that Calderón and his team have clearly internalized. President Calderón's ability to govern Mexico effectively will also benefit from his party's control of 41 percent of the seats in the legislature as well as some programmatic commonalities with other parties and politicians. Although he will not be able to form a permanent governing coalition, his party should be able to create legislative majorities on noncontroversial proposals and on an issue-by-issue basis.

Felipe Calderón will govern a country characterized by a divided Congress representing a divided populace; political parties separated by profound programmatic, ideological, and personal disputes; a disgruntled, organized, and highly motivated left; a leaderless and unreformed PRI; governors struggling to expand their still limited autonomy; and unions and business leaders working to preserve their traditional privileges. The task of transforming this political raw material into substantive policy advances will not be easy for President Calderón, but it will not be impossible. Mexico is unlikely to experience another spurt of dramatic policy reform over the next six years, but neither is it apt to fall into economic crisis or backslide on democracy.

## IMPLICATIONS FOR THE UNITED STATES

### LASTING PARTNERSHIP AT A SAFE DISTANCE

Foremost in the minds of U.S. policymakers is the question of how the outcome of the 2006 election in Mexico will affect the bilateral relationship across the shared and complicated 2,000-mile border. The Fox administration took advantage of the executive branch's broad authority over foreign policy to push an activist international agenda designed to promote specific Mexican national interests. For the first time in its history, Mexico requested a seat on the UN Security Council, reinforced its support for human rights and democracy in Latin America, and actively pursued a very close relationship with the United States with migration policy as its centerpiece. This far-reaching change in Mexican foreign policy ran into four obstacles: the reticence of the Mexican public; the outright opposition of many Mexican politicians and opinion makers wedded to the country's traditional approach to foreign policy; U.S. domestic politics; and the war in Iraq.

The first two obstacles made this new foreign policy approach controversial within Mexico, pressuring the Fox administration to deliver results to justify moving closer to the United States. The realities of U.S. domestic politics, however, made it difficult to achieve tangible progress on the cross-border issues that dominated the bilateral agenda. This reality was particularly evident in the search for a bilateral migration agreement, especially in the wake of the terrorist attacks of September 11, 2001. Then the Iraq war unexpectedly placed the Mexican government in an unfortunate and difficult policy position. As a member of the UN Security Council, the Fox administration had to choose between inflaming domestic public opinion by voting with the United States for war or voting against the resolution and angering the United States. Once it was clear that the resolution calling for war could not pass, however, the United States withdrew it from consideration, freeing the Mexican government from this difficult choice. Nevertheless, the Mexican foreign minister publicly announced that Mexico would have voted against it in any event. This announcement infuriated the U.S.

government and placed a chill over the entire bilateral relationship. (President George W. Bush refused to return the Mexican president's phone call for several days and avoided meeting with him in private for five months.)

Instead of moving toward an accord that would have secured migration flows for many years to come, Mexico faced a rise in restrictionist sentiments in the United States that eventually reached Congress in 2005 and 2006, leaving many Mexicans feeling enormously disappointed and disrespected. At the end of the day, each country felt let down by the other. The sobering nature of these experiences will likely lead Calderón to move the country away from Fox's tight embrace of the United States and rekindle Mexican efforts to build ties with the rest of Latin America.

This does not mean, however, that Mexico will become hostile to the United States, embrace the Latin American left, or end its participation in international institutions. Mexico realizes that its future is inevitably intertwined with its northern neighbor. Mexico obtains two-thirds of capital flows into the country and virtually all of its \$20 billion to \$25 billion in annual migrant remittances from the United States. It also sends nearly 90 percent of its exports to the United States, and more than 80 percent of tourists visiting Mexico are Americans. Mexico cannot afford a profound alienation from the United States. The Mexican population is also largely supportive of a warm relationship with the United States.

Indeed, behind the scenes the relationship has become increasingly institutionalized and stable. The NAFTA dispute resolution mechanism (as well as the World Trade Organization [WTO]) provides a formal framework for resolving trade conflicts, and cooperation on security matters and efforts to combat drug trafficking are increasingly close and institutionalized. Regardless of who occupies the Mexican presidency, Mexican national interests would be poorly served by closer ties to Latin America's radical left. Most Mexicans understand that such a policy would be of little practical advantage, especially given the damage it would cause to Mexico's all-important relationship with the United States.

## A CALDERÓN FOREIGN POLICY

Felipe Calderón will bring a change in tone to Mexican foreign policy rather than a marked change in content. He will continue to prioritize national interests over policy principles; promote international trade, democracy, and human rights; and participate actively in international institutions such as the UN Security Council. But Calderón also promises a return to a Zedillo-like preference for close cooperation with the United States, but without a warm public embrace. This will be coupled with efforts to renew Mexico's historic relationship with its cultural cousins in Latin America. Calderón will work to reestablish diplomatic ties with Cuba and Latin America's radical left after several years of estranged relations under Fox, although Calderón is unlikely to have much success in the case of Venezuela. He will actively court Latin America's moderate left as part of a broader effort to place the region squarely back on the Mexican foreign policy agenda and thereby move Mexico back into its historic position in the hemisphere—with one foot in North America and another in Latin America. President-elect Calderón's decision to tour Latin America as his first foreign trip was designed to signal this policy shift, a shift that also delivers domestic policy dividends since his strongest opposition is arrayed to his political left. Finally, just as the United States will not be the centerpiece of his foreign policy, foreign policy will not be the centerpiece of Calderón's presidency. Given the enormous domestic challenges he faces, Felipe Calderón is unlikely to devote as much attention to foreign policy as did Vicente Fox during the first half of his administration.

## THE MIGRATION ISSUE

On the issue of migration, it is difficult to speak of a distinct Calderón approach since Mexicans are largely of one mind on the subject. They agree that although migration is a dominant foreign policy concern, it should no longer define Mexico's dealings with the United States as it did under Fox. They also accept—in principle—Mexico's responsibility to help manage the migrant flow by creating more and better jobs, helping

to administer a temporary worker program, and recognizing U.S. security concerns related to migration. And they all accept the fact that controlling the border is a U.S. sovereign right. But Mexicans also believe the United States has the responsibility to protect the human rights of Mexican nationals who cross into U.S. territory, and they favor amnesty for Mexicans living and working illegally in the United States. In the wake of the new U.S. law approving the construction of 700 miles of double-layered border fencing, Mexicans are also beginning to understand that U.S. tolerance for massive, uncontrolled migrant flows has reached its limit. Among Mexican policymakers, this realization also derives from a growing recognition that their country faces a similar problem—a growing flow of illegal migrants crossing into Mexico from Central America.

The new migration policy environment has encouraged Calderón's foreign policy team to begin considering what Mexico is willing to give the United States in exchange for continued access to the U.S. job market. Possible concessions include a proposal to enhance the policing of Mexico's northern border and discussions about how Mexico can build the institutional capacity to manage any temporary workers program approved by the U.S. Congress. But the effectiveness of these proposals faces three huge obstacles: Mexican public opinion, the country's limited law enforcement capabilities, and the inevitably slow process of creating jobs. Most Mexicans continue to believe that the U.S. economy is far too dependent on migrant labor for Washington to seriously limit the flow. They find it difficult to comprehend that U.S. security concerns and domestic political pressures could override this perceived economic need. Mexicans tend to interpret congressional efforts toward restriction as racist posturing, which the U.S. business community will prevent from becoming law, rather than as a real reflection of public concern over the fiscal and security implications of large migrant flows. This perception prevents most Mexicans from thinking seriously about what Mexico can do to avert a substantial reduction in its access to the U.S. job market, despite the knowledge that this eventuality would be catastrophic for Mexico. Meanwhile, Calderón's vague promise to contribute to a comprehensive migration agreement by policing Mexico's borders is not credible. Mexico lacks both the resources and the political will to prevent migrants from illegally crossing its border with the United States. The lack of training

and equipment and the low pay and corruption that characterize most of Mexico's state and local law enforcement agencies make it nearly impossible for the country to police its side of the border. It is also difficult to imagine a Mexican president paying the domestic political price of denying a Mexican citizen his or her constitutional right to migrate. On the employment front, even a highly successful job creation program would only temper the migrant flow in the short term. It will take years of robust growth for the Mexican economy to create enough jobs to absorb all new entrants to the labor market and hold them in Mexico, and it will take even longer to reverse the widespread perception that the future is brighter north of the border.

## SECURITY AND DRUGS

Because Mexico's current political landscape will make it extremely difficult to build a congressional majority for most of his economic agenda, Felipe Calderón plans to emphasize public security in his initial legislative package. Motivated by a recent upsurge in violent crime associated with drug trafficking, all three candidates for the Mexican presidency proposed a profound restructuring of Mexico's federal law enforcement apparatus during the campaign. Their proposals included the creation of a national police force, better federal coordination with state and local authorities, and efforts to reduce the influence of drug traffickers in law enforcement agencies. They also insisted on parallel efforts to prevent crime by improving judicial impartiality and creating jobs. Strong support for public security reforms from the PRI should improve President Calderón's chances of making important advances on this issue early in his administration. Mexico also understands that its national security is intricately interconnected with that of the United States, and the country's attitude about drug trafficking has visibly changed in the past two years. The war between the Sinaloa and the Gulf drug cartels has dramatically increased the amount and the brutality of drug-related violence in Mexico while expanding this violence away from the border and into the Mexican heartland and coastal tourist zones. Calderón will thus continue Mexico's close cooperation with the United States on border security and the fight against drug trafficking, albeit within the

constraints imposed by Mexico's historic sensitivity to permitting U.S. military and police forces to operate in Mexican territory.

## TRADE AND COMPETITIVENESS

The ability of the Calderón administration to deal with the domestic economic challenges discussed earlier in this report also matters greatly to the United States. Mexico's capacity to create more and better jobs is obviously critical to any long-term migration solution. Enhancing the competitiveness of the Mexican economy will also help sustain Mexico's role as an important trading partner of the United States and thereby boost the international competitiveness of the U.S. economy. U.S. companies rely heavily on production facilities and suppliers in Mexico to lower their input costs. About 80 percent of U.S. trade with Mexico is intraindustry trade designed to increase the global competitiveness of U.S. firms. In a global economy populated by the low-cost, yet increasingly sophisticated production of countries like China and India, the integration of U.S. technology with lower-cost Mexican production will continue to be an important tool for sustaining the United States' and North America's global competitive advantage in the future. Although the Calderón team has decided to postpone tax, labor, and energy reform because of the decided opposition of the Mexican left, they have placed poverty reduction, human capital development, and job creation at the center of their 2007 legislative agenda.

Mexico's ability to reform its petroleum sector is also of great importance to the United States. Mexico is currently the second largest supplier of oil to the U.S. market. It must find a politically viable way to access the financial and technical resources needed to sustain its current level of production and thereby ensure the security of Mexican oil exports to the United States in future decades.

## POLICY RECOMMENDATIONS

Given the complexity of the bilateral relationship and the depth of the two countries' mutual dependence, how can the United States translate the outcome of Mexico's presidential and congressional elections into improved cooperation with its southern neighbor? How should Mexico respond? Although the United States justifiably felt let down by Mexico's delayed and tepid statements of sympathy after 9/11 and its lack of support for the Iraq war, U.S. officials seem to have underestimated the depth of Mexican disappointment at having fallen off the U.S. foreign policy agenda. Mexico feels underappreciated by the United States and now further disrespected by the tone of the migration debate in the U.S. Congress. Hurt feelings and wounded pride on both sides of the border have inevitably limited policy cooperation. The United States should take the lead in changing the tone of the relationship by reaching out to Mexico's new president as a valued policy partner, and Mexico should reciprocate by thinking realistically about migration and attacking its pending domestic economic and security agenda.

### MIGRATION

- The United States should no longer entertain the possibility of negotiating a bilateral migration agreement with Mexico. Determining how to control its borders is an internal U.S. policy decision and one that U.S. citizens and their representatives are currently unwilling to share with their southern neighbor. This reluctance is only strengthened by Mexico's limited ability to police its borders, an essential component of any migration agreement. Given this reality, indications from the United States that it might be willing to negotiate with Mexico over the establishment and/or implementation of migration policy merely sets Mexico up for another disappointment at the hands of the United States. This persistent irritant in the bilateral relationship during the past six years must be eliminated.

- The U.S. Congress must realize that there is no quick fix for illegal migration. It is logistically impossible to forcibly remove a significant number of the 6 million plus Mexicans living illegally in the United States. Nor is it feasible to close the U.S. southern border to migrant flows or to halt the employment of unauthorized workers in the short term. Illegal migration from Mexico has gained momentum over several decades due to powerful demographic and economic forces on both sides of the border, and it will take the patient application of consistent policies on several fronts and over many years to begin regulating this human flow. Those policies could include border controls, employer sanctions enforcement, earned legalization, and new avenues of legal migration, including a guest worker program. Whatever the policy mix, however, the American public and its representatives should start with the realization that changing migration patterns from Mexico will be a long, gradual process.
- If the United States is serious about reducing migration from Mexico, it should help Mexico create the 500,000 new jobs needed each year to employ its would-be migrants. The United States must accept the fact that its southern neighbor is a developing country, even if an advanced one, that would benefit from assistance in its efforts to employ a rapidly expanding workforce. As long as Mexico cannot employ these workers at home, they will migrate, and so this assistance is not charity but the pursuit of U.S. interests.
- The key to helping Mexico is not aid but fairer trade. The United States must stop insisting that Mexico accept subsidized agricultural exports like chicken and corn. It must stop blocking imports of Mexican goods that are more competitive than U.S. products (tuna and citrus, for example) and allow Mexican truck drivers to compete fairly with their U.S. counterparts. And it should consider allowing Mexico to protect sectors of its domestic economy that generate a great deal of employment. The United States must accept the fact that if Mexico cannot export its goods to its main trading partner, it is destined to export its labor instead.
- The United States should expand loan guarantees provided by the Overseas Private Investment Corporation (OPIC), focusing these funds on investments in labor-intensive sectors of the Mexican economy. It should also revive and expand the

Partnership for Prosperity’s education, infrastructure, and investment programs. By focusing on those parts of Mexico that have benefited least from NAFTA, this assistance program helps encourage job creation in migrant-sending regions of the country.

- For its part, Mexico should stop insisting on bilateral migration talks with the United States. It must learn from the failure of this strategy during the Fox administration. Given the current political climate in the United States, Mexico’s preference for legalization and a large guest worker program are problematic at best. The strong “restrictionist” pressures that are particularly evident in the U.S. House of Representatives and Mexico’s limited credibility in U.S. policy circles in promising to police its borders to control further migration mean that any bilateral negotiation will inevitably fall short of Mexico’s ambitions.
- Mexico must develop a clear and feasible plan for implementing any temporary worker program that the U.S. government might approve. It is not sufficient merely to state Mexican willingness to cooperate in carrying out such a program. To be credible, the Mexican government needs to design a plan for vetting program participants. A demonstrated ability to measure the work skills and experience of potential migrants, and most importantly to carry out background checks, will send the message that Mexico is a serious and reliable partner of the United States on this issue.

#### NORTH AMERICAN COMPETITIVENESS

- The best way for the United States to help Mexico carry out the fiscal, energy, and labor reforms required to enhance Mexican and U.S. economic competitiveness is to be patient and remain quiet. As this report has indicated, carrying out these policy changes will be difficult and time-consuming. It is also likely that many of the policy proposals and negotiated compromises will not reflect what is ideal for the United States. Nevertheless, U.S. politicians and pundits must accept that these decisions are matters of domestic policy for Mexico. As Mexico struggles to carry out these

reforms, “advice” emanating from the United States, and especially from any branch of the U.S. government, will be counterproductive. It will be greeted as unwarranted interference in Mexico’s internal affairs and, as such, is apt to undermine rather than promote the proposed policy change.

- The United States can also help Mexico develop its human and capital infrastructure by augmenting current programs to train rural teachers, provide student scholarships, and determine the feasibility of large infrastructure projects. North American competitiveness depends on Mexico’s ability to improve the quantity and quality of its labor force and its transportation and communication network. The largest obstacle to achieving this objective is a shortage of investment capital. Targeted U.S. assistance programs that complement the efforts of private actors and the Mexican government can have an impact that far exceeds their monetary value.
- Mexico must find a way to overcome the political disputes that have obstructed essential economic reforms for nearly a decade. Given the differences of economic policy opinion in the country and the fact that both houses of the Mexican legislature are divided among several political parties, enacting policy change depends on political compromise. The Mexican president, politicians, and political parties must stop their incessant combat. They must stop insisting on their own ideal version of reform and instead find a common ground where a majority can agree. Neither Mexico nor North America as a whole can afford six more years of fiscal, energy, and labor policy stalemates that translate into a lack of investment in human and capital infrastructure, the continued decapitalization of Pemex, and noncompetitive labor costs.
- Mexico must also stop asking the United States to finance a large-scale regional development fund. The low levels of U.S. public support for international aid programs of any sort make this proposal a political nonstarter in the U.S. Congress even in the best of times. And the current need to cut government spending to reduce the U.S. budget deficit makes this proposal even less politically viable. By continuing to insist on such a development fund, Mexico wastes its limited political capital in the United States while diverting time and attention from smaller, more viable

development programs. Further, the primary focus of the financial relationship should be on trade or investment, rather than aid.

## SECURITY

- The United States should redouble current efforts to help Mexico build its law enforcement capabilities. The lack of security for foreign investors, especially in the border region, and Mexico's limited ability to deal with the drug cartels are a direct threat to U.S. interests. To secure its southern border and promote its global economic competitiveness, the United States needs to help Mexico improve its crime-fighting abilities. Within this context, bilateral cooperation between the two countries' militaries should be continued and deepened. The United States should enhance technical and financial assistance to support Mexican efforts to improve the training, pay, and effectiveness of its federal and state police forces, albeit with an understanding of and sensitivity to Mexico's reluctance to allow U.S. law enforcement personnel to operate on Mexican soil. And the current U.S. Agency for International Development (USAID) program promoting judicial reform and training should be substantially expanded.
- Mexico must make the financial and political commitment to respond aggressively to its growing security problems. Although Mexico's last two presidents have implemented important initiatives to weaken the drug cartels, these initiatives have been insufficient. Meanwhile, virtually no progress has been made in reducing the country's high incidence of common crime. The way forward depends on improving the quality of Mexican law enforcement and increasing public trust in these institutions. To this end, all levels of the Mexican government must direct more fiscal resources toward the training and pay of police officers and the judiciary, severely punish corruption in law enforcement agencies, and actively promote cooperation among federal and local police forces. Mexico should also launch a national crusade against police and judicial corruption designed to inculcate the tie between corruption

and insecurity in public thinking and to enlist the direct support of the citizenry in this struggle.

- If Mexico is serious about improving the security environment within its borders, it also needs to overcome its historic sensitivity to joint operations with U.S. law enforcement and intelligence agencies. These agencies possess a wealth of experience in dealing with organized crime, in screening and training police recruits, and in criminal investigations that could jump-start Mexican security reforms. Accepting such assistance, including close collaboration at the command level with U.S. personnel in Mexican territory, will be politically difficult in a country that has long harbored suspicions of its northern neighbor. But it is an important element to building a solution to Mexico's growing security problem.

## CONCLUSION

Felipe Calderón's presidency will inevitably have major consequences for the United States simply because the new president faces such a significant and broad array of challenges and opportunities. It is worth repeating that although there will almost certainly be bilateral frictions at times, a protracted clash between the United States and Mexico is unlikely because Calderón shares many U.S. officials' core ideological beliefs and aspirations. The tone of the relationship will depend heavily on the manner in which the Bush administration and its eventual successor treat Mexico and its new president. Given the disparities of wealth and power, this relationship is not nearly between equals, nor even allies. Some forbearance and patience is likely to be required of Washington as the Calderón team takes the bilateral relationship in a new direction. But that departure, whatever its tone and coloration, will also offer an opportunity. It will be a good chance to start fresh and bury the legacy of missed opportunities and bruised feelings constructed over the past few years.

The long-awaited resolution of the bitterly fought Mexican election offers the United States an opening to engage a neighbor that is redefining its political culture, its institutions, and its place in the world. Making the most of that opening will require astute diplomacy in Mexico and careful political footwork in the United States, given the sensitivities on both sides of the border, some of long standing and some of recent vintage. It will also require the nurturing of a positive working relationship between the two nations' presidents. All such efforts are well worthwhile for the United States considering what Mexico has to gain or lose in the next six years. Given the inevitable challenges he will face, success for Felipe Calderón—on his own terms—will fundamentally benefit U.S. interests.





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