Understanding Mexico’s Position in the Context of the Growing Intersection between Geopolitics and International Finance

José Miguel Alonso-Trabanco*
José Carrillo-Piña**

Abstract: This paper argues that, based on a comprehensive assessment, Mexico’s national power in the field of finance is feeble. Therefore, the Mexican state is not prepared to address in an assertive way the increasing expression of systemic geopolitical rivalries through financial channels. Likewise, its close economic ties to the US increase Mexico’s degree of exposure to a potential external disruption. As a result, there are structural imbalances and vulnerabilities which jeopardise the country’s national security. Moreover, this dangerous situation is heightened by a lack of appropriate policies and institutional capabilities.

Keywords: Mexico, Geopolitics, Finance, Geoeconomics, Grand Strategy.

Resumen: Este artículo argumenta con base en una evaluación integral que el poder nacional de México en el campo de las finanzas es débil. Por tanto, el Estado mexicano no está preparado para abordar de manera asertiva la creciente expresión de rivalidades geopolíticas sistémicas a través de los canales financieros. Asimismo, sus estrechos vínculos económicos con EE. UU. aumentan el grado de exposición de México a una posible afectación externa. Como resultado, existen desequilibrios y vulnerabilidades estructurales que ponen en peligro la seguridad nacional del país. Además, esta peligrosa situación se ve agravada por la falta de políticas y capacidades institucionales adecuadas.

Keywords: México, Geopolítica, Finanzas, Geoeconomía, Gran Estrategia.

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Mexico’s Geoeconomic Background

Paradoxically, New Spain—the entity that would eventually become Mexico—achieved a considerable degree of geopolitical and geoeconomic projection during its colonial period, thanks to several factors, like the development of its potential when it comes to maritime reach, the exploitation of its mineral wealth and the global circulation of a currency minted with New Spanish silver, as well as the country’s favourable position for interoceanic trade with both Europe and Asia (Escalona Ramos, 1959). In these developments, the action of local merchant guilds was crucial (Stein and Stein, 2002). Hence, New Spain was, by far, the most strategically valuable colony for the Spanish crown (Ostos, 2015).

Later, during the country’s early years as an independent national state, an ambitious foreign policy agenda was being contemplated. It was believed that Mexico could become one of the world’s leading centres of gravity, as a rising power that could pursue its national interests in Europe, the Asia-Pacific region and the American hemisphere. After all, recent history indicated that such an ambitious plan was feasible (Ramírez-Bonilla, 2016).

In the same period, in order to obtain England’s diplomatic recognition, Mexico negotiated a loan with leading English banking establishments like Barclays and Goldsmith—both headquartered in London—(Guerrero, 1901). In other words, this episode illustrated that, as a young sovereign state, Mexico resorted to financial vectors in order to satisfy its geopolitical imperatives.
In contrast, during the early and mid-19th century, Mexico constantly had to resort to foreign creditors –mainly Britain, France and Spain– in order to make ends meet, but its inability to repay those debts due to internal turmoil generated military and diplomatic tensions with said European powers, something that could have potentially compromised the country’s sovereignty or territorial integrity back then (Payno, 1982).

Likewise, Mexico has also been a battlefield where competing geoeconomic interests have clashed. Such situation was witnessed when the US, Great Britain, Germany and France essentially regarded Mexico as a chessboard before and during the chaos unleashed by the Mexican Revolution (Katz, 2013). Their rivalries were motivated by their interests in increasing the market share of their national companies active in Mexico, controlling investments in large infrastructure projects and having privileged access to the country’s deposits of natural resources, mainly minerals and energy.

**Assessing Mexico’s National Financial Power**

Concerning the current reach of country’s national power in the field of finance, the following table –made by the authors based on the references mentioned in each case– reflects several important aspects that are worth considering. It is important to underline that these analytical categories follow the model proposed by Alonso-Trabanco (2019).
Table 1. Comprehensive Assessment of Mexico’s National Power in the Field of Finance

<table>
<thead>
<tr>
<th>Relevant Referents</th>
<th>Assessment and Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Central Banking</strong></td>
<td><strong>Management of monetary policy</strong></td>
</tr>
<tr>
<td>Monetary policy responds primarily to the interests of the financial sector—whose leading entities are usually foreign—instead of to the country’s development goals (Herrera-Avendaño, 2018)</td>
<td>Furthermore, there are structural incentives to take advantage of the peso’s depreciation in the operation of mechanisms to artificially increase government spending, in order to satisfy short-term political objectives, even at the expense of the national currency’s purchasing power (García, 2016).</td>
</tr>
<tr>
<td>Interest rate</td>
<td>4.5 % (Global Rates, 2020).</td>
</tr>
<tr>
<td><strong>Financial Development</strong></td>
<td><strong>Financial Development Index</strong></td>
</tr>
<tr>
<td>World’s 50th position (Svirydzenka, 2016).</td>
<td></td>
</tr>
<tr>
<td><strong>Financial Institutions Index</strong></td>
<td>World’s 75th position (Svirydzenka, 2016).</td>
</tr>
<tr>
<td><strong>Financial Markets Index</strong></td>
<td>World’s 45th position (Svirydzenka, 2016).</td>
</tr>
<tr>
<td><strong>Financial Institutions Depth</strong></td>
<td>World’s 65th position (Svirydzenka, 2016).</td>
</tr>
<tr>
<td><strong>Financial Institutions Access</strong></td>
<td>World’s 78th position (Svirydzenka, 2016).</td>
</tr>
<tr>
<td><strong>Financial Institutions Efficiency</strong></td>
<td>World’s 75th position (Svirydzenka, 2016).</td>
</tr>
<tr>
<td><strong>Financial Markets Depth</strong></td>
<td>World’s 48th position (Svirydzenka, 2016).</td>
</tr>
<tr>
<td><strong>Financial Markets Access</strong></td>
<td>World’s 40th position (Svirydzenka, 2016).</td>
</tr>
<tr>
<td><strong>Financial Markets Efficiency</strong></td>
<td>World’s 43rd position (Svirydzenka, 2016).</td>
</tr>
</tbody>
</table>
| **Stock Exchange(s)** | • 118 issuing entities (Bolsa Mexicana de Valores, 2018).  
• Capitalization value as percentage of GDP: 37.05% (Bolsa Mexicana de Valores, 2016). |
La revista *Norteamérica* publica versiones *Ahead-of-Print (AOP)* de los artículos dictaminados mediante una rigurosa evaluación de tipo doble ciego y que han sido aceptados por el Comité Editorial con el fin de ofrecer un acceso más amplio y expedito a ellos. *Norteamérica* publishes Ahead-of-Print (AOP) versions of all manuscripts that have undergone a rigorous double-blind peer-review and been approved for publication by the Editorial Board in order to provide broader and earlier access to them.

### Relevant Referents

<table>
<thead>
<tr>
<th>Foreign Exchange Reserves</th>
<th>Volume</th>
<th>175.3 billion USD, equivalent to the world’s 14th largest (Central Intelligence Agency, 2019).</th>
</tr>
</thead>
</table>
| **Composition**           |        | • 2.8% denominated in gold (World Gold Council, 2020).  
• The rest is likely denominated in US dollars mostly. |
| **Gold**                  |        | • 120.1 tons, i.e. the world’s 29th largest (World Gold Council, 2020).  
• They are not physically located on Mexican soil and the Bank of Mexico has verified neither their existence nor their integrity (Barba, 2013). |
| **Silver**                |        | • 2016 Production: 5,600 metric tons; Reserves: 37,000 metric tons (U.S. Geological Survey, 2017). |
| **Indebtedness**          | External debt | 445.8 billion USD (Central Intelligence Agency, 2018). |
| **Currency Internationalisation** | Share of the value of international payments denominated in MXN | The Mexican peso (MXN) is the world’s 18th most used currency, with 0.28% of the overall total (SWIFT, 2019). It must be noted that it is not a hard currency. |
| **Control of Commodities Pricing** | | Scarcie ability to determine the pricing in international financial exchanges of the commodities produced by the country, let alone others. |
| **Investment Banking**    | | The national banking sector is mostly dominated by foreign entities through an oligopolistic market structure (Piñeyro, 2001a; Levy and Domínguez, 2015). Their combined market share is around 80% and their contribution to the country’s development is far from... |

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<th>Assessment and Observations</th>
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</thead>
<tbody>
<tr>
<td>being significant (Doyran, 2013). No Mexican entity is amongst the world’s top investment banks (Financial Times, 2016).</td>
<td></td>
</tr>
<tr>
<td>Credit Ratings</td>
<td>Mexico plays a rather passive role in the assignment of credit ratings. It has no rating agency of its own.</td>
</tr>
<tr>
<td>Sovereign Wealth Funds</td>
<td>Unlike countries like Singapore –which is also an exporter of manufactured goods–, Mexico is not using the hard currency that it earns in order to establish a sovereign wealth fund that can be managed as a strategic financial vector of the country’s national geopolitical and geoeconomic interests (Krishnadas, 2013).</td>
</tr>
<tr>
<td>Availability of Credit</td>
<td>Mexico’s domestic credit to the private sector, expressed as a percentage of GDP is 36.9%, which is substantially low in comparison to other emerging economies like Brazil (63.7%), Turkey (65.9%), India (50%), South Africa (138.8%) and the Philippines (47.6%) (World, Bank, 2020).</td>
</tr>
<tr>
<td>Financial Diplomacy</td>
<td>The prevailing asymmetries in bilateral economic, trade and financial ties to the US place Mexico in a structurally unfavourable position. Far from being mitigated through comprehensive strategies, it seems they are being deepened (Piñeyro, 1994, 1995, 2001a, 2001b). Nevertheless, there are precedents which indicate the early emergence of a financial diplomacy, like the 2014 condonation of the 500 million USD debt owed by Cuba to Mexico, a decision triggered by an interest in generating conditions that can encourage access and opportunities for Mexican firms willing to do business in Cuba, as the Caribbean country’s structural economic reforms move forward (Santa Cruz, 2014).</td>
</tr>
<tr>
<td>Monetary «Soft Power»</td>
<td>No currency issued by independent Mexico has equalled the international prestige reached by the Spanish silver dollar, once minted by New Spain (Valdés-Lakowsky, 2003).</td>
</tr>
<tr>
<td>Influence in International Financial Organisations</td>
<td>Although Mexico participated in the framework of the Bretton Woods system original negotiations, its role was marginal (Steil, 2014). Mexico’s current quota –1.8% of the overall total– is inferior to those of comparable countries, like Brazil –2.22%– or Spain –1.92%– (IMF, 2019). Unlike countries from the American hemisphere like Canada, Mexico does not belong to the AIIB. Its prospective membership is not being currently contemplated either (AIIB, 2018).</td>
</tr>
</tbody>
</table>

**Source**: made by authors based on the references mentioned in each case.

La revista Norteamérica publica versiones Ahead-of-Print (AOP) de los artículos dictaminados mediante una rigurosa evaluación de tipo doble ciego y que han sido aceptados por el Comité Editorial con el fin de ofrecer un acceso más amplio y expedito a ellos. / Norteamérica publishes Ahead-of-Print (AOP) versions of all manuscripts that have undergone a rigorous double-blind peer-review and been approved for publication by the Editorial Board in order to provide broader and earlier access to them.
Hence, based on the contents shown in table No. 1, it is clear that Mexico’s financial power is feeble and underdeveloped in terms of central banking, financial development, foreign exchange reserves, holdings of precious metals, indebtedness, currency internationalisation, financial control of commodities, investment banking, the ability to assign credit ratings, sovereign wealth funds, availability of credit, financial diplomacy, monetary «soft power» and influence in institutional frameworks related to international financial governance. Moreover, in the hierarchical model called «Currency Pyramid» (Cohen, 2010), the Mexican peso is not regarded as a heavyweight. From a holistic perspective, these weaknesses are thus a source of vulnerability in a strategic environment shaped by a growing systemic intersection between geopolitics and international finance.

In fact, it can even be argued that Mexico faces severe obstacles when it comes to strengthening its financial muscle, due to the fact that the country’s heterogeneous and complex geography –full of mountains, deserts and jungles and also distinctive by its lack of networks of navigable rivers that can facilitate internal trade– represents a persistent challenge for both effective governance (Geopolitical Futures, 2018) and for a degree of economic dynamism which can foster a strong national financial sector able to respond to the country’s needs and to eventually become internationally competitive (STRATFOR, 2009).

Furthermore, even though widespread economic instability in Mexico is ultimately harmful for US national interests (Blackwill and Harris, 2016), the strong assertion of its Southern neighbour as a rising power is not convenient for Washington (Hongbing, 2013). In this sense, it is necessary to recognise that the implementation of the North American integration project –embodied by the NAFTA framework and its derivatives– has produced mixed results.
It is noteworthy that the contrast with the US is overwhelming. Mexico’s Northern neighbour is catalogued as a financial superpower because of its condition as the issuer of the world’s top reserve currency, the worldwide prominence of the American financial sector (including world-class investment banking firms), the relevance of the Fed as a global cornerstone regarding the formulation of monetary policy, as well as its influence on multilateral financial bodies –like the Bretton Woods institutions– and international financial nerve centres, like the SWIFT network (Zarate 2013. Luft and Korin, 2019; Vander Straeten, 2018). In other words, in the strategic domain of finance, the bilateral US-Mexico balance of power is profoundly asymmetric.

On one hand, NAFTA fuelled economic dynamism by quadrupling trade amongst the bloc’s members. However, when analysed from the perspective of grand strategy, it also firmly anchored Mexico to the US geopolitical and geoeconomic orbit (Rouquié, 2015) by reshuffling the country’s profile as a manufacturing economy deeply aligned with the productive chains of American industry (Zeihan and Nayebi-Oskoui, 2019). It has even been argued that NAFTA had placed Mexico «forever under America’s strategic umbrella» (Khanna, 2008).

This situation of overreliance probably made sense when the so-called «unipolarity» (i.e. US global hegemony) looked like a new permanent reality. Nevertheless, such trend has continued well into the 21st century. For instance, the fact that the country’s external debt is disproportionately denominated in USD –nearly 60% of the overall total, an amount that exceeds the value of the country’s foreign currency reserves– firmly places Mexico in the sphere of influence of the American dollar, which compromises the country’s economic independence and exposes the stability of its
national currency to a wide spectrum of plausible contingencies in any of the fields that emanate from multidimensional bilateral relations (Shapiro, 2018).

Moreover, it must be kept in mind that the US consumer market absorbs the overwhelming majority of Mexican exports (nearly 80%), a reality that compromises the country’s manoeuvrability in terms of grand strategy. This imbalance is even more astonishing if one compares Mexico’s situation to that of other developing countries who have managed to achieve much more balanced external economies ties. Said condition makes it difficult for Mexico to accumulate other hard currencies aside from the American dollar.

Table 2. Top Export Partners of Mexico and Comparable Developing Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Top Export partners (2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>• United States (76.49%)</td>
</tr>
<tr>
<td></td>
<td>• Canada (3.12%)</td>
</tr>
<tr>
<td></td>
<td>• China (1.60%)</td>
</tr>
<tr>
<td></td>
<td>• Germany (1.57%)</td>
</tr>
<tr>
<td>Brazil</td>
<td>• China (26.76%)</td>
</tr>
<tr>
<td></td>
<td>• United States (12.16%)</td>
</tr>
<tr>
<td></td>
<td>• Argentina (6.23%)</td>
</tr>
<tr>
<td></td>
<td>• Netherlands (5.45%)</td>
</tr>
<tr>
<td>Chile</td>
<td>• China (33.50%)</td>
</tr>
<tr>
<td></td>
<td>• United States (13.79%)</td>
</tr>
<tr>
<td></td>
<td>• Japan (9.33%)</td>
</tr>
<tr>
<td></td>
<td>• South Korea (5.75%)</td>
</tr>
<tr>
<td>Turkey</td>
<td>• Germany (9.61%)</td>
</tr>
<tr>
<td></td>
<td>• United Kingdom (6.61%)</td>
</tr>
<tr>
<td></td>
<td>• Italy (5.69%)</td>
</tr>
<tr>
<td></td>
<td>• Iraq (4.97%)</td>
</tr>
<tr>
<td>Philippines</td>
<td>• United States (15.63%)</td>
</tr>
<tr>
<td></td>
<td>• Hong Kong (14.16%)</td>
</tr>
<tr>
<td></td>
<td>• Japan (14.04%)</td>
</tr>
<tr>
<td></td>
<td>• China (12.89%)</td>
</tr>
</tbody>
</table>

Source: made by authors based on info from the World Integrated Trade Solution (2020).
Nonetheless, Mexico’s intelligence community was unable to conceive –let alone foresee– the eventual arrival of an American government potentially hostile to Mexican national interests especially considering that, given the prevailing bilateral imbalances, it would have the power to effectively threaten Mexico with coercive economic, commercial and financial measures. Such lack of foresight was dismal for a country like Mexico, particularly because developing effective foreign intelligence capabilities is not something only great powers can achieve, as the cases of both Israel and Cuba demonstrate (Hope, 2017).

It is important to point out that Donald Trump’s presidential administration has assumed a position that, at best, conveys a great deal of distrust towards Mexico (Riva-Palacio, 2018). This attitude is probably motivated –to a certain extent– by the idea that Mexico can potentially develop, in the long run, a critical mass that could enable it to challenge the US for the geopolitical control of North America as a whole, thanks to factors like changing transnational demographic balances and conduits of sociocultural influence, as noted by a prominent US political scientist (Huntington, 2004). In fact, this scenario was originally portrayed by a renowned American geopolitical analyst (Friedman, 2009).

Likewise, it has become clear that the current US Government is fully aware that it can harness existing bilateral ties as a strong geopolitical tool to force Mexico to comply with Washington’s agenda. In other words, Mexico is not being treated as a close strategic partner. Considering the prevailing correlation of forces, even the mere threat to impose tariffs on Mexican goods is a powerful incentive for Mexico to proceed extremely carefully when it comes to decisions regarding matters that happen to be sensitive for US interests. Needless to say, as in
any other case is which a country’s fate can be determined by others, this situation entails a potentially dangerous level of exposure.

Furthermore, on a global scale, the US is seemingly operating under the impression that the costs preserving a liberal rules-based order that facilitates the international circulation of trade flows are superior to the benefits, as far as the American national interest is concerned (Zeihan, 2018a). This shift might reshape North American economic interaction patterns: «Trump’s hardball on NAFTA is most definitely neo-imperial. He is attempting nothing less than the forcible change of the economic structure of America’s neighbors to meet specific American structural needs» (Zeihan, 2018b).

However, Mexico’s inability to anticipate a deterioration in bilateral relations is hardly surprising, considering that one of the reasons that explain why, during the last few decades, the country has not become a relevant stakeholder in international politics is the absence of a consolidated Mexican school of geopolitical thinking (Cuéllar, 2012). This ingredient –it must be borne in mind– turns out to be critical for the formulation of a long-term assertive national project (Cabriada, 2015).

On the other hand, the management of economic, commercial and financial policy based purely on a technical viewpoint is not enough to deal with the complexity of geopolitical and geoeconomic phenomena that are being manifested in the realm of finance, due to the fact that mainstream economists tend to disregard the importance of multidisciplinary analytical approaches (Rickards, 2012). That seems to be the case even during the so-called «Fourth Transformation» (Urzúa, 2019).
Therefore, Mexico’s structural overreliance on external factors is a condition that compromises national security, since it limits the country’s ability to act as the master of its own fate (Herrera-Avendaño, 2018). This concern is even more pressing when it is evident that Washington can «pull the trigger» by implementing aggressive measures that can disrupt Mexico’s macroeconomic stability or the value of its national currency.

For the time being, the main outcome of the trilateral negotiation process has been a new trade agreement called «USMCA» –or «T-MEC» in Spanish– (Zeihan and Nayeb Oskoui, 2019)– which has provided a more or less reasonable degree of temporary certainty. However, the process was not particularly smooth, since it involved a great deal of complicated diplomatic negotiations and internal politics in all three countries. Tellingly, said agreement limits Mexico’s ability to establish formal commercial ties to China (Navarro, 2018).

Likewise, liberalisation and deregulation policies have turned Mexico’s financial system into a conduit whose flows and circuits offer opportunities both state and non-state actors to advance their agendas in Mexico.

Moreover, in comparison to other countries, Mexico is being left far behind. For instance, the United States is in the process of developing an acute sense of situational awareness about the ramifications in terms of national security of the expression of geopolitical rivalries through financial conduits. Hence, Washington is interested in strengthening its position as a financial superpower, its dominant role in global financial governance, the projection of its financial hubs, the hegemonic leadership of the American dollar as the world’s top reserve currency and its control of international financial circuits. Actually, these concerns are being actively discussed by
the country’s intelligence community, including both civilian and military institutions (McConnell, 2008; Department of the Army, 2008; Cohen, 2011; Rickards, 2012; National Intelligence Council, 2012; Zarate, 2013; The White House, 2017).

However, the United States is not the only country involved in such pursuits. Actually, some of its top geopolitical competitors –including China, Iran and Russia– have also been systematically studying the symbiosis between geopolitics and finance, in order to acquire both defensive and offensive capabilities (Rickards, 2014, Zarate 2013-2014).

Although there is no uniform consensus regarding the definition of institutional responsibilities for these matters, several states have involved different agencies. For instance, the US created in 2004 the Office of Intelligence and Analysis as a branch of the US Treasury Department that, amongst other activities, carries out intelligence tasks for both offensive and defensive purposes (Zarate, 2013). Likewise, the Pentagon –with assistance from professional financiers– has sponsored the organisation of war games in order to study how a geopolitical conflict fought in a financial operational theatre would unfold (Rickards, 2012).

In China, the Central Bank takes into account geopolitical and strategic factors for the formulation of monetary policy (Stroupe, 2006). Besides, the Chinese military have been studying the principles and reach of financial warfare for at least a couple of decades (Qiao and Wang, 1999). In the case of Russia, several governmental entities –including monetary authorities– have been exploring alternatives that might challenge the American dollar’s still unmatched monetary supremacy in the near future (Townsend, 2018; Luft and Korin, 2019).
The aforementioned indicates that securitisation of financial stability by the major powers has become a priority, particularly since systemic financial disruptions could threaten a country’s overall economic stability (Buzan, Waever and de Wilde, 1998), as the financial crisis of 2008 clearly illustrates. Furthermore, it is important to keep in mind that, as evidenced by historical experience, economic interdependence is a multiplier that increases the intensity of the chaos unleashed by financial crises (Baylis and Smith, 2001).

In light of the above, the worldwide intensification of geopolitical rivalries expressed through financial channels is an external source of vulnerability that places Mexico at risk. That is certainly detrimental for the country’s national interests and –taking into consideration the potentially disruptive economic, commercial, financial and even socio-political consequences of financial warfare– it constitutes a strategic matter of national security.

Nevertheless, this dangerous condition cannot be entirely attributed to external factors. It is, above all else, a direct result of the inertia that has prevailed in Mexico due to defective foresight, which is reflected in three key instances:

It was mistakenly assumed that the American victory in the Cold War would lead to a perpetual unipolarity, a perspective which is deeply ahistorical, since it seemingly overlooks the fact that geopolitical forces are in permanent flux, so the constant rise and decline of great powers is consistent with the behaviour of long-range patterns.

It was thought that interdependence would forge an enduring sense of bilateral friendship. Of course, that viewpoint made sense during the 90s, but the possibility that Washington’s position might change or that the national interests of both countries might not
necessarily converge in all cases was never contemplated. Contrary to that sense of optimism, it seems that economic and demographic tensions are brewing nowadays. If these trends accelerate in the near future, it is clear that the balance of power would not favour Mexico.

Despite having the conduits to develop closer ties to other partners –i.e. Free Trade Agreements–, Mexico arguably put all its eggs in a single basket: North American consumer markets. In other words, Mexico did not strategically hedge its bets. As a result, it is nowadays facing the consequences of insufficient levels of diversification.

Based on what has been discussed in the previous contents, an examination of the institutional preparedness of the Mexican government is necessary, in order to identify both gaps and windows of opportunity, so that the state can develop a meaningful capacity for managing financial events that could threaten the nation’s security and wellbeing.

**Assessment of Institutional Preparedness**

Concerning the capabilities of Mexican governmental institutions, the production of financial, economic and fiscal intelligence is contemplated amongst the attributions of the Economic Planning Unit, whereas the Financial Intelligence Unit (FIU) –both of which are entities that belong to the Ministry of Finance– is responsible for fighting money laundering, terrorism financing, tax evasion, corruption and embezzlement. In other words, the Mexican FIU –like the overwhelming majority of its counterparts from all over the world– basically operates as a law enforcement agency (International Monetary Fund. 2004). Nevertheless, the mandate of said entities does not address the risks in terms of national security that are associated with the increasing worldwide intersection between geopolitics and finance.
Additionally, the performance of the National Banking and Exchange Commission (CNBV) also leaves much to be desired if one considers that it has been either unwilling or unable to counter the proliferation of insider trading, a phenomenon that is regarded as a habit in Mexico’s financial business environment (David, 2018). It is thus likely that more dangerous risks are not even being noticed.

On the other hand, the activities undertaken by the Bank of Mexico –despite being the country’s monetary authority whose policies have preserved overall financial stability– and its legal frameworks fail to take into account the importance of the role such institution could play for statecraft, especially in terms of national security understood as a permanent vital interest of the Mexican state. Even though it can carry out transactions involving precious metals, it is not clear if a corresponding strategic plan that includes both offensive and defensive measures has been formulated. Although it has analytical units responsible for examining systemic risks, it remains to be seen if their methodologies are appropriate to cover the growing global involvement of geopolitical forces in financial and monetary affairs.

It is pertinent to emphasise that the Statement of Principles called «Strengthening Cybersecurity for the stability of Mexico’s financial system» –agreed to back in October 2017 by several financial governmental agencies– represents a step in the right direction, since it encourages the exchange of information between private financial entities and authorities, the enhancement of regulatory frameworks, the dissemination of the culture of cybersecurity and collaboration in projects and policies conceived to control risks (Comisión Nacional Bancaria y de Valores, 2017).
Nevertheless, the inadequacy of concrete progress in the development of effective capabilities was abruptly exposed by the so-called «SPEIgate», a criminal incident that took place in May 2018, in which several banking servers and their connections to the Interbank Electronic Payments System (SPEI) were targeted by a cyberattack that stole nearly 300 million MXN, an operation that entailed a vast network of complicities (Hernández, 2018b; Leyva, 2018a; Maldonado, 2018a).

Plus, in this particular episode there was a remarkable negligence. First of all, several risk factors related to the proliferation of hostile actions in cyberspace –launched by several actors– against Mexican economic interests had been previously identified (Consejo de Seguridad Nacional, 2014) and, in 2017, activities that can be regarded as rehearsals for ulterior offensive actions were observed (Hernández, 2018b).

Despite the official hermetic attitude that prevailed regarding that attack (Flores, 2018), based on the modus operandi at play, it seems a highly specialised cell with sophisticated operational capabilities was responsible (Hernández, 2018b). In fact, according to some accounts, local criminal rings collaborated with Lazarus Group, an entity involved in actions of cybercrime that is allegedly tied to North Korea (Leyva, 2018b).

Remarkably, the affected entities –including Banorte, Banjercito and Inbursa– share the common denominator of being Mexican institutions (El Universal, 2018). Nevertheless, the implications of this incident go well beyond monetary losses and the field of criminal justice. Actually, they also represent a breach of the cybersecurity of the country’s monetary authority –
the Bank of Mexico— and relevant national banking establishments, which can potentially endanger the country’s financial system as a whole (Flores, 2018).

Shortly afterwards, the creation of a cybersecurity directorate was announced by the Bank of Mexico. Such department will be responsible for the design and implementation of measures that can shield the digital systems of the country’s leading active financial nerve centres from hostile external disruptions (La Jornada, 2018).

Furthermore, a cybersecurity protocol was consensually designed—by both federal authorities and representatives of the country’s financial sector—in order to foster coordination in case of sensitive incidents that threaten the security of the digital platforms operated by the Mexican financial system, as well as to create an Immediate Response Team, in order to address them jointly in a speedy manner (Flores L., 2018; Hernández, 2018a).

Despite the fact that the aforementioned event revealed critical vulnerabilities, it seems that—for the time being—the actions that are being envisaged are only focused on countering threats that jeopardise the assets of banking institutions and the continuity of the services offered to their corresponding customers. More complex challenges are still not being considered, like the involvement of state actors or the influence of geopolitical agendas, issues that go well beyond the need to avert criminal operations whose pursuits are all about profits.

Therefore, in the grand scheme of things, the so-called «SPEIgate» can be seen as a warning shot and also as a symptom of an underlying deeper issue. This episode illustrates the critical vulnerabilities related to a lack of a strategic, multidimensional and proactive approach in terms of national security. Hence, it is impossible to anticipate risks that are not even being
contemplated and, accordingly, if the Mexican state is not ready to effectively counter a cyberattack against its financial system launched by foreign criminal operatives, it would be much more difficult to prevent or mitigate an eventual act of financial aggression motivated by geopolitical interests.

One way or another, existing institutional developments must not be disdained. They constitute a cornerstone to widen a horizon so that, in the near future, the Mexican state can also handle potential geopolitical threats to the national interest which flow through financial conduits, regardless of whether they come from either state and non-state actors with the corresponding capabilities and intentions.

Notwithstanding, Mexico’s National Security Act does not consider economic nor financial threats and, even though it mandates the membership of the Ministry of Finance in the country’s National Security Council –mainly for budgetary reasons– the Bank of Mexico is not included. It is also noteworthy that the National Intelligence Centre (CNI) has the legal attribution to carry out economic studies that are related to its area of responsibility, but the true reach of its specific capabilities regarding this matter, or the criteria that define their pertinence are not known.

In fact, based on recent editions of the National Risk Agenda –an official yearly document that establishes the country’s priorities in terms of strategic intelligence for national security and whose integration is coordinated by the CNI itself– that were leaked to a digital publication, it can be noted that it is full of clichés –organised crime, social tensions, terrorism, proliferation of weapons of mass destruction, cyberattacks, pandemics, amongst others– (Reyes, 2016) but it does not even discuss the structural vulnerabilities related to an excessive overreliance on the US
in the fields of trade and finance or the complex dynamics of global geoeconomic struggle that are reshaping the balance of power within the international system. Since it is not a publicly available document, it is impossible to tell if its latest versions have something to say about it.

Even in specialised academic circles that regularly explore issues of national security, discussions about finance are usually limited to the struggle against money laundering, as part of a strategy conceived to dismantle criminal structures by neutralising their ability to legitimise their illicit profits (Flores, 2016). From a geoeconomic viewpoint, such scope is fairly limited.

In short, there are important institutional blind spots and deficiencies concerning the ability of the Mexican state to protect the national interest from the potentially harmful impact of geopolitical forces closely aligned with global financial dynamics. In contrast, several major powers –as discussed in previous sections– are already developing institutional capabilities to address such issues as a priority for their own national security.

Accordingly, Mexico is a vulnerable position. However, there are existing elements that can be employed as building blocks to widen, deepen and strengthen the Mexican state’s institutional frameworks –especially its intelligence services– so the country can be strategically prepared to protect, in a comprehensive and proactive way, its financial security and national interests. Countering money laundering, tax evasion and terrorism financing are far from being the only concerns in this regard. A broader spectrum is thus clearly needed.

For that purpose, it would be pertinent to resort to the learning, knowledge and expertise derived from the practice of economic intelligence –including both business intelligence and
financial intelligence— in order to acquire and to calibrate the necessary analytical skills (Csurgai, 2017).

Looking Ahead

Everything seems to indicate that the complex phenomena derived from the growing systemic intersection between geopolitics and finance are having an increasingly larger impact upon the correlation of forces within the international system. As expected, major powers are playing a leading role in these dynamics. However, middle powers—like Mexico—cannot afford to ignore this emerging reality. If unpreparedness prevails, then they will likely find themselves at the mercy of circumstances beyond their control, a dangerous condition that could compromise their national security.

Hence, Mexico will be unable to address such issues if it does not resort to strategic intelligence as a multidimensional tool of statecraft to navigate through these unchartered waters. Otherwise, a purely reactive approach will not suffice in any meaningful way to satisfy the national interest.

There is no unique prediction when it comes to envisaging what the fate of the Mexican state will look like concerning the field in which geopolitics and finance meet. Actually, several plausible scenarios need to be considered (as shown in the figure found below, made by the authors as a simple risk assessment matrix). The materialisation of one or another will depend on the decisions that are made in the near future. This exercise is thus useful to anticipate the importance of the aforementioned topic in terms of national security.
S1: Mexico as a financial and geopolitical satellite of the US (extrapolation of current trends).

S2: Mexico as a collateral casualty of a systemic geopolitical conflict fought through financial channels (worst-case scenario).

S3: Mexico as a rising geopolitical power with stronger financial capabilities (best-case scenario).

<table>
<thead>
<tr>
<th>Likelihood</th>
<th>Risk Level for National Security</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negligible</td>
<td>Minor</td>
</tr>
<tr>
<td>Moderate</td>
<td>Major</td>
</tr>
<tr>
<td>Catastrophic</td>
<td></td>
</tr>
<tr>
<td>Near certain</td>
<td></td>
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<tr>
<td>Highly Likely</td>
<td>S1</td>
</tr>
<tr>
<td>Likely</td>
<td>S3</td>
</tr>
<tr>
<td>Unlikely</td>
<td>S2</td>
</tr>
<tr>
<td>Remote</td>
<td></td>
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</tbody>
</table>

Concluding Thoughts

In light of the above, Mexico needs to rethink its grand strategy and define its long-range national interests, in order to determine the criteria that can shape –as a compass of statecraft– the decision-making process regarding the growing convergence between geopolitical and financial forces. The recent decision to reclassify taxation as a matter of national security can be a step in the right direction but, in the early 21st century, the influence of geopolitical realities is felt in many other aspects of finance.
Perhaps it would be far more useful to pursue the enhancement of Mexico’s national financial power as a permanent interest of the Mexican state, as well as the protection of its financial security and economic stability from potential aggressors, especially considering the risks associated with the density, depth, worldwide reach and dynamism of modern finance, as well as the active presence of various state and non-state actors in the financial domain. This is a must in a competitive arena in which geopolitical rivalries are being manifested through financial conduits on a global scale. Likewise, the explicit identification of both potential partners and potential rivals—along with offensive and defensive measures—would have to be considered too.

This imperative entails the need to reformulate the role Mexico intends to play when it comes to international economic interconnectedness, mitigate structural vulnerabilities—both internal and external—and overcome institutional gaps that might compromise national security. However, that does not mean that either autarky or isolation from global markets and international financial circuits should be pursued. The most pragmatic course of action would be to seek a more favourable reinsertion of Mexico as an assertive player that can be capable of reaching a more advantageous position, instead of being a passive or reactive actor.

Therefore, a stronger sense of situational awareness about the critical relevance of these issues is needed in governmental institutions whose corresponding areas of responsibility have to do with trade, finance, foreign policy, security and intelligence. That means that it is crucial to nourish the country’s national security system—as a whole—with substantial geopolitical and geoeconomic contents.
Furthermore, the collaborative involvement of the private sector is certainly required for the creation of strategic capabilities of economic and financial intelligence, in order to protect the vital financial and monetary components that fuel the economic cycles of the Mexican state and, consequently, the country’s economic development prospects.

**Policy Suggestions**

In order to craft a comprehensive policy which responds to the needs and vulnerabilities of the Mexican state that have been identified, the following recommendations can be contemplated. All of them meet criteria of pertinence, convenience and feasibility. Even though the Mexican state lacks the critical mass to decisively influence the course of global events, their implementation can represent an instrumental contribution to the pursuit of the best-case scenario, which corresponds to the profile of a country that is both a rising geopolitical player and an emerging economy that has the ability to strengthen its financial national power.

1) Explicitly identifying the vulnerability of the country’s financial stability as a threat to national security that must be dealt with, in order to generate a sense of situational awareness amongst the country’s policymaking cadres about the importance of preventing financial disruptions—either provoked by the action of systemic market forces or as the result of deliberate hostile action— or imbalances due to their harmful effects for the country’s permanent national interests.

2) Establishing an interinstitutional and permanent intelligence unit responsible for undertaking analytical assessments, forecasts, strategic plans and recommendations. The purpose would be to combine resources and to integrate an interdisciplinary expertise in
order to foster the development of adequate institutional capabilities. It would be pertinent to include governmental institutions (like the Bank of Mexico, the Ministry of Finance, the National Intelligence Centre, the Ministry of Foreign Affairs and the Armed Forces, as well as Mexico’s state-owned Exim Bank called “Bancomext”) and senior financial analysts from Mexican banking entities, both private and state-owned.

3) Carrying out war games that simulate a geopolitical confrontation fought in a financial operational theatre. The point would be to envisage plausible scenarios in order to anticipate contingencies, detect critical vulnerabilities, establish protocols and prepare both preventive and reactive measures. Other advantage would be the generation of the cognitive ability to understand the dynamic behaviour of a new expression of conflict and strategic competition.

4) Designing a multi-sector strategic plan conceived to foster the diversification of Mexico’s foreign partnerships when it comes to trade and investment. This suggestion responds to the geostrategic rationale of diminishing the overconcentration of the country’s international economic ties. Mexico needs to take full advantage of the potential offered by the Free Trade Agreements it has signed with European, Asian and Latin American countries and explore potential business opportunities with the BRICS emerging markets. Likewise, this course of action would facilitate the gradual accumulation of monetary reserves denominated in several hard currencies.

5) Studying the prospect of joining the Asian Infrastructure Investment Bank (AIIB). This would give Mexico an institutional financial conduit to boost economic ties to China.
(particularly in terms of investment), opportunities for Mexican companies to do business with partners from the Asia Pacific region, access to alternative sources of funding for the development of infrastructure projects and the chance to participate as an active stakeholder in the emerging parallel order of international financial governance being promoted by Beijing. However, that does not mean that Mexico should abandon its membership in the Bretton Woods institutional framework, only that it would be convenient to hedge its geoeconomic bets as a priority in terms of grand strategy.

6) Strengthening the domestic consumer market. Mexico’s position as an exporting powerhouse means the country is highly vulnerable to external disruptions. In order to compensate such structural weakness, it is necessary to increase the dynamism of its domestic market as well through education, industrial policies, the generation of a competitive business environment, the availability of credit for productive projects, the encouragement of entrepreneurship, public and private investment, the creation of infrastructure and the implementation of innovative R&D projects.

7) Generating a consensus –that includes the State, various political forces, social sectors and corporate entities– in order to craft a long-term national geoeconomic strategy. The point would be to align industrial, commercial, financial and monetary policies according to said plan, define the country’s economic and financial profile in a foreseeable future, foster the creation of new comparative advantages and combine resources and efforts meant to bolster the country’s geoeconomic power and security as a matter of statecraft.
8) Verifying the existence and integrity of the country’s gold reserves held abroad. If both can be satisfactorily ascertained, then it would be pertinent to study the feasibility of their repatriation in the near future, so they can be kept in custody in secure facilities by Mexican military personnel on Mexican soil.

9) Examining the potential advantages of promoting the partial remonetisation of silver in Mexico in the near future, especially in an international context in which both great and middle powers are accumulating increasingly greater amounts of precious metals because of their geoeconomic importance and the potential role those assets could play in the eventual rearrangement of the global monetary order. Mexico’s position as a prominent silver producer is perhaps a card worth playing.

10) Using a portion of the country’s hard currency earnings to establish a Sovereign Wealth Fund that can be managed not only as an investment vehicle to increase profits, but – above all – as a strategic financial vector whose actions respond to the country’s geopolitical interests, foreign policy agenda and national security priorities.

11) Promoting the growth of geopolitical and geoeconomic studies as specialised disciplines of strategic importance, including the implementation of academic programmes and the establishment of research centres or think tanks whose communities welcome scholars, representatives of the private sector, independent analysts and government officials (both civilian and military).

12) Revitalising development banking as a tool of economic statecraft whose role would be instrumental in order to support the growth of strategic industries, upgrade the...
competitive performance of Mexican firms, develop new comparative advantages and encourage the diversification of exports.

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