

Mexican Strategic Landscape

Monthly report

DECEMBER 2020



THE INSTITUTE

FOR STRATEGY AND DEVELOPMENT RESEARCH





- NORTHWESTERN
- NORTHEASTERN
- WESTERN-BAJÍO
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- 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



- 1. Lights out for renewables and private investment?** A massive blackout took place in many states during the last week of December, affecting 10.5 million clients of CFE, Mexico's state-owned electricity utility company. According to authorities, a transmission line across the northwest had a failure, which led to a significant "electrical imbalance" in the system between production and demand. The National Electricity System protected itself by taking 16 power plants, including alternative energy sources, off the grid. The situation shows how feeble the system is and the need to invest in more production and distribution capacity. The issue became politicized, and President López defended CFE, and its director, from criticism, adding that there is no place for private investment in this strategic sector.
- 2. Hydropolitics again.** Water becomes an ever more critical issue in Mexico. The pandemic has diverted national attention to protests and dire situations in Mexico's remote places in grave need of water and infrastructure. State governments are trying to tend to the matter, but they need further cooperation with federal authorities.
- 3. Higher minimum wage.** The National Commission on Minimum Wage (CONASAMI) announced a hike of 15 percent in workers' pay across the country. The new standard is set at MXN 141.7 daily (USD 7.12), although in some places, like the northern border, it will be MXN 213.39 (USD 10.75). The private sector complained about the sudden increase, as companies of all sizes are battling the economic situation.

What to observe in January 2021:

- **The arrival of the first doses of the COVID-19 vaccine and its immediate distribution.**
- **The rise of intra-party politics for choosing candidates for the 2021 election, including coalitions across party lines.**
- **The Mexican government's attitude towards the beginning of President Biden's administration.**

Region 1: NORTHWESTERN

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SECURITY

Fentanyl is a growing problem in Baja California. Authorities have denounced that half of all fentanyl seized in Mexico is captured in the border state. Its high demand in the United States and low production cost have caused an increase in the drug's distribution in recent years. The Sinaloa and the Jalisco Nueva Generación cartels (CJNG) dispute control of its route across the border. Violence grew as a result in northern cities like Tijuana.

DEVELOPMENT

Chihuahua will have a new airport in 2021. The project will boost tourism in the Sierra Tarahumara, cut travel times, and improve connectivity for the state's remote locations. Operations will begin during the year for the Creel-Barrancas del Cobre Airport located in the municipality of Bocoyna. Although the airport is next to being inaugurated, it is already facing some conflicts. Indigenous people from the San Elías Repechique community have complained that they did not receive compensation for the airport's construction in their lands.

NATURAL RESOURCES

Baja California Government cancels energy contracts. During the second quarter of 2020, Governor Jaime Bonilla unilaterally withdrew the services contract of SUMEX company, a producer of electricity. The Federal Administrative Justice Court ruled that the government will not formalize a new agreement with a new company until it reviews the earlier cancellation. The state government's decisions have scared investors because they consider there are no legal guarantees to invest in Baja California.

POWER AND AUTHORITY

Self-defense groups are forming in Chihuahua. Members of the LeBarón family in the state have met with members of the Cherán and Arantepacua communities of Michoacán. The latter had experienced these groups' development for what they claim are self-defense purposes when criminal organizations expanded into their region years ago. In Chihuahua, this comes in response to the attack suffered by several members of the LeBarón family in 2019 that left nine people dead. The US government condemned the attack and urged authorities to solve the crime. Its involvement comes because the victims had dual Mexican-American citizenship.

INSIGHT

Baja California fishers still without federal government support; protesters attack ocean patrolling equipment of the Mexican Navy.

An agreement by this group and federal authorities is pending. Local fishers claim they have been affected by Mexico's international arrangements to protect the environment and endangered species such as the vaquita marina. They have asked for support in dealing with widespread unemployment, economic losses, and viable alternatives to continue with their business. During his visit to Baja California in November, president López publicly promised a comprehensive plan for economic reactivation, with the details left undisclosed. Fishers also confronted two vessels belonging to the Sea Shepherd Conservation Society in the area about the use of fishing nets. The Mexican Navy intervened to protect the activists. After the skirmish, 200 people gathered to protest and vandalize equipment at the Navy's San Felipe Search, Rescue, and Maritime Vigilance Station.

Region 2: NORTHEASTERN

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SECURITY

Governor of Tamaulipas investigated for money laundering. The federal government's Financial Intelligence Unit has accused Governor Cabeza de Vaca and several family members of the crime. The United States government also had information regarding various financial transactions that raised suspicions about the governor's assets and income. An arrest warrant could be issued against the governor in case the investigation continues.



DEVELOPMENT

Construction in the port of Matamoros is on hold. Businesspeople have asked the government to continue the project. The port sits 84 km (52 mi.) south of Matamoros. It aims to support commercial operations in the region for exploration and production in the Perdido Folded Belt area of significant proven oil reserves. Despite the potential of this region, the port lacks support from the start.



NATURAL RESOURCES

Chinese companies will control wind farms in Tamaulipas.

The State Energy Investment Corporation of China (SPIC) bought Zuma Energía, the largest independent renewable energy company in Mexico. In 2018 the Mexican company had developed the largest wind project in Latin America, located in Tamaulipas. The Chinese company's incursion will increase its power generation capacity abroad and control vital wind farms in Mexico. Currently, the federal government has shown that renewable energy projects are not one of its priorities.



POWER AND AUTHORITY

Senators ask to declare an economic emergency in Coahuila.

The request is for the coal mining region in the state, including the municipalities of Sabinas, San Juan de Sabinas, Múzquiz, Juárez, and Progreso. The proposal comes after the financial problems faced by steel manufacturer AHMSA, one of the most important companies in the region and a large employer in the community. This measure will allow the area to access tax benefits that will alleviate the region's weak economy.

INSIGHT

Security sector reforms during 2021.

With the approval of marijuana for recreational purposes at the national level, 30 percent of inmates in Coahuila prisons could see their sentences commuted if they meet specific criteria. In Nuevo León, local legislators propose creating a public figure to investigate and keep a registry on torture, a crime related to conflicts between authorities and drug-trafficking organizations. These proposals complement those in the General Law to Prevent, Investigate, and Punish Torture, approved in 2017. However, there has been no progress in the matter since then. Changes in federal legislation have forced the states to implement their reforms for security and law enforcement.

Region 3: WESTERN-BAJÍO

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SECURITY

Jalisco is at the crosshairs of organized crime. The state is the home and namesake of the Nueva Generación organization (CJNG), one of the world's most powerful illegal associations. The group has tried to expand across central Mexico but has met some resistance in Michoacán. It holds a tight grip on rural communities. For example, during the holiday season, henchmen distributed gifts and foodstuffs in small towns carrying its logo. Propaganda videos circulated on the internet in which citizens appeared to be thankful for the gesture. Violence has grown in places like Puerto Vallarta and Guadalajara. In a bar in the tourist destination, an armed group killed Aristóteles Sandoval, Jalisco's former governor. Authorities attribute the attack to CJNG. It is the case of another high-profile victim in less than a year after a failed attempt on the life of Mexico City's Chief of Public Security, Omar García Harfuch.



DEVELOPMENT

Economic recovery is tough in Guanajuato because of attacks on businesses by criminal gangs. The state placed third nationally in the number of crimes against companies. According to the National Survey of Businesses Victimization (ENVE) done by INEGI, the country's institute for statistics, 3 thousand 640 economic units were affected out of every 10 thousand. Guanajuato trails behind Estado de México and Aguascalientes.



NATURAL RESOURCES

Guadalajara prepares for climate change. The city is the first in Latin America to have a proper Action Plan for Climate Change. Among its priorities, the metropolitan area placed reaching a carbon-neutral territory by 2050. The city has reaffirmed its compromise to the Paris Agreement. How soon it can achieve its goals will depend on economic recovery and political will in times of turmoil in the short term.



POWER AND AUTHORITY

Local authorities operated with fewer public funds in 2020 in Michoacán. Budget cuts across the board and the disappearance of federally earmarked funds left municipalities struggling to survive. On average, cities and small communities in the state worked with only 70 percent of the budgeted funds. Structural problems went unresolved, like being unable to cover public officials' salaries or insufficient law enforcement resources. The pandemic has compounded these issues.

INSIGHT

Regional phenomena leave cities unable to respond. For years communities and their authorities have faced the appearance and expansion of criminal groups in the Bajío states. Despite criminal organizations controlling large swaths of the territory, the fight continues on a town-by-town basis. Violence has spilled into uncharted areas and sectors: high-profile cases, unrelated economic activities to the drug trade, and even propaganda customarily used by other types of organizations. Municipalities are left without resources to effectively and credibly solve the issues that affect them: public security, economic recovery, and social development.

Region 4: CENTRAL



SECURITY

A new mode of racketeering has evolved in Estado de México. In addition to the extortion fees that criminal organizations charge businesses to operate, criminal gangs force victims to buy products from a single supplier, designated by them, at a high cost. This new modality has caused many small businesses to shut down. These criminal behavior changes mainly affect food vendors, taxi drivers, construction companies, and even the tourism sector.

DEVELOPMENT

At least 40 percent of small and medium sized businesses have closed in Mexico City. The Chamber of Commerce, Services, and Tourism of Mexico City made the announcement. Business owners saw the holiday sales as their only chance at some form of recovery. However, after the increase in hospitalizations due to COVID-19, the local government decided to limit non-essential business activities. The city represents around 25 percent of all cases of COVID-19 in the country.

NATURAL RESOURCES

Landowners accuse Canadian mining company of modifying a previous agreement. Inhabitants of Ejido Carrizalillo in Guerrero are angry at Equinox Gold after claiming the company is reconsidering a contract made with the community. The conflict has lasted several months, and the company is still facing economic losses because of community intervention. The people of Carrizalillo demand Equinox Gold comply with requirements for the social development of the area.

POWER AND AUTHORITY

Negotiations for the Interurban Train fail with inhabitants of San Buenaventura. Landowners affected by the Mexico-Toluca Interurban Train construction have not agreed with the Federal Government about compensations for the use of their property. They are maintaining a presence at the construction site until their demands are met. Since the beginning of the project, work has faced various challenges from local opposition, lack of budget, and construction problems. The project is at 80 percent completion.

INSIGHT

Fuel theft does not stop in central México; election results are still contested in Hidalgo.

Despite being one of the federal government's priorities, illegal extraction of gasoline and other oil products from PEMEX pipelines has not stopped. From 2018 to 2020, Puebla and Hidalgo concentrated the largest number of cases. In the latter, authorities are still dealing with contested results from the local October elections. Eighteen trials are still pending for accusations about political parties exceeding the use of campaign funds. These states have been crucial for the larger electoral strategy of MORENA, Mexico's ruling party.

Region 5: SOUTHERN

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SECURITY

A protest took place at the Mexico-Guatemala border regarding the institutional response to the migrant situation. Members of a civil rights organization gathered outside the local migrant and refugee shelter in Tapachula. They claim that the Mexican government is militarizing its response to the migrant crisis by displacing the National Migration Institute with the National Guard. Activists believe the focus on the situation has been on security and not on a humanitarian basis. Tapachula is the first stop for many migrants from Central America and other countries, making their way to the United States.

DEVELOPMENT

President López declares the cancelation of a natural gas contract with Etileno XXI. The agreement between the federal government and Braskem-IdeSA, a subsidiary of Odebrecht, affects its plant in Nanchital, Veracruz. The president claims the contract was abusive and one-sided and has declared his administration would not renew the contract. The plant had an agreement to buy gas from PEMEX at lower prices due to excess supply in the country at the time of the deal. When failing to honor the contract, PEMEX has had to pay fines to the company. To avoid the fees, it has had to disrupt its petrochemical operations to comply with Etileno XXI's gas demand. Investors see the renegeing of the contract as a way to force Braskem-IdeSA to further negotiations, and as a showcase of Mr. López nationalistic interests in the oil and chemical industries.

NATURAL RESOURCES

Communities in Oaxaca challenge the construction of wind farms. In Unión Hidalgo, members of local indigenous groups oppose a project called Guná Sicarú, by Électricité de France EDF Renewables. The indigenous peoples claim the government simulated a community consultation process, and the social impact evaluation (EVIS) was not correctly carried out and distributed among affected populations. For this reason, activists insist on high probabilities of canceling the project, while pressure on the company is growing in Paris. Oaxaca is one of the most prominent alternative energy production areas in the country, where 31 wind farms operate.

POWER AND AUTHORITY

Chiapas members of the national teachers union, CNTE, oppose a return to schools in January. A local branch of the organization cites the lack of control of COVID-19 as the main argument. Teachers feel that the Mexican government and its Ministry of Public Education are leaving all responsibility and care of children in the hands of families and their schools without enough resources. In the Costa Grande region of Chiapas, 2,500 learning sites struggle with funding and care through the pandemic. The Ministry of Public Education has yet to announce how and when schools should restart in-classroom activities.

INSIGHT

The situation of migrants at the southern border of Mexico remains ignored. The pandemic saw a fifty percent drop in the number of people seeking to enter the country as refugees than in 2020 when nearly 70 thousand applied for asylum in Mexico. Political upheaval, natural disasters, and even the health crisis in their place of origin will probably result in larger immigrants' arrivals. The Mexican government has still not offered a solution to the situation, despite months of preparation time. 2021 could mean a larger humanitarian crisis in the southern and northern borders.

Region 6: YUCATÁN PENINSULA

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SECURITY

Quintana Roo State Prosecutor's Office informs about penal action against 11 public officials and local police members. Officers hurt and repressed protesters and journalists at a march in early November in Cancún. Department heads and supervisors were accused, including the municipality's Secretary and Undersecretary of Public Security.

DEVELOPMENT

Cancún closes the holiday tourist season at a high. In the city and other resort towns on the Mayan Riviera, hotels and restaurants received international visitors for the end of the year; most were Americans and Canadians. Hotels were allowed occupancy rates of 60 to 80 percent by local authorities. According to data from the Ministry of Tourism, from January to November of 2020, nearly three million foreign visitors landed in Cancún's international airport.

NATURAL RESOURCES

Energy company inaugurates a wind farm in Yucatán. The site is located in Yohactún de Hidalgo's community and represents an investment of USD 150 million. The project belongs to the company known as Fuerza y Energía Limpia de Tizimín and generates electricity at a rate of 320 GW/hour. A duplicate investment of the farm could be in the works.

POWER AND AUTHORITY

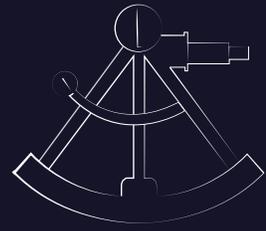
Congress in Campeche enacts a law to punish plundering. Crime has grown across the state. 2020 ended with MXN 72 million (USD 3.6 million) stolen from cargo vehicles in 33 different instances. In 2019, the number of cases was 47. The Carmen municipality was the most affected. Law enforcement has been unable to deal with the problem, as members of small communities steal goods from freight trucks that tip over during accidents. Breaking this new law could lead to a sentence of two years in jail.

INSIGHT

The region will have to adapt rapidly to social demands and climate action to address its economic growth. The Peninsula is attractive to tourists, investment projects, and even criminal activity. Traditionally a peaceful place, now it needs to prepare for changes in the coming years. A mix of investments in energy and reliable tourism infrastructure must create better living conditions for its inhabitants. Citizens expect local authorities to respond better to newer demands, like professional police forces, responsibility in controlling the pandemic, and environmental responsibility.

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