Neighbor at Risk
Mexico's Deepening Crisis

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With its 128 million people and GDP of $1.26 trillion, Mexico is strongly connected to the United States through geography, commerce, and family. What happens in Mexico directly affects the security and prosperity of the United States, and vice versa. Mexico, not China, is the United States' largest trading partner, with $614 billion in bilateral commerce in 2019. That interchange is now reinforced by the implementation of the United States-Mexico-Canada-Agreement (USMCA), which feeds and is fed by enormous U.S. investment—$101 billion in 2019, according to the U.S. Department of Commerce. Those commercial ties sustain the presence of 1.5 million U.S. citizens living in Mexico. The performance of the Mexican economy, local conditions, and the effectiveness of its governance thus affect American jobs, investment, security, and lives.

Beyond commerce, activities related to illegal drugs—ranging from the movement of cocaine to the production of opioids and synthetics to the distribution of fentanyl (although originating in China)—involve, at least in part, Mexico-based drug gangs and Mexican territory, just as Mexicans are victimized by weapons illegally smuggled into the country from the United States. The United States depends substantially on the efforts by and cooperation with the Mexican military and law enforcement to help combat narcotraffickers and organized crime in all of its forms.

Mexico's cooperation has further been instrumental in helping the United States manage the challenge of immigrants seeking to enter the United States, from hosting asylum applicants to using its newly created national guard to intercept migrants before reaching the U.S. border. In the context of global challenges from terrorism to pandemics, Mexico's cooperation and the quality of Mexico's governance are fundamental to homeland security. In addition, as China increasingly poses a geopolitical challenge to the United States in Latin America and elsewhere throughout the globe, having a friendly, stable Mexico next door is a strategic necessity.

Mexico, whose stability and well-being is thus vital to the United States, is currently locked in worrisome and mutually reinforcing health, economic, and security crises. It is strongly in the interest of the United States, although distracted by its own struggles, to be a particularly good and attentive neighbor in Mexico's hour of need.

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As of the end of August 2020, Mexico had reported almost 617,000 cases of Covid-19, with over 66,000 deaths, the second-highest number of infections in Latin America, behind only Brazil. Mexico's initial response to the pandemic was undermined by the hesitation of President Andres Manuel Lopez Obrador (AMLO) to enact strict quarantine measures in the first months of the crisis, by a large informal sector (an estimated 60 percent of the economy) that needs to interact to earn money to survive, and by economically precarious small businesses which could not remain closed for long. The AMLO administration had also just reorganized Mexico's public health system, resulting in many unresolved difficulties in procuring medicine and other matters just as the government must struggle to respond to the pandemic. The changes, which even before the pandemic fueled a shortage of drugs, including for cancer treatments for children, arguably undercut the ability of the public health system to respond to the Covid-19 crisis. The insufficient capacity and inability of the Mexican health system to adjust with sufficient rapidity were highlighted as specific areas of the country suffered major Covid-19 outbreaks, including Baja California, Nuevo León, and Mexico City. The United Nations Development Program, noting the relatively low levels of public health spending in Mexico, has called for an increase in resources.

As in the United States, in the face of political pressures to reopen the economy, Mexico's president called for a relaxation of quarantine measures. Correspondingly, individual Mexican states, responding to political and economic imperatives, began easing restrictions in June 2020, producing a new takeoff in infection rates. Evidence of underreporting and a significant increase in death rates not directly attributed to Covid-19 (including a tripling of the death rate in Mexico City) suggest the magnitude of the problem is far worse than official figures suggest.

Although Health Minister Hugo Lopez Gatell initially indicated that the peak of the pandemic in Mexico would occur in May (having revised his estimates on multiple occasions), he now predicts that the rate of new infections will continue to rise through October. The death toll is heading toward 65,000 and could go much higher.

An Economic Crisis Deepened by Covid-19

Even before the pandemic, the Mexican economy was showing signs of trouble, with low prices for the nation's oil exports and investor confidence undercut by policy changes from the incoming AMLO administration perceived as unfriendly to business, enabling to criminal violence, and problematic for trade tensions with the United States.

In this context, the impact of the Covid-19 crisis on the Mexican economy has been dramatic. With the shuttering of Mexican businesses due to the pandemic, the country's economic activity index fell 21.6 percent between May 2019 and May 2020. With temporary closures of businesses in the United States and significant restrictions on crossing the U.S.-Mexico border, non-oil exports to the United States fell 57.2 percent. As a result of such impacts, in the second quarter of 2020, Mexico's GDP contracted 18.9 percent; the International Monetary Fund (IMF) expects the Mexican economy to decline by 10.5 percent for 2020 as a whole, worse than its prediction of a 9.4 percent for the region as a whole. BBVA anticipates that the Mexican economy will not fully restore its demand for labor until 2024.

The impact of the crisis on ordinary Mexicans is stunning. By one estimate, 922,000 jobs were lost in the country in the first six months of the year, 73 percent of which are not expected to return.

Beyond the grave outlook for the coming months, Mexico's longer-term economic prospects are damaged by a number of factors. The United States, as Mexico's principal external market and source of investment, shows no indication recovering soon from its own Covid-19 induced recession and may contract as much as 4 to 5 percent in 2020 as the pandemic continues to play out in numerous U.S. states.

On the Mexican side, the prospect for rebounding from Covid-19 has been hampered by the market-un-friendly policies of AMLO, including restrictions on private investment in the electricity and petroleum sectors and policies that even before the pandemic had increased uncertainty in the business environment and reduced foreign investment. In June 2020, the Kearney FDI Confidence Index dropped Mexico from its list of the 25 most attractive places to invest globally.

Beyond contracting economic activity and an inhospitable investment environment, the Covid-19 pandemic has created a mounting fiscal crisis in Mexico despite AMLO's commitment to austerity. The crisis has reduced Mexico's revenues from both internal economic activities and exports at the same time that it has obliged the federal government to increase spending, including 3 billion pesos ($135 million) in credits for vulnerable populations impacted by the pandemic. The combination of low international oil prices and internal inefficiencies have turned Mexico's national oil company, PEMEX, into a major revenue drain on the national economy rather than a revenue producer, taking on $2 billion in debt in the second quarter of 2020. In June 2020, the World Bank extended Mexico a $1 billion credit line to help it address the crisis. Mexico's public debt is expected to leap from 45 percent to 60 percent by the end of the year. Fitch downgraded PE-MEX to junk bond status, and the Bank of America says the country could lose its investment grade.

As businesses are permanently eliminated, and the financial system is crippled, Mexico country arguably faces the risk of a lost decade of economic growth, far more grave than the period following its 1982 debt default.

Mexico's Security Crisis

Compounding Mexico's deepening health and economic challenges, the country faces an escalating security crisis, with the government's ability to respond undercut both by the Covid-19 pandemic and the AMLO administration's major reorganization of the security sector just prior to the takeoff of the pandemic.

Even before AMLO took office in December 2018, competition between an increasingly fragmented array of criminal cartels, affiliated gangs, and other groups in Mexico was spiraling out of control. In 2019, Mexico recorded a record number of homicides, 34,582. An additional18,000 Mexicans were killed in the first quarter of 2020, putting the country on track to break the new homicide record again, before the economic shutdown obligated by Covid-19 temporarily suppressed street crime, along with non-criminal interactions. Even with decreased reported street crime due to the pandemic response, the continuation of high-profile crimes, such as the June attempt to assassinate Public Security Minister of Mexico City (CDMX) Omar García Harfuch in the upscale, highly protected Mexico City neighborhood of Lomas de Chapultepec, although in part political theater and an effort to intimidate, also illustrates how bold criminal groups have become. Indeed, the attack came not long after the first murder of a federal judge, Uriel Villegas Ortiz, in five years, suggesting an increasing willingness of groups to directly attack the judiciary.

Even with social distancing, the impact of Covid-19 in closing businesses and suppressing opportunities to make money in the informal sector has expanded the number of desperate persons, increasing pressure on common crime, although, with Covid-19-related social isolation measures, the 75,712 robberies registered in the country from January through June is actually lower than for the same period in the previous year. Some consulted for this work see circumstantial evidence of increases in crimes such as home invasions and auto theft that show the increasing desperation of Mexicans and suggests that the concerns of contagion during the pandemic may have depressed crime reporting, since registering a crime may require a six to eight-hour wait in a crowded government office with only a remote possibility that it will do the victim any good.

Even crime on the seas in previously safe maritime areas is re-emerging as a threat. In 2019, there were 20 registered incidents in the Gulf of Campeche alone.

Even as levels of violence have increased, Mexico's largest criminal groups, including the *Jalisco Nuevo Generacion* (CJNG) and Sinaloa cartels, have become increasingly assertive. Both have strongly demonstrated their ability and willingness to defy the Mexican state.

A study by InsightCrime estimated that as of June 2020, the CJNG had become a major, or at least influential, criminal actor in over half of Mexican territory, including in the northern border region and center of the country on both costs. The capabilities and boldness of the group were illustrated by a video in which it assembled a large column of armored vehicles and fighters, including 15 armored trucks, some with mounted 50-caliber machine guns. Although not a threat to the Mexican government per se—the capability of the group was modest in comparison to a disciplined battalion-sized military force (of which the Mexican Army and Navy have many)—the video highlighted the ability of the CJNG to openly assemble a significant quantity of people and military vehicles in one place, plainly painted in military colors with the group's name, with relative impunity; bringing them together would have required hours and would have likely been detected by authorities.

The power and territory controlled by the CJNG across Mexico appear to be advancing. It is currently locked in a protracted campaign against the Santa Rosa de Lima Cartel for control of Guanajuato, Querétaro, and Hidalgo, the center of the illicit oil theft business (*huachicoleros*). AMLO's move against the *huachicoleros* in March 2019, by weakening the Santa Rosa de Lima Cartel as the dominant group (including the August 2020 arrest of key figure 'El Marro' Yépez Ortiz), has helped turn Guanajuato into the most violent state in the country. In October 2018, for example, 50 members of both groups were killed in a single firefight.

On the other hand, even the situation of the CJNG is subject to uncertainty. Since March 2018, a new splinter of the CJNG, Cártel Nueva Plaza, led by Carlos Enrique "El Cholo" Sanchez, believed by some to be supported by the Sinaloa Cartel, has emerged as a rival to the main group, creating the prospect of increased violence from infighting.

Beyond the CJNG, the rival Sinaloa Cartel has been weakened by the capture and January 2017 extradition to the United States of its titular leader El Chapo Guzman and associated infighting between the remaining leader, El Mayo, and the sons of El Chapo. Nonetheless, the cartel continues to possess enormous strength. In October 2019, for example, when federal forces captured El Chapo's son Ovidio Guzman Lopez in Culiacan, hundreds of cartel members with armored vehicles mounted a sustained heavy counterattack across the city, ultimately prompting the AMLO government to release its valued prisoner. The government's fiercely debated concession was arguably a turning point for criminal groups, and Mexico's political class, in their assessment of AMLO's resolve to truly take on the cartels.

The dynamics between major criminal actors such as the CJNG and Sinaloa Cartel, as well as smaller groups and affiliated gangs, have been significantly affected by the Covid-19 pandemic. The Chinese government's suspension of travel from Wuhan in early 2020 to control the Covid-19 outbreak also impacted to some degree the supply of fentanyl from Wuhan to Mexico. Similarly, the closure of borders by Latin American governments in response to the pandemic interrupted the ability of the CJNG, Sinaloa, and other Mexico-based criminal organizations to smuggle narcotics and profit from other illicit activities involving the movement of people and goods across borders. The negative impact of such challenges on criminal groups was limited, however, by their ability to adapt. The Sinaloa Cartel, for example, responded to the interrupted supply of fentanyl through workarounds in its production of synthetic drugs. With the closure of

borders to migrants and routine commerce, cartels expanded their use of alternative means such as submersible craft.

In some ways, the pandemic has actually helped the cartel consolidate its control over territory. In April, as the crisis unfolded, AMLO publicly criticized Sinaloa and the other cartels for distributing care packages to needy populations. In the state of Tamaulipas, the Gulf Cartel reportedly handed out boxes of food to residents in poor neighborhoods in Matamoros and Ciudad Victoria. CGNG, Los Viagras, and splinter groups of the Zetas, among others, have similarly provided relief supplies, building on a practice used during holidays to build leverage over vulnerable communities.

In the medium term, the risk is that criminal violence, fueled by an expanding mass of desperate people and competition between opportunistic criminal groups, on top of security forces distracted by reorganization and the demands of supporting the national Covid-19 response, threatens to significantly erode law and order in Mexico's major cities.

The Security Sector Response

As with the AMLO government's reorganization of the health sector, the response of Mexico's military, law enforcement, and intelligence apparatuses to the expanding security challenges has been hampered by significant, ill-timed, and arguably counterproductive reorganizations. These changes include the AMLO government's move of the federal police out from under the interior ministry (Gobernación), followed by its March 2019 plan to abolish the institution completely within four years and replace it with a new 100,000-person national guard. The latter, although nominally under civilian control, draws a significant amount of its manpower and leadership from the Mexican army and navy. As the federal police has been disassembled and its resources diverted to the national guard, the transition has consumed considerable attention from leaders, generated confusion, and damaged morale within the organizations involved. A significant proportion of Mexico's federal police officers have chosen to resign rather than transfer to the guard due to the changes in administrative arrangements, benefits, and organizational culture that the move implies. Recruitment of new officers into the guard has also been slower than planned (although unemployment arising from Covid-19 could help address that challenge). In the near term, a larger proportion of the personnel than expected has come not from the federal police or new recruits but were transferred over from the Mexican army and navy, supplemented by units still under military control but put in operational support of the guard. The resulting organization has an only superficially civilian character yet has organizational and culture issues that were not present when military personnel were directly within the military chain of command.

The new structure has also created difficulties with command and control, training, and intelligence for the armed forces. While guard members receive, or have received, training as military police through the army and navy, those coming over from the military do not bring with them the same level of training in civilian policing functions as the federal police force that the guard is replacing (although the training programs for new recruits provide some training and the former federal police transferring in bring some experience). Similarly, the guard does not have a well-functioning operational-level intelligence capability beyond support from the National Intelligence Center. It does receive some information from the army, navy, and elsewhere at higher levels, although this is limited by compartmentalization, a function of mistrust related to corruption.

With respect to legal matters, while national guard members have some protection for incidents that arise during the course of their operations, the AMLO government never fully passed a proposed law to clarify the legal status of armed forces members operating in support of the national guard.

Further compounding matters, AMLO's dedication of a significant portion of the new national guard to enforcing Mexican immigration laws, including increasing intercepts of Central American immigrants through the country, diverts resources away from the law enforcement mission for which the guard was initially envisioned. Even in the context of the national response to Covid-19, the national guard has continued the former federal police role of guarding Mexico's southern border.

In addition to the national guard, the AMLO administration abolished Mexico's civilian national intelligence organization, CISEN, replacing it with the National Intelligence Center (CNI). Despite the change in name and some organizational restructuring, the new entity arguably has not obtained substantially more resources, nor overcome difficulties with intelligence sharing from other entities such as the army and navy.

The central figure in the reorganization of the national security apparatus is formally AMLO's national security minister, Alfonso Durazo. Persons consulted for this research suggested that in day-to-day security matters, Mexico's military leaders continue to have a strong de facto voice in the management of security policy and that the president is increasingly dependent on their inputs and institutional capabilities to combat further deterioration of the security situation, particularly in the context of the Covid-19 pandemic. Indeed, it is often notably military leaders, and not Durazo, presenting the face of operations against criminal organizations at press conferences.

For Mexico's security forces (as well as other institutions), the response to Covid-19 has directly and indirectly reduced capability to focus on other challenges. On the one hand, the protocols required to avoid contagion within the armed forces impact the ability to concentrate forces in certain ways. At the same time, the priority understandably given by the AMLO government to the pandemic has displaced attention and resources from other missions. Mexico activated its national system for incident management for a public health emergency and brought the military in to support the national response, dedicating 4.5 million pesos to the military for the response, Plan BN-IIIe. The military's role in combatting the pandemic has included a troublingly broad array of tasks, from delivery of personal protective equipment, to purchasing ventilators and other equipment, to providing protection to distribution points and hospitals. The Mexican army, for example, provided 1,000 personnel to secure 38 government storage facilities for medical supplies. The armed forces further made their military hospitals available for Covid-19 patients.

As of late June 2020, the Mexican army had opened 13 of its hospitals for Covid-19 patients, in addition to providing 48 other smaller or temporary medical facilities. The navy, for its part, made eight hospitals available and used two of its logistics ships to provide hospital services (in Acapulco, on the Pacific coast, and in Veracruz, on the Gulf of Mexico). Both the army and navy have further administered public hospitals and contracted for medical personnel. The army supervises 32 public hospitals for the Covid-19 response and has constructed at least four field hospitals. The military has further helped distribute aid to Mexicans affected by the pandemic and associated closures, has used its facilities to fabricate goods needed for the response, including medical uniforms, boots, and protective masks, and has used its aircraft and other vehicles to help return almost 10,000 citizens trapped abroad.

While such activities have placed the armed forces in a favorable light, they also have strained both the army and navy as institutions. Indeed, while supporting the nation's response to the Covid-19 pandemic continues to be the priority mission, the current government has also made it responsible for a broad range of other tasks, from taking control of the nation's land and seaports (announced July 17, 2020, prompting the resignation of Communications and Transport Minister Javier Jimenez Espiritu), to planting trees (the

"sewing life" program), to administering programs to at-risk youth, to raising a special breed of Mexican horses, (Santa Gertrudis), magnifying the risk that the attention and resources of the army and navy will be stretched too thin to properly execute any of these missions.

Political Chaos and Drift

The political winds in Mexico have shifted dramatically since December 2018, when MORENA, the political movement that AMLO spearheaded, achieved a supermajority in the Mexican Congress, as well as six governorships. Amid questions regarding the government's management of the deepening crises in public health, the economy, and security, on July 16, 30 Mexican intellectuals wrote a letter criticizing what they termed as a move toward authoritarianism in the country and the government's "suicidal austerity" in response to the Covid-19 crisis. On June 13 and 14, widespread organized protests occurred in 100 cities in 10 states across the country, including "socially distanced" gatherings of honking cars demanding the resignation of AMLO, in part over criticism that the government was reopening too quickly, putting public health at risk. Protests demanding AMLOs resignation continued on multiple weekends thereafter. On the other hand, in July, residents in Oaxaca took to the streets demanding the reopening of bars and other clubs.

The significant number of protests against AMLO's government is complemented by indications of deep frustration and divisions within AMLO's cabinet over policy direction, as suggested by secret recordings smuggled to the press in August 2020. Further supporting indications of serious internal conflict, the July 23 resignation of Communications and Transport (SCT) Minister Javier Jiménez Espriú was the third such departure since AMLO took power (preceded by the July 2019 departure of Finance Minister Carlos Urzúa and the May 2019 exit of Germán Martínez Cázares, director of Mexico's Social Security Institute (IMSS). Beyond the cabinet, AMLO's MORENA movement, never a disciplined coherent party, has also shown increasing signs of internal divisions, including serious disagreements over the formation of the national guard and the June 2020 defection of Senator Lilly Tellez to the rival National Action Party (PAN). As the nation's June 2021 midterm elections near, the loss of MORENA's supermajority in the Chamber of Deputies is no longer unthinkable, raising the prospect of further party defections and difficulty for the AMLO government in responding to the nation's challenges as its health, economic, and security crises worsen.

Implications for the United States and the Region

The deteriorating situation in Mexico threatens to impact the United States in multiple ways. As seen in April 2020, when the Trump administration sought to convince AMLO to reopen factories tied to production in the United States, the health and economic crisis threatens U.S. supply chains and investors. The associated collapse of the Mexican economy may add millions of desperate Mexicans to the Central Americans seeking to immigrate to the United States while undercutting the country's ability and willingness to continue to manage such flows. The deteriorating security situation could increase the flow of lethal drugs to the United States while expanding the violence on both sides of the border. Mexico's increasing political chaos threatens to encourage the more radical tendencies of AMLO and benefit leftist currents within the MORENA movement. A shift toward a more politically chaotic and radicalized Mexican government would not only undercut Mexico's security and economic cooperation with the United States at the time when it is most needed but would likely deepen the AMLO government's opposition to the U.S. agenda on a range of regional issues, from the illegitimate Maduro regime in Venezuela, to support for U.S. positions on free trade, rule of law, and other important issues in the hemisphere. Mexico's historic influence among the countries of Central America and the Caribbean, the return of the populist left in Argentina, and the threat of a similar return in Bolivia and Ecuador make such a possibility particularly troubling for the United States.

China's Advance

Beyond the aforementioned adverse impacts on the United States, the deepening crises in Mexico add to the risk of China expanding its position in the country to a degree not seen since its 2001 entry into the World Trade Organization.

Although Mexico and China have acknowledged each other as "strategic partners" since 2003, multiple factors have heretofore slowed the deepening of the relationship. These include: substantial Mexican integration with the U.S. market in the framework of NAFTA; a Mexican economic structure which competes with China more than compliments it; the inability of Mexican governments to advance a coordinated policy that produces significant benefits for Mexico through economic alignment with China; an associated class of business and political elites which view China with distrust as a competitor; conservative Mexican governments which have prioritized the relationship with the United States over China; and, reciprocally, a Chinese government skeptical of the intentions of its Mexican counterparts and worried about alarming the United States by courting Mexico too aggressively.

While geography and economic complementarity with the United States make it unlikely that China will supplant the United States as Mexico's primary trade and investment partner in the near future, the current crises create strong incentives for China and Mexico to expand their commercial, political, and even security relationships, with significant negative strategic implications for the United States.

By contrast to China's cautious dealings with Mexico under the administrations of Felipe Calderon and Enrique Pena Nieto (including significant setbacks such as the failed $180 million Dragon Mart wholesale-retail complex and the twice-canceled high-speed rail project connecting Mexico City to Queretaro), President Xi's government arguably recognizes that the present administration is more in need of, and ideologically receptive to, dealing with China as an alternative to the United States. In addition, China under Xi Jinping is more confident and stronger, as it successfully emerges ahead of most of the world in battling Covid-19, and its rival the United States is far weaker, distracted by the Covid-19 crisis, and more internationally isolated than before, decreasing the risk of the United States imposing significant costs on China within Latin America for "meddling" in the United States' backyard.

While China's economic presence in Mexico is relatively limited, it is larger than commonly known. Hong Kong-based logistics company Hutchison Whampoa has a significant presence in four of Mexico's key ports: Ensenada, Manzanillo, Lazaro Cardenas, and Veracruz, as well as in the ground hub in the state of Hidalgo. Chinese construction company CCCC has a role in AMLO's Tren Maya as part of the Mota-Engil-led consortium, which won a $626 million contract for Phase 1 of the project on April 1, 2020. In manufacturing, companies such as FOTON and BAIC have a presence in Mexico's auto-parts sector, and others have significant roles in textile and other value chains focused on the U.S. market. In retail, Chinese wares have an increasingly dominant presence in Mexico City's Tepito market. Chinese petroleum company CNODC operates in the Perdido Basin of the Gulf of Mexico, having won an auction for the operation in December 2016. Chinese mining company Ganfeng Lithium has moved to acquire an interest in Mexico's substantial lithium deposits in Bacanora. In electricity generation and transmission, China-based firms have made advances as providers of wind and solar energy in Mexico, though generating significant local resistance in the process. Examples include an investment of $200 million by Chinese-owned Envision Energy in a 90-megawatt windfarm offshore from the port of Progresso on the Yucatan Peninsula, a source of violence and protests by local residents, and a solar project by the Chinese firm Jinkosolar in the Yucatan peninsula, currently held up in the Mexican courts.

With respect to technology-based industries, China-based Huawei and ZTE are significant sellers of smartphones and other equipment and infrastructure providers for Mexico's principal telecommunications companies. The rideshare company Didi has made Mexico its target market in Latin America. China-based banks such ICBC and the Bank of China also operate in Mexico.

With respect to educational and intellectual ties, the Chinese government organization Hanban currently operates five Confucius Institutes for the advancement of Chinese language and culture in Mexico: in a non-affiliated Confucius Institute in Mexico City; in the Autonomous University of New Leon; in the Autonomous University of Yucatan; in the National Autonomous University of Mexico; and at the Autonomous University of Chihuahua. In addition, hundreds of Mexican undergraduate and graduate students regularly study in China on scholarships, while Mexican reporters, influential think tank professionals, and others regularly are hosted in China on all-expenses-paid trips by the Chinese government.

While Mexico's proximity to the United States, and its integration into the U.S. market through the recently implemented USMCA trade agreement, works against China's replacement of the United States as Mexico's principal trade and investment partner, the Covid-19 crisis and AMLO's associated political and economic needs make expanded China-Mexico cooperation particularly likely in the areas of petroleum, energy generation and transmission, and infrastructure.

With respect to petroleum, AMLO's commitment to use PEMEX, rather than private investment, to expand the nation's oil production increases the attractiveness of Chinese loans to PEMEX as a substitute for such investment. Along these lines, in 2016, in conjunction with the entry of CNODC into the Perdido Basin, China unsuccessfully offered a $5 billion loan to PEMEX, just as China had previously offered a $10 billion loan to Petrobras in Brazil in 2009. That loan arguably opened the door for China's expansion in Brazil's oil sector, just as a Chinese loan to PEMEX in its time of need could do now. Indeed, PEMEX's grave financial situation now makes such loans a more attractive option for AMLO, particularly with its desire to use PEMEX rather than private investment to build the expensive Dos Bocas refinery in an atmosphere of low oil prices and skepticism by Western investors toward AMLO.

With respect to Mexico's electricity generation, AMLO policies perceived by investors as unfriendly or unpredictable for investors similarly compliment interest by Chinese construction companies, backed by Chinese banks, to expand work in Mexico, particularly given the number of Chinese companies which are already pursuing projects in the clean energy portion of the sector, and thus have contacts and experience there. A Chinese advance in the sector is further aided by AMLO's commitment to use government rather than private channels and capital to build electricity infrastructure. Indeed, Mexico's federal electricity consortium (CFE) currently seeks to construct five new plants to generate 54 percent of Mexico's energy by 2045. The AMLO government is expanding regulations to increase the Mexican government's control of electricity generation and transmission, rolling back 2013 reforms in the sector while restricting private operators. Such a posture creates a logical opening for AMLO and the CFE to negotiate government-to-government deals with China in which Chinese construction firms build electricity generation and transmission infrastructure for the CFE, funded by Chinese policy banks.

With respect to non-energy-sector infrastructure, the CCCC plays a role in AMLO's signature Tren Maya project, which AMLO has committed to continue despite Covid-19-related austerity measures. AMLO's commitment to government-led efforts on other signature infrastructure projects, such as the Santa Lucia Airport, position China as a partner for building and financing even more infrastructure deals.

Despite AMLO's ongoing display of interest in a positive relationship with the United States, including his July 2020 meeting with Donald Trump in Washington, the positive tone of the AMLO government toward China was on display in the 17th annual China-Mexico Bilateral consultation between the two governments, held in June 2020 as the annual working meeting of the China-Mexico permanent bilateral commission. The agenda of the meeting included not only the expansion of Mexico's commercial relationship with China but also political coordination to leverage Mexico's role in the G-20 and its seat as a non-permanent member of the United Nations Security Council, among other matters.

China and Mexico have also demonstrated their mutual interest in working together in their response to the Covid-19 pandemic. As of July 2020, the Chinese government had sent 23 flights with Covid-19 related medical goods to Mexico, purchased by (not donated to) the Mexican government. By the end of March, the country had purchased 11.5 million KN95 masks, 16.1 million surgical masks, and 550,000 gloves from a Chinese company. China has further offered a $1 billion line of credit to Mexico in a self-serving gesture to facilitate the country's purchase of a Covid-19 vaccine, presumably to be developed by China. Following an April 1 flight carrying 100,000 masks, 50,000 test kits, and five ventilators donated from China, Foreign Minister Marcelo Ebrard enthusiastically tweeted "Gracias China." Ebrard, who has visited China on multiple occasions, both in 2007 in his prior role as mayor of Mexico City and as foreign minister in 2019, was the leader of the commission talks and arguably spearheads Mexico's outreach to China, bringing to the table a personal appreciation of the value of Chinese investment and other ties for Mexico.

Recommendations

It is in the United States' strategic interest to support Mexico in the present time of crisis with respect and generosity. In doing so, it is critical to treat Mexico not as a failed state which requires charity, tutelage, or the imposition of order, but as a neighbor in need of collaboration and consideration to help it to weather the crises challenging both countries and the hemisphere.

In the economic sphere, the United States should fully leverage Mexico's geographic proximity and economic integration with the U.S. economy, as strengthened by the new USMCA treaty, to incentivize companies to use Mexico as a target for near-shoring activities in their product value chains as they diversify away from activities in China, given escalating trade frictions with China and vulnerabilities exposed by the Covid-19 pandemic. The Trump administration should also focus on additional opportunities to use the resources of the Development Finance Corporation and the *America Crece* program in this regard. The United States should explicitly avoid, wherever possible, threats of sanctions or other punitive measures over differences on trade and immigration issues, which introduce further uncertainty in the Mexican business environment and damage the relationship and associated cooperation.

In bilateral affairs, the United States should take advantage of AMLO's display of goodwill during his July 2020 visit to Washington to explore ways to improve the business environment for the United States and other Western investors, including commitments to respect and encourage the private sector as one pillar of Mexico's growth and to apply principals of equal treatment, transparency, and open competition in negotiating deals with China. In return, the United States should be prepared to offer concrete steps toward expanded U.S. investment and, even more importantly, a shift in posture on the immigration issue. In pursuing such complex, respectful bargaining, among other tools, the United States should fully leverage not only its team in the State Department Western Hemisphere Affairs and the Commerce Department but also the skills of U.S. Ambassador in Mexico Chris Landau, who has demonstrated considerable adeptness in balancing the pursuit of U.S. policy objectives with respect for Mexico's sovereignty and governance in these turbulent times, despite higher-level tensions in the bilateral relationship.

In the security arena, the United States should be prepared to expand effort and cooperation with Mexico on issues such as the smuggling of firearms across the border, the reduction of narcotics demand in both countries (treating Mexico as a stakeholder in reducing U.S. drug demand as much as focusing on disrupting Mexican cartels and supply routes), and providing greater training, material, intelligence, and other non-invasive support for the transition to a fully-institutionalized national guard, as well as continuing work with Mexico's army and navy. As part of this work with the guard, the United States should be prepared to apply less pressure for the use of the guard for immigration-control functions in exchange for ongoing, concrete demonstration by the AMLO government of a willingness to fully engage with the United States and take on the cartels and other criminal groups threatening Mexico's sovereignty and the security and prosperity of both countries.

The dilemmas confronting Mexico are grave. The choices available to Mexico and the United States to address the problems are neither easy nor cheap, but the cost of inaction is unacceptable. The interdependence between the two countries is too great to be addressed by even the highest of walls.