

# WebMemo



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## A Neighbor Calls: Mexican President Calderón Visits the U.S.

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This week, President Felipe Calderón of Mexico visits the United States. He will stop in California, Illinois, New York, and Massachusetts but stay clear of the nation's capital and Washington politics. The welcome he receives should be warm and hospitable. What President Calderón says and does can help set a tone for good relations that lasts well into the next U.S. Administration.

**Background.** Mexico possesses the world's 13th largest economy, but it is the United States' third-largest trading partner and the second-largest market for U.S. exports. Eighty-six percent of Mexico's exports enter the U.S. market. Two-way trade between Mexico and the U.S. has increased by more than three times since the North American Free Trade Agreement was implemented in 1994. As of January 1, 2008, Mexico lifted tariffs on corn, rice, beans, milk, and sugar to encourage competitiveness in its sensitive agricultural areas. Mexicans living in the U.S. sent home more than \$23 billion in remittances in 2006.

Many Americans are quick to forget how recently Mexico opened up democratically. Genuinely competitive elections did not become the norm until 2000, when Vicente Fox, the candidate of the National Action Party (PAN), ended more than 70 years of single-party rule by the Institutional Revolutionary Party (PRI). In 2006, President Calderón, also of the PAN, narrowly defeated populist candidate Andrés Manuel López Obrador of the Revolutionary Democratic Party (PRD), whose claims of fraud and disruptive protests

lasted well into 2007. Obrador still claims to be the legitimate president of Mexico.

Despite a limited popular mandate and commanding only a minority of PAN members in the Mexican legislature, President Calderón has managed to build coalitions with rivals from the PRI and some members of the PRD. President Calderón has already accomplished a few key reforms. A package of fiscal reform measures promises to raise non-oil tax revenue by 2 percent of Mexico's GDP. Other critical reforms include a scaling back of pension payments to avoid fiscal insolvency and measures of electoral reform that helped to establish peace among the political parties. While the new legislation is far from comprehensive, its passage marks an improvement over the legislative gridlock common during the Fox presidency.

**Mexico's Challenges.** Mexico's President faces formidable challenges, including a possible downturn in the U.S. market and growing global competitiveness. He must do more to stimulate the Mexican economy, which grew at just over 3 percent in 2007, which is lower than forecasted and down from the 4.8 percent GDP growth rate of 2006. The Mexican economy is so tied to the

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United States that any U.S. slowdown would have a direct negative impact.

Calderón also must invest in infrastructure and human capital and create jobs in order to make a dent in the inequality and poverty that sends his countrymen streaming across the border. To that end, he recently sent an ambitious \$25 billion infrastructure spending package to the Mexican Congress for approval. Calderón must help free Mexico from the shackles of crony capitalism that rewards monopolies and oligopolies (especially in telecommunications and transportation), tackle labor laws, and continue to attract foreign investment.

Mexico's most recent scorecard in the *Index of Economic Freedom* gave it a global rank of 44 out of 157 ranked nations, indicating that much more can be done in the areas of fighting corruption, protecting property rights, and opening key sectors to foreign investment.

On the energy front, Mexico relies heavily on its nationalized oil company, *Petróleos Mexicanos* (PEMEX), both for energy and for government operating revenue. Mexico has long been the United States' second source of foreign oil imports. While Mexico has benefited substantially from the rise in the price of oil, its production is declining, and PEMEX faces key challenges. Without significant domestic or foreign investment, Mexico may be unable to tap large reserves deep beneath the waters of the Gulf of Mexico.

Mexico's constitution bars private and foreign ownership in the oil and gas industry. Leaders of the PRI have signaled a readiness to consider strategic alliances or other options short of full privatization to cope with declining production. As the debate develops, the U.S. and Mexico should bear in mind that energy futures in the Gulf of Mexico are closely intertwined and that development may hinge on future collaboration.

President Calderón inherited from President Fox a crisis of public insecurity. Violent drug cartels were working as a conduit for Andean cocaine and are deeply involved in the production and distribution of methamphetamines, marijuana, and heroin in U.S. markets. After assuming office, Calderón called in the Mexican military to fight the cartels in several Mexican states. While largely a stopgap mea-

sure, the move demonstrated Calderón's commitment to restoring public security. Calderón has also stepped up cooperation with the United States. In 2007, Mexican authorities extradited 80 criminal suspects to the U.S., 65 of them Mexicans.

In the longer term, Calderón's administration has developed a seven-point strategy that includes creating a professional and corruption-free national federal police, developing community policing, overhauling the judicial process, and adding new crime-fighting technologies and training facilities.

**Areas for Cooperation.** An important departure in bilateral relations is the Merida Initiative for U.S. anti-drug assistance to Mexico. First discussed between Presidents Bush and Calderón in Merida, Mexico, in early 2007, the initiative calls for the expenditure of \$1.5 billion over a three-year period to help Mexico acquire aircraft, modern scanners, polygraphs, IT training, and comprehensive training assistance for its law enforcement agencies. While the Initiative does not call for American military boots on the ground, it does promise greatly enhanced cross-border cooperation and the sharing of key anti-drug, anti-crime intelligence.

Because of the Merida Initiative and improving cooperation between U.S. and Mexican officials, U.S. law enforcement agencies are taking a more urgent look at the southward flows of arms and dollars from the U.S. that sustain the drug cartels' reign of terror in Mexico.

As the national leader for all Mexicans, President Calderón is required to defend the dignity and rights of even the humblest citizens. Yet President Calderón should walk a careful line on U.S. immigration issues. He must avoid appearing nationalistic and interjecting himself and the prestige of his office into ongoing domestic debates and the U.S. presidential campaign. In the U.S., President Calderón will face audiences as sensitive to issues of sovereignty as those that American leaders encounter when they visit Mexico. It would be prudent for President Calderón to avoid intervention in issues regarding the interpretation and enforcement of U.S. laws.

**The Border.** Securing the border remains a critical objective for U.S. domestic policy, one that is best approached with a pragmatic attitude and a

clear-headed recognition on both sides of the Rio Grande that the border is broken and the status quo is untenable. Immigration reform in the U.S. is necessary to restore a proper balance between economic and legal realities, the growing and changing labor force and citizen base, and national security and sovereignty.

A familiar adage is “good fences make good neighbors.” In its New England origin, the adage refers to stone fences that are commonly constructed to mark property lines and to keep livestock from straying. Building and repairing these fences after winter storms were often acts of cooperation, a sign of respect for shared boundaries. The U.S.–Mexican border is an area where both parties share ownership and responsibility for resolving outstanding issues. All parties must ask, as Robert Frost did in “Mending Fences,” “What I was walling in and walling out?”

President Calderón’s agenda and itinerary in the U.S. should focus on the following key points:

- Growing the Mexican economy and exploring ways the U.S. and Mexico can work together to expand trade, create jobs, open the Mexican economy, and improve global competitiveness;
- Exploring areas for energy development, cooperation, and security;
- Examining new ideas and partnerships for developing human capital with education, job training, and environmental protection;
- Demonstrating the urgent need for a major cooperative effort to fight drug cartels and the drug trade on both sides of the border; and
- Building secure, legal border links that facilitate documented travel and streamline commerce while discouraging illegal entry and preserving maximum vigilance against terrorists, drug traffickers, and smugglers.

**Conclusion.** The United States has a critical stake in a democratic, stable, and prosperous southern neighbor. Mexico faces many challenges, but Americans should not discount the progress it has made. The U.S. and Mexico must work together on issues critical to both countries, most notably fixing the border and winning the war on drugs. President Calderón’s visit is a perfect learning opportunity and should set a framework for cooperation that extends well into the next U.S. Administration.

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