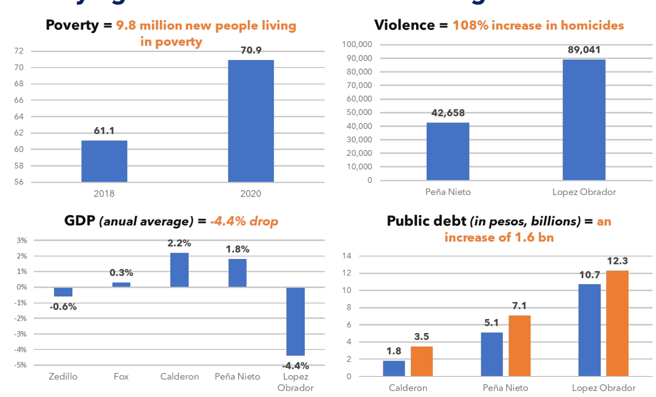
MEXICO / MONTHLY STRATEGIC REPORT

December 2021

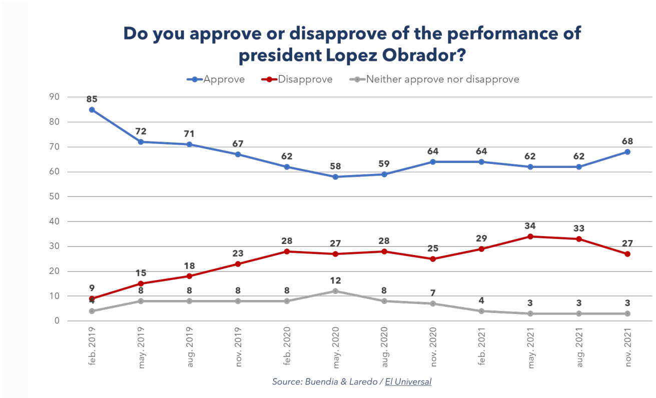
As President Andres Manuel Lopez Obrador celebrated the mid-way point of his six-year term in office on December 1, he is facing a stream of steady criticism both within Mexico and internationally. Notwithstanding, it is fair to say that the presidential project has so far been successful on its own terms. For three years, the president has placed his bets on a series of policy drivers that to date -and despite the pandemic- have in essence played out well for him. While the issues that drove his candidacy have not been corrected (such as insecurity, corruption, growth or poverty, graph below), the mere fact that the country has been able to navigate the turbulent waters of the pandemic and that the government and president -compared to what is happening elsewhere up and down the Americas, for example- have come out relatively unscathed, is a testament to the political resilience of the president himself. And Lopez Obrador's continued and masterful use of televised news briefings, his down-to-earth style and personal austerity continue to -apparently- win over the majority of Mexicans, despite a number of indicators and hard data suggesting the country isn't doing that well.

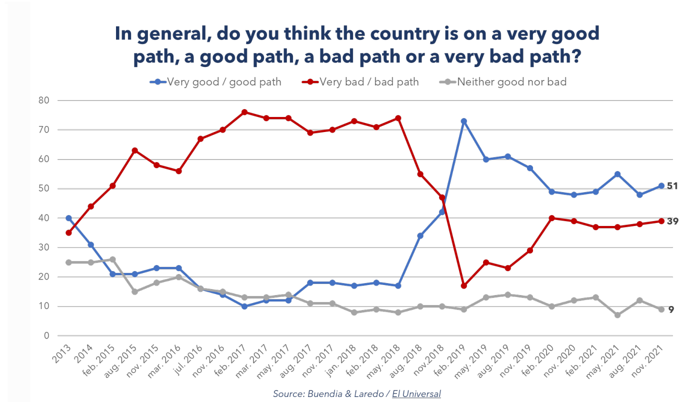
Key figures for the first 31 months of government



Sources: Coneval, SEENSP, INEGI, SNCP

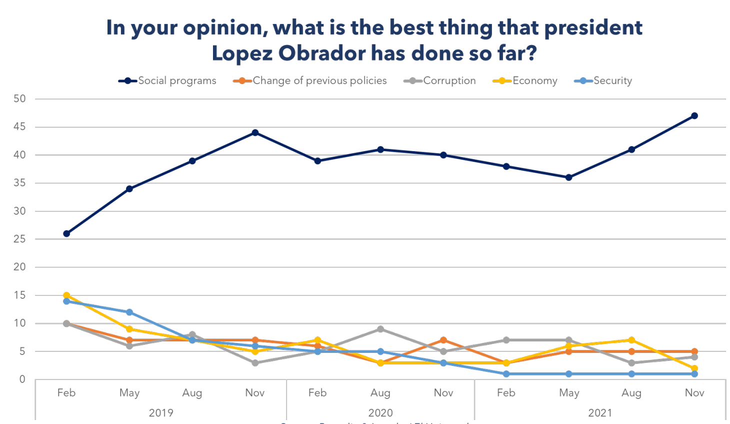
His government made three fundamental bets these past three years: first, the infrastructure projects (a refinery, a train and an airport), as sources of economic growth, to which one must add the attempted revitalization of *Pemex*. These initiatives have advanced defying the odds, the pandemic and recession, thanks to the conviction of the president that this is the way to the future to ensure the consolidation of his eagerly awaited transformation. The second bet is on improving the standard of living of the population that has been his electoral base (not always the poorest or most needy), which he trusts will guarantee the political-electoral continuity of his project of government. The third bet is on the country's economic and financial stability, measured principally by the steadiness of the exchange rate. As political analyst Luis Rubio has underscored, what no one knows is whether those same drivers will continue to be behave favorably going forward, particularly because some key public policy data suggest things are much more fluid than what the president's persistently high polling numbers (*Buendia & Laredo*/*El Universal* early-December poll, below) continue to show, with about two-thirds of the public approving of his performance since taking office in 2018 on a platform that promised a radical transformation of Mexico and Mexican society.





The infrastructure projects are not particularly solid nor do they have multiplier-effect benefits for the economy as a whole, and it is even possible that they will end up as proverbial white elephants; *Pemex* is an interminable drain of fiscal resources and, in any case, it no longer entertains (nor will it ever entertain) the relative weight it had half a century ago and even less so in today's ever-more digital economy. The complexity characterizing the Mexican economy of the 21st century is such that no government can pretend to control all its variables or conduct all of its processes. Worse still, the concentration of power that lies at the heart of the governmental strategy constitutes a damper on investment and growth. To top the overall picture, the government has done nothing to combat evils such as corruption or insecurity, factors that, had they diminished, would have held, in themselves, enormous political and social appeal for the country's long-term development. In addition to the latter, much of what facilitated the stability of the past three years has less to do with the internal management than with the international financial markets, which have been especially favorable. In a word, the president has acted under the assumption that he can eliminate much of the traditional expenditure (such as in health or childcare centers) to dedicate these monies to his clienteles while simultaneously expecting the international context to favor him. The question is: What happens if these premises turn out to be wrong in the medium or long term?

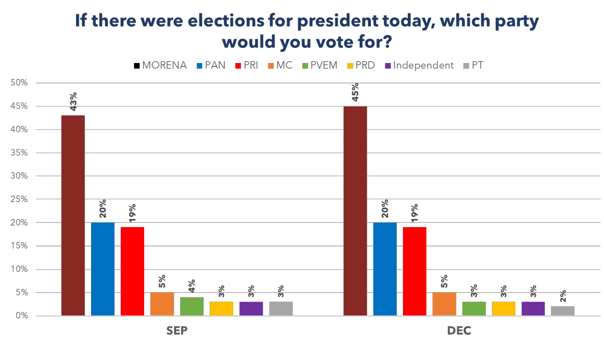
Much of the support that the president continues to enjoy depends on economic stability, combined with the effects of government handouts, as the most recent *El Universal* newspaper survey suggests, with most of those polled saying that the president's social programs are the "best thing" Lopez Obrador has done so far.



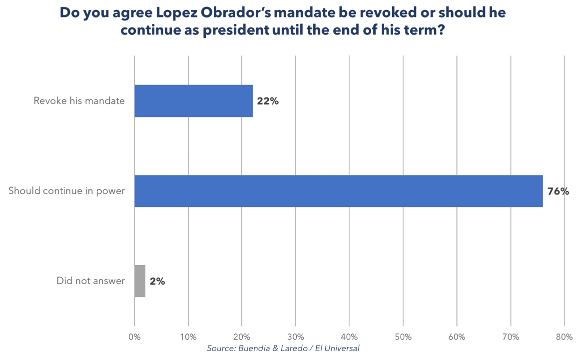
And moreover, going forward, it is not inconceivable that the Federal Reserve might begin to raise interest rates at some point, which would immediately have repercussions on the peso–dollar exchange rate. In the same fashion, the record-level remittances from Mexicans living in the U.S. -a huge lifeline for millions of Mexican families- may begin to diminish to the degree that the huge transfers that the U.S. government has made due to the pandemic begin to wind down. And Mexico has reached 450,000 COVID-19 deaths, fully vaccinating only about half its population; inflation has reached around 7%; and there is an almost unabated wave of drug gang homicides. And the president continues to not do himself any favors by dismissing academics, critics, nongovernmental organizations, businessmen, and opponents and lumping them all together into one basket as "conservatives" nostalgic for the old day -a sort of "us v. them" daily approach to almost everything and for all policy issues.

A PEEK AT 2022

Standing before hundreds of thousands of cheering supporters in downtown Mexico City's central square on December 1, President Lopez Obrador saved the most relevant passage for the end of his speech. He urged Mexicans to participate in an April referendum or recall vote to decide whether they want to him removed from office more than two years early. "None of, 'They chose me for six years and I can do whatever I want,'" Lopez Obrador said at the rally to mark his midterm mark. "If one who governs is not up to the task and obeying the people, revoke their mandate and out!" It is a deep-felt opinion by the president who believes that democratically elected leaders need to be ratified along the way during their tenures. Officially called the "revocation of mandate", the measure follows other efforts by the president to increase citizen engagement in public policy, and he has used the tool on other issues these past years: referendums to decide whether former Mexican presidents should be prosecuted for alleged crimes, on the construction of a new airport near Mexico City, a brewery in northern Mexico and on the development of the Mayan Train. But it is also a clear political and electoral ploy. With his high approval numbers and most potential voters suggesting that MORENA is in pole-position heading into the 2024 presidential election (newspaper *Reforma* poll, below), the president, now 68, likely believes he has nothing to worry about.



But the measure is also savvy politics. Lopez Obrador controls the political agenda and controls public opinion tendencies, and that has allowed him for the last three years to directly tell Mexicans every morning in his daily pressers (the so-called 'mañaneras') what Mexico's political reality is. Winning a halfway point referendum would increase Lopez Obrador's perception that he could move forward freely with his agenda. It is likely the president will not be recalled in the vote (*El Universal* December poll, below) and that will be used as a political -and "electoral"- validation of his tenure so far and of the road map the president wants to implement in his last three years in office. As Francisco Gonzalez, a professor of Latin American politics at SAIS-Johns Hopkins University has said, "He wants to be officially reconfirmed to give him that comfort of being the popular leader who is doing the right thing for Mexico", conceiving his power as being a direct function of people reiterating their support for him actively and permanently. And as discussed in last month's *Report*, the recall vote weighed heavily on the president's decision to postpone congressional debate and approval of his electricity counter-reform bill until the Spring of 2022 and tie it to the referendum to exert pressure on the opposition in Congress. Opposition parties have accused the president's supporters of twisting the stated purpose of the referendum into a tool to promote Lopez Obrador's agenda. The 2019 reform called for a referendum to "revoke" a president's mandate rather than "ratify" it and a complaint before the National Electoral Institute by the PAN referenced how volunteers have registered voters next to posters that advertise the referendum as a means of promoting the president rather than recalling him from office.



Mexicans have until December 25 to sign a petition supporting the referendum, which can move forward only with the signatures of at least 3 percent of eligible voters, among other caveats. So far, the initiative has received more than 703,000 signatures from Mexicans who have valid voting credentials, or 25 percent of the required total, according to the National Electoral Institute (that tally likely includes signatures that will be discarded because they are duplicates or have other irregularities.) Even if enough signatures are gathered, hurdles to a referendum remain. The National Electoral Institute's counsellors have said that the agency doesn't have the budget to carry out the vote and at least 40 percent of eligible voters must participate for the referendum to be binding. The referendum on former presidents last August fell far short of the 40 percent voting figure.

The December 1 speech also had the trappings of the past, a hallmark of PRI governments that would mobilize, bus and pay (sometimes with no more than a sandwich and a soft drink) supporters to the main square in Mexico City or the party headquarters to show support and fealty to the powers to be. Bands played for thousands of supporters packed into the plaza. Most had facemasks but were crowded shoulder to shoulder, and a significant number appeared to be government employees. Nonetheless, and despite the significant criticism levied at the president particularly by those Mexicans who remember all too well the country's recent past and the suffocating role the PRI played in controlling the nation's fortunes, the problem is that few voters identify with the opposition parties as they stand today, and which have very few new ideas for ruling differently from the past. So, in spite of all his faults and the resuscitation of political practices that reek of the past, the president is likely to remain popular and win the recall referendum.

A U-TURN THAT THROWS CAUTION TO THE WIND

As a recent *Bloomberg* piece on Mexico and Lopez Obrador's policies suggested, "Even while railing daily against big companies and business elites, Mexico's president has for three years looked askance at policies that might upset financial markets or hurt his beloved peso." That is, until he blindsided most analysts and the markets by confirming -after a swirl of rumors followed by a tweet by former secretary of Finance Arturo Herrera saying that his nomination to lead Banxico, the central bank, had been yanked- that he indeed had reconsidered his decision to nominate his former cabinet secretary. Instead, he put forward Victoria Rodriguez, a little-known undersecretary for public spending at the Ministry of Finance with a long career in government finance jobs but little experience or academic background in monetary policy. Many were also clearly shaken and concerned that by putting Rodriguez at the helm of the bank until the end of 2027 if ratified by the Senate (as expected), Lopez Obrador might be also taking a grab at the independence of one of the few Mexican institutions that has remained isolated from his controlling political clout. That this might have also been behind the decision to scrap Herrera was not lost on many observers and the markets, which reacted accordingly in the immediate aftermath of the decision, with the Mexican peso taking a big tumble. The uncertainty created by this development is also highly inopportune given that the central bank is struggling to get a grip on inflation. Rumors also abound as to current Secretary of Finance Rogelio Ramirez de la O having picked a fight with Herrera and lobbied against his designation.

Rodriguez's trajectory is indeed atypical. All of the people who have led the Banxico board since the 1960s formed part of the central bank, including the current governor, Alejandro Diaz de Leon. While she has long experience in public finances and this should be enough to consider her as a suitable candidate for the central bank given the ambiguous requirements specified in the bank's law, it is concerning that she lacks experience as a central banker and on monetary policy. According to her resume distributed by the Finance Ministry, Rodriguez took classes toward a master's degree in economy from the prestigious El Colegio de Mexico, where she was trained and recruited by Lopez Obrador's first secretary of finance, Carlos Urzua (and also studied with Gerardo Esquivel, current governor of Banxico), but a ministry spokesman avoided confirming if she had finished the degree. While an MA isn't per se a requirement for the job, that's uncommon for the leader of an institution that has prided itself on having staffers trained at elite U.S. universities. She is known by people who have worked with her as being "competent" and "a workaholic", and she evidently has won the trust of the president these past three years. "We want women to participate, that this change be carried out recognizing the work that the undersecretary has done," Lopez Obrador said about the nomination, declining to specify why he changed his mind. "She has acted with much responsibility not to spend for the sake of spending. It is thanks to her that we have financial stability, that no additional debt has been resorted to", he added.

The risk that many economic analysts see is that the new nominee is either not sufficiently independent from the government, or not sufficiently experienced for what is ultimately a highly technical job, or both, in an institution that has been the cornerstone of Mexico's macroeconomic stability for the past three decades. The central question that still lingers several weeks after the president made his decision is: what made Lopez Obrador change his mind? The president had already hinted, before the decision was made to not extend Diaz de Leon's tenure at the bank, that Banxico should be led by someone who embraces a "moral economy" and it is likely that Rodriguez, more than Herrera, ticks the president's box on that account, however fuzzy the definition of a moral economy might be. Probably the answer is more about what he expects from the incoming governor -it would have been welcome news if the president had acknowledged the importance of continuity in the middle of a crisis (which Mexico and the global economy in general are still in) and asked Diaz de Leon to stay or indeed effectively nominate Herrera. Still, the clashes between the government and Banxico during the past three years explain to some extent why Diaz de Leon was sidelined so early in his last year. This government has unsuccessfully demanded from Banxico the delivery of the extraordinary revenues from the IMF (the SDR allocation earlier this year) and the annual operational remnant, and while it is not straightforward, the new governor might end up focusing on changing gridlock and regulations to bring Banxico more in line with the government's priorities.

A NEW DIGITAL BILL OF LADING REQUIREMENTS

This past June, Mexico's tax authority, Servicio de Administración Tributaria (SAT), published an Administrative Tax Rules proposal (known as Miscellaneous Fiscal Resolution), by which any company transporting goods within Mexico would be obligated to attach a digital bill of lading (CCP) to the corresponding electronic invoice (CFDI). According to Raquel Buenrostro, head of SAT, this measure is designed to prevent trade in illegal and counterfeit goods (initially, it focused on the illegal trade in gasoline and derivatives but now covers all industries) by allowing authorities to use information declared through online accounting , electronic invoicing, and now, a digital bill of lading to verify the goods being transported. This mechanism assumes that critical information about the trade in question is known prior to issuing the digital bill of lading and is declared as an Annex to a CFDI (this form includes approximately 180 fields of mandatory, conditional, and optional data) that must be digitally stamped and immediately registered with the tax authorities. Examples of this critical information include the value of the goods, the price of the carrier services, and the routes through which the goods will be carried, among others.

Due to the complexity of these measures, SAT and the Secretariat of Communications and Transport (SCT) agreed to establish work committees with the private sector based on different types of transportation modalities affected by the rule (rail, sea, air, land, courier, valuables, and business associations). As a result of the progress of the work committees, the authorities announced an extension of the effective date of these measures until December 1, 2021. Nonetheless, noncompliance with these measures will not be sanctionable until January 1, 2022. Implications for non-compliance range between administrative purposes, non-deductibility of the purchase of goods or carrier services, and ultimately the seizure of goods. One of the main challenges for companies and carriers will be to issue / obtain detailed information for each shipment to prevent delays and purposes. Completing the CCP will be a joint responsibility of the transportation service provider and the engaging company, supported by SAT-administered technological platforms to facilitate the supply and exchange of information. In recent weeks, SAT has released important criteria related to the application of these obligations on companies on their website's frequently-asked-questions section. It has also included on its website instructions for filling out the CCP and the technological standard that web developers must consider when incorporating the CCP annex to their CFDI platform. SAT also issued a sixth proposal for administrative tax rules that further details these obligations. No legally enforceable document, however, currently establishes these important changes. Due to the lack of legal certainty, and the time and cost involved in implementing these changes by companies and carriers to their CFDI platforms (assuming they have one, as many carriers are not currently issuing electronic invoices), many business associations have voiced their discontent with these measures and the short timeframe provided to comply with them.

SECURITY AND CORRUPTION: TWO GORDIAN KNOTS

Just short of the three-year point in Lopez Obrador's term in office, it's clear his security policies are treading water at best. Violence hit record high levels in 2019 and in the homestretch of 2021 remains within a few percentage points of those levels, significantly higher than the periods under Presidents Calderon or Peña Nieto. On top of the high levels of violence, two criminal groups - the Sinaloa and Jalisco criminal organizations- have expanded their influence and economic gains with impunity. And more importantly, it's not clear that there is a strategy at the national level or at local levels. Last month, *AP*'s long serving Mexico-based correspondent published a revealing article[1] on how Mexico's security forces are now simply enforcing the boundaries of criminal-controlled territory in Michoacan rather than attempt to push back the criminal groups. Extortion, drug trafficking and open carrying of large weapons is occurring within view of the military, which does nothing to stop criminal activity. This type of enforcement of boundaries instead of direct confrontation is potentially (maybe, possibly) a good strategy and appears to match the rhetoric on which Lopez Obrador campaigned. There are hypothetical scenarios in which it could succeed in reducing violence. But that's not what's happening. For starters, allowing groups to commit such public acts of violence and failing to respond undermines the legitimacy of the State. The list of bloody events across the country seems endless, but it's only a sample of the 438 acts of extreme violence[2] that the Mexican nongovernmental organization Causa en Comun registered in September, the deadliest month so far this year. Researchers estimate that the rise in extreme violence has left 6,314 people injured or dead in the first seven months of 2021. And all the data points suggest that the numbers are trending in the wrong direction (graph, below). And on top of its inability to adapt, one big failure of the Lopez Obrador government is its inability to set and enforce red lines on violence.

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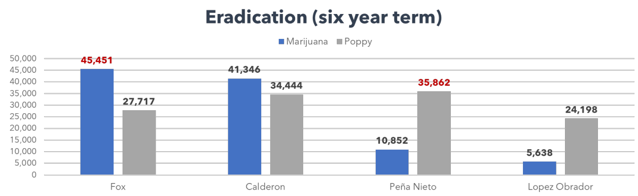
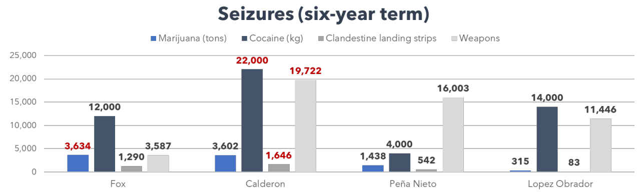
[1] https://apnews.com/article/business-mexico-caribbean-army-drug-cartels-5b165c95f2d1c276fbccd688d1ee12a0

[2] The NGO counts the "atrocities" recorded in the media, defined as events in which there is "intentional use of physical force to cause death, laceration or extreme mistreatment."





Sources: Ministry of National Defense

Additionally, as the National Guard and the armed forces deploy more troops to support U.S. efforts to curtail transmigration patterns headed to the Mexico-U.S. border, criminal groups have a greater space to operate. Defense Secretary Luis Sandoval has said recently that the army has deployed 28,395 troops -among them 6,244 on the southern border and 7,419 on the northern border with the U.S. And in parallel fashion, the plight of migrants in-country, whether on the border with the U.S., on their way there or on Mexico's border with Guatemala, continues to deteriorate. The National Migration Institute has rescued 19,162 migrants who were victims of organized crime, many of them Central Americans. From August 21 to September 20 alone, the army rescued 63,614 migrants. Human Rights First, a Washington-based organization, has recorded 6,356 violent attacks against migrants who had been deported to Mexico since January -including rape, kidnapping, extortion, human trafficking and other attacks. Femicides have also risen. The highest number of femicides during Lopez Obrador's administration came in August, when 107 were registered, according to data from the Ministry of Security and Citizen Protection. It is also the highest number since 2015. Femicides increased by 8 percent from January to August compared to the same period last year.

And corruption, probably one if not the most important banners on which Lopez Obrador ran and won in 2018, continues to fester, showing that while the president may be talking the talk, continuing to spotlight the issue almost daily, his government record on the subject does not seem to be walking the walk. The president's image of being personally uninterested in amassing money for himself -something even many opponents believe is real- gives him continued credibility with voters on corruption. The problem is that institutions lack the independence or resources to sustain a real anti-corruption fight. Speaking at the United Nations last month -barely his second trip abroad in three years- Lopez Obrador said that corruption in "all its forms" was "the biggest problem on the planet". He added: "[In Mexico] we've applied the formula of banishing corruption and put the money saved into helping the people." But there are few advances back home to shout about and the government's strategy seems to be deeply influenced by politics and little to show for it. Transparency International now ranks Mexico in 124th place of 180 countries. The federal anti-corruption prosecutor has only managed to secure two sentences for offences in more than two and a half years in the job. Thousands of accounts blocked by the Financial Intelligence Unit have produced scant results in criminal cases and many are convinced it has politically weaponized its investigations, targeting critics of the president. And last month its head, Santiago Nieto, resigned after being rebuked by the president for his lavish wedding in Guatemala and now also faces allegations of corruption himself whilst in the job. Other key oversight bodies like the Superior Auditor of the Federation -part of the lower house of Congress- have presented far fewer criminal complaints than in previous years during this administration. Lopez Obrador has also undermined the National Anticorruption System -meant to co-ordinate different institutions- by calling it the "last straw" in a "pretend" anti-corruption fight. And to top it all off, Emilio Lozoya, former CEO of *Pemex* in the previous administration and who was extradited from Spain more than a year ago over alleged bribes, pictures of him eating Peking duck carefree in an upscale restaurant in Mexico City triggered public outrage, forcing the hand of prosecutors that requested he be put into pre-trial detention. President

Lopez Obrador called the lavish dinner a "provocation". But for the government's critics, the saga and the bad optics it triggered were illustrative of the authorities' approach to fighting corruption.

NORTH AMERICA REENGAGES

President Biden's decision to hold the IX North American Leaders Summit (NALS) with President Lopez Obrador and Prime Minister Justin Trudeau at the White House last month responds to the United States' interest to continue building an institutional framework and to reinstate this mechanism between the three North American partners, after a four-year hiatus under the Trump Administration. Overall, it appeared to be a constructive dialogue on a variety of issues but there were no big takeaways or announcements, though the separate document to the joint statement issued by the three governments does have a detailed and expansive list of agreements. It was a day of full-on diplomacy that required careful choreography as Trudeau and Lopez Obrador (Lopez Obrador's third trip abroad in of all his tenure and the second one in the lapse of a week) each met separately with Biden and Vice President Kamala Harris before gathering for a three-way conversation in the White House that featured a language mix of English, French and Spanish.The summit was pulled together amid a variety of pressing challenges surrounding the economy and trade, the Covid-19 pandemic and regional migration, and it represented another step in Biden's goal to re-institutionalize relations abroad and more fully integrate North America as a counterbalance to China. For most of the topics chosen for the NALS, Canada and the U.S. seemed mostly aligned, Mexico not so much or in some topics outright not at all.

The first item on the agenda was competitiveness and equitable growth, and following the summit, the three countries plan to create a working group to further integrate the continent's supply chain. The atmosphere creating urgency for the summit included the ballooning rate of U.S. inflation, as employers continue to face labor shortages and supply chain-related challenges. The impact of these challenges is reverberating throughout the region. This quarter, the Mexican economy shrank 0.2 percent from the previous quarter, marking the first contraction since recovery from the pandemic began. There were several sources of tension going into the summit. Most notably, the leaders discussed the Biden administration's proposal to offer consumers tax credit for U.S.-produced electric cars, which has created ripples in the trilateral relationship. Mexico and Canada are concerned that the credit would incentivize automakers to move their factories to the U.S. and allege that this move could violate the terms of the USCMA. Canada's Finance Minister said the proposal risks becoming "the dominant issue in our bilateral relationship" and Mexico's Economy Minister rebuked the U.S. for pursuing protectionist policies. Tensions have also run high -particularly with U.S. and Canadian investors and businesses- over Lopez Obrador's proposed electricity bill. The three leaders also addressed strategies to combat climate change, including a North American pledge to reduce methane emissions from the oil and gas sector and technical cooperation on renewables. The summit came on the heels of COP26 in Glasgow, where the U.S. and Canada took centerstage in their commitments and declarations. The Biden administration has been very clear about climate change as one of its main policy objectives and giving it top national security relevance. Mexico, however, is on a completely different trajectory. While Lopez Obrador recently declared Mexico an ally for the U.S. on climate change, his rhetoric on the issue has not always matched his actions. If energy policy were the only symptom of Mexico's disregard for the environment the way forward would be less complicated; it's not. President Lopez Obrador has been adamant about the benefits of his "Sembrando Vida" program, which is basically a tool that has led to deforestation[3] and opposed to the nature-based solutions toolkit adopted as crucial by most institutions

[3] "How Mexico's Vast Tree-Planting Program Ended Up Encouraging Deforestation", https://www.bloomberg.com/news/features/2021-03-08/a-tree-planting-program-in-mexico-may-encourage-deforestation

concerned with climate change policy. The leaders' second priority was collaboration on the pandemic, and Mexico and Canada pledged to share millions of vaccine doses with other countries. In early November, the Biden administration lifted air and land border restrictions for travelers vaccinated with doses approved by the World Health Organization (WHO), but while 1 out of every 2 Mexicans is fully vaccinated, not all of the vaccines used in Mexico are WHO-approved. In Washington, the Mexican government pushed for the universal recognition of vaccines and for the U.S. to loosen testing requirements. The third item on the summit agenda was a regional strategy on migration. Discussions focused on proposals to expand work visas, refugee resettlement, and other legal pathways, including for individuals displaced by climate and victims of trafficking. On the foreign policy front, the three countries agreed to disagree on regional asks. Biden asked Trudeau and nudged Lopez Obrador to join him in demanding the Cuban government respect its citizens pushing for greater freedom on the island. Hewing to his obsession with and mantra of non-intervention, Lopez Obrador spartanly responded by saying that Mexico believed that it was better to let other nations determine their own domestic political paths.

As has been the case with all previous North American Leaders Summits, its success going forward depends on post-summit follow-through and implementation and continued dialogue. The list of agreements is very ambitious, and some of them reflect an obvious effort from the U.S. and Canada to try to put pressure on some of the thornier public policy issues in Mexico. Mechanisms such as the US-Mexico High-Level Economic Dialogue and the NALS usually lead to sectoral working groups to further work on the various topics on the agenda. The structure, staffing, operation and timely monitoring of these working groups will determine if the North American Leaders Summit, beyond the photos, joint communications, and lists of good intentions, is translated into concrete actions in the short, medium and long terms that truly contribute to strengthening the trilateral relationship and enhancing the competitiveness of the region. Moreover, if the summit contributes to U.S. policymakers' understanding of the crucial role that Canada and Mexico need to play in Washington's new strategic paradigm vis-à-vis Beijing, it will be a crucial step in the right direction. Mexico has already announced it will host the next summit in 2022.

Canada has always sought to prevent trilateralization of its relationship with the United States, as it considers that this detracts from its bilateral relationship. Mexico, on the contrary, usually seeks to trilateralize many issues because it helps it create a common front and by involving Canada in various issues, it helps to defuse unilateral pressures on Mexico, in cases such as the discrepancies on the automobile rules of origin interpretation . The paradox is that at this moment it is President Biden who is seeking to trilateralize the agenda, to avoid a direct clash with President Lopez Obrador and to also bind him via guardrails with Canada and the U.S. on a number of fronts agreed to on a several issues, particularly regarding climate change and renewable energies. Nonetheless, realpolitik plain and simple also points to some real limitations. Given the stakes at play, the United States government's responses to Lopez Obrador's proposed counter-reform have been, in short, shockingly weak. The first public comment on the electricity reform from a U.S. official was a November 3 tweet by Ambassador Ken Salazar. And while President Biden did mention the subject in his private 10-minute one-on-one meeting with Lopez Obrador in the Oval Office (the leaders met without any officials except for their interpreters), and a few days later the State Department spokesperson, unprompted by a question from the press, said that the U.S. had communicated at the highest level Washington's concerns over Mexico's energy policies, the U.S. administration is treading carefully. The muted strategy appears to be driven by two things: first, a desire to lock in Mexico's continued cooperation on the migration front by avoiding anything that might jeopardize this goal; and second, an effort to build a personal relationship of trust with Lopez Obrador before making any big asks of Mexico. As a result, the United States is still tip-toeing around Lopez Obrador, despite President Biden now having been in office almost a full year.

CORPORATE SECTOR FOCUS

- *Transportation:* Commercial supply chains are under added strain in both Mexico and the United States due to a shortage of truck drivers. Mexico's National Chamber of Trucking (Canacar) puts the shortfall at

50,000 drivers, while the International Road Transport Union (IRU) said the shortage in Mexico grew 175% in 2021, the equivalent of 87,500 drivers. The United States is facing the same pressure, according to the American Trucking Association (ATA). It said last month the driver shortage had risen to 80,000, an all-time high, and predicted that 100,000 more drivers would be required by 2023. In Mexico, the shortage has raised pay levels. Before the coronavirus pandemic, drivers earned 20,000-45,000 pesos a month (about US $2,340 at the higher end), but in northern states they can now earn 70,000-100,000 pesos a month (as much as $4,800). In the U.S., private fleet truck drivers earned an average of $86,000 a year before the pandemic, which has increased to $100,000 since, and comes with a signing bonus, newspaper *Reforma* reported. A logistics think tank in Queretaro, Cilqro, says the knock-on effects of the pandemic had transformed the industry: "with the pandemic and the saturation in ports, the salaries of drivers have increased around 20%"; "The northern states of Mexico are where salaries have increased exorbitantly and where companies suffer most from the flight of drivers to the United States," it added. The Road Transport Union said Mexico's shortfall was due to a lack of qualified truckers, difficult working conditions, migration to the United States and a failure to attract young people to the trade. The vice president of Canacar, Refugio Muñoz, added insecurity on the highways and health risks to the list, which he said included obesity, high blood pressure and drug consumption to meet the physical demands of the work. Muñoz added that the labor shortage was causing wider economic damage.

- *Telecommunications:* What does the purchase earlier this month of nearly 96 percent of Mexican facilities-based telecommunications provider *Maxcom Telecomunicaciones* by U.S.-headquartered digital infrastructure service provider *Transtelco* mean for the Mexican fiber market? The *Transtelco* bid was launched in September. *Transtelco*, based in Texas, now owns 95.55 percent of the Mexican company. There's no doubt that this deal will boost *Transtelco* in the Mexican market, extend its fiber presence and expand its customer base. In addition, there are obvious synergies to this deal. Having sold off its mass-market triple play business, *Maxcom*'s recent focus has been on the provision of data transport services, Internet and last-mile fiber optic connectivity for corporations and governments. After the two companies' assets have been combined, *Transtelco* will have a 25,000 kilometer fiberoptic network throughout the U.S. and Mexico. A lot of *Transtelco*'s installed infrastructure is said to be on the border between the United States and Mexico. However, the purchase of *Maxcom* gives *Transtelco* a stronger presence elsewhere in Mexico, notably because *Maxcom*'s fiber optic network has points of presence in some of the country's largest cities. The alliance also creates a competitor to brands with an established presence in Mexico. *Transtelco* remains some way behind *Bestel*, which has installed an estimated 70,000 kilometers of fiber in Mexico, though is now ahead of others, such as *Neutral Networks* and *Centurylink*. Whatever else can be assumed, there is no doubt strong potential for *Transtelco* to challenge established players – and it seems the company has ambitions to do just that. It has stated that *Transtelco* and *Maxcom*'s combined networks possess unique routes to move traffic to and from the United States, Mexico and the rest of the Americas.

- *Automotive:* Mexican automotive production and exports fell for the fifth month running in November, figures from the national statistics agency (INEGI) showed early this month, as ongoing shortages of semiconductors put the brakes on the industry. Mexican automotive production plunged by 20.25% from November 2020 to 248,960 vehicles, while auto exports declined by 16.46% to 240,341 units, the INEGI data showed. A global semiconductor shortage has prompted automakers in Mexico and the rest of North America to implement rolling shutdowns, curtailing production and hitting workers hard. "The stoppages are due to the shortage of semiconductors, and yes, production decreased due to the shortage," a spokesperson for the Mexico operations of *General Motors* said in response to a query about falling output. INEGI data showed that *GM Mexico*'s production fell 43.7% in November from a year earlier, to 40,534 units. *Nissan*'s Mexico said the shortage was also impacting production, after INEGI data showed its output plummeted 27.2% in November to 41,525 vehicles. Mexican auto parts industry group INA said the global semiconductor shortage could be further complicated in 2022 as fifth-generation (5G) technologies are adopted. It estimates that the impact due to semiconductor shortage will last at least until the first quarter of next year, but added that this is coupled with the impact of the switch from 4G networks to 5G. INA estimates the impact due to the chip shortage could begin normalizing as of the second quarter of 2022. Mexico's auto production fell by 20% to 3.04 million vehicles last year during the first phase of the coronavirus pandemic, and the Mexican Automotive Industry Association (AMIA) has forecast that it could drop by up to 5% more in 2021. AMIA chief Fausto Cuevas forecast that Mexico's auto production would return to pre-pandemic levels by late 2023 or in 2024. In the first 11 months of 2021, Mexican automotive production fell by 0.68% from the same period last year to 2,767,004 vehicles, while auto exports over the same period increased by 3.02% to 2,479,515 units, INEGI figures show.

- *Energy:* With a worldwide pandemic, issues in global logistics and, perhaps more importantly, an adverse regulatory environment within Mexico itself, the stage could be set nonetheless for solar energy to grow. Despite an unfavorable environment, solar energy in Mexico continues to grow its footprint. At the end of 2020, the Mexican Ministry of Energy (Sener) estimated that Mexico had 7,026MW of photovoltaic solar capacity installed. Over the past year or so, Mexico has added an impressive amount of solar capacity. According to the Mexican Solar Energy Association (ASOLMEX), the installed solar capacity has grown over 1,800 percent compared to 2017. Much of this capacity is found in the sates of Chihuahua, Sonora and Durango. This explosive growth, laid on foundations set years ago, appears to be coming to a grinding halt as the Lopez Obrador administration advances its mission to temper private development in the energy sector and place CFE at the helm once again. And though the latest reform proposal will be discussed by Mexico's Congress in the spring of 2022, industry insiders argue that much of the damage has been done already by introducing uncertainty where stability is needed. However, there are many industry analysts that underscore that the downturn in the sector should not be overstated. Many expect that solar energy will continue to advance in Mexico, one way or another. Especially in the area of distributed generation (DG), the mood is optimistic. Part of this is the notion that DG will remain supported no matter how the energy sector is reformed. Driven by a relative stability, solar developers hope to make optimal use of a globally growing appetite for renewable energy. And ten years ago, it was rare to see sustainability as a driver for Mexican companies. Now, seven or eight out of 10 companies are adopting -at different levels- strategies to become more sustainable. Large multinationals are pushing companies further down the right path but even small family-owned companies are realizing that energy efficiency and decarbonization are a real necessity. And the government, despite many of its actions, is looking to drive utility-scale solar too. A key example would the much-discussed Puerto Peñasco solar project. With a titanic 1GW capacity, the project would be among the world's 10 largest solar power plants and the largest in Latin America. It will feature a 100MW battery storage addition, too. Sharing the load of the predicted US$1.685 to US$2 billion investment, state utility CFE is to own 56 percent of Puerto Peñasco, while a newly formed Sonoran state company would own 46 percent.