

# Mexican Strategic Landscape

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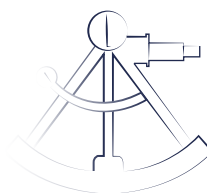
Monthly report

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**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



### **The economic crisis in Mexico worsens**

The National Institute of Statistics and Geography (INEGI) published an estimate of the decline in the Mexican economy for the second quarter: -18.9%. This number is considered the worst in the country's history. Additionally, the National Council for the Evaluation of Social Development Policy (Coneval) reported that 54.9% of the population placed below the working poverty line during May. More than half of all Mexicans (69.6 million) can not cover the cost of a basic food basket with their wages. Some analysts believe that the recovery could take several years to reach economic levels we had before the pandemic. Citizens, the business community, and local governments are still waiting for some form of fiscal or economic relief from the federal government.

### **President López visits Washington, D.C.**

For the first time in his administration, the Mexican President met with President Trump during an official visit. Critics in Mexico described the encounter as insufficient in dealing with items in the binational agenda. For example, the status of immigrants, the border wall, economic integration, among others. Some saw it as an electoral maneuver from President Trump, trying to court votes among Latinos. Mr. López and Mr. Trump tried to show a conciliatory tone during their speeches on the White House lawn. With COVID19 cases mounting in both countries, and a worsening economic situation, more cooperation is needed between leaders. How this translates into concrete actions is still waiting to be seen.

### **Emilio Lozoya's corruption case**

President López campaigned on the fight against corruption, especially that of past administrations. The extradition of Emilio Lozoya, former Director of PEMEX and a figure near ex-President Peña's cabinet, has played an important role in Mr. López's media agenda. Mexican justice is investigating the purchase of a fertilizer company (Agro Nitrogenados) from AHMSA. Allegedly, Mr. Lozoya received money from the steel conglomerate for completing the purchase of the plant by PEMEX. Further amounts received by the director were supposedly used for bribing several members of Congress for the approval of the energy reform of President Peña's administration. If this last accusation is proven to be accurate, there is a possibility that a new energy agenda will begin in the country. The platform of Mexico's ruling party is also pushing for eliminating past reforms to the sector.

## **What to observe during August:**

- **How Emilio Lozoya's corruption case plays in the media**
- **Surging violence in the Bajío region after joint operations between public security forces against organized crime groups**
- **The beginning of political parties' processes for designating candidates for next year's elections**
- **Further reactions by state governors directed at the federal government about the climbing number of COVID19 cases in the country**



## Region 1: NORTHWESTERN

### SECURITY

#### **Thousands of young people still recruited by gangs in Chihuahua.**

José Carlos Hernández, a researcher of the Autonomous University of Ciudad Juárez (UACJ) and member of the Mexican Federation of Criminology, estimates that as many as 42 thousand young people participate in four gangs in Ciudad Juárez and Chihuahua. Among the principal groups in the state are the Aztecas, Mexicles, Artistas Asesinos, and Gente Nueva. Most recruits live in Ciudad Juárez, as these gangs have ties on both sides of the border. These groups have extended their geographical reach since 2006.

### DEVELOPMENT

**Ensenada lost USD 40 million due to the reduction of visits by cruise ships.** Since March, the city of Ensenada in Baja California stopped receiving cruises. The Cruise Terminal, and the Port Authority, collected a lower amount of fees from users of their infrastructure, which affected the city's finances. The date and rate of reactivation of the industry remain uncertain.

### NATURAL RESOURCES

**Water conflict continues in Chihuahua.** Farmers and land-owners in the state have clashed with officers of the National Guard near the Francisco I. Madero Dam, also known as "Las Vírgenes," near the cities of Delicias and Meoqui. The conflict emerged because of water transfers between Mexico and the United States due to an international treaty. Both countries share resources. Local citizens oppose relocating water from this donor basin.

### POWER AND AUTHORITY

**Baja California Congress approves a law allowing the reelection of mayors and members of local congress without leaving office.** This act is colloquially known as "Ley Gandalla" (Crook Law) and has caused a stir in the state. Members of business chambers and local activists claim it gives incumbent officials unfair advantage against challengers during elections. Mexico did not allow for the reelection of public officials until a few years ago, and amendments are being made to state constitutions to regulate the process.

## INSIGHT

Water continues to be a subject of conflict and crisis for northwestern states. In Ensenada, Baja California, poor planning and accelerated population growth left authorities unable to supply current domestic and commercial demand. The crisis could worsen by next year. In Chihuahua, conflict extends between farmers and the national government. Despite urgent needs and recent droughts, the issue is still not considered a priority by many governments. The economic downturn and the limitation of public resources could lead to social tensions as water conflicts increase.



## Region 2: NORTHEASTERN

### SECURITY

#### **The number of thefts increases in Tamaulipas while businesses reopen.**

Businesses, homes, and car-owners are usual targets. Police acknowledge the increase in crime and mention that the pandemic has also affected the recruitment and training process, which has prevented the deployment of more officials to deal with the situation.

### DEVELOPMENT

#### **Thousands of businesses close in Nuevo León due to the pandemic.**

Until June 15, 3,800 restaurants in Nuevo León and 50 gyms had closed according to a report issued by Canirac (National Chamber of Restaurants and Food Industry). The measures imposed by the state government to contain COVID19 contagions have caused thousands of businesses to shut down. Without a reactivation plan, it is expected that the figure may be higher by the end of the year. Reopening does not guarantee the survival of many businesses that are still on the verge of financial failure.

### NATURAL RESOURCES

#### **"Huasteca Fuel Terminal" project in Altamira returns to operation.**

Grupo Garel resumes construction of the fuel terminal installed in the Altamira municipality in Tamaulipas. The building of eight fuel-storage tanks is expected for 2021. The project will generate around three thousand jobs in the state, with between one hundred and two hundred direct employees once it operates. The investment stands out, because of mounting uncertainty in the energy sector, due to the government policies and decisions made in recent months.

### POWER AND AUTHORITY

**Corruption case surrounding Altos Hornos de México.** Emilio Lozoya, former director of PEMEX, was called to declare before a federal judge for the purchase of the "Agro Nitrogenados" plant during his time at the state-owned enterprise. Accusations against him were made about receiving a USD 3.5 million bribe from Alonso Ancira, former director of Altos Hornos de México (AHMSA), to accept the sale of one of their nitrogen plants to PEMEX. President López announced that he would recover the amount spent by PEMEX (USD 200 million) for the purchase, after Villacero, another steel conglomerate, recently acquired AHMSA. In the coming months, politicians and business people's names will come to light in the process that Lozoya faces due to corruption, in a heavily politicized case.

### INSIGHT

States in the region claim unfair treatment from the federal government for dealing with local problems. The health crisis and the recent emergency created by Hurricane Hanna are just two examples used by leaders in the public and private sectors. There is mounting pressure on states' finances for dealing with these problems, with economic deceleration adding to the shock. This region is a stronghold of the President's political opposition.



## Region 3: WESTERN-BAJÍO

### SECURITY

**In Guanajuato, police forces' salaries are lower than what the State's Public Security Council recommends.** Out of 46, only seven municipalities comply with references set by the body, despite being the state with most police officers killed since 2018. Irapuato, an industrial town south of León and the second best-paid police corp, was the site of a mass killing (27 dead) in an improvised drug-rehabilitation center. Authorities presume the Santa Rosa de Lima Cartel is behind the attack. There is a lack of coordination between local and federal forces to face the situation in the area.

### DEVELOPMENT

**Guanajuato's GDP-growth in red for the first time in a decade: -0.22% for 2019.** Three crises hit one of the best performing industrial states: health, security, and economic deceleration. The state had steadily grown at a rate of seven percent annually since 2010; however, during 2018, a slow down began. At the same time, homicide rates reached previously unknown levels: at least 800 in 2015 to over 3,500 in 2019.

### NATURAL RESOURCES

**Jalisco's State Congress analyzes new environmental tax.** Last month, Governor Alfaro proposed a tax on emissions by fixed sources in the state, whose purpose is to develop a public environmental protection fund. The resources will be destined to foster a transition to clean energy sources.

### POWER AND AUTHORITY

**Restrictions on public gatherings in Michoacán: officials will resort to the internet for year-end addresses.**

The worsening conditions of the pandemic in the country have led authorities to forbid events with more than fifty attendants. In places like Michoacán, mayors, and other officials, typically use crowds as a backdrop to their public addresses. Citizens, especially from disadvantaged classes, are lured to the event by offering free food, money, or pledges of political support to local causes. In Mexico, this is known as "acarreo" (hauling) and is used to fill venues ranging from town squares to arenas. Political flexing may prove weak when citizens do not engage in these events online.

### INSIGHT

The region is struggling to manage its growth with ongoing violence. For years, states in the area promoted themselves as alternatives to industrial centers in northern Mexico due to violence near the border. The battleground for organized crime has shifted south. Without a clear strategy for national security, much needed industrial development could fail.



## SECURITY

### **The number of femicides grows in Puebla.**

The prevalence of this crime is 16.1% higher compared to the first half of 2019. The rate places Puebla in fourth place nationwide. In the context of the pandemic, many states have reported an increase in violence against women. The issue is not prevalent in the public agenda. In recent months, the federal government lowered the budget destined for the Commission for Attention to Victims of Violence.

## DEVELOPMENT

### **Mexico City is among the worst hit by the economic crisis.**

Reports indicate that up to 197,000 people lost their jobs in the city during the pandemic. Even though the containment measures ended, many businesses were unable to reopen their doors. Business owners claim they have received little support from the government. Actions of support by the local authorities came in the form of community kitchens for the unemployed.

## NATURAL RESOURCES

### **Guerrero faces higher tariffs for electricity.**

Rates grew by up to 30% in the Costa Grande area in Guerrero, according to the local business chamber in Atoyac. Citizens have pointed out that the CFE, the national energy supplier, has denied service to homes that have been unable to pay their bills without considering the economic crisis. The unrest led to various demonstrations at CFE's facilities in Guerrero.

## POWER AND AUTHORITY

### **Protests continue over Ayotzinapa Case.**

To commemorate the sixth anniversary of the disappearance of the students of the rural teacher's training-school in Ayotzinapa, parents of those missing continue to pressure government publicly. They have threatened to radicalize their protests if President López ignores their request to bring those responsible to justice. Among their announced activities for the coming months are blockades of avenues, and taking over highways' toll-booths.

## INSIGHT

**The region continues to suffer from budget cuts.** In the past weeks, Mexico City and Puebla have announced budget cuts to their municipalities, while facing COVID19. Local governments have lost employees during the crisis as well. The economic situation looks complicated in the short and medium terms. Some city governments are also unable to meet with payments of public debt acquired during past administrations. Lower local taxes have been collected this year as well.



## SECURITY

### Human rights groups call for justice for displaced members of indigenous communities in Chiapas.

Paramilitary groups in the Maya-Tzotzil region in the state fight for control of land near the towns of Aldama and Chenalhó. These organizations appeared in the 90s to counter the Zapatista uprising and remain active. Political motives, as well as environmental depredation, might be behind the violence. Stray bullets wounded a 13-year old girl in her home this month in the Koko'community in Aldama. Since 1994, at least 115,000 people have been displaced in Chiapas, according to a report by the State Human Rights Commission (CEDH).

## DEVELOPMENT

**Tabasco shows the highest GDP-growth in the country.** The state's economy grew 7.7% during the first quarter of 2020 (compared to the same period of 2019), according to recently published data from the National Institute of Statistics and Geography (INEGI). Such an increase in Tabasco's economy had not taken place for nearly a decade. The results show the influence of massive federal investment in the Dos Bocas Refinery. Oil has been Tabasco's principal industry for decades.

## NATURAL RESOURCES

**Spanish eolic energy company Siemens Gamesa suspends payments to communal land-owners in Oaxaca.** Nearly 500 members of the Santo Domingo Ingenio community have not received their semi-annual installments since 2019. The company has leased the land from the ejido (collective property) for ten years. It argues that economic insolvency due to the pandemic, and recent federal decrees which affect the national energy market, prevent it from meeting its obligations. The community has asked for help from the state government and demands reimbursement, stating that they are aware of the company's future investments in other countries.

## POWER AND AUTHORITY

**The President proposes tax reductions for the region.** Mr. López stated that lowering income and value-added taxes in the South would foster investment and development, on a trip to Oaxaca. While supervising the construction of a new highway, he declared that states in the Bajío and northern Mexico had received attention for decades by the government but that now it would change. The President added that other regional projects, like the Isthmus of Tehuantepec industrial corridor, would continue.

## INSIGHT

Investment in the region comes mainly from federal funding. However, federal transfers to state-budgets have decreased. The pandemic is not slowing, and citizens, small and medium enterprises, and local governments still demand a better response from the national authorities. Actions by the government in other sectors, like energy regulation or the cancellation of projects backed by private investment, directly affect the region's development, which runs counter to President López's campaign promises.





## Region 6: YUCATÁN PENINSULA



### SECURITY

**The National Guard carries out an operative along the Rio Hondo.** Citizens of the area near the border between Quintana Roo and Belice called on authorities to help them with a recent spike in crime. Fourteen communities on the margin of the river that divides Mexico from its southern neighbor have seen a rise in violent robberies and theft of irrigation systems. Production of sugarcane is one of the essential activities in the area. The National Guard will patrol nearly 90 km (55 mi) of the river.



### DEVELOPMENT

**Yucatán faces higher levels of inflation.** The national annual rate of inflation was 3.3%, with a monthly variation of 0.55%. For the month, Yucatán registered a fluctuation of 1.36%, the second-highest in the country, behind Chiapas (1.40%). The Yucatán Peninsula and the states in the Southern region of Mexico faced an annual rate of inflation of 4.26%.



### NATURAL RESOURCES

**Local communities oppose a project for designating the Bacalar Lake as a "Natural Protected Area."** The site is a popular attraction in Quintana Roo. Activists and the federal government have proposed for its protection and responsible management, due to the presence of stromatolites (rock-like formations created by bacteria after millions of years). Members of the community claim that foreigners or people from out-of-state want to take control of the area to privatize it.



### POWER AND AUTHORITY

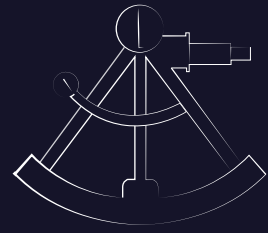
**The governors of Yucatán and Quintana Roo call for changes to federal funding for natural disasters (FONDEN).** Hurricane season has begun, and states in the Yucatán Península and Tamaulipas and Nuevo León have been recently hit by bad weather. Citizens and local authorities claim that funds for relief are not enough to cover associated risks or reconstruction after extreme events. Further criticism arises from delays in delivering resources to battered areas.

## INSIGHT

Despite rhetoric from the national ruling party, this vast area still faces challenges for development. These states usually are safer than other places in Mexico; however, the needs of citizens the region must not be ignored just because they are not attention-grabbing in the news. Even well-meaning projects face the reality of local politics, which observers from out-of-state tend to misunderstand.

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