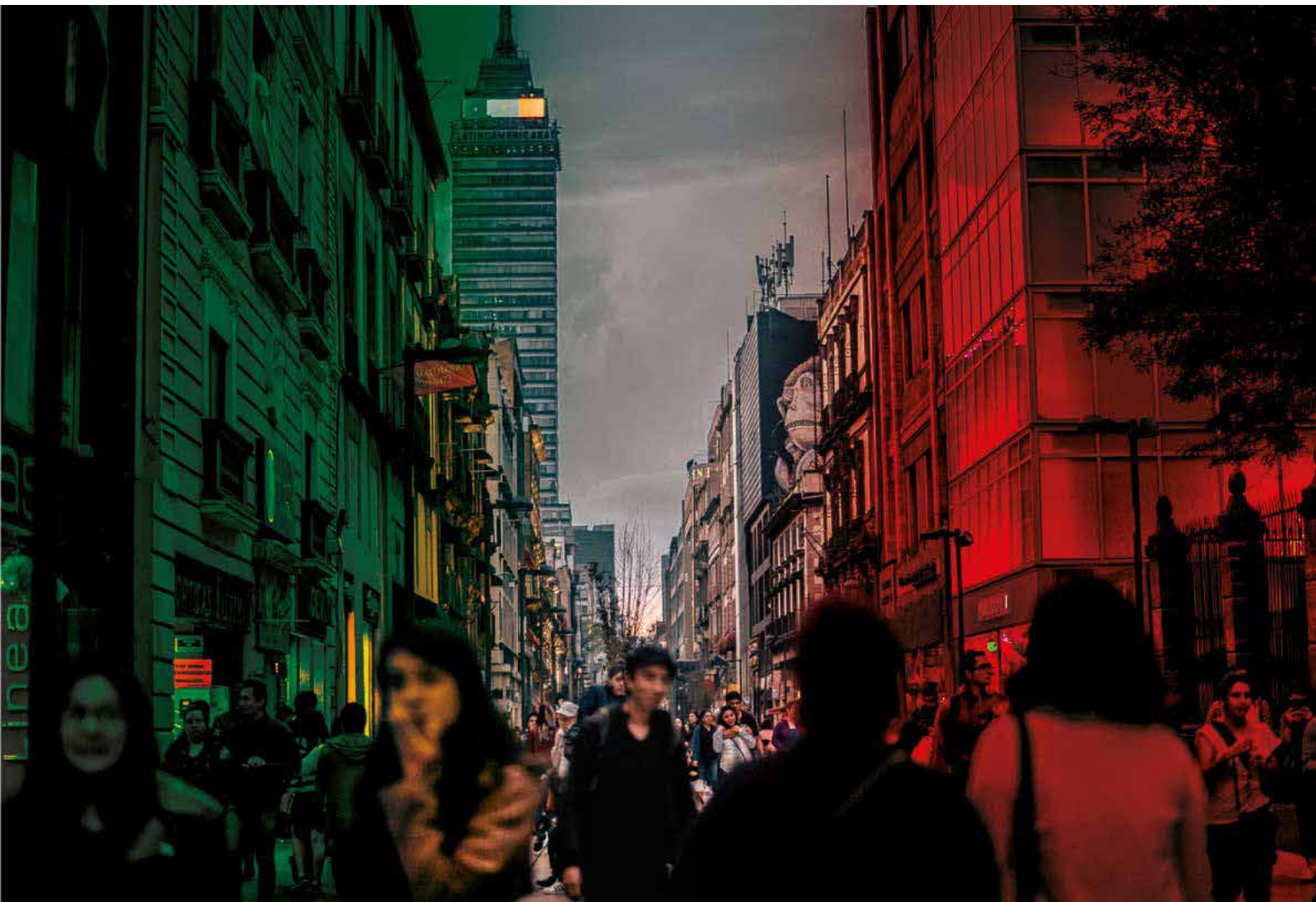


STRATEGIC ANALYSIS NOTEBOOKS SERIES

Mexico: A Deepening Crisis and Strategic Challenge for the US

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Mexico: A Deepening Crisis and Strategic Challenge

Dr. Evan Ellis¹

Introduction

Mexico, the neighbor which with the U.S. is most directly connected through shared borders,² commerce and investment, and bonds of family, is in deepening trouble in ways that profoundly affect both its people and fundamental U.S. strategic interests. The violent struggle that Mexico has waged against criminal groups, particularly during the previous two sexenios of Felipe Calderon and Enrique Peña Nieto, is in danger of being lost. There are multiple credible indications that Mexico's criminal cartels have compromised key parts of the current government of Andres Manuel Lopez Obrador (AMLO) at the highest levels, amidst a problem-ridden security apparatus that per the "hugs not bullets" policy of the AMLO government, makes only superficial efforts to combat them.³

Compounding the problem, the current government has, through laws and policy, significantly decreased security cooperation with the United States in the areas most needed to confront criminal groups operating in the country. This worrisome posture is compounded by a deepening leftist radical orientation in the country's foreign policy, and anti-market orientation in its economic activities that is collectively driving the country toward a deepening economic crisis, and in the long run, potentially driving it towards the People's Republic of China (PRC) as its savior.

The U.S. is profoundly affected by what happens in Mexico. Over 93,000 U.S. residents died last year alone from drug overdoses.⁴ A substantial number of these were from fentanyl imported from the PRC and reshipped or mixed with other substances by Mexican cartels.⁵ Both drug flows, and the U.S. border crisis escalated as a fundamental U.S. domestic political issue during the Administrations of Barak Obama, Donald Trump, and now Joe Biden. Effectively combatting both inherently depends on Mexico's cooperation with the U.S.

Beyond security, U.S.-Mexico supply chain interdependency has deepened substantially since the two nations bound themselves economically (along with Canada), through

the 1994 NAFTA accords. The impact of conditions in Mexico on US companies and investors was highlighted by the crisis in the production of U.S. defense goods, when parts of the Mexican economy that they depended on closed down during the early months of the Covid-19 crisis.⁶

In international affairs, in the US “near abroad,” Mexico has strong historical ties to and influence in both Central America and the Caribbean. Mexico’s foreign policy posture toward the region is thus critical for the US strategic position and the management of other challenges there. These include the US response to the malign influence of authoritarian regimes in Cuba and Venezuela, to include the deleterious effects of criminal activities and refugee outflows from Venezuela and the Northern Triangle. It also includes the US response to the advance of the PRC in the region.

It is precisely because of the many ways that Mexico affects the US, that the penetration of the Mexican state by criminal interests, Mexico’s deterioration into malgovernance, its turn to the radical left, its decreasing security cooperation with the US, its actions against US economic interests, its opening of a door for China, and its support for leftist radicalism in the region all matter so much for US prosperity and security.

To be clear, the U.S. shares a degree of responsibility for Mexico’s current plight. Unaddressed problems in the US continue to prejudice Mexico, including the significant persistent drug demand,⁷ and the repatriation to Mexico of money from drug sales in the US, which deepen the corruption of Mexico’s institutions. Similarly, firearms purchased legally in the United States and smuggled into Mexico by criminal actors, contribute to the deaths of Mexicans.⁸ Likewise, the flow of immigrants through Mexican territory, bound for the US, fuels countless criminal activities, including the illicit business of transporting those immigrants, as well as those who rob, extort, and exploit them.

Mexico’s Crisis

The current crisis in Mexico is the combination of multiple, reinforcing dynamics which have been mounting and eroding governance in the country for some time. In the current AMLO sexenio, however, they are spiraling out of control in particularly worrisome ways.

Mexico has long suffered from endemic corruption and, in the past two decades, escalating narcoviolence. Yet beyond the geographies and groups touched by the

drug trade, and the corruption and related inefficiencies in politics, the economy and society, the country has generally functioned reasonably well. Indeed, it has had a vibrant economy tied to that of the US, with diversified, relatively advanced manufacturing and technology sectors, as well as selectively good infrastructure and supporting services.

Despite such moderately good performance, the fragmentation and evolution of criminal groups caused by the Mexican government's war on the cartels have eroded the country's advantages. The July 2018 election of Andres Manuel Lopez Obrador (AMLO),⁹ with his Morena movement gaining control of both houses of Mexico's Congress and initially six of its states, reflected Mexican frustration with the corrupt politics of the entrenched PRI, PAN, and PRD party establishment. Nonetheless, the counterproductive and worrisome response to Mexico's challenges by the new administration, taking the country in precisely the wrong direction at the wrong moment.

Covid-19

The Covid-19 pandemic dramatically worsened virtually all of the nation's pre-existing socioeconomic stresses and challenges.¹⁰ The spread of the disease was facilitated by the country's traditional public markets and a large informal sector that made social distancing difficult. Controlling it has also been complicated by the AMLO government's refusal to recognize and adequately respond to the threat through shutting down the economy, ramping up public health measures in key areas (including ventilators and tests), and a public personal example with downplayed the threat.¹¹ The reorganization of the health sector, including a new public drug procurement organization and law (the SNS) further impeded the government response. As of late July 2021, Mexico had registered 2.8 million cases of Covid-19, with 240,000 deaths, one of the highest rates of mortality in the region.¹² Because of government slowness in dealing with pharmaceutical companies, and problems with the international Covax facility, only 19% of Mexicans were fully vaccinated by the end of July,¹³ with many of them having received the only marginally effective Chinese Sinovac vaccine.¹⁴

As a result of the pandemic, the Mexican economy shrank 8.5% in 2020,¹⁵ one of the steepest declines in the region, with long-term structural damage as vulnerable

small and medium companies were put out of business. Mexican government debt, according to the IMF, mushroomed from 53.5% of GDP in 2019 to 60.6% in 2020,¹⁶ despite the AMLO commitment to fiscal austerity that simultaneously limited the government's ability to protect the most vulnerable from the economic effects, and mount an adequate health-sector response.

Covid-19 also impacted organized crime in Mexico in a number of ways profoundly detrimental to the state's ability to manage the challenge over the long term. Although the disruption of fentanyl supply coming out of Wuhan China during the initial days of the pandemic inconvenienced Mexican cartels like Sinaloa and *Jalisco Nueva Generacion* (CJNG),¹⁷ such groups adjusted adapting their processes and using what was already in the pipeline, while also forging new relationships with intermediaries and new smuggling patterns.¹⁸

The elimination of small businesses and jobs through the pandemic, as well as other deleterious economic effects,¹⁹ has arguably swelled the ranks of the group of Mexicans desperate enough to participate in the activities of criminal groups, including individuals and small businesses allowing their accounts to be used for micro money laundering. At the same time, the pandemic has also created new opportunities for criminal groups, such as trafficking in fake tests, vaccinations,²⁰ and vaccination certificates, as well as cybercrime,²¹ particularly with the rushed transition of many to working remotely.

In neighborhoods, the pandemic helped criminal group to consolidate their control over populations by enforcing curfews and providing food,²² medical, and other goods for those in need.²³

The Evolution of Transnational Organized Crime

Even before Covid-19, the war on the cartels had produced a significant fragmentation of criminal groups in Mexico,²⁴ while increasing associated violence, with a record 34,500 homicides in 2019.²⁵ Complementary to that fragmentation, however, the Sinaloa cartel has continued to maintain a dominant position through a federated structure, global operations, and arguably support at the highest levels of the Mexican government, while a second group, CJNG, has continued to make significant gains.²⁶

CJNG in recent years has significantly increased its revenues through global narcotics operations, while using those funds to build a formidable organization and quasi-

military capability, expanding its dominion of Mexican territory through proxy wars. It has gradually dominated once powerful rivals such as the Gulf Cartel and los Zetas, obligating them into de facto alliances with CJNG on their own home territory. By the beginning of 2020, the US Congress estimated that CJNG had presence in 60% to 75% of Mexico,²⁷ rivaling or surpassing Sinaloa.

The partial suppression of public life produced by the Covid-19 pandemic, combined with the unstable equilibrium for the moment between CJNG and Sinaloa has allowed a temporary level off in violence in the country, although the hold of criminal groups over the national territory is arguably worsening, while governance and underling conditions continue to deteriorate.

Culminating with the current sexenio, virtually all of Mexico has become subject to influence by, or struggles for control between the country's criminal groups. Even once relatively safe areas such as Puebla and Nayarit have become dangerous, although some such as Queretaro have more limited violence, combined with expensive real-estate, suggestive that the territory is a neutral residential areas for organized crime bosses. The violence and deteriorating situation has internally displaced countless Mexicans. The number of displaced was estimated at 9,700 in 2020,²⁸ up from 7,100 in 2019. Guerrero, Oaxaca and Michoacan, focuses of criminal struggles had particularly high numbers of persons displaced.

As has periodically occurred in Mexico with the escalation of cartel violence, citizen militias have emerged, in an attempt to keep criminal groups out. Michoacan²⁹ and Guerrero³⁰ have been a notable focus for citizen militias.³¹ The emergence of the indigenous-based group “El Machete” in Chiapas is another example.³² Yet often those groups themselves ultimately become involved in corruption or compromised by criminal interests.

As noted previously, the Sinaloa Cartel, currently in contention with CJNG, is still one of Mexico's wealthiest and most powerful criminal groups. Its wealth is fed by its longstanding global connections, importing fentanyl and precursor chemicals for methamphetamine from China, while managing a global supply of cocaine from South America, heroine, and other goods to markets in both the United States and Europe, among other locations. While the extradition of Sinaloa's longtime head, “El Chapo” Guzman to the United States in January 2017 has arguably impeded its expansion,³³ the cartel has retained much of its territory, resources and organizational coherence as a federation within Mexico's fragmented criminal landscape.

The much lauded “division” in the cartel between “El Mayo” Zambada and the children of “El Chapo” Guzman (“los Chapitos”) was arguably shown to be overstated when,³⁴ in when 2019, the factions came together in a demonstration of massive coordinated firepower and planned violent response,³⁵ derailing the government’s capture of El Chapo son, Ovidio Guzman. In that battle, the cartel arguably took Mexican authorities by surprise when its fighters entered the residential areas where many of the families of the military members lived in an apparently deliberate plan to demonstrate their ability to put the loved ones of the security forces at risk.

Sinaloa’s chief rival, CJNG, has made particularly impressive gains in Mexico in recent years, as noted earlier. Most recently, those consulted for this work note that CJNG appears to be proceeding more cautiously in its advance against Sinaloa during the AMLO sexenio, possibly as it tries to evaluate the level of collusion between Sinaloa and the current Mexican government, and the implications for its own position. Indeed, as an indicator of such concerns, in July 2021, CJNG sent a public message to the Mexican Army regarding fighting in Michoacan. In the letter, CJNG simultaneously indicated that it did not want to fight the Mexican government, but would do so if, as it perceived, the government continued to side with its opponents.³⁶

The power of CJNG, and its associated expansion began to notably take off under the previous regime of Enrique Pena Nieto. On one hand, the group used its earnings to acquire or build significant firepower, including the “armored column” of vehicles brought together in July 2020 and displayed on Youtube, including an array of militarized vehicles with mounted 50 caliber machine guns,³⁷ accompanied by hundreds of armored soldiers. CJNG has reportedly also contracted foreign military advisors to train its personnel and has also innovated with an array of capabilities including weaponized drones in Michoacan.³⁸ The increasing capability and boldness of CJNG across Mexico has been highlighted by the June 2020 attempt to kill Mexico City police chief Omar Garcia Harfuch in broad daylight,³⁹ and the murder of Jalisco governor Aristoteles Sandoval in December 2020.⁴⁰

In territorial terms, CJNG’s growing strength includes advances in the states of Zacatecas (where it reportedly moved in in April 2020),⁴¹ Sonora, Nayarit, Baja California, Chihuahua, and Quintana Roo, among others. A key part of the CJNG strategy has been to lend help to groups on one side of ongoing struggles between other groups, taking advantage of their weakening. CJNG has also shown a pattern of cutting deals with its partners, allowing them to continue operations in their home

area, in a form complimentary to its own, more focused interests on their territory. This has occurred, to a varying degrees with the once powerful Zetas organization and the Gulf Cartel, both of which have been significantly reduced in recent years and induced to collaborate to varying degrees with CJNG.

With respect to the source of criminal earnings, synthetic drugs such as methamphetamines, and fentanyl, have become an increasingly important part of Mexico's narcotrafficking landscape, although cocaine also continues to be a key revenue producer. The shift in drug demand to methamphetamine and fentanyl, which do not require agricultural inputs in their initial stage, allows for more decentralized, less vulnerable production across the country. In addition, fentanyl, which has an exceptionally high value per weight, is shipped by mail, often relying on Mexico's traditional postal service, whose standards of security and accountability are arguably more than contemporaries such as FedEx or DHL.

Beyond drugs, the extortion and exploitation of immigrants has become an increasingly important trade, particularly in states that border the U.S., as well as along key transit routes. Illegal mining in Mexico is another key illicit revenue producer. Illicit mining areas include parts of Michoacan, Guerrero and to a degree, Chihuahua.

Oil theft, estimated to cost the Mexican state a billion dollars annually when AMLO came to office,⁴² also continues apace during the AMLO sexenio. It has, however, become less visible, with officially reported thefts decreasing by 91%.⁴³ At the beginning of the sexenio, the government very publicly went after the illicit trade, including actions against the Santa Rosa de Lima cartel, which played a substantial role in the business. Successive blows against the later cartel, including elimination of key leader "El Marro," allowed the rival criminal organization CJNG to move into the area, which it now dominates.

Mexican criminal groups have also engaged in a range of other crimes as well. Tens of thousands of trucks are hijacked each year in the country,⁴⁴ with the highway between Mexico City and Veracruz being a particularly dangerous route.⁴⁵

With respect to Mexico's criminal geography, several territories deserve particular mention:

In Michoacan, various militias and other cartels have banded together to resist the advance of CJNG. The recent fight over Aguililla can be understood as part of this struggle.

In Tamaulipas, where the Gulf Cartel once struggled against Sinaloa for control over key plazas leading to the U.S., Gulf is now partly subordinate to CJNG, although Sinaloa is still powerful in the state, including in Reynosa.

In Veracruz, seven major groups are in contention for power: CJNG, the Gulf Cartel and Zetas, plus local organizations such as Nuevo Siglo, as well as family bands. Although the Mexican Navy has control over the port of Veracruz, CJNG is seen as having strong control there. Meanwhile, the Zetas are working with the huachicoleros, while both the Zetas and Gulf cartel are also engaged in some extortion.

In Guanajuato, core of the illicit “huachicol” (petroleum contraband) business in the country, as noted previously, CJNG has largely displaced the Santa Rosa de Lima cartel, although both the Gulf Cartel and Sinaloa are also present.

In the State of Mexico, and Mexico City, CJNG has again achieved a dominate position, often working through surrogates. Multiple criminal groups are also present, including La Familia Michoacana, La Union, la Contra Union, and the Knights Templar in the border regions, as well as local groups. The Zetas, which were once strong in Mexico State, have largely been pushed out after the elimination of Zeta leader La Barbie.⁴⁶ In the Mexico City market of Tepito, Chinese, Korean, and Russian mobs reportedly still substantially control the zone.

Situation of the Mexican Security Forces

While corruption, the fragmentation of the Mexican criminal landscape, rising violence, and the expanding power of CJNG far preceded the AMLO sexenio, the response of the current government has seriously handicapped efforts by its security forces to seriously pursue the fight against criminal actors.⁴⁷

Upon assuming office, AMLO’s “hugs not bullets” approach,⁴⁸ compounded by questionable policy actions such as the previously mentioned release of Ovidio Guzman, have arguably emboldened the cartels in their actions to build forces, seize territory, and openly defy the Mexican state.

In the name of his promise to get the military “off the streets,” AMLO has managed to simultaneously expand its role and undercut its effectiveness, as well as that of police and intelligence organizations. AMLO first moved the Federal Police from under the Interior ministry (*Gobernacion*), then abolished it altogether, creating a new “National

Guard” to which his government indicated it wished to transition the best of the former police forces.⁴⁹

The initial structure of Mexico’s National Guard managed to achieve the worst of all worlds. It alienated former federal police because it was led and dominated by military officers. At the same time, it was not initially not under direct command of the Mexican Army. Nor did it initially have all of the authorities that previously corresponded to the federal police.⁵⁰

When many federal police chose to retire rather than transfer to the National Guard,⁵¹ the organization experienced difficulty with its recruitment targets, obliging the Mexican Army and Navy to cover the shortfall by loaning units. These entities, in some cases continued to wear their original military uniforms, merely putting on armbands designating them as part of the Guard.

The organization, which had approximately 100,000 members as of July 2021, has been promised a 50 billion peso budget increase,⁵² greater than the entire budget of the Federal Police which it replaces, to reach its targeted end strength of 150,000 by 2023.⁵³

Many of the military members loaned to the new organization were drawn from the Mexican Army’s Military Police brigades which former head of the Mexican Army Salvador Cienfuegos had created. In this manner, they came over with some rudimentary training in police work. Nonetheless, the institution that emerged was perceived by many of its non-military members, and Mexican society, as possessing a fundamentally military culture in its leadership and in the composition of its members and training.

Subsequent adjustments by the AMLO government to the organization of the Guard have made such perceptions and associated tensions worse. In October 2020, the government put all National Guard units under operational control of military district or zone commanders. Doing so not only strengthened “militarization,” but put Mexican Navy units under Army control. The government is currently seeking to make the entire Guard a suborganization of the Ministry of Defense, moving even further in the direction of the militarization of police functions. Also problematic, in the rough balance that has existed between the Mexican Army and Navy since the later was established as an administratively separate force in 1942,⁵⁴ the formal incorporation of the Guard within the Army would significantly expand its power relative to the Navy, adding to rivalry between the two forces.

Beyond organizational issues, Mexico's National Guard also has significant problems at the level of internal culture. Former Federal Police generally continue to self-identify themselves as "police," sometimes in tension with members loaned from the armed forces, who still view themselves as soldiers or sailors first.

The National Guard has also been slow in imparting basic police training and completing the certification process required by Mexican law. An estimated 90,000, or 90% of the force, are not yet fully certified as having been trained and vetted,⁵⁵ as the 2019 law creating the organization requires. In addition, the current state of training has, according to persons interviewed for this work, left enormous gaps within the organization in skills necessary for exercising police functions, including investigation, community policing, and emergency response, among others.

The Guard has also been further hampered by the orientation of its missions to date. During the early part of the AMLO sexenio, a significant portion of the newly created National Guard was oriented toward helping to control the flow of Central American migrants from its southern border through the country.⁵⁶

AMLO's creation of the National Guard also raises broader issues of his excess reliance on the military to tackle Mexico's grave problems. Such assignments, while promising short term improvements in performance and controlling corruption, also dilute the ability of the military in focusing on its core security functions and expose it to the corrupting influences associated with what it is administering.

In July 2020, AMLO assigned the Mexican Navy the role previously held by the Ministry of Communications and Transport, in administering ports,⁵⁷ a key point of entry and departure of criminal drug, mineral, and other illicit flows in Mexico. In 2021, AMLO similarly passed the mission of Customs to the Army, creating a new National Customs Agency with a military administrator. The Mexican military currently also administers the nation's pipelines and distributes gasoline and has been put in charge of overseeing construction of the country's new airport, all focuses of significant corruption and the activities of criminal groups, increasing the military's risk of being corrupted itself.

With respect to Intelligence, AMLO replaced the former Mexican civilian national intelligence agency CISEN, criticized for being politicized and lacking in both analysis and field agent capabilities against organized crime, with a new entity, the National Intelligence Center (CNI). AMLO appointed his close friend and retired General Audomaro Martinez Zapata to head the organization.⁵⁸ Although he appointed persons

of his own preference to head the each department of the newly created CNI, below the directors, many of the senior personnel and workers are reportedly the same as those who had populated the corresponding directorates of CISEN. The continuity reportedly includes senior level personnel in the Departments of Investigation, Security, International Affairs, Indigenous Affairs, and Terrorism.

In the area of state and local law enforcement, organizations long regarded as lacking the firepower and resources against organized crime, and vulnerable to corruption and intimidation, the consolidation of Mexico's 3,200 municipal police forces into more "unified" State-level structures of started under the Pena Nieto sexenio, has been substantially abandoned. Nonetheless, some coordination at the State level of municipal police budgets has reportedly been imposed with limited effect in states such as Morelos, Puebla, Tamaulipas, Chihuahua, Guerrero, Jalisco and Michoacan. The move to "unified command" ("Mando Unico,") an important focus of police reform during the Pena Nieto administration, is no longer discussed. Similarly, reform of state-level police has been similarly left to its course.

Compounding such problems, although here was once a loose division of labor between federal police which focused on grave crimes, and state and local police, which focused more on petty crime, some interviewed for this work argue that the distinction has largely been lost with the National Guard replacing the Federal Police.

Mexican Political Dynamics and AMLO's Turn to the Radical Left

Beyond matters of security, in both domestic affairs and security policy, AMLO has taken the country on an increasingly leftist populist course. In domestic affairs, this has contributed to both inefficiencies and an economic environment hostile to the private sector, at a time when the country most needs effective governance and a welcoming investment environment to recover from the damage done to the country by the Covid-19 pandemic. Indeed, one study shows investment in 2020 down 15%.⁵⁹

Exemplifying the problems with his approach, AMLO has sought to channel new oil development through the money losing national oil firm Pemex, already beset by corruption and inefficiency, rather than conducting new oil auctions to bring more private investment into the sector to expand production. This is particularly problematic from a revenue standpoint as output from some of Mexico's key existing mature fields decline.

AMLO's government has also notably quarreled with private companies in the sector including a dispute with Sempra Energy,⁶⁰ which came to a head in 2019. Similarly in the electricity sector, AMLO has imposed laws privileging the state-run CFE,⁶¹ rolling back previous positive reforms, to the detriment of private electricity production. Such policies are impeding private initiative for advancing "clean" energy, such as wind and solar projects in the country.

In infrastructure projects, AMLO has also run into problems. He raised concerns in 2018 by abruptly cancelling a \$13 billion project for a badly needed new international airport,⁶² well underway, creating major potential liabilities for the government, then eventually putting forward his own version, that project, the Santa Lucia airport, has been plagued by legal and other delays.⁶³ Accumulating Mexican violations of the labor provisions of the USMCA agreement have created tension with the US. Investor confidence in Mexico was further undercut by the June 2021 replacement of respected, pro-market Finance Minister Arturo Herrera with Rogelio Ramirez.⁶⁴

In foreign policy, AMLO's administration has sought to return to Mexico's left-oriented bid for leadership among the developing world, as pursued by then-President Luis Echeverria in the early 1970s, at the cost of significant problems with the United States. In a July 2021 address to CELAC, AMLO called for the replacement of the OAS,⁶⁵ and lauded Cuba's repression of its people and subversive activities in the region as a positive example of "resistance" to the US.⁶⁶ Mexico's Foreign Minister Miguel Ebrard announced Mexico's interest in reestablishing diplomatic ties with the rogue Kim Jong Un regime in North Korea.⁶⁷

With respect to politics, although AMLO's Morena movement is has captured and maintained enormous political power in Mexico at both the federal and state level at the expense of Mexico's traditional three parties, the PRI, PAN, and PRD, and has thus far generally used it in support of AMLO's agenda. MORENA initially secured election of a significant majority in both houses of Mexico's Congress (including a supermajority in the lower body), and a significant number of governorships, an area traditionally controlled by the PAN and PRI. In the country's June 6, 2021 elections,⁶⁸ the party strengthened, in net terms its position. In Congress, although it lost some of its previous position, MORENA maintained a strong majority.⁶⁹ Perhaps more importantly, in governorships, key bases of local political patronage, MORENA captured 11 of 15 governorships,⁷⁰ all of those contested with the exception of Michoacan.

Questionable AMLO Posture on US Cooperation and Fight Against TCOs

AMLOs actions in the security, domestic, and international spheres have clearly undercut the prosperity and institutionalization of Mexico, facilitated the growing power of transnational criminal organizations there,⁷¹ have significantly impeded the ability of the US to work with Mexico in facing that shared challenge, and have set the country on a path for both a transition to populist authoritarianism on the Venezuelan model, and increasing economic dependence on, and influence from China, to underwrite it.

While the evidence is not conclusive, the actions of AMLO and his Morena movement are strongly suggestive that the President, those close to him, and members of his political movement could be collaborating with Mexican criminal organizations, particularly the Sinaloa cartel, and using those relationships to further both their economic and political interests.

Multiple data points over the past three years suggest favoritism by AMLO and some connected to him for the Sinaloa cartel. Actions of concern include his (previously noted) deliberate release⁷² of Ovidio Guzman during the battle provoked by the latter's detention in October 2019.⁷³ It further includes the effort expended by AMLO to secure the return to Mexico of, and the US Justice Department dropping of charges against, former head of the Mexican Army Salvador Cienfuegos,⁷⁴ when the later had an apparently solid case against him, expressed in an indictment of more than 700-pages, followed by the President deliberately publicizing that case,⁷⁵ putting US sources and methods at risk.⁷⁶

Further adding to concerns, in December 2020, AMLO's government passed a new National Security Law whose principle effect was to introduce significant obstacles to the ability of the US (and others) to cooperate with Mexico in the fight against organized crime.⁷⁷ Problematic provisions of the new law included removing immunity for US DEA and other personnel operating in Mexico,⁷⁸ imposing onerous reporting requirements on Mexican contacts with US personnel, and obliging the sharing of all US intelligence data obtained on Mexican criminal organizations, with the very Mexican counterpart institutions that evidence suggests are thoroughly penetrated by those cartels.⁷⁹

Beyond these items, AMLO's government sought, in the same month of December 2020, to pass a new banking law that would have obliged the Bank of Mexico (BANIXCO)

to purchase bulk cash (dollars) from Mexicans, with a minimum or reporting requirements.⁸⁰ The proposed law was opposed by BANIXCO itself, as well as others who worried that it could (deliberately or inadvertently) help organized criminal groups more easily launder dollars obtained through their illegal activities in the United States.

Another act by the AMLO government that raised concerns was when his prosecutor's office dropped what Mexico's independent Financial Intelligence Unit (FIU) viewed as a solid corruption case against the MORENA-aligned head of Mexico's electoral tribunal (TEPFJ), Jose Vargas.⁸¹

Supporters of the "AMLO working with the cartels" hypothesis note that the only high-level criminal that has been taken down during the AMLO sexenio, by contrast to the administrations of his two predecessors, was "El Marro," head of the Santa Rosa de Lima cartel, detained in August 2020.⁸² Indeed, "El Marro" arguably was merely a local boss who had to be taken down because he had become too powerful and was stepping on the interests of other criminal groups in Mexico.

Also of concern are accusations made by the Governor of Tamaulipas Francisco Garcia Cabeza de Vaca to the DEA in the United States implicating two of the President's adult children and the Morena movement in ties to organized crime.⁸³

Perhaps the most damning, albeit circumstantial, evidence of AMLO collusion with organized crime has been his multiple visits to the tiny town of Badiraguato,⁸⁴ home of El Chapo Guzman and the Sinaloa cartel, including a respectful visit to the mother of El Chapo in March 2020.⁸⁵ Although no other Mexican president had previously visited the town, the President has provided only the most superficial of excuses for his multiple visits, most recently in July 2021.

Beyond AMLO, the Morena movement has made its most surprising advances at the State level, precisely in those areas along both coasts whose ports are key to them importation of precursor chemicals and other parts of Mexico's narcotics and other illicit flows. These advances include its capturing of governorships in Tamaulipas and Guanajuato, both well-entrenched PAN territory, as well as in Hidalgo, Veracruz, Puebla, Guerrero, and Quintana Roo, long PRI strongholds. These advances do not establish that Mexican criminal groups actually helped Morena to come to power in these areas, although there have been accusations of Sinaloa cartel funding to Morena. Now in power in those areas, though, Morena is in a position to take advantage of the illicit revenue opportunities arising from that control.

Beyond simply corruption, a more radical and worrisome interpretation of the current government's actions is that it is driven by the ambitions of some, within the more radical left part of the Morena movement, to expand control over, and ultimately tear down Mexico's democratic institutions, such as the use of appointments of allies to key judicial positions, legal changes to decrease transparency and checks and balances, and the exploitation (or even promotion) of corruption, violence, crisis and polarization to replace them with a leftist populist government, following the path pursued by Hugo Chavez and Nicholas Maduro in Venezuela, among others.

The connection of Morena to the organization of politically oriented conflictive community groups, has worrisome, if only partial parallels to the "collectivos" established by Hugo Chavez in Venezuela. The Morena-connected group that emerged in Chihuahua in 2020 to fight against a dam project is one example.⁸⁶ Persons interviewed for this work also spoke of, but could not substantiate, concerns about collaboration by radical Morena members with Mexican criminal organizations to obtain arms which they worried could be used in a future insurrection.

As noted previously, the collusion of AMLO and members close to him with the cartels, or a longer-term project to subvert Mexican democracy is only one possible interpretation of the evidence. A more charitable interpretation of AMLO is as a well-intentioned pacifist with exceptionally poor judgement and management skills, whose experiences and ideology lead him to take a particularly hostile posture towards US institutions such as the DEA without regard to the consequences. In that interpretation, the very questionable actions of AMLO have been compounded by bad advice of persons he trusts, radical agendas of some Morena members, and the involvement of some close to him in the country's pervasive corruption. Such a more charitable interpretation suggests possible future points of engagement with the US yet does not change the worrisome direction of the course on which the country is presently embarked.

The Advance of the PRC

Although the presence of China in Mexico has been historically limited by both political and structural factors, the deteriorating situation of the country under AMLO,⁸⁷ compounded by the Covid-19 pandemic, positions the PRC and its companies to make significant advances in the coming years, greatly expanding its influence there at the expense of the United States.⁸⁸

Mexico's physical distance from China, combined with its integration with the much closer US market, particularly with the 1994 North American Free Trade Agreement (NAFTA), has inhibited the Mexico-China trade ties. Expanded Mexico-US security cooperation during the Calderon and Peña Nieto sexenios furthered that trend. In addition, Mexico's manufacturing economy competes with, more than compliments, that of the PRC. The perception among many Mexicans of China as a threat⁸⁹ to their livelihood could be seen in resistance to the proposal to locate a \$180 million retail/wholesale/distribution complex for Chinese goods, Dragon Mart, near Cancun.⁹⁰ The cancellation (twice) of the proposed Chinese bullet train from Mexico City to Queretaro by the Peña Nieto administration is another example of PRC difficulties in advancing in Mexico.⁹¹

While Mexico did export some traditional products such as pork and tequila to the PRC, the costs to ship such products across the Pacific, versus to the neighboring United States created incentives for Mexico to focus on the latter.

Chinese companies did establish a limited presence in Mexico's manufacturing sector, including car plant by Foton in Veracruz,⁹² as well as JAC, Chang'an,⁹³ and BYD.⁹⁴ Its telecommunications companies, particularly Huawei,⁹⁵ have long operated in the Mexican market.

While AMLO has traditionally been suspicious of the Chinese, his new, more open posture was illustrated in the public apology he issued in May 2021 for a massacre of Chinese immigrants in Torreon in 1911.⁹⁶

In petroleum, AMLO's previously noted insistence in developing the sector through the troubled state-run firm PEMEX, rather than through private investment, has opened the door for expanded Chinese financing of the sector. China National Offshore Oil Corporation (CNOOC) has had a presence in the Gulf of Mexico since winning a bid to operate in the Perdido Basin in December 2016.⁹⁷ In 2014, it offered a \$5 billion loan to PEMEX to support its activities, similar to what China had done in Brazil in 2009 and 2016.⁹⁸ In those cases, the PRC issued \$10 billion loans to Petrobras on each occasion to position itself favorably regarding knowledge for future work.⁹⁹ In the Mexican case, the loan fund was turned down by the administration of Enrique Peña Nieto. Currently, the PRC has provided \$600 million¹⁰⁰ to fund the enormous and economically questionable Dos Bocas refinery,¹⁰¹ one of AMLO's signature projects in the sector. As PEMEX financial woes deepen and private creditors find it increasingly difficult to lend the firm money, AMLO will be tempted to turn to the PRC to fill the gap in the key Mexican industry.¹⁰²

In the electricity sector, as noted before, AMLO's insistence of privileging the CFE over private sector investment may create a similar opening for PRC. It is of note that in November 2020, China's State Power Investment Corporation (SPIC) acquired the Mexican renewables-focused power company Zuma Energy, during a time when other corporations were pulling out of the sector.¹⁰³ SPIC apparently had reason to believe that it could get better treatment in Mexico than those other actors.

In the mining sector, Bacanora, in the Sonora desert, is one of the largest potential largest lithium fields in the hemisphere. China's Ganfeng, with an existing presence in Argentina's lithium sector, acquired a minority stake in Bacanora, then in May 2021, offered to buy out the remaining shares.¹⁰⁴

In infrastructure, Chinese companies are playing a major role in AMLO's signature \$630 million "Maya train" project in the south of the country,¹⁰⁵ through both China Harbour, and through partner Mota Engil, in which China Communications Construction Corporation (CCCC) recently acquired a 30% stake.¹⁰⁶

If the paths taken by other leftist populist countries such as Venezuela under Hugo Chavez, Ecuador under Rafael Correa, and Bolivia under Evo Morales are an indicator, the cycle of deepening populism and Chinese engagement in Mexico is also likely to open spaces for other types of cooperation, such as expanded PRC military sales and engagement, or the construction of surveillance and security architectures and "smart cities" initiatives to address the challenges of insecurity in the country, and in the process, help the government to control its population.

Conclusion

Mexico's potential downward spiral into leftist populism, criminal dominance of the country, and the specter of dependence on China represents not only a disaster for the Mexican people, but an unacceptable strategic threat for the US, connected to Mexico by bonds of geography, commerce and family.

The United States must continue to treat Mexico with respect as a partner, work collaboratively on shared challenges, and respect its sovereign decisions, even while expressing its concerns and attempting to guide Mexico in the right direction. Mexico is, however, not Venezuela or Cuba. It has a vibrant democratic tradition with an array of parties, a vocal media, a diversified economy, and economically independent bases of

resistance to policies undermining democracy and Mexico's national interests. The vast majority of Mexicans would doubtlessly not embrace, as a policy choice, a downward spiral of criminality, violence, and populist authoritarianism. Part of the problem is that recent experiences have led many Mexicans to distrust the United States and their own political classes more than they distrust AMLO. Many Mexicans with whom I spoke are profoundly uncomfortable with the path they perceive the country is on, but believe that past course of action did not serve them well, and do not see ready alternatives.

It is imperative that the United States simultaneously do all in its power to highlight to the Mexican people what is happening, while being ready with a helping hand on an order of magnitude greater than the past. It goes without saying that the US must do far more with respect to its own drug demand, associated exports of illicitly obtained cash, and its weapons exports. Yet US shortcomings in those areas that should not be a vehicle through which it is shamed into silence as Mexico plunges ever more deeply into chaos.

While the United States must engage Mexico with hope and goodwill, it must also prepare for the worst. The Mexican revolution of just a century ago is a reminder that a Mexican plunge into self-destruction is not unthinkable, and has historical precedence. Accordingly, the United States must also begin now planning for the worst, even while hoping for the best: how to anticipate and mitigate the consequences if its large neighbor of 128 million people, its principal economic partner, which it shares a 1,954 mile land border, becomes a leftist authoritarian narco State, funded by and opening its doors to China's most predatory and strategically problematic advances, or worse, serving as a base, alongside Venezuela, Cuba and a host of others, to spread that ideology throughout the region.

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Endnotes

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