

Changing the Guard in Mexico: AMLO's Opportunities and Challenges

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By Duncan Wood

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In Mexico's July 1st elections, Andrés Manuel López Obrador (AMLO) won a stunning landslide victory. Winning almost 53 percent of the popular vote, he more than doubled the take of his nearest rival, the PAN's Ricardo Anaya, and was the most popular candidate in every state in the country except Guanajuato. Although his triumph was widely predicted, the scale thereof was still a surprise.

Cementing his victory was his Morena party's performance at all levels of government: winning a majority (with its coalition partners the PES and PT) in both chambers of Congress, winning 5 out of 9 state governorships, and winning a majority of state-level legislatures (19 out of 32). This gives AMLO the opportunity to construct not only an ambitious legislative platform, but also to create a governance capacity unseen in the modern democratic era in Mexico.

Throughout his campaign, AMLO spoke of the need for a Fourth Transformation of Mexico (*Cuarta Transformación*). Building on the historical record of Mexico's Independence, Reform period, and Revolution, AMLO postulated that his government would bring about a peaceful and democratic shift in governance in the country, enabling a transformation not just of government but of society and the economy as well. AMLO has promised to remove what he calls the "Mafia in Power," what he sees as the unfair and corrupt collaboration between big business and government. He also promised that the established political elites would be removed from their positions of power: the scale of his election victory effected just such a removal.

Throughout his career, AMLO has pledged his commitment to such change. He has railed against the establishment, business, and against the political institutions of the country. As President, he now has the opportunity to put in place an ambitious policy and legislative agenda that could have a deep impact on Mexico.

Mexico's Ineffective Democratic Transitions

In 1997, during the presidency of Ernesto Zedillo, the PRI lost control of the Congress for the first time since the Revolution. This ushered in a period of political co-habitation, where a president of one party would be forced to cooperate with an opposition-dominated Congress in order to have legislation approved. This caused enormous problems for PAN Presidents Vicente Fox and Felipe Calderón, who saw major legislative initiatives stalled in Congress. This led many Mexican voters to question the benefits of democratization, as the country was seen to be stalled by a failure to cooperate between the executive and legislative branches.

However, during the presidency of Enrique Peña Nieto, the *Pacto Por México*, a political marriage of convenience between the three major parties, was sufficient to bring about a stunning series of constitutional and structural reforms in the period between 2013-14. In fact, Mexican voters had elected Peña Nieto and the PRI in 2012 for just that reason: they were seen as politicians who could deliver. Unfortunately for Peña Nieto, the reform agenda of his early presidency became wildly unpopular and the manner of its achievement through the *Pacto* was seen as undemocratic, with the political elites conspiring to force through changes that did not reflect the preferences of the population. In fact, it could be argued that the *Pacto*, while effective in legislative terms, further contributed to the de-legitimation of the Peña Nieto government.

AMLO's Opportunity

AMLO's current legislative influence far exceeds that achieved under auspices of Peña Nieto and the *Pacto*. Whereas the *Pacto* was a temporary arrangement depending heavily on the will to collaborate from rival parties, the Morena coalition in Congress looks solid. What's more, it is not unreasonable to expect some defections from rival parties, particularly those on the left of the spectrum such as the Movimiento Ciudadano (MC) and Partido de la Revolucion Democrática (PRD) parties. With legislators from those two parties, AMLO should easily be able to pull together super majorities in both chambers, opening the way for constitutional reform. With a majority of state legislatures in Morena hands, this becomes even more compelling.

Furthermore, AMLO and his team clearly hope that this show of political dominance is just the beginning. In gubernatorial elections next year, 2020, and then the mid-term elections in 2021 (when the Chamber of Deputies will be up for re-election for the first time ever), AMLO hopes to see Morena consolidate its control over the country's decision-making apparatus.

AMLO therefore has an opportunity to put into effect the ambitious ideas presented during the campaign.

Challenges for the AMLO Government

Given the potential here for successful legislative negotiation combined with the overwhelming nature of AMLO's electoral victory, hopes for the new administration are already very high. Herein lies the first major challenge for the President-elect. He will, for sure, enjoy an extended honeymoon period with the Mexican public, but the nation is justifiably anxious to see progress on solving the country's problems sooner rather than later.

These problems are deep and varied. The first concerns the economy. AMLO has promised higher rates of economic growth, but must first avoid a financial meltdown, capital flight, or further volatility in the value of peso due to investor anxiety. He has begun well, sending a message of stability, economic orthodoxy, and continuity directly and through his economic team. Secondly, he must address the decade-long problem of rising violence and loss of territorial control to organized crime. This is a problem that has beaten successive PAN then PRI administrations, with some of Mexico's best minds among them. Third, there is the issue that helped get AMLO elected:

rampant corruption in government and society. AMLO has promised that the problem will be solved through his honest leadership example as President, but naturally, Mexican analysts and voters are skeptical. Fourth, there is the question of how to handle Mexico's energy sector. AMLO has made clear his desire to reverse the 2013 reform that opened the oil and gas industry to foreign and private investment, while respecting the law of the land. Lastly, there is the inimitable challenge faced by Donald Trump and the bilateral relationship with the United States. AMLO must navigate a fine line between ensuring stability and the national interest on one hand, with protecting national pride and his own image in the eyes of Mexican voters, oftentimes in the face of attacks and insults from Washington, DC.

This is a daunting list of challenges, to be sure. Yet there appears to be supreme confidence on the part of the newly elected President that he and his team can rise to them. In the sections that follow, Wilson Center Mexico Institute experts give their take on these challenges and how the new administration can respond. Over the next few months, the Mexico Institute will provide new analysis and new insights into these questions as new evidence emerges.

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President-Elect Andrés Manuel López Obrador delivers his victory speech at the Zocalo in Mexico City on July 2, 2018.

The Role of Corruption on AMLO's victory

By Viridiana Ríos

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AMLO made corruption the key theme of his campaign, and he greatly benefited from it. Corruption not only gave him a clear enemy—he systematically appealed to the “mafia of power”, or those illegally benefiting from merging of economic and political power, as the reason behind Mexico’s poor economic performance—but more importantly, it allowed him to create a narrative in which a leftist platform of increased public spending and social programs appeared viable without raising taxes.

The focus on corruption gave AMLO the element that his previous presidential campaigns of 2006 and 2012 lacked: a platform that appealed to his base, without confronting economic elites opposed to a progressive tax reform.

Yet, even if the rhetoric of battling corruption was brilliant as a campaign tool, his proposals will be hard to implement once he takes office. The reason is simple: If AMLO wants to reduce corruption to pay for a significant increase in Mexico’s government spending, he will have to do much more than he is currently proposing.

His advisers estimate that AMLO’s proposed policy program would cost 10% of the federal budget. That is a conservative estimate. Even so, this estimated cost is larger than the estimated size of identified corruption costs. According to Mexico’s Federal Auditor, each year about 4 billion dollars of public money are spent in ways that cannot be tracked, and thus, are potentially a drain on public finances. Yet, even if all this money was to be recovered after penal sanctions were implemented by AMLO’s administration, those funds would only represent a minuscule share of the total national budget.

Improving spending efficiency could indeed create meaningful savings. For example, the Mexican Institute of Social Security (IMSS), in 2011, began a process to consolidate purchases of medicines after discovering that 78 institutions had bought the same medicine for ten different prices. As a result, public contracts became between 8% and 17% cheaper in less than five years.

It is clear that there is only one way to increase Mexico’s public resources without a tax reform, and that is to conduct a thorough reengineering of public administration. Unfortunately, there is no evidence yet as to whether AMLO will take on this task.

AMLO ran on a platform of “sweeping corruption from top to bottom through his example” by framing corruption as a problem of leadership/agency, rather than an outcome of institutional design. It is still unclear what AMLO will do. The implementation of his policies could mean

anything from higher centralized controls on federal spending, to simply relying upon the rather romantic idea of reducing corruption via example.

A couple of weeks ago, AMLO sent a signal of what his policies may really mean when he rejected considering a constitutional reform to create an independent National Prosecutor's Office. This reform has been strongly advocated by Mexican civil society under the citizen collectives #FiscalQueSirva and #Reforma102. AMLO's statement was extremely discouraging as there is unmistakable evidence that the current institutional design in which the President and the Senate select the National Prosecutor has led to political meddling in corruption and criminal investigations. The Odebrecht and Ayotzinapa cases stand as examples. AMLO rejects the constitutional reform because, he argues, it was designed by civil society groups that do not represent society as a whole, but rather a group of elite interests represented by a small part of business-funded Mexican civil society. This is extremely debatable as the citizen groups advocating for this reform are members of organizations across the political spectrum.

For all we can tell, AMLO's anti-corruption policies may gravitate towards working with institutions, allowing less participation of organized civil society, and promoting more centralized decision-making. As of now, it is unclear whether that would be enough to reduce corruption in Mexico.



President-Elect Andrés Manuel López Obrador holds a press conference after meeting with current President Enrique Peña Nieto at Palacio Nacional on July 3, 2018.

Economic Policy and NAFTA

By Christopher Wilson

Deputy Director, Mexico Institute, Wilson Center

Andrés Manuel López Obrador was elected to do three things. First, his supporters voted to reject the status quo and take power away from the PRI (and to a lesser extent the Mexican political class more generally). Second, he promised to govern in an austere and honest fashion, intolerant of the corrupt practices that infect politics and public administration in Mexico. Finally, AMLO campaigned on a message of inclusive development, which puts the poor first and seeks to bridge regional and class-based divides. Each has important economic implications, and though with his landslide election victory López Obrador has accomplished the first task—no small feat—the other two may prove even more difficult.

The break with the status quo that AMLO represents has two important consequences. First, he will take office with a mandate to reshape the Mexican political economy, especially given his overwhelming electoral victory and the Morena-led coalition's control of both houses of Congress. Having been opposed by much of the Mexican private sector, López Obrador is beholden to very few interest groups, further freeing him to pursue major reforms. Though empowered by his constituents, AMLO is perhaps more constrained by markets than most Mexican presidents. Both the PRI and the PAN has built up a track record of macroeconomic discipline and a respect for the autonomy of the central bank. This gave past Mexican administrations a degree of credibility with investors that AMLO will have to earn.

So far, López Obrador and his transition team have sent all the right signals. He took time out of his victory speeches on election night to telegraph his intention to keep a balanced budget and maintain the central bank's independence. He has appointed a qualified economic team that, though lacking in the immediate name recognition and market confidence that some more high-profile Mexican economists could have brought, is more than capable of offering AMLO sound economic advice and management. It will of course be up to the president himself to pay heed to his advisors, a relatively easy task during periods of economic growth, but a much harder one in the event of a negative shock such as a U.S. recession or the cancellation of NAFTA.

The incoming administration will face two major economic challenges. The first is related to NAFTA and trade relations with the United States. Mexico depends heavily on its access to the U.S. market, sending approximately 80 percent of its exports to the United States. Though Mexico has one of the most extensive networks of free trade partners in the world, it has for years come up short in its efforts to diversify trade and, in particular, to reduce dependence on the U.S. market. This is natural given the economic weight of its neighbor, but it left Mexico vulnerable to the economic nationalism of President Trump. Negotiations to modernize and rebalance NAFTA

have been underway for almost a year, but the most contentious issues remain unresolved, meaning the AMLO team will play an important role in resolving this critical issue.

The real threat of U.S. withdrawal from the agreement forced López Obrador, a longtime critic of the agreement, to become a supporter of NAFTA, which Mexicans generally accept is critically important for their economic well-being. During the campaign, his economic advisors sought to protect their candidate from claims that he represents a danger for the Mexican economy by voicing not only general support for NAFTA but specific support for the work of the current negotiating team and virtually all (barring the issue of including wages in the agreement) of their positions on specific issues. From the Mexican side, one should expect significant continuity in terms of the NAFTA negotiations. This of course only goes so far in mitigating NAFTA risk, which is predominately based on the potential that the United States may withdraw from the agreement.

The second, more fundamental challenge is the simultaneous completion of AMLO's seemingly contradictory promises to increase social and infrastructure spending without raising taxes or growing the country's debt. To do so, AMLO has promised to find major savings by stopping corruption (see section by Viridiana Rios) and by applying an austere approach to governance. He has promised to sell the presidential plane, eliminate pensions for former presidents, cut benefits for senior officials, limit official travel, and hire fewer high-level administrators. Though this will certainly save the government some money, these should largely be understood as symbolic gestures. Corruption does in fact cost the Mexican economy significantly, with estimates ranging from 2-9 percent of GDP, but it seems quite unlikely that endemic corruption could be halted quickly or that the resulting economic growth would immediately translate into higher tax revenue. There are, without doubt, efficiency gains to be found in government spending, but the spending promises embedded in the AMLO economic plan, if even mostly implemented, would be sure to dwarf any hard-won savings.

AMLO has promised a return to greater government involvement in driving economic growth, and his list of campaign pledges reflects this. Among López Obrador's promises with fiscal implications are a doubling of government paid pensions for the elderly; financial assistance for the disabled; holding real energy (gasoline, natural gas, electricity) prices steady; modernizing existing refineries and building one to two new ones; building a high speed rail line for tourists in the Yucatán Peninsula; building another commercial rail line across the isthmus of Tehuantepec; creating an extensive scholarship program; agricultural subsidies and price guarantees; programs to support entrepreneurs; and more generalized infrastructure spending. Just the non-infrastructure components of this plan are likely to cost about one percent of GDP per year.

Fortunately for AMLO, he is inheriting a healthy if slow-growing economy. GDP growth has been in the range of 1.4-3.6 percent during the Peña Nieto administration. Mexico's total debt/GDP

ratio rose to 50 percent by 2016 but has since fallen to between 47 and 48 percent, with the government running a primary budgetary surplus over the past two years. The central bank holds sufficient dollar reserves, and real interest rates have already been pushed high by the bank to contain exchange rate-driven inflation. NAFTA-related risk drove this trend, but, barring a negative NAFTA shock, Mexico seems well positioned to manage future inflationary pressures by simply maintaining its already high rates.

Mexico's solid fiscal and macroeconomic position give López Obrador a *limited* amount of space to implement his desired economic policies before running into credit risk or budgetary constraints. Despite the fact that anti-corruption policies and administrative austerity will not adequately finance social and infrastructure spending goals, it appears that AMLO's team will have the opportunity to responsibly meet some (but not all) of its economic objectives. The key question then becomes, is López Obrador willing to live within the constraints of macroeconomic stability? The signals for now point to a positive response, but the proof will come in watching whether and how he handles tough trade-offs as the budget is created this fall and again in the coming years.



President-Elect Andrés Manuel López Obrador during his victory speech at the Zocalo in Mexico City on July 2, 2018.

Forwards, Backwards, or Sideways? AMLO and Mexico's New Energy Model

By Duncan Wood

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The 2013 Mexican energy reform by the administration of President Enrique Peña Nieto put in place a new energy model that, for the first time in 75 years, allowed foreign and private investment in the oil and gas industry and fully opened the electricity sector to private investment in generation. Widely hailed around the world for its ambition, reach, and speed of implementation, the reform has resulted in commitments of more than US\$220 billion and a dramatically improved outlook for Mexican oil production and reserves.

Despite this success, the reform is far from popular among the Mexican population. Rising gasoline prices in recent years, combined with a continued fall in Mexican oil production and an ongoing crisis in the national oil company, Pemex, have driven a negative opinion of the reform and encouraged anti-reform rhetoric from opposition politicians.

AMLO has long been a fervent and deeply committed opponent of an opening of the hydrocarbons sector in Mexico. He has repeatedly spoken out passionately about the need to maintain state and public control of the country's oil wealth, maintaining a nationalistic vision that harkens back to the nationalization by President Lazaro Cardenas in 1938. Now he will have the opportunity as President to reverse the 2013 reforms if he so wishes. However, such a course of action would have highly negative consequences for the industry and for government revenues.

The 2013 Reforms

After 75 years of running a closed and monopolistic model in its energy sector, in December 2013, the Mexican government won Congressional approval for a far-reaching reform package that liberalized both the hydrocarbons and the electricity sectors. This paradigm shift happened in the face of considerable opposition from left-wing parties and nationalists, but the Peña Nieto government was still able to win a two-thirds majority in both chambers of Congress and approval from a majority of the state legislatures. Over the next two years, the Mexican Congress passed implementing legislation, and regulatory frameworks and organisms were constructed.

The results thus far have been impressive. 107 contracts have been awarded for oil and gas exploration and production to 69 companies from many different countries, and it is expected that these contracts will deliver over US\$160 billion in investment. Furthermore, the new oil barrels will deliver an average of 74 percent in government take (royalties and taxes combined).

	Round 1	Round 2	Round 3.1	Farm-outs	Total
Blocks / areas awarded	38	50	16	3	107
Surface awarded (Km2)	20,456	55,561	11,020	1,609	88,646
Number of winning companies	45	27	12	3	69
Cash bonus, carry and upfront payments (US\$ mn)*	0	643	124	2,759	3,526
Work program (US\$ mn)	1,230	2,145	442	206	4,022
Total Committed investment (US\$ mn) **	1,230	2,787	566	2,435	7,018
Potential investment (US\$ mn)	41,319	103,050	8,626	8,806	161,263
Average government take (%)	73%	73%	72%	76%	74%

Source: Wood, D., Padilla, J., 2018 "Mexico's New Hydrocarbons Model: A critical Assessment Four Years Later." Wilson Center & IPD Latin America, Washington DC. <https://www.wilsoncenter.org/publication/mexicos-new-hydrocarbons-model-critical-assessment-four-years-later>

In the electricity sector, the reform has also been successful in attracting interest from international capital. Several billion dollars of investment have stemmed from the power auctions that took place between 2015 and 2017, with more than 7000 Mw of capacity to be installed. The electricity generation prices offered by the investors for these projects were dramatically lower than established prices in Mexico, and they continued to fall as the auctions proceeded. Perhaps most importantly in the short term and for national competitiveness, the price of electricity for industrial consumers fell by 50 percent relative to its pre-reform level.

The reforms also managed to bring renewed and massive interest in cleaner energies. Wind and solar projects received massive interest from investors and a new system of Clean Energy Certificates (or CELs in Spanish) promises to encourage further long-term investments.

However, the reforms still require significant improvements to maximize their potential. A recent [Wilson Center/IPD Latin America publication](#), while recognizing the advances made by the reform, identified a large number of areas where future administrations must focus their efforts to facilitate operations and increase revenue for both private investors and the state.

AMLO and Energy Policy

Since his unsuccessful presidential campaign in 2006, AMLO has pushed for a Mexican energy sector that is tightly controlled by the state. Although his 2006 election platform opened the door to the possibility of private (but not foreign) investment in the oil industry, AMLO has since then presented a fervently anti-opening vision of the future.

In particular, in 2013, when the Peña Nieto government first announced its plans to liberalize energy in Mexico, AMLO directed his fury and passion against the reforms, but was ultimately unable to attract much interest from the Mexican public, even when he combined forces with his former allies in the PRD party. However, the short-term results of the reform have provided him with more ammunition in his ongoing battle against the new energy model. Rising gasoline prices

due to the end of subsidies, the weakening of the peso versus the dollar and, more recently, rising crude oil prices, have led large sections of the Mexican public to conclude that the reforms have been a failure. The ongoing problems of Pemex, especially in regards to corruption, its financial balance, and its dramatically declining oil production, have helped compound the idea that the reform has not delivered on its promises, despite the fact that these problems existed prior to the reform. Lastly, the much-vaunted benefits of the reform in terms of new oil production, new fiscal revenues, new jobs, and higher economic growth, have not materialized in the four years since the reform was passed. This was to be expected, but the Peña Nieto administration made the fatal error of selling the reform to the Mexican public along these lines.

In his 2018 presidential campaign, AMLO laid out plans for the energy sector that are an unusual combination of old and new ideas. He has committed to the transition from traditional to renewable energies, but his approach is heavily focused on distributed generation and granting access to electricity to marginalized communities rather than large-scale projects. He subscribes to the idea that Mexico needs new hydroelectric plants, although there are limited options for constructing new capacity, and projects would likely face considerable opposition from local communities. On the other hand, his “Project18” [plan](#) for the energy sector commits to keeping existing thermoelectric power stations (some of which are powered by burning fuel oil) in operation despite rising fuel costs, aging equipment, and a heavy carbon footprint. This may be seen as a way to avoid massive new investments, but it would almost certainly be a false economy.

But it is in the area of the hydrocarbons industry that AMLO has put forward his most controversial ideas. He proposes restructuring the sector by investing heavily in refining capacity, the exploration and production of natural gas in Mexico, reviewing the contracts and bidding requirements for the oil blocs that were awarded to private and foreign investors since 2015, and significant new investment in, and dependence on, Pemex to develop the nation’s declining oil reserves.

These ideas mark a dramatic departure from the trends of the past 12-18 years in Mexico. The efforts of the Fox, Calderon and Peña Nieto administrations to modernize the energy sector relied on increasing the role of the private sector. AMLO’s plan is focused on three concepts: satisfying the needs and wishes of the Mexican population, re-inserting the state into the energy sector, and adopting an approach that focuses on maximizing production in Mexico.

A Complex Road Ahead

This vision of Mexico’s energy future was clearly laid out during the campaign period and, as noted in the introduction, the AMLO government will have a clear majority in Congress and might even be able to pull together a super majority in both chambers to allow for constitutional reform. Morena already controls a majority of the state-level legislatures, which is the other requirement for changing the constitution. AMLO himself has stated that he would not seek constitutional reform during the first half of this mandate, but the administration’s plan does call

for changes to the secondary legislation surrounding the 2013 reform. This will be a major test of the new government's intentions and will provide clues as to how far-reaching and drastic the changes will be. Another important clue will come from changes that are made to regulatory institutions and the regulatory framework for which they are responsible.

Aside from the legislative and regulatory front, there are a number of factors that the new administration will have to take into consideration when planning its management of the energy sector. The first of these concerns the reaction that any reversal of the 2013 reform would draw from global markets and foreign investors. AMLO has committed to reviewing the contracts that were awarded between 2015 and 2018, a process that was extraordinarily transparent and adhered to international best practices. There can be little doubt that the contracts themselves are valid, but there have been hints from within the AMLO camp that some of the winning firms should not have pre-qualified so as to be able to bid on the contracts in the first place. If this is indeed the approach, then it will have to be handled with the utmost delicacy and care. Any suggestion that contracts are being unfairly revoked will be met with deep concern by investors, and not only those in the energy sector. As AMLO is determined to avoid financial volatility, he must step carefully on this front.

The second factor that the incoming administration must take into account concerns oil production. Although Mexico's national production has been in steady decline since 2004 (losing over 1.5 million barrels per day since then), the new exploration and production that has come out of the energy reform will begin to pay dividends by the middle of AMLO's term. Although we do not have a reliable estimate of how much new oil will flow from the contracts, it will certainly be somewhere in the range of several hundred thousand barrels per day. This new oil will be essential to providing AMLO with sustained national production levels and with the crude to feed the new refinery capacity that he plans.

The third major factor that must occupy the incoming administration's energy planners follows on from this new production. The fiscal revenue that will come with new production will be essential to fund the AMLO government's plans for social and infrastructure spending, and the 74 percent average government take from the contracts will be most welcome in the effort to maintain balanced budgets. Although the economic fundamentals and the fiscal outlook in Mexico appear to be sound at the time of writing, the new government must be concerned about maintaining and raising revenues at a time when demands on the public purse will surely increase.

The new AMLO administration inherits an energy sector that has begun to turn around after decades of neglect. The 2013 reform was hailed by investors around the world as a sign that Mexico was open for business. In the next few years, the government of Andrés Manuel López Obrador must decide on a path for the sector. There is no doubt that the President-elect wants to increase the role of the state and is leery of the benefits from private and foreign investment. However, economic, fiscal, and energy necessities may bring the new government to opt for a less radical departure from the status quo than many fear.

AMLO and Migration

By Rachel Schmidtke

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There are significant challenges facing AMLO's migration platform. Despite efforts from both the United States and Mexico to deter Central American migration, the number of migrants and asylum seekers entering Mexico is not decreasing. While Mexico's Southern Border Program deports more Central Americans than the United States, many still cross through Mexico's porous border through illicit channels. These crossings pose significant security risks for migrants coming through Mexico, institutional challenges for Mexico's National Migration Institute to track migratory flows, and economic challenges for poor southern Border States. The number of asylum requests to Mexico has increased by 150 percent since 2013, largely from El Salvador, Guatemala, Honduras, and Venezuela. With only a few dozen employees handling thousands of cases a year, the Mexican Commission for Refugee Assistance is in dire need of resources to process the mounting backlog of asylum requests. Mexican migration to the United States is at net zero, but Mexican migrants still make up the largest foreign-born population in the United States and require advocacy and attention from their country of origin—particularly in the wake of multiple failed immigration reform bills and consistent threat of DACA repeal. Last, but certainly not least, the United States continues to place pressure on Mexico to collaborate in enforcing border policies.

To tackle some of these challenges, AMLO is fleshing out policy options. For Mexicans in the United States, AMLO has proposed a Five-Step Plan to provide support abroad. The plan will turn the 50 Mexican consulates in the United States into “advocates” for the defense of Mexican migrants. AMLO wants to improve and increase their capacity to engage with this migrant population. For Central America, the future Secretary of the Interior said they would implement a migration policy that respects and upholds the rights of Central American migrants. AMLO has proposed economic development plans in Mexico's southern border region and development assistance to Central America to tackle the underlying causes of migration. He has broached the idea of instating a modern “Alliance for Progress” idea, which would bring jobs and development to Mexico and Central America and reduce the drivers of emigration. Finally, future Foreign Secretary Marcelo Ebrard said Mexico would focus on opportunities to further engage with the United States on migration.

AMLO and his team recently had a constructive meeting with U.S. Secretary of State Mike Pompeo and others from the Trump administration, displaying what seems to be a respectful and relatively earnest attempt from both sides to start afresh. While AMLO has been critical of the Trump administration and has advocated for taking a less deferential stance to the United States, both governments are proposing some initiatives that could provide opportunities for future collaboration. For example, AMLO has mentioned creating a Mexican border patrol as a response

to the Central American migratory flows through Mexico's southern border. The United States, who already provides a great deal of funding to Mexico's Southern Border Program, may seek to renew and expand its commitment to Mexico's southern border initiatives if they contribute to reducing flows of Central American migration. AMLO has dialed back on the idea, but it is a strategy the United States might continue pushing.

The United States has also proposed a "safe third country agreement", where Central Americans must apply for asylum in Mexico once they set foot in the country. This also may be an attractive proposal for both countries: a third country agreement would placate U.S. interests by reducing the number of migrants at the U.S.-Mexico border, and Mexico could receive more funding towards their asylum system. This plan, however, might not necessarily gain much traction and AMLO has seemed reticent to endorse the idea. The policy option is difficult because it would require Mexico to address the security risks posed to migrants who stay in Mexico. Migrants are often targeted for abuse and exploitation in Mexico, but face a 99 percent impunity rate if they are victims of a crime. It is not quite a "safe" third country for migrants, but it has the potential to be, if AMLO were to implement rigorous policy reforms with help from the United States.

To varying degrees, both Mexico and the United States have expressed the need to invest in the root causes of Central American migration, focusing on the development of Northern Triangle countries and Mexico's southern border. In 2017, the countries co-hosted a Conference on Prosperity and Security in Central America, launching an "Alliance for Prosperity" plan aimed at reducing migrants' incentives to leave their home countries. It is a policy option that will ensure long-term sustainability, as the issue will not be solved through strong-arm enforcement alone. Yet, U.S. development assistance to the region has fallen by 20 percent, and talks of this alliance have remained stagnant. If the United States is unwilling to invest in Central America, Mexico has a chance to step into a leadership position on this issue. The renewed relationship will require both countries to reexamine how much they are willing to address these push factors of migration.

To have a comprehensive migration policy agenda, AMLO will need to devote resources to the Mexican institutions that deal with migratory flows and migrant integration, both for Central Americans and Mexicans who have returned home from the United States. If he follows through with his campaign promises of improving Mexico from within, he will do just that. The trickier situation lies in how he will juggle U.S. interests with Mexican policy proposals. There are opportunities for alignment, but they will require a great deal of care and foresight to maintain the goals of AMLO's policy plans while also taking advantage of entry points with the United States.

Mexico's Security Challenges, AMLO's Proposals, and U.S. Approaches

By Eric L. Olson

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The election of Andrés Manuel López Obrador (AMLO) as president of Mexico on July 1st has many explanations but central to these were citizen dissatisfaction with rampant corruption, growing insecurity, and skyrocketing violence. These problems are the result of both strong criminal networks operating in Mexico, across the region, as well as the failure of previous governments to respond effectively to these threats. State weakness and criminal strength are two sides of the same coin and require decisive and innovative approaches to address. The United States can and should play a significant role in this process as restoring peace and stability in Mexico are fundamentally in the U.S. interest.

What are the security challenges faced by the incoming Mexican government?

Mexico suffered record homicide rates last year—nearly 30,000—or an average of one homicide every 18 minutes. So far, 2018 is shaping up to be equally bad. Homicides are not only up, but they are spreading throughout the country with 28 of 32 states experiencing an increase last year. Homicides are not the only problem, however; extortion, kidnapping, and theft of petroleum products—all of which are on the rise—also affect Mexicans and their economy significantly. Addressing the problems of corruption and public insecurity will be essential if the new president is to be successful.

The growing violence is typically assumed to be a byproduct of drug trafficking organizations battling for control of territories and trafficking routes. There is evidence to suggest this is partially true. One in ten murders in Mexico occurred in Tijuana last year, mostly the result of conflicts over access to the U.S. market for illicit drugs. Pacific port cities such as Manzanillo and Lázaro Cárdenas have become especially violent because they are important access points for fentanyl and precursor chemicals entering Mexico from Asia (mostly China) and heading north towards the United States. Nearby Guerrero has been one of Mexico's most violent states as groups fight for control of opium poppy cultivation and heroin export routes. Other states have experienced major upswings in homicides where trafficking organizations like the so-called New Generation Cartel from Jalisco have challenged other established criminal organizations for control of traditional trafficking routes in places like Sinaloa, Jalisco, and the Gulf Coast.

It is important to point out that not all violence is related to drug trafficking. Criminal organizations have diversified into other illicit activities such as extortion, auto theft, stolen petroleum products from the state oil company, and human smuggling. Transnational criminal organizations that bring cocaine from Colombia to the United States are important criminal groups as well, but they are one piece of the criminal landscape. Ordinary Mexicans often

experience violence more intensely from local criminal actors than they may from international traffickers.

While Mexico's exploding violence is clearly the result of criminal activity, it also reflects severe limitations within Mexico's law enforcement community, especially at the local level. President Calderón (2006-2012) and current President Peña Nieto (2012-2018) employed a strategy to dismantle and breakup criminal organization. While relatively effective in its initial phases resulting in the capture, extradition, or death of many criminal leaders, this strategy has also splintered criminal organizations, creating an unstable environment in which they fight among themselves to regain control of territory or routes, and increase violence in the process. Furthermore, the ability of state and local authorities to deal with the smaller, more violent, criminal groups is limited meaning initial successes in fracturing criminal groups has resulted in more crime and violence, not less.

Finally, López Obrador was elected in large part because of public outrage over corruption in government. Corruption has many manifestations but its impact on law enforcement and rule of law institutions is particularly debilitating to the state and deadly for Mexicans. According to a recent national survey conducted by the Mexican government, those who experience crime only report six percent of these incidents to the authorities; 94 percent go unreported. When asked why, most respondents responded that it was pointless and a waste of time. Some feared that reporting crime would result in injury to them or their family. These figures point to a bigger problem – Mexicans do not trust their institutions and the state's legitimacy suffers as a result. Police, prosecutors, judges, and prisons at local, state, and federal levels are perceived as seriously lacking and, at times, involved in criminal activity either directly or by failing to take action. The absence and failure of the state in specific areas of the country have allowed criminal organizations to take root, grow, prosper, and become powerful actors in their own right.

What is AMLO Proposing?

López Obrador is faced with a complex mix of failed strategies, institutional weaknesses, and growing public demands for change and greater security. While he has not outlined a coherent strategy yet, he and his team have hinted at a number of priority areas. These can be divided into three broad categories: structural changes of government institutions; strategic changes; and greater public engagement.

Structural changes: AMLO has proposed separating the federal police from the powerful Internal Affairs Ministry (*Gobernación*) as a way to create a more independent and professional police force. This is not a bad idea, but simply creating a separate institution does not guarantee greater professionalism. Furthermore, the greatest need for law enforcement professionalization is at state and local levels where the vast majority of Mexico's police are deployed. To address local capacity, AMLO has suggested subsuming state and local police under a broad federal umbrella. This may help to streamline communication and coordination efforts but specific strategies are

needed to rebuild a capacity of local and state institutions where they have largely failed, or are failing.

Additionally, AMLO proposes a phasing out of the country's military in public security and counternarcotics missions. Such a phase out has been promised by successive Mexican president dating back to the 1990s, but they have always failed because civilian law enforcement has not been capable of replacing the military in this role. AMLO is now proposing the creation of a National Guard, a constitutionally recognized entity that has never been activated. His plan is to stand up a National Guard that would, in large part, reduce or replace the need for Mexico's military to play a role in civilian affairs. Whether he can accomplish this goal is difficult to determine, with many expressing skepticism.

Finally, he has suggested he would dissolve or subsume Mexico's civilian intelligence force (CISEN) into another civilian agency. CISEN has been a controversial institution throughout its history especially because it, at times, has engaged in political espionage against Mexican citizens, including recently against transparency activists, journalists, and scholars. Furthermore, CISEN has not been adequately integrated into the security structures of Mexico, so its usefulness and relevance to anti-crime strategies has not always been clear. Nevertheless, it is important that Mexico maintain a professional and non-partisan civilian intelligence function to assist and inform Mexico's efforts to weaken criminal networks throughout the country.

Strategic changes: AMLO has prioritized the fight against corruption and social and economic investment in youth as key to his overall security strategy. If successful, both will have an impact on the security landscape by strengthening law enforcement and justice sector capacity and increasing their legitimacy, and, thus, encourage greater public trust in state institutions. Investing in youth programs is also a potentially helpful approach since youth, especially young men, are overwhelmingly the victims and perpetrators of crime in Mexico.

Nevertheless, these programs, even if successful, are unlikely to have a short-term impact on violence or crime throughout the country. A specific and targeted strategy to address local hotspots that combine both law enforcement and justice sector efforts along with a whole-of-government approach to meet social and economic needs is what is needed. This should involve all levels of government with support and assistance from the United States where requested.

Public consultation: There are a number of controversial issues that have been the subject of much debate during the recent campaign and current transition period. These issues include the possibility and scope of an amnesty law for those involved in illicit drug cultivation and small-scale trafficking; whether legal, regulated markets for some currently illicit drugs should exist in Mexico; and the process for creating and appointing an independent Office of Attorney General, now part of the Executive Branch and chosen by the President.

For each of these issues, AMLO has suggested some form of public consultation that would be undertaken either via a formal referendum, holding a public consultation, or through direct consultation and dialogue with civil society organizations.

How can the United States be helpful?

It is in the United States' national interest for Mexico to be a stable, peaceful, and prosperous neighbor; thus, it is important for the United States to consider ways to help the new government succeed in its anti-crime and anti-corruption goals. By collaborating with Mexico to improve its security landscape, the United States can secure its own security interests by partnering with Mexico. A stronger and more capable Mexican state, including at the local and state levels, will be more effective in shutting down spaces for criminal groups and weakening their ability to operate with impunity. As Mexico achieves these goals, it will become less reliant on the United States.

To further security collaboration with Mexico, the United States should consider support:

- To preserve and institutionalize a high-level security dialogue with the incoming government;
- For anti-corruption efforts by offering specialized assistance with investigations into Mexican authorities who have fled to the United States, or stashed money in the United States;
- For anti-money laundering efforts by fighting the use of the U.S. banking system to hide criminal proceeds;
- For the professionalization of all levels of police and encouraging a greater focus on state and local law enforcement development;
- For ongoing efforts to transition and strengthen the criminal justice system as a way to professionalize criminal investigations;
- For better coordination on border security along the U.S.-Mexico and Mexico-Guatemala areas;
- For efforts for modernization and professionalization of the Mexican army and navy in their traditional national security roles.

Resetting U.S.-Mexico Relations

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Secretary of State Pompeo led a high-powered U.S. delegation to Mexico City on July 13 to follow up a positive initial [phone call](#) between Mexico's President-elect, Andrés Manuel López Obrador (AMLO), and President Trump. The visit set the stage for work on the complex and interconnected bilateral agenda in the months ahead, covering trade, migration, border management and public security.

Accompanied by White House advisor Kushner, Treasury Secretary Mnuchin and Homeland Security Secretary Nielsen, Pompeo met with AMLO, who provided a letter for President Trump with a suggested "basis of understanding" for the work ahead.

Mexico's President elect was accompanied by a strong team that represented the importance of U.S. relations for Mexico: Foreign Affairs Secretary-designate, Marcelo Ebrard; designated Minister of the Interior, Olga Sánchez Cordero; the future secretary of Public Security, Alfonso Durazo; Jesús Seade, named to lead NAFTA negotiations; Graciela Márquez, the proposed Secretary of Economy (Commerce); and Matha Bárcena, proposed as Mexico's ambassador to the U.S. AMLO announced separately he would invite President Trump to his [inauguration](#).

Secretary Pompeo and the U.S. team also met with current Mexican President Peña Nieto and other members of government to discuss work in the months before AMLO takes office for his six-year term on December 1, 2018. Shortly after the visit, Mexico's current economy minister announced that U.S. and Mexican negotiators would reengage on NAFTA, seeking a preliminary deal by late [August](#).

The visit and surrounding announcements underscore the importance of U.S.-Mexico relations. Mexico's election and presidential transition provides an opportunity to reset [U.S.-Mexico](#) relations to a more positive tone. To succeed, both parties need to regularize respectful ways to manage divisive issues and find common ground, while avoiding the negative rhetoric that could drive them apart.

Many speculate that AMLO could be a "[pugnacious counterpart](#)" to President Trump and predicted clashes. AMLO and his allies have been sharply [critical](#) of U.S. words and actions, but they also make clear that they seek good relations of "mutual respect" and trust with their northern neighbor and understand the importance of economic ties to the U.S.

AMLO is riding to power on an enormous wave of support for change and with many promises to fulfill. He and his team are preparing specific proposals to address insecurity, corruption, inequality, and poverty, as well as government reform. They must get ready to implement them

without having ever governed nationally, and their “Morena” party, founded in 2014, has never managed a Congressional majority or the many state and local positions won on July 1. Popular expectations are high and Mexico’s challenges daunting.

AMLO’s history and political orientation are sharply different from President Trump’s. Yet, he and his team recognize that Mexico and the U.S. are deeply intertwined by geography, history, culture, politics, and economics. Those economic ties are key for AMLO’s hope to improve the lot of poorer Mexicans. On both sides of the border, the relationship is “intermestic”, international and domestic. For both countries, there is no other bilateral relationship that touches the daily lives of citizens more than the ties and issues involving each other, for good and for bad.

Some [80%](#) of Mexico’s exports head to the U.S. Mexico is the U.S.’ [second largest](#) export market in the world. Mexico is by far the U.S.’s largest international partner for “building things.”. The two countries trade a million dollars a minute, supporting millions of jobs in both countries. They manage a million legal border crossings each day. At the same time, millions of “undocumented” Mexicans live in the U.S. and tens of thousands of Central Americans flee toward Mexico and the U.S. each month. Illicit commerce includes drugs headed to U.S. consumers, and \$20-30 billion a year in [illegal drug](#) profits feeding violence in Mexico.

These factors provide strong incentives for the two governments to hammer out a modus vivendi. It will take patience, discipline, hard work and good will to produce a shared way ahead, however, and to manage the complex set of “intermestic” issues like immigration that spark passions in both countries. Issues of sovereignty, respect, pride and emotion can arise quickly from a stray comment or tweet.

NAFTA: [Efforts](#) to agree on a new North American Free Trade Agreement (NAFTA) top the agenda. Talks have been at loggerheads over such issues as readjusting the “rules of origin” for autos, whether to have a “sunset clause” for the treaty, dispute settlement provisions, and most recently, over U.S. tariffs on steel and aluminum, which led Canada and Mexico to retaliate. AMLO and his advisors support concluding the [NAFTA agreement](#) and seek U.S. and other investment to help generate jobs in Mexico as part of the [long-term solution](#) to crime and migration. His advisors plan to work with current Mexican negotiators, seeking to strike a deal by the time AMLO takes office December 1. A NAFTA agreement would boost all three NAFTA economies and be a good start for the six-year AMLO presidency.

Negotiators say an agreement is possible in the weeks ahead if Mexico, the U.S. and Canada can show flexibility and creativity on the big-ticket issues, which have stalled progress. The U.S. reportedly seeks to make headway first with Mexico and then work to bring Canada along, but until now Canada and Mexico have resisted U.S. efforts to split the [negotiations](#). Mexico and Canada have regularly argued that for success the negotiation needs to move from a “win-lose” perspective to a “win-win-win” outlook. AMLO, for example, no doubt hopes to portray early NAFTA agreement as a success to add momentum for the reforms he will initiate.

Migration and Border Management: The flow of migrants northward is the most sensitive issue for both countries to manage. [Net migration](#) from Mexico to the U.S. has been shrinking for about a decade, but an estimated 5.6 million “undocumented” Mexicans remain in the U.S. from earlier years. Migration from Central America northward has grown substantially since 2013-14. Mexican officials have been stung by U.S. criticisms and accusations that they do nothing to help on migration: they have sent [over 500,000](#) Central Americans back home. Mexicans, more broadly, are very critical of U.S. immigration policy and treatment of [migrant families](#).

AMLO previously criticized the current Mexican government for doing America’s “[dirty work](#)” regarding migrants. Yet, he has also proposed a new version of the 1960s era “[Alliance for Progress](#)” to address migration and development issues. AMLO likely has in mind significant new U.S. assistance to help alleviate poverty in southern Mexico and in Honduras, El Salvador and Guatemala as a way to address root causes of migration. Agreement on such a broad umbrella concept could help recalibrate and reinitiate U.S.-Mexican cooperation to manage migrants heading northward and to work with Central American governments, as well as to address some of the crime challenges in the region. [AMLO mentioned](#) the concept of such an agreement in his phone call with President Trump. He likely desires investment of significant U.S. resources. The U.S. seeks Mexican actions to keep migrants far from the U.S. border. Forging agreement will take a good deal of U.S.-Mexican groundwork.

Closely related is border cooperation. Over the past decade, the U.S. and Mexico transformed border management into a much more cooperative effort, making trade more efficient and handling security threats farther away from the actual border, thus reducing risks for the U.S. There is still much to do to create the agreed “21st Century Border.” Also, recent U.S. steps to enforce migration controls on the border have led the U.S. to suspend previous U.S.-Mexico agreements to facilitate handling of the return of Mexican migrants to Mexico, undermining the confidence of Mexican officials. The two sides should work to restore and build mutual confidence and joint work on border management in the months ahead.

Fighting Crime: Similarly critical is countering transnational criminal groups that supply drugs to the U.S. and fuel violence and corruption in Mexico. That cooperation took [an important step](#) forward in 2017 when U.S. and Mexican cabinet officials agreed to a strategy for targeting the entire chain of drug production, transportation, and finances of transnational criminal organizations. However, with the hostile atmosphere that developed over migration issues, Mexican officials became increasingly hesitant to take new steps. With Mexico’s change of government, there is an opportunity to redesign and reframe bilateral cooperation. This could include work to fight corruption and helping Mexican communities (and young people) caught up in criminal networks, which were central themes in AMLO’s campaign. AMLO and his team are still developing their public security strategy, however, including the approach to drugs (including decriminalization) and related criminal activity. The two sides should try to forge a common agenda and an action plan for collaboration on crime, the border and migration issues.

Quiet work in the months ahead can shape a better U.S.-Mexico relationship to the benefit of both countries. Progress requires careful, quiet, dedicated work by both sides (and with Canada for NAFTA). Avoiding negative public rhetoric from either side of the border will be key to building trust and agreement on a constructive *modus vivendi*.



President-Elect Andrés Manuel López Obrador and his pick for head of the Secretariat of Foreign Relations (SRE), Marcelo Ebrard (far right), meet with a U.S. Delegation led by U.S. Secretary of State Mike Pompeo on July 13, 2018. The delegation included White House Senior Advisor to the President Jared Kushner, U.S. Secretary of Homeland Security Kristjen Nielsen and U.S. Secretary of the Treasury Steve Mnuchin.