

Mexican Strategic Landscape

Monthly report

MAY 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

A staggered return to activities. Cities, states, and the national government are yet to define clearly how industrial and commercial activity will be carried out shortly. Outside pressure on transnational companies on Mexican soil rises for a return to activities. Essential services were not disrupted during the pandemic, but companies are trying to figure out how to comply with new health protocols. Mixed signals coming from different criteria and indicators built by the states and the federal government make this situation more complicated. President López will return to travel around the country to launch public works, like the Mayan Train in the Yucatán Peninsula.

Regional blocks against the federal government have expanded. The number of governors who opposed President López's handling of the health and economic crises grew during May. The group comprises governors not belonging to MORENA (the President's party). Their issues are the desire for more "fiscal justice" (how the federation transfers funds to states, especially those claiming to pay more taxes), and demands about maintaining provisions in the law that allow private industry to invest in alternative energy production.

New tariffs and changes to the regulation of the energy industry. The Federal Electricity Commission (CFE) is Mexico's state-owned energy producer. It is the most significant player in the field. Still, reforms during the previous administration opened the market to private investors who mainly focused on cleaner energy alternatives, resulted in lower tariffs for domestic and industrial consumers. During May 2020, changes in regulations made it more challenging to invest in solar and wind energy production. Producers are taking their cases to court, which could be costly (money and time) even if these new rules eventually spare them.

What to observe during June 2020:

- **The peak of COVID19 cases, according to public health authorities, while indicators remain critical.**
- **Different rates of economic recovery among states, with regions in the north doing best.**
- **Redistribution of items of the national public agenda to include hydropolitics, security, and the possible emergence of early contenders to the electoral races of 2021.**



Region 1: NORTHWESTERN

SECURITY

Intellectual author of Villas de Salvacar murders, arrested. In January of 2010, there were 15 people killed by organized crime at Villas de Salvacar in Ciudad Juárez, Chihuahua, in one of the most violent years of President Felipe Calderón's government. The author of these murders, Luis Gerardo, known as "El Tío" or "El Narizón," was arrested in Cuernavaca after spending ten years as a fugitive. He could have been involved in around 900 murders overall during his time in the streets.

DEVELOPMENT

Nearly 2,000 workers in Baja California using unemployment insurance. In the context of the crisis the country faces, workers who have lost their jobs may apply for unemployment insurance offered by INFONAVIT (a public institution that supplies mortgage loans to workers) to defer payments on debt for several months. This measure seeks to counteract the effects that COVID19 has had on the economy, such as the predicted loss of one million jobs nationwide.

NATURAL RESOURCES

Baja California environmental tax approved. The state government approved a new fuel tax of 17 cents per liter of gasoline that has created opposition among businesspeople. Entrepreneurs feel the tax affects companies trying to survive the effects of the economic slowdown. Many have publicly expressed the lack of government support to save jobs in the state.

POWER AND AUTHORITY

"Bonilla Law" deemed unconstitutional. This law refers to the current governor of Baja California (MORENA) and sought to lengthen his period in power from 2 to 5 years. It was rejected by the Supreme Court of Justice. Initially, the governor was elected for a short period so that new elections will be scheduled along with federal ones in 2021, the year when the standard period of six years for governors would be restored. The local Congress enacted the law on October 2019, after carrying out a public consultation, which was described by opposition figures as illegal. The Supreme Court of Justice stated that the conditions by which citizens had voted in the past electoral process had been modified after the fact.

INSIGHT

Unemployment and citizen unrest grow. Citizens began public demonstrations demanding government support for unemployment. The relationship between the business sector and the government in some states such as Baja California has become tense. It has made it more difficult to attract investment in the state. The maquiladoras began to reactivate because of the reopening of the economy in the United States. Local officials and workers hope that reactivation could once again bring stability to this very industrialized region.



Region 2: NORTHEASTERN

SECURITY

After virtual kidnapping, nurses return to Monterrey. A group of 13 nurses who traveled to Mexico City to help with the Covid19 crisis, suffered a “virtual kidnapping” at a hotel in Mexico City. Inmates of the Altamira Prison, in Tamaulipas, placed extortion calls to their families. The aggression generated concern among the medical community because of the recent increase in cases of physical attacks and discrimination in several parts of Mexico.

DEVELOPMENT

Confinement measures in Mexico affect businesses in Texas. After the reopening of Texas companies, border cities such as McAllen and Brownsville registered the limited presence of visitors. This situation could be linked to the confinement measures that persist in Mexico and to the temporary limitation of non-essential travel of border crossings by land with Canada and Mexico. Texas border cities are highly dependent on Mexican consumers. Regular border crossings will restart on June 22.

NATURAL RESOURCES

Levels of water consumption and air pollution increased in Nuevo León during the quarantine. Sulfur dioxide levels grew by up to 30%, even though 85% of activities temporarily stopped in the state. The drought and high-water consumption worsened the situation in the Cerro Prieto Dam, which now holds water only at a third of its capacity. Despite the alarming nature of these situations, these issues are not among the priorities of the state’s political agenda.

POWER AND AUTHORITY

The “Movimiento Ciudadano” party calls for public consultation to review the Fiscal Pact. Leaders in various states in the country feel it is unjust that the Federation transfers 50% or less of what they contribute in taxes to the government. Businesspeople and ordinary citizens share some of these feelings. Among the implications, important infrastructure projects have been canceled or gone unfinished due to a lack of resources. The same has happened in sectors of public health and security.

INSIGHT

Governors unite to face common challenges. This region stands out for how the governors have jointly faced the challenges that COVID-19 has brought to the economy. Governors plan to take on projects that boost the regional economy, especially for investments in renewable energy. Despite the challenges that each state faces, the governor’s collective work and the revival of the US economy will help the region recover faster than others.



Region 3: WESTERN-BAJÍO

SECURITY

Self-militia groups reappear in Michoacán. The expansion of Cartel Jalisco Nuevo Generación has led to local groups, many with previous affiliations to organized crime, to build alliances to defend their territory. These groups tend to cluster around small towns in the mountainous regions of Michoacán and grow every few years due to the expansion and contraction of criminal presence in the area. State Governor, Silvano Aureoles, claims these militias have calmed down, despite their open call to arms that spreads through social media.

DEVELOPMENT

Widespread losses before industrial reactivation. The region has grown in recent decades due to direct foreign investment; however, it has been vulnerable to damages from lessened economic activity. It has focused on exports for the automotive industry. States like Aguascalientes and Querétaro, for example, have lost more than 35 thousand jobs between them during the last two months. The reactivation of the port of Manzanillo, on the Pacific Coast, is seen as a good sign of incoming trade with China.

NATURAL RESOURCES

Higher prices in energy production. Members of Colima's State Congress wish to negotiate lower energy tariffs for citizens and city governments. A spike in prices during the last two months for businesses has angered the population. Local water councils and utilities stated that if the trend continues, they will not be able to provide citizens during the emergency crisis.

POWER AND AUTHORITY

Governors confront President Lopez's position on renewables. The leaders of Aguascalientes, Michoacán, and Jalisco join four others in calling out the Federal Government's recent bans on private investment in solar and wind energy projects. They plan to oppose these measures through legal means during the month of June.

INSIGHT

Changes in regulation of the energy industry made at the federal level could worsen the rate of recovery for the region. The area is an attractive region for investment in energy production, with highly-developed cities, existing infrastructure, and other competitive advantages.



SECURITY

Police patrol cars destroyed in Estado de México. Inhabitants of the San Mateo Capulhuac community in the town of Oztolotepec destroyed police cars and damaged property belonging to the city council after citizens claimed that the government wanted to spread COVID19 among them.

What stands out from this incident is the risk generated by fake news in the context of a health contingency, which causes vandalism and exposes the population to contagion. Political groups could be behind these events.



DEVELOPMENT

Unemployment grows in Mexico City. The city has lost more than 100,000 jobs since March of 2020. Even though the authority remains optimistic about the eventual recovery of these jobs, some credit rating agencies estimate that Mexico's recovery will be slower than the rest of Latin America. It is unlikely that the lost jobs will be recovered during the rest of the year.



NATURAL RESOURCES

“Hoy no Circula” Program starts in the State of Hidalgo. To reduce car use in the state and reduce pollution levels, the Hidalgo State Government implemented the “Hoy no Circula” program, where the transit of some private cars is restricted to specific days of the week. Authorities believe that this measure will lead to pollution levels dropping by up to 30%. However, unlike other states that have implemented this program, in Hidalgo, it is only a temporary measure for phase 3 of COVID-19.



POWER AND AUTHORITY

Citizens break into a hospital in Ecatepec. Relatives COVID-19 patients at the “General Hospital of the Americas” violently broke into the facilities after claiming that authorities do not inform them adequately about the situation. The National Guard had to intervene to restore order. The police and military now protect many hospitals and medical staff from attacks by citizens.

INSIGHT

Social unrest and violence grew in the region. COVID-19 has had significant effects not only on the economy but also on security. Three topics have emerged on the agenda during the month: amnesty for prisoners vulnerable to COVID19 in Mexico City; the destruction of patrol cars in Estado de México; residents fearing that looting and vandalism will happen again due to the delicate economic situation. There is distrust of authorities by the population. Many factors have fueled social unrest with public demonstrations of violence against authorities and businesses, creating an atmosphere of fear and uncertainty in the region.



SECURITY

National Guard deployed for supporting health-emergency efforts and curfews in the area. Cases of COVID19 in Tuxtla Gutiérrez, the capital of Chiapas, represent 37 percent of all registered in the state. Venustiano Carranza, a small town 50 mi. south of Tuxtla saw violent riots, which led to a mob's burning of the local government offices. Previously, rumors appeared online that the government was responsible for spreading COVID19 as a poison to hurt citizens. It is possible that this was the work of political agitators.

DEVELOPMENT

The Mayan Train is the Federal Government's bet for recovery. This region of Mexico is the least industrialized in the country. Its economy is dependent on agricultural processes and tourism that takes advantage of its natural resources. The Mayan Train project hopes to bridge tourist hotspots in the Yucatán Peninsula and the states of Chiapas and Tabasco. Construction efforts for the railway line and the Dos Bocas refinery, also in Tabasco, are expected to boost job numbers in a hard-hit area.

NATURAL RESOURCES

Water scarcity in Oaxaca. Inhabitants of the Isthmus of Tehuantepec, the narrow waist of Mexico that links the Gulf of Mexico and the Pacific, face shortages during the pandemic. As many as 200 thousand people in Tehuantepec and Salina Cruz, towns in Oaxaca, face this problem. Authorities have also failed to distribute water to farmers, who may lose some or all of their crops. Rains are expected soon; however, torrential pours could damage communities without adequate infrastructure for sudden storms.

POWER AND AUTHORITY

Communities in oil-rich areas block access to PEMEX personnel. Citizens have questioned PEMEX over recent outbreaks of COVID19 among workers in oil fields, rigs, or chemical plants, even if the state-owned enterprise has separate public health-system for its workers. The community of Benito Juárez, in the city of Cárdenas (pop.: 260,000), in Tabasco, temporarily stopped the flow of trucks belonging to PEMEX over fears that negligent medical care could affect them. Protests were also directed at the Oil-workers Union and its leaders.

INSIGHT

President López has a personal stake in the development of the area. A native of Tabasco, he has vowed to increase the wellbeing of citizens in the southern, more impoverished parts of Mexico. Monumental projects, agricultural subsidies, and cash-transfers are the mix he has proposed for achieving this objective. The risk of politicization of this strategy is high.



Region 6: YUCATÁN PENINSULA

SECURITY

Underestimating piracy and violence in the Gulf of Mexico. The U.S. Department of Transportation, working with Naval Intelligence, claims that the number of reports about these activities erred since January of 2018. During this period, 20 fishing boats and 35 oil-platforms could have been affected. The U.S. Maritime Administration (MARAD) describes these attacks as involving the discharge of firearms, wounded crew members, hostage situations, and theft. The area near Dos Bocas, Tabasco, and Campeche, are most prone to these events.

DEVELOPMENT

Slow tourism and job losses. Tourism makes up 9 percent of Mexican GDP, with most jobs in the industry located in the Yucatan Peninsula. Archeological, cultural, and natural sites, with adequate connectivity, make the region attractive to visitors, especially from the U.S. and Europe. Cozumel, for example, is the second most-visited destination for cruise lines, receiving approximately 5 million visitors by ship every year. Quintana Roo was the state with most formal jobs lost in the country during the previous month.

NATURAL RESOURCES

Local and federal agencies begin planning for hurricane season. Coordination between municipal, state, and federal governments is crucial for preparing citizens and public infrastructure in natural disasters. The season starts in May and lasts until November. For 2020, between 15 and 19 cyclones could impact Mexico from the Atlantic Ocean and 15 to 18 from the Pacific. Authorities guarantee that arrangements for preparation, attention, and eventual reconstruction will not be compromised because of resignation of resources for battling the pandemic.

POWER AND AUTHORITY

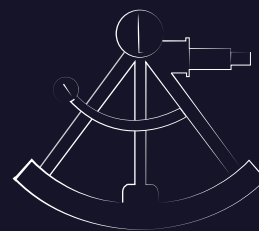
Construction of the Mayan Train begins. One of President López's most important projects will finally start construction in June. During May, the government awarded contracts for five different routes amidst controversy about spending on infrastructure projects during the health crisis. The President announced that the Yucatán Peninsula would be his first stop after his usual busy travel resumes in June. The object of his visit: official inauguration of public works.

INSIGHT

The Peninsula's development strategy has focused on using its vast natural resources. The population clusters in a few critical cities, like Mérida and Campeche, and resort towns like Cancún or Cozumel. These places are political strongholds for traditional political parties, but shifts in national politics are taking place. Large investment projects and political rallies are part of a strategy to help the area survive the upcoming economic impact of the pandemic.

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