



## New Agenda and New Leadership in Mexico: Part I

*Barbara Kotschwar says President Obama can encourage incoming President Enrique Peña Nieto of Mexico to undertake economic and energy sector reforms.*

*Transcript of interview recorded November 29, 2012. © Peterson Institute for International Economics.*

Steve Weisman: President elect Enrique Peña Nieto met with President Obama at the White House in this last week of November. This is Steve Weisman at the Peterson Institute for International Economic with Barbara Kotschwar, research associate here to discuss and assess their meeting. Barbara, what from the U.S. point of view is significant about the fact that President Peña Nieto is bringing the Institutional Revolutionary Party or PRI [Partido Revolucionario Institucional ] back into power after 12 years in Mexico?

Barbara Kotschwar: Thanks, Steve. Mexico is, of course, very important to the United States and so it's consistent that President Obama would have a meeting with President-elect Peña Nieto just a couple of days before he assumes the Presidency. Mexico is our third most important trading partner. It's the second destination for U.S. exports after Canada, just to underscore the importance of the relationship. The leaders made some very positive statements. The is coming back into power after a 12 year gap. [It] was the main party in power for 71 years, then ceded power in the democratic transition to the PAN [Partido Acción Nacional, or National Action Party] which took two administrations, first Vicente Fox and most recently Felipe Calderón. Now Mexico has had a democratic transition back to the PRI and so in terms of the political economy of Mexico, this is very interesting. This raises questions of how the party that has had an autocracy over governments in Mexico for a very long time, how they will behave now in a democratic transition.

But in terms of the U.S.-Mexico relationship, I don't think this is a factor, which party is in power. I think the main elements that are important to the relationship is Mexico's continued openness to the United States. We have the North American Free Trade Agreement [NAFTA] that's been in force since 1994, that has been very successful at increasing trade and investment among the two countries and with Canada. Mexico and the United States share a thriving trade and investment relationship. What is interesting more so than which party is going to be in power are some of the initiatives that President-elect Peña Nieto has talked about implementing, the main one of course being energy reform. I think that that, along with his compliments on President Obama's immigration initiatives, probably will set the stage for a U.S.-Mexico relations onwards.

Steve Weisman: Let's talk about energy reform first. The PRI has long been associated with more left of center socialist nationalist positions. Of course, that changed in the late '80s and '90s, but what does the PRI now mean or what does the President-elect mean by "energy reform"?

Barbara Kotschwar: Energy reform has always been a very complicated issue in Mexico. The Mexican constitution forbids foreign participation in energy exploration and exploitation. Pemex, the Mexican State Oil Company, is responsible for all of that. According to the constitution only Mexican entities can be involved in the exploitation of Mexican natural resources. Now that said, it is generally agreed that Pemex doesn't have the capital or the technology to exploit Mexico's vast natural reserves

Steve Weisman: Especially now that the technology is rushing into new avenues like shale gas.

Barbara Kotschwar: Like shale gas, right.

Steve Weisman: Shale oil and shale gas.

Barbara Kotschwar: Right. Mexico is also emerging as one of the large emerging gas countries and so the capital and technologies are even more necessary. But in terms of oil, Mexico is, I believe, the 12th largest oil reserve holder in the world. But [it] hasn't been able to exploit that and so on the part of the PRI, I mean this is just the necessary in pragmatic initiative to try to prevent Mexico from becoming a net oil importer.

Steve Weisman: Which would be crazy?

Barbara Kotschwar: Which would, in a word, be crazy. Mexico's oil production has really been declining. In the mid-2000s Mexico produced 3.5 million barrels per day; now, that's gone down to about 2.5 million barrels per day.

Steve Weisman: Can the new PRI government circumvent the constitution or change the constitution to get around this?

Barbara Kotschwar: I think there will be a lot of resistance to circumventing the constitution, particularly in an issue that's been so contentious for so long. What they seem to be doing is trying to find a way to have foreign participation in which the Mexican state maintains the primary role. There seems to be some movement and there's cause for hope. President Calderón just managed to pass labor reform, not as stringent a labor reform package as advocates for labor reform had been calling, but it does seem to answer some of the concerns of both workers and employers. So Mexico's labor market, with labor market regulations, which have been relatively complicated -- which has made it very difficult to hire and fire -- which have not allowed part time work, have now made some of those much more flexible. So you can have more temporary contracts, people can work part time and so it's anticipated that this will bring many more jobs within the formal economy of Mexico. Mexico has a massive informal economy, which is due to some of the distortions in the Mexican Labor Code. It also means that people in that informal economy don't get the benefits of having formal jobs.

The fact that this passed can probably be seen as a sign of congressional willingness to cooperate and move forward on reform. This is a good sign for growth.

Steve Weisman: The Mexican Congressional... ?

Barbara Kotschwar: Mexican Congressional, right. This is a good thing for President Calderón because now his legacy, in addition to the drug war, which is often associated with the 50,000 deaths, was to be associated with being able to pass one of the most complicated reforms. Now that said, education reform is still outstanding, tax reform is still outstanding, and so President-elect Peña Nieto certainly has a lot of work ahead of him.

In terms of the U.S.-Mexico trade relationship, NAFTA is an aging agreement. I think NAFTA was state of the art in 1994, when it was first implemented. We've managed to accomplish most of the liberalization that was envisioned under NAFTA. Now it's time to look forward to more 21st century types of trade issues. Mexico and Canada will be joining the TPP, the Transpacific Partnership negotiations, in Auckland next month. That also provides some opportunities for the trilateral relationship to modernize itself.

Steve Weisman: I'm going to stop there and continue our discussion in a second part of this interview.