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Obama and Mexico
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My original plan was to discuss global financial and economic problems in this commentary, but I could not resist saying something about the election of Barack Obama as president of the United States. Like others writing about the election, my reaction is that Obama's victory is a remarkable event. It passes power to a new generation, but this always takes place periodically. His election will not eliminate domestic ethnic and racial tensions, but there can be no reversion to the status quo ante. The return to power of a president from the Democratic Party, supported by Democratic control of both houses of Congress, will lead to more attention to the situation of families at lower income levels than existed during the two terms of George W. Bush. Nominations to the Supreme Court will not replicate the social thinking of President Bush's most recent appointees. The simple fact of Obama's victory has made Americans proud of what the country's political process can accomplish; and it has electrified non-Americans of goodwill, who now realize that the American people can elect an African-American to be the chief executive of their country.

Pride, however, is not policy. Positions taken during the campaign have created uncertainty in Mexico about what President Obama's policies will be. First, a few words about what is happening in Mexico. Violence in Mexico is out of control. Much of this is spawned by battles among Mexican drug cartels over dominance of the large U.S. market for drugs produced in or transported through Mexico. Thus far in 2008, some 4,000 Mexicans have been killed in these drug-related conflicts. Officials named to antidrug positions in Mexico are regularly executed by drug lords, and many bystanders are killed as well. The exact level of receipts that the drug cartels obtain from the U.S. market is not known, as is evident from the estimate by the U.S. Congressional Research Service at between \$15 billion and \$50 billion a year. Most of the weapons used by the private armies of the drug cartels are purchased in the United States. Even at its lower bound, the Mexican drug cartels have enough money to bribe officials ("work for us or you will be killed") and to outgun Mexican military and police forces in particular skirmishes.

In addition to drug violence, Mexico has become the kidnapping capital of the world. Most families are reluctant to notify the police and instead choose to pay the ransom. The person kidnapped is sometimes killed even though ransom is received, as happened a few months ago to a young man from a prominent Mexico City family. The posters at the mass demonstrations at that time told the government to end the impunity of kidnappers or quit and allow us to find others who can do the job.

I emphasize the violence because it is the most serious problem faced by the central government in Mexico. If there is no social order, political democracy loses its meaning and economic progress is largely impossible. There is much discussion in Mexico that it risks becoming a failed state. A failed state to which U.S. drug policy is a major contributor.

Economic growth is deficient; Mexico's gross domestic product will grow by 1.5 to 2.0 percent this year and is projected to increase by 0.5 to 1.0 percent in 2009. This would be an actual decline in per capita GDP. The country has been hit hard by the U.S. financial and economic problems. Mexican traders are finding it difficult to get credit to finance trade; the peso is depreciating after many years of stability; and the country's exports to the United States will decline as the U.S. economy moves into deeper recession.

One message that Obama has transmitted is that regardless of what Mexicans want, the North American Free Trade Agreement will be renegotiated to add stronger labor and environmental conditions. Obama voted for the border fence when in the Senate despite the fact that this is detested in Mexico; and erection of the fence is also opposed on the U.S. side of the border because it will disrupt important border trade and kinship relations on both sides. Obama has given no indication how he will pursue the U.S. antidrug "war." It is unclear what changes he supports in U.S. immigration policy, particularly how unauthorized immigrants who have lived for many years in the United States will be treated. It is unlikely that Obama will allow Mexican trucks and drivers meeting U.S. safety standards to deliver cargo to U.S. destinations on a regular basis, as the

United States committed itself to do when it approved NAFTA.

The question that raises the most immediate concern, because it was created by Obama, is how he will deal with his repeated statements to renegotiate NAFTA. It will be difficult to back away from this position, even assuming that he wishes to do so, but some adroit diplomacy may be possible. Renegotiation can be handled in informal talks among senior officials of the three member countries in order for them to agree on changes that are acceptable to all of them, combined with a commitment from each country not to go beyond these in the formal documents that must be presented to legislatures for their approval. This can work if the three governments and their legislatures truly want to retain NAFTA; and if none of them seeks to overplay its hand.

If the NAFTA renegotiation issue can be resolved, the three countries can move on to the other issues on their agendas. Making progress on this array of sensitive issues—antinarcotics cooperation, immigration, trucking, the fence, and surely others—will require the United States to give high priority to its relations with Mexico. There are strong arguments for doing precisely this. If there is no abatement of violence in Mexico, nothing could prevent the adverse economic and social consequences from crossing the border into the United States; and the reverse, a less violent and faster-growing economy in Mexico, would enrich U.S. producers of goods and services and the workers that they employ.

The U.S. economy is more integrated with that of Mexico than with any other country in Latin America; and perhaps more integrated than with any other country in the world along with Canada. This is evident in trade; U.S.-Mexico trade is the third largest for the United States, after Canada and China. More than 80 percent of Mexico's exports go to the United States, and this makes up about 30 percent of Mexican GDP. Some 10 percent of the people born in Mexico now live in the United States; consequently, the kinship relationships between the two countries are extensive. For decades, Mexico was an authoritarian country that routinely went through the procedures of democracy, but real rather than faux democracy advanced gradually and largely peacefully over several decades and then took hold after the election of Vicente Fox as president in 2000. The United States has much at stake in Mexico's well-being—but at the moment we are witnessing more failures than successes.

The impression I have from Obama's statements—as well as from his thin record of public comments on critical features of the U.S.-Mexico relationship—is that he is not fully clued in on Mexico. He probably does not realize how much damage U.S. narcotics policy is creating in Mexico. He

made a concession to his supporters in major labor unions and the Democratic Party by joining Hillary Clinton during the primaries in favor of renegotiating the labor provisions of NAFTA without fully grasping how much of an extra burden he is putting on the back of a country whose economy and ability to maintain social order is already faltering. It is not clear whether his close advisers understand how important the Mexico relationship is to his presidency; I am writing this commentary in the hope that it may have some influence on their thinking and his.

The large disparity in levels of income and wealth between Mexico and the United States has long been destabilizing. These differences have spawned unauthorized immigration from Mexico. This has led to U.S. efforts to cut off easy access for Mexicans to the border by building a physical barrier between the two countries. And it explains why Mexico, for much of its modern history, sought to limit U.S. influence in the country. Issues of this nature will not diminish until there is some convergence in incomes in the two countries; and this has not taken place during the past 20 years.

NAFTA as such is not the issue. The agreement was important in changing the tenor of the bilateral relationship from limiting Mexico's political and economic contact with "the hegemon to the north," as President Carlos Salinas put it, to seeking deep integration. NAFTA accomplished this; not only did trade and investment in Mexico increase, but I am convinced that the closer ties with the United States contributed to Mexico's transition to democracy. However, Mexico now shares its trade preferences in the U.S. market with many other countries, just as the United States shares its trade preferences in Mexico with others; and this sharing diminishes the ability for the outsized increases in trade between them that existed earlier. What does count now is the entire relationship, including trade, but also mutual understanding across the board. Obama is popular among the Mexican public at large; and it would be heartbreaking if this admiration withers away.

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