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Mexico's Engagement With China And Choices For Its Future

Mexico's Engagement with China and Choices for Its **F**uture



(Illustration/Diálogo)

BY R. EVAN ELLIS AUGUST 11, 2023

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Backgroind

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Mexico was one of the first countries in Latin America to recognize the PRC, doing so in <u>February 1972</u> under <u>left-oriented President Luis Echeverria</u>. The longstanding PRC-Mexico relationship and the latter's strategic importance as an economic power with regional influence led the PRC to recognize Mexico in 2003 as a <u>"Strategic Partner," one of the first states</u> in the hemisphere onto which it conferred that status. As with other PRC "strategic partners," the status was accompanied by the establishment of a <u>High-Level Working Group</u> designed to facilitate Chinese projects in Mexico, political coordination, and other aspects of the relationship. In 2013, under the U.S.-friendly government of Enrique Peña Nieto, Mexico upgraded its relationship with the PRC to an "<u>Integral Strategic Partnership.</u>"

Mexico as head of the Community of Latin American and Caribbean States (CELAC) <u>from 2020-2021</u>, led the region's advance toward the PRC in the 2021 China-CELAC forum. Mexico's then Foreign Minister and a <u>leading 2024 Presidential Candidate</u> Marcelo Ebrard has led trips to the PRC in 2019 to pursue business opportunities for Mexico and co-chaired the China-CELAC forum with <u>then Chinese Foreign Minister Wang Yi</u>, as well as leading trips to China <u>in July 2019</u> and <u>June 2023</u>.

Despite such seeming alignment, the Mexico-PRC relationship has been repeatedly subject to tensions over both political and commercial issues. Mexican President Felipe Calderon's meeting with Tibet's <u>Dali Lama on Mexican soil in September 2011</u> stimulated a <u>furious reaction from the PRC</u>. Separately, in November 2014, Mexico cancelled a rail project connecting Mexico City and Queretaro that had been awarded to China Railway Road Corporation (CRRC) over <u>contract irregularities involving a perceived conflict of interest involving the Mexican President's wife</u>. In January 2015, Mexico's environmental regulatory agency Profepa <u>stopped Dragon Mart</u>, a major wholesale-retail hub for Chinese companies and products in Quintana Roo, and <u>fined its developers</u> for <u>building road without the proper environmental studies</u>. The project was long <u>opposed by local retailers and manufacturers</u> who saw it as competition. In April 2022, Mexican President Andrés Manuel López Obrador <u>called for the nationalization of Mexico's lithium</u> sector after the Chinese mining company Ganfeng had just spent <u>\$264 million</u> to acquire full control over Bacanora, a major lithium deposit in the Sonora Desert.

The posture of Mexico's current government toward China reflects the competing imperatives of its close economic interdependence with the United States, structural economic competition with and mistrust of the PRC, combined with a desire to pursue Chinese commercial opportunities and give the country economic and political options independent of the United States.

Trade

Mexico-PRC trade has expanded <u>more than 18 times</u> to <u>\$136.7 billion</u> in the two decades since 2001 when the PRC was admitted to the World Trade Organization (WTO). Throughout that period, the PRC has consistently sold far more to Mexico than it has sold to the PRC, contributing to a perception of the PRC as Mexico's competitor. Although Mexico's exports to the PRC increased almost 17-fold from 2002 through 2022, from a mere <u>\$654 million</u> to <u>\$10.9 billion</u>, its imports from the PRC over the period were ten times greater than exports, <u>\$6.6 billion in 2001</u>, and expanded faster to <u>\$125.8 billion by</u> 2022.

Defying the pattern of trade between the PRC and many Latin American companies, Mexico's principal exports to the PRC are a combination of commodities and finished products. Its chief exports to the PRC in 2021, for example, were <u>copper, auto parts, and autos, followed by pork</u>. Other significant Mexican agricultural exports to the PRC include <u>fishmeal</u> and <u>avocados</u>.

Commercial projects

Despite structural competition between the two countries, Investment by PRC-based companies in Mexico is greater and more longstanding than is commonly realized. The China-Latin America and the Caribbean Network documents **\$20.8 billion** in investment from PRC-based companies in **150 projects** since 2001.

The dynamic of Chinese business in Mexico reflects both the fears of those who see China's entry as competing with Mexican-owned companies, and those who hope for economic benefit from partnering with, or working for PRC-based companies.

Much Chinese investment in Mexico has been motivated by PRC hopes for access to the broader North American market from Mexico through the NAFTA and now-uSMCA trade framework, particularly as the United States has imposed tariffs and other restrictions on goods made in the PRC. The current U.S.-China "decoupling," and its associated impulse for "nearshoring" in Mexico, to the extent permitted by the country's political and security conditions, is thus likely to drive more PRC-based companies to Mexico, seeking to protect their access to the U.S. market by transforming themselves from a PRC-based company, to a Mexican one. As non-Chinese companies such as Tesla are moving to Mexico, they are also encouraging their Chinese suppliers to-follow-them. In 2022, PRC-based firms accounted for 40-percent of Mexico nearshoring investment, and a remarkable 80-percent of space in newly built industrial parks in the country.

Manufacturing

SELECT LANGUAGE

ENGLISH

One increasing focus of China's manufacturing presence in Mexico is electric vehicles (EVs). FAW has expressed an interest in building a <u>\$350 million</u> <u>electric vehicles</u>. China's leading EV maker, <u>BYD</u>, <u>has also established a presence</u> in the country, while the PRC-based company <u>Solarever has provo</u> <u>\$1 billion EV battery plant</u> in Jalisco State.

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tor Chinese-owned computer manufacturer Lenovo has located its <u>biggest factory in the hemisphere in Mexico</u>. Driven in part was shoring, industrial parks in Mexican states close to the United States, such as <u>Hofusan Industrial Park in Nuevo Leon</u>, are full of

PRC-based companies.

Oil and gas

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PRC-based companies have established a limited presence in Mexico's petroleum sector, accompanied by numerous setbacks. In 2014, as the Mexican government of Enrique Peña Nieto was opening up the sector to foreign investment, the PRC offered a \$2.4 billion loan to PEMEX, similar to a \$10 billion loan China had made to Brazil's Petrobras to facilitate Chinese access to information and petroleum projects in Brazil's own oil sector. By contrast to the Lula government in Brazil, however, the Peña Nieto government in Mexico didn't accept the Chinese offer. Undaunted, China continued to pursue a stake in Mexico's oil sector. In December 2016, China National Offshore Oil Corporation (CNOOC) won a bid to develop the Perdido Basin, in the Gulf of Mexico adjacent to U.S. waters, although the field has reportedly not been as productive as the PRC had hoped.

More recently, in 2020, with the AMLO government in power in Mexico, the <u>PRC offered a \$600 million ICBC and Bank of China financing for Dos Bocas refinery</u>, but as with the 2014 \$2.4 billion loan offer, it was not accepted.

China has also sought access to Mexico's petroleum through long-term purchase agreements. In July 2023, for example, the Chinese energy company <u>Zhejiang signed a 20-year agreement with Mexico Pacific</u> to buy LNG.

Mining

China's presence in Mexico's mining sector can be divided between traditional mining activities, and lithium. In traditional mining, PRC companies have operated multiple small-scale mines, including those run by **China Unified Mining Development** in Guerrero, Michoacan, and Colima. In addition, the PRC-based Shaanxi Dongling Group has a small, \$3.4M mining operation in Sinaloa State, Los Vasitos.

In the traditional sector, according to subject matter experts consulted for this work, Mexico has continually had problems with illegally mined metals exported without the payment of taxes, through the port of Lazaro Cardenas, to principally Chinese buyers

The PRC's role in Mexico's lithium sector is both newer and more significant than that in traditional mining and is integrated with the PRC's previously mentioned position in the EV value in both Mexico and other parts of the region.

In 2022, the PRC-based mining company Ganfeng paid <u>\$264 million to complete the acquisition</u> of the Bacanora lithium field in the Sonora desert. Bacanora is a complement to PRC lithium extraction and processing operations in Bolivia, Chile, and Argentina, and will help supply Chinese car manufacturers, <u>as well as the U.S.-based EV maker Tesla</u>. In 2022, however, AMLO's announcement of his intention to "<u>nationalize</u>" the lithium sector raised doubts about the security of Ganfeng's position, although the Mexican government subsequently declared its intention to <u>respect Ganfeng's existing concession if it passes state regulatory reviews</u>. Given the paucity of non-Chinese lithium extractors in Mexico, however, the Mexican government's move raises the prospect that Ganfeng could become the <u>sole nonstate lithium miner in Mexico</u>, making Bacanora even more valuable if Mexico's attempts to develop the sector in other areas are not successful.

Logistics and infrastructure

The PRC has a significant, longstanding presence in Mexico's logistics sector. The Hong Kong-based firm Hutchison Whampoa has operated major ports in the country <u>since the late 1990s</u>. Hutchison currently has <u>seven port concession</u>s in Mexico: two in Ensenada, two in Veracruz, and one each in the ports of Lazaro Cardenas, Manzanillo, and the land port in Hidalgo. Mexico's current president López Obrador has questioned how Hutchison obtained generous leasing terms such as a 100-year concession for the port of Veracruz, and has <u>threatened to revoke the concession</u>, but has never pursued such action.

In land transportation in Mexico, PRC-based companies initially suffered multiple setbacks including the previously noted 2015 <u>cancellation of the Mexico</u> <u>City-Queretaro fast train</u> awarded to <u>a consortium led by CRRC</u>. Mexico's current President López Obrador has suggested, however, that <u>he may revive</u> the project, <u>presumably awarding it to CRRC</u>.

China's biggest land transportation construction project in Mexico is its work on López Obrador's signature Maya train connecting various cities and tourist sites in the South of Mexico. China Communications Construction Corporation (CCCC) not was the key partner in the construction of the first 227-kilometer segment of the train from Palenque to Campeche. In addition, its associate in the consortium, Mota Engil is 30 percent owned by CCCC. As with other PRC-worked projects in the region, the Maya train has already run into problems, including a strike by workers in Tabasco over non-payment of salaries.

The other major PRC transportation infrastructure project in Mexico is work on Line 1 of the Mexico City metro, awarded in November 2020 to PRC-based CRRC-Zuzhou. The project includes the purchase of trains and the building of a new metro control center.

Electricity

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also pursued other electricity projects in the country, including construction of the \$386 million Chicoasen II hydroelectric

The project was delayed by profests in 2016, a year after the mittal award; CIAL REPORT ACADEMIA MAGAZINES

PRC Presence in ____ scctors in Mexico



As in other parts of Latin America, PRC-based companies have established a significant presence in multiple sectors of Mexico's digital economy and infrastructure. In telecommunications, Huawei has operated in Mexico for more than two decades and has established a <u>major regional training center</u>, a <u>research and development center</u>, and a <u>call center</u> there. Mexican telecommunications companies like billionaire Carlos Slim's Telefonica, who once saw Huawei as a rival, have <u>come to partner with it in Mexico and use it as a supplier</u>. Chinese brands Huawei and Xiaomi together comprise a <u>quarter of the Mexican smartphone market</u>. In 2018, Huawei was contracted by the Mexican government to install <u>30,000 WiFi hotspots around the country</u>. Although the Mexican government, to alleviate U.S. information security concerns, gave the contract for Mexico's 5G "shared network" in the <u>north of the country to Nokia</u> rather than Huawei, the latter is still <u>positioned to play a dominant</u> role as Mexico rolls out 5G infrastructure.

Beyond traditional telecommunications, Huawei also has a <u>cloud computing hub</u> in Mexico. It offers low prices and other <u>incentives to attract Mexican technology startups</u> and other companies to locate their data and processes in the Huawei cloud.

China's penetration of Mexico's digital economy, and the security concerns associated with it, go beyond Huawei. ECommerce company <u>Alibaba</u> expanded its operations in Mexico <u>during the pandemic</u>. The PRC-based rideshare firm <u>Didi Chuxing</u> similarly made major <u>advances in Mexico during the period</u>, despite resistance from Mexico's traditional taxi drivers, in part by expanding offering through driver incentives and alternative products such as <u>food delivery services</u>. The Chinese messaging application TikTok, which has restrictions in the United States <u>over data security concerns</u>, is <u>widely used in Mexico</u>, and in March 2023, the Mexican government announced <u>that it would not prohibit the software in the country</u>.

In the security systems sector, PRC-based surveillance system company <u>Hikvision</u> has a significant presence in Mexico, boosted by its acquisition of a <u>major stake in the Mexican security systems company <u>Syscom</u> in 2021. The Chinese surveillance technology company <u>Dahua</u> is also present in the country.</u>

China also has a major role in other less recognized digital technologies in Mexico. Scanners built by the PRC-based company **Nuctec**, for example, are used in Mexican customs **and border checkpoints**, giving those with access to the data significant information about items passing into, out of, and through the country, including some ability to access the characteristics of electronic equipment.

China's ZPMC is a key supplier of cranes to major Mexican <u>international ports such as Manzanillo</u>. The U.S. government sees a potential risk from ZPMC digital scanners because they <u>collect considerable data about the contents</u> of the containers and other items passing through those ports.

Banking

The PRC position in Mexico's financial sector is more significant than commonly recognized. Hong Kong Shanghai Bank of China (HSBC) has long been a key player in Mexico's financial sector, as in many other parts of the world. In addition, the Industry and Commerce Bank of China (ICBC) and the Bank of China have offices in Mexico. By contrast, China Construction Bank (CCB), present in Brazil, does not have an office in Mexico. China's UnionPay, facilitates access to funds from Chinese financial institutions in Mexico.

Beyond supporting the advance of PRC-based business in the country, the growing PRC presence in Mexico's financial sector, together with its expanding commercial activities and presence on the ground in the country, facilitates money laundering by Chinese organized crime groups in support of Mexican drug cartels, as discussed later in this work.

By contrast to <u>Brazil</u> and <u>Argentina</u>, Mexico is not yet working with the PRC in significant actively further use of the RMB through commercial transactions or bank swap agreements in Mexico. Nonetheless, while the previously noted trade imbalance between Mexico and China complicate the use of the RMB in payments between the two countries, the strong PRC presence in the Mexican financial system creates the basis for moving in that direction if a future Mexican government wishes to do so.

Chinese Person-to-Person Networks in Mexico

As elsewhere in the region, the PRC uses multifaceted "people-to-people" networks to expand its influence and pursue its interests in Mexico. The PRC operates <u>five Confucius Institutes</u> in Mexico for the officially sanctioned teaching of Chinese language and culture. They are established in two important universities in Mexico City, as well as the Autonomous Universities in Nuevo Leon, Yucatan, and Chihuahua. These institutions <u>serve as gatekeepers</u> for capturing capable Mexican future political and business leaders with an interest in China and <u>sponsoring the education of the most promising</u> of these in institutions in the PRC.

Beyond Confucius Institutes, PRC-based institutions <u>sponsor numerous trips</u> for Mexican <u>academics</u>, consultants and <u>journalists</u> to the PRC, courting those Mexicans most knowledgeable of the PRC and its system, creating <u>ties of goodwill and obligation</u> that make them reluctant to speak out against the risks and negative aspects of the Chinese system, or to pursue the interests of their countries in areas where those conflict with PRC objectives.

Within Mexico itself, the Chinese Communist Party also maintains a web of United Front Work Department activities, including groups that advocate for expanded China-Mexico business penetration such as the <a href="Mexico-China-Mexico-China

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STATION WITH VIDEOS PHOTO GALLERY CARTOONS SPECIAL REPORT ACADEMIA MAGAZINES Or human trafficking by the two groups. Local families raise money for the international operating Chinese gangs to bring

Mexico has also become a hub for the importation of <u>Chinese fentaryl and precursor chemicals</u>, and their transformation into illicit drugs responsible for the overdose deaths of <u>106,000 U.S. residents</u> last year alone. According to a 2014 report by Mexico's Attorney General, the country's most internationally-focused cartels, <u>Sinaloa and Jalisco New Generation (CJNG)</u> have worked for years with Chinese triads such as <u>14K and Sun Yee On</u> to import precursors, mostly from Wuhan. Most recently, those cartels have set up <u>laboratories and pill presses</u> importing Chinese precursor chemicals, transforming them, and shipping them to the United States. In April 2023, the U.S. Treasury Office of Foreign Asset Control (OFAC) designated two Chinese chemical companies, <u>Wuhan Shuokang Biological Tech Co</u>. and <u>Xiaoli Pharmatech Co</u> for their roles in such activities. In June 2023, the U.S. Justice Department unsealed criminal indictments against <u>Anhui Rencheng Technology Co</u>, <u>Anhui Moker New Material Technology Co</u>, <u>Shutong Wang</u>, <u>and Shifang Ruan</u> for conspiring to import fentanyl into the United States.

The political sensitivity of the Mexico-China network was highlighted when, in response to concerns expressed in the United States, Mexico's President AMLO, <u>publicly asked his Chinese counterpart Xi Jinping</u> for help on the matter, although the Chinese disingenuously denied knowledge of illegal fentanyl shipments from the PRC to Mexico.

Many of those drugs and precursors are brought in through Mexican ports operated by the Chinese company Hutchison, including <u>Manzanillo</u> and Lazaro Cardenas, as illustrated by a <u>high profile drug intercept in May 2023</u>.

Beyond fentanyl, as noted previously Chinese organized crime groups are increasingly involved in money laundering for Mexican crime groups, greatly complicating efforts by authorities to track and go after cartel financial networks.

The expanding role of Chinese transnational organized crime in money laundering reflects the synergy between the previously noted local presence of Chinese organized crime groups in Mexico, their <u>longstanding ties with Mexican drug cartels</u>, and the opportunities afforded by growing PRC-Mexico trade and financial ties. Mexican cartels have used PRC-based banks and other institutions for trade-based money laundering <u>for more than a decade</u>. In 2012, for example, Mexico <u>fined its largest Chinese bank, HSBC</u>, for lax money laundering controls involving transactions connected to the PRC. More recent cases highlight how such laundering activities have expanded and evolved in dangerous ways.

Chinese triads now employ their international networks to launder the cash earnings of Mexican cartels in the United States and elsewhere in ways that significantly decrease the risks and costs for the cartels over traditional means, while increasing the rapidity with which they can obtain their money. In one scheme pioneered by Mexico-based Chinese criminal operative Li Xizhi referred to as "flying money." Triad members would pick up dollars from the cartels in the United States, and deliver them the equivalent amount of pesos in Mexico, in a matter of hours, charging the cartels commissions as low as 2 percent. They would sell the dollars to wealthy Chinese wanting to move their RNB out of the PRC, then provide the RNB obtained through such deals to companies in Mexico needing Chinese currency for purchasing goods in China. Each of these steps takes advantage of the opacity of Chinese financial institutions to make the transactions almost impossible to track for Western authorities.

China is also involved in Mexican organized crime as intermediaries and purchasers for a range of illicit activities, including in the mining sector, as well as in fishing. China is the major source of demand and purchaser of the bladder of the endangered totaba, obtained principally in the Sea of Cortes, and Chinese criminal groups operating in the area play a key role in the illicit trade. Although the Mexican government has attempted to clamp down on illegal totaba fishing, its efforts have had only limited impact. Chinese criminal groups are similarly involved in illegal wildlife trade in Mexica involving butter-flies, seahorses, shark fins, and tiger teeth, among other items. Such activities are often interconnected with drug trafficking and other illicit activities through elaborate money laundering schemes.

Security engagement

PRC military engagement with Mexico have been relatively limited, reflecting close U.S. security ties with Mexico's prior three governments, as PRC commercial and political activities in the hemisphere has expanded.

Mexico's Army and Navy have <u>periodically visited and received delegations</u> from their counterparts in the Peoples Liberation Army (PLA), and limited numbers of Mexican military personnel have gone to the PRC for professional military education and training courses, including several to whom the author has personally spoken.

PRC-based private security companies have had a minor presence in Mexico, including the "Mexico-China Security Council" formed in 2012 by former PRC official Feng Chengkang to protect Chinese personnel from gangs.

Nonetheless, the Mexican military has not publicly purchased Chinese weapons systems or received significant donations of Chinese military equipment. Nor have the two countries publicly signed defense cooperation agreements.

Looking to the future

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The balance that the next Mexican government, to be <u>elected in June 2024</u>, will pursue toward the PRC and the United States, is difficult to predict. Within the context of the major contenders to lead Mexico in 2024: <u>Claudia Scheinbaum, Marcelo Ebrard</u>, or <u>Xochitl Galvez</u>, will competing incentives and tensions, and the promises and risks of engagement with the PRC, in different ways.

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2024 elections must evaluate the country's engagement with the PRC in terms of the country's long-term interest, in the context of the graph Mexico finds itself. That geography defines not only imperatives for Mexico's continuing cooperation with its neighbor to the North on matters of security and migration, but also the economic relationships which make the most sense for Mexico, from the perspective of the

North on matters of security and migration, but also the economic relationships which make the most sense for Mexico, from the perspective of the attractiveness of the North American market for Mexican exports, and the value to Mexico from integrated supply chains connecting Mexico to the North American market, with the administrative and legal predictability and other investment incentives provided by the U.S.-Mexico Canada Free Trade Agreement (USMCA).

Mexico as a sovereign state, has every right to pursue political, economic, and other relationships with the PRC. The Mexican government has an obligation, however, to do so in a way that most effectively works toward the long-term interests of the Mexican people. To that end, the inherent role of the PRC as a structural competitor to Mexican industry and its efforts to capture the value added of manufacturing and technology supply chains for the Mexican people should be a fundamental consideration.

As with other governments in Latin America, the cornerstone for engagement by Mexico's next government with China should be transparency and good governance. Transparency will help to ensure that the deals that are signed are in the best interest of the Mexican people, and not side benefits to the elites who sign them, or whose associates and families are brought into the business. Looking to important future infrastructure projects such as the Trans-Seismic corridor, effective Mexican engagement with the PRC requires strong institutions with competent requirements planning to ensure that investments of the people' money are supported by a solid business case, so as to create enduring value for the Mexican people, and not simply the Chinese firms that build the projects. It demands a level playing field and technically competent evaluation of contracts and adjudication of bidders.

In security affairs, it is vital that Mexico also demand greater transparency from the PRC regarding its supply of fentanyl, fueling the wealth and violence of cartels such as Sinaloa and Cartel Jalisco New Generation, as well as cooperation regarding the activities of PRC-based mafias engaged in human trafficking, money laundering, and other illicit activities on Mexican territory.

As Mexico pursues opportunities with PRC from the perspective of transparency and institutional strength, the United States has an inherent role, in both protecting its own interests, while helping Mexico to conduct its relationship with the PRC safely and successfully. That includes ongoing U.S.-Mexico security cooperation on issues such as PRC-sourced fentanyl trafficked to the United States by Mexican cartels, money laundering schemes such as "Flying Money" that involve all three countries, migration toward the United States that involve Chinese mafias in Mexico, and Chinese telecommunication and electricity infrastructure in Mexico that is integrated with that of the U.S., just to name a few. The U.S. has worked with Mexico under the Merida agreement and now the Bicentennial framework to help strengthen Mexican institutions and solve common challenges. That principal of U.S.-Mexico partnership makes more sense than ever as Mexico's next government pursues the potential economic benefits of engaging with China while seeking to avoid the pitfalls.

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