

# Mexican Strategic Landscape

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Monthly report

MARCH 2020



**THE INSTITUTE**

FOR STRATEGY AND DEVELOPMENT RESEARCH





- NORTHWESTERN
- NORTHEASTERN
- WESTERN-BAJÍO
- CENTRAL
- SOUTHERN
- YUCATÁN PENINSULA

The Mexican Strategic Landscape Report is a monthly publication of the Institute for Strategy and Development Research, a think tank dedicated to the analysis and the dissemination of information in key topics which address Mexico's problems and structural challenges. This document provides insights from the six different regions that make up the country. It helps readers and decision makers comprehend the particularities and complexities of each one concerning four main subjects:

-  Security
-  Development
-  Natural resources
-  Power and authorities



## Overview

The COVID-19 pandemic displaced other vital items from the public agenda during the month. Thousands of women participated in a nationwide strike at the beginning of the month to bring attention and demand resources for eliminating violence and discrimination against them. Expectations grew about improved working conditions across business and organizations, and better public security measures. Domestic violence still rose against women and could worsen with the quarantine.

Migrants previously traveling through Mexico were forced to stay in the country as borders closed and as COVID-19 spread. Their living conditions have worsened, as attention and public funds are channeled to the crisis. Despite this, medical workers feel that resources are insufficient to protect patients and themselves. Cases of measles and tuberculosis appeared in several cities in northern and central Mexico.

The economic effects of the health crisis could worsen due to a steep drop in the price of oil (one of Mexico's leading sources of income), lack of emergency financial measures, and uncertainty for investment projects. Constellation Brands' brewery project was halted after a public consultation process in the border city of Mexicali. Political posturing plagued the project for years as President López, while still a candidate, and now as an elected official, denounced acts of corruption between the company and the former state government. Some viewed it as an arbitrary attack on private investment and worrisome for future large-scale projects in the country, especially now when capital-intensive industries are closing in the north.

Response to the health and economic crisis came first from mayors, state governors, and local leaders. Their communication and management of the situation has led to innovative ways of cooperating, and regional integration for dealing with a common problem. Places that were heavily dependent on agriculture, such as the south, were already dealing with harsh economic conditions before COVID-19. Alternative energy projects, such as gas pipelines, and solar and wind farms, offer a path for development in these regions.

## What to observe during April 2020:

- **The popularity and legitimacy of President López's actions for dealing with COVID-19 and economic recovery.**
- **How organized crime will adapt and overcome the crisis. The closing of the U.S.-Mexico border, and less imports of fentanyl from China, will disrupt trafficking and related activities.**
- **Changes in social expectations about the way businesses and governments should act in economic downturns.**



## Region 1: NORTHWESTERN

### SECURITY

**Tijuana reports approximately 400 homicides for the first quarter of 2020.** Measures implemented in the city against COVID-19 have affected trade and movement of people. However, it has yet to stop all crime and violence in the region. An increment in these statistics could happen during the following months due to job losses and poor economic performance.

### DEVELOPMENT

**Disruptions to Constellation Brands' operations in Mexicali after a public consultation process.** A low participation rate (3.51% of 796,447 possible voters) was enough to determine that the company needed to halt its investment. The majority (76.1%) voted against the project. The president and public officials accused the company of acts of corruption. At the same time, activists claimed that the company would seriously affect water security in the region. Opposition to the project has been a political issue for the last two years. This action creates an environment of uncertainty for businesses and could discourage foreign investment in the country.

### NATURAL RESOURCES

**A renegotiation of the 1944 Water Treaty would be counterproductive for Mexico.** The accord between the United States and Mexico for the "Utilization of Waters of the Colorado and Tijuana Rivers and of the Rio Grande," would be counterproductive for Mexico since it draws more water from the arrangement than what it contributes. Water security is an issue that will appear more prominently on the public agenda with the increase in demand between both countries, and especially around a more politicized border.

### POWER AND AUTHORITY

**The creation of new municipalities in Sinaloa is under review after years of local demands.** Citizens of agricultural communities of Eldorado (located 46 mi. south of the state capital Culiacán) and of Juan José Ríos (near the town of Guasave, in the north of the state) voted for the creation of their municipalities in a public consultation process. More than seven thousand people voted in each community, and around 98% said "yes" on the initiative. The state congress, where the idea has met some opposition, must review the results to reconcile the demands of citizens with the reality of public finance.

## INSIGHT

**Dire economic forecast for the rest of the region.** Unfavorable foreign exchange rates, a drop in the price of oil, and the economic impact of COVID-19 will generate a contraction in the economy that may add to social unrest. The cancellation of the brewery in Mexicali has influenced the atmosphere of uncertainty and added worry about the enormous cost of compensations the government could pay. Citizen consultations should happen with mechanisms that ensure legality and legitimacy.



## SECURITY

**Crimes against women keep rising in Nuevo León.** Even though 15,000 women in Monterrey protested on March 08 against harassment and violence, crimes against them increased 25% compared to the first months of 2019. The arrival of COVID-19 displaced the subject from national and local discussions. The demands of women have been left unattended.

## DEVELOPMENT

**The federal government rejects rescuing AHMSA, the largest integrated steel plant in the country.** This decision can have substantial economic repercussions in the state of Coahuila: 165,000 jobs depend on the company. The crisis has delayed payments to suppliers and related companies with severe impacts on the region. One of the most affected sectors is construction. So far, 40 businesses have closed, and unemployment levels are rising.

## NATURAL RESOURCES

**Poor air quality persists in Nuevo León.** Despite less presence of vehicles in the streets due to the measures imposed for containing COVID-19, air pollution continues in the Monterrey metropolitan area. Monitoring stations reported contamination levels above the norm, bringing to attention the role of local industries in air pollution. With the election season just starting, this will be a decisive point for citizens.

## POWER AND AUTHORITY

**Tuberculosis cases increase in the border town of Nuevo Laredo, Tamaulipas.** In the first two months of the year, tuberculosis infections rose from 3 to 61 confirmed cases, with men between the ages of 20 to 45 are the majority of the infected. During 2019, 18 people died from the disease. The spread and resistance to treatments present a threat to the population and a challenge to local hospitals.

## INSIGHT

The emergence of COVID-19 has taken priority in the public agenda, displacing not only other diseases that have re-emerged strongly in the region (such as influenza, tuberculosis, and HIV) but also the economic and social aspects of current and former industrial towns. Businesses and local authorities will have to cooperate extensively for recovery during the rest of the year.



## Region 3: WESTERN-BAJÍO

### SECURITY

**The Coastal-Sierra region between the states of Colima and Michoacán has seen an increase in activities by organized crime.** Lemon producers denounce threats of extortion fees and violence. The area massively produces avocados and other crops, and their growers are also susceptible to these practices. Criminal activity may increase their export price to their primary market (USA) and discourage local families from participating in the supply chain.

### DEVELOPMENT

**The state of Jalisco has an initiative intended to increase the commercialization of electricity and fuels.** The bill proposed by the state congress enacts an “Energy Agency” with a plan that aims for consolidating self-sufficiency. Currently, Jalisco produces barely 20 percent of the energy that it consumes. These types of initiatives are innovative for both Mexico and the region. The energy sector underwent structural reforms during the previous federal administration when the state-owned electric utility (CFE) also had a monopoly on energy production.

### NATURAL RESOURCES

**Clandestine acts perpetrated by local crime groups affect the natural resources of communities.** In the state of Colima, public authorities point to the vandalism of water wells as one of the leading causes of water outages. In Jalisco, towns such as Talpa and Tapalpa, top the list of deforestation caused by clandestine logging by organized crime. These types of violations remain unpunished because of local corruption networks between public officials and perpetrators. Communities are hesitant to report illegal activities for fear of reprisals.

### POWER AND AUTHORITY

**Labor unions are using new tactics to gain political attention.** Unionized teachers blocked railways in the state of Michoacán for five days, causing delays of up to fourteen cargo trains and 500 intermodal containers. They belong to the *Coordinadora Nacional de Trabajadores de la Educación* (CNTE), an alternative labor union to the mainstream *Sindicato Nacional de Trabajadores de la Educación* (SNTE). Local security officials managed to dissuade demonstrations without the use of force. These actions are seemingly less pernicious than taking toll-booths and interrupting traffic on highways and federal roads. The interruptions affected the port of Lázaro Cardenas, a strategic point for the steel industry.

### INSIGHT

The Western-Bajío region, also known for being an increasingly industrial zone in Mexico, has been under the threat of insecurity over the last months. During the ban on public gatherings, it will be interesting to observe how criminal organizations and other sociopolitical agents behave with new methods for generating unrest.



## SECURITY

**Lootings registered in department stores in Mexico City and Estado de México (EDOMEX).** Local cyber police have been tracking social media accounts that promote looting and robbery against companies. For these crimes, 62 people were arrested in CDMX and 19 in EDOMEX. These acts have become frequent in times of social unrest, causing businesses to adopt security plans and protection measures to face these risks.

## DEVELOPMENT

**Medical personnel in the states of Puebla and EDOMEX protest for lack of resources and equipment.** Scarcity of supplies such as gloves, face masks, and syringes, are constant in local hospitals and clinics. Doctors, nurses, and students called on the government to provide them with the elements needed for their job, and for protecting their health. The crisis demands critical resources from both local and national governments.

## NATURAL RESOURCES

**The Tula thermoelectric plant damages air quality in Mexico City.** The Citizen Observatory for Air Quality warned that the Tula Thermoelectric Plant in the state of Hidalgo (100 mi. north of Mexico City) pollutes the cities in the central México Valley 33 times the amount that cars and public transportation do. Pollution from sulfur dioxide, among other substances, has been associated with diseases such as bronchitis, pneumonia, asthma, and heart problems. To combat the adverse effects in the area, local governments need to take action and implement new and more forceful measures. Social demands for cleaner air have been growing during the last few decades in the city.

## POWER AND AUTHORITY

**New cases of measles (approx. 70) appeared in the México Valley.** Since 1995 no cases of measles had been reported in the country, according to data from the National Epidemiology Directorate. Local authorities have been alerted because weekly cases of contagion increased. The disease is highly contagious and affects the respiratory tract. The resurgence of these diseases in times of contingency by COVID-19 may collapse the local health system.

## INSIGHT

Moments of crisis exacerbate social unrest and public dissatisfaction, provoking reactions such as looting, demonstrations, or blocking of roads and railways. It is worth remembering that in 2017 there were several days of looting, roadblocks, and public protests in the country due to the increase in the price of fuel. These incidents happen when the population feels aggrieved by the authorities and during adverse economic conditions.



## SECURITY

**Paramilitary organizations remained active in some indigenous communities of Chiapas during the last two years.** At least 5,000 members of the town of Aldama, in the central part of the state, have started to be displaced because of increasing violence from the Chenalhó armed group. These paramilitary groups, not to be confused with EZLN, were supported by the government after the 1994 Zapatista uprising as a measure to counterbalance the mostly indigenous revolutionary group. Today, paramilitarism has transformed into extra-legal groups that work for political bosses and whose illegal operations happen with the complicity of federal and local authorities.

## DEVELOPMENT

**The impact of the closing of the southern border due to the COVID-19 outbreak will have more significant consequences.** The integration of economies of Chiapas and Guatemala is deep. Although the Mexican government has been reticent to close borders due to the economic impact it could have, the Guatemalan government has been most decisive in the matter. Representatives of the private sector estimate that local Mexican towns are heavily dependent on binational commerce: for every peso spent in the region, 60 cents come from Guatemalan visitors. Lost jobs, higher prices for foodstuffs, and social unrest are expected.

## NATURAL RESOURCES

**Wildfires have been increasing in the state of Oaxaca.** Over the first three months of 2020, state authorities reported 54 events that damaged 736 hectares (approximately 1,818.7 acres). Last May, the smoke traveled across multiple southern and central Mexican states, causing high levels of pollution and severely disturbing the economy of the countryside. Even before the COVID-19 outbreak, some scientists anticipated that a “green swan” (an ecological “black swan” event) could trigger a global crisis. As Summertime approaches, authorities need more resources to tackle these natural disasters. This issue has not been on the national agenda even though fires affected at least 14 other states.

## POWER AND AUTHORITY

**A Guatemalan migrant deported from the USA tested positive to the Coronavirus, days after arriving in the country.** The event raised concerns about the risk of massive contagions in the southern border among vulnerable groups. Some migrant shelters have decided to close their doors to contain the outbreak. Additionally, members of the Guatemalan government have asked their Mexican counterparts to suspend migrant repatriations while the crisis evolves. Detained migrants in Tapachula remain stranded and within a legal limbo until further notice. Police may use violence to keep migrants locked down for a more extended period within their stations, a practice that may trigger massive escapes from these facilities, as has been the case before.

## INSIGHT

**The Holy Week and Easter seasons are periods in which flows of migrants grow on the southern border.** However, the south of Mexico is a region also characterized by its sociopolitical problems, which the COVID-19 outbreak compounds. The prominence of paramilitary groups and criminal organizations make life harder for migrants, already subject to human rights violations by formal authorities. Therefore, there is a latent risk of xenophobic attitudes against migrants that may develop during the health crisis.





## Region 6: YUCATÁN PENINSULA

### SECURITY

#### **Threats of massive lootings worry retail establishments in the state of Campeche in social networks.**

With rumors circulating that there will be a shortage of food and supplies, inhabitants of Ciudad del Carmen (a coastal city in the Gulf of Mexico whose main economic activity depends on the oil industry) were encouraged to steal from supermarkets. These activities, replicated in other parts of the country as well, are induced by groups wishing to generate chaos or confusion, sometimes even politically motivated.

### DEVELOPMENT

#### **Leaders of the opposition and some businesses recommended canceling the emblematic Maya Train, a public infrastructure project that pretends to generate economic growth for the southern part of Mexico.**

Federal funds will be compromised because of severe economic effects following the pandemic if the government does not shift its financial planning during the crisis. Some banks have anticipated a contraction of 4.5 percent in Mexico's GDP.

### NATURAL RESOURCES

**The state of Yucatan goes through a renewable-energies boom.** Solar panels are now part of the urban landscape in Mérida, the state capital, and wind farms start to appear in smaller towns. The construction of a new combined-cycle power plant known as *Mérida IV*, and the *Cuxtal* gas pipeline, contribute to the energy transition of a region whose industrial demand has increased over the last years. Although President López and officials of the public energy sector seem reluctant to migrate production from carbon to alternative means in northern states, other parts of the federal government have behaved less confrontational about similar projects destined to operate in southern states. Natural gas, though still a fuel, offers a new path for the eventual energy transition.

### POWER AND AUTHORITY

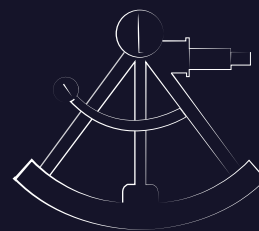
**Towns on the limits of Yucatán and Quintana Roo have temporarily obstructed the flow of trade between major cities in the region.** Although none of these state governments has given an official order, local leaders have acted independently in closing local roads alluding to the pandemic. Recently, the National Supreme Court of Justice ruled in favor of the Yucatán about the definition of its borders with neighboring states. It is unlikely that the health crisis could exacerbate the lawsuit, although some local leaders may threaten to maintain unilateral disruptions.

### INSIGHT

**The agricultural region needs economic support and diversification; it is going through its worst crisis in decades.** A combination of factors such as droughts, lower federal funding, and borders closed to trade with Guatemala, could lead to job losses and social unrest. The agricultural sector is highly sensitive to climate change and is not well prepared for economic impacts in this part of the country. However, the region is betting on energy transition projects that could help with industrialization and a higher quality of life.

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