MONARCH
GLOBAL STRATEGIES

Monarch News

May/June 2019

CEO's Executive Summary

The last two weeks of May and the first week of June must have felt like an eternity for Mexican President Andrés Manuel López Obrador (AMLO). Between May 22 and June 6, growth estimates for the Mexican economy fell below 2%, U.S. President Donald Trump threatened tariffs on Mexican imports, Fitch downgraded Mexico's sovereign debt, as well as that of the Federal Electricity Commission and Pemex (the latter to junk status), and two cabinet secretaries resigned. Yet as hectic as this three-week period was, it was more the norm than an outlier given how these past two months in Mexico and in U.S.-Mexico relations have gone. And despite the pace and tension, AMLO has maintained a staggeringly high approval rating (around 70%).

The news on both sides of the border in early June was dominated by President Trump's sudden threat to impose tariffs on all Mexican exports in an effort to coerce Mexico to, in effect, become the wall Trump has been unable to build himself. Mexico managed to earn a 90-day reprieve by agreeing to accept an expanded "Remain in Mexico" program, to send 6,000 National Guard troops to its southern border to intercept migrants, and to discuss a possible safe third country agreement in 45 days if migrant flows do not fall off. Mexico (as well as U.S. businesses and consumers who rely on imports from there) certainly dodged a bullet, but it came at a fairly high cost. The hope is that summer weather will lead to slower migrant flows as it typically does, and that the U.S. electoral calendar will mitigate a renewed tariff threat in the coming months.

In the midst of the tariff threat, the United States-Mexico-Canada Agreement (USMCA) was approved by the Mexican Senate, Canadian Liberals (the majority party) agreed to call parliament back in session to review and approve the agreement if circumstances warrant, and the Trump administration continues to press for ratification before the U.S. Congress takes its summer recess. Congressional Democrats, however, continue to find fault with the agreement. Regardless, the trade certainty that the NAFTA/USMCA is supposed to provide has been badly bruised thanks to Trump's tariff tantrum, which damaged the foundations of the U.S.-Mexico partnership that has characterized the bilateral relationship for the past 30 years.

The Mexican economy continued to slow in the second calendar quarter, leading the Bank of Mexico on May 29 to lower its growth estimate for this year to just 0.8%-1.8%. As if to underscore this growth forecast, Trump made his tariff threat the next day, Fitch and Moody's downgraded Mexico's sovereign debt a week later, and Fitch capped off the negative news by lowering Pemex debt to junk status. The decision on Pemex reflects what the rating agency considers to be insufficient attention to declining production and reserves, a not very subtle criticism of the AMLO administration's decision to build a new refinery rather than invest in exploration and production. The decision on Mexico's sovereign rating reflects the weakness of Pemex, as well as weakness in the global economy, uncertainty created by the U.S. tariff threat, and inconsistency in domestic economic policy. It was a warning shot across the bow of the Mexican economy and AMLO's strategy for managing it, but it remains to be seen if Mexico heeds it.

During this same frenetic period, the Mexican courts issued rulings that forced the Mexican government to suspend construction of its new Santa Lucía airport and to stop its plan to flood the Texcoco NAIM project site and turn it instead into an urban park. The final disposition of both sites is still very uncertain.

In Mexican politics, six states held elections on June 2. Unsurprisingly, AMLO's Morena party won the governor's race in the two states with gubernatorial elections and dominated the legislative election in a third. More surprising was the strong showing of the National Action Party (PAN), which maintained control of three state legislatures and had a very good showing in the other three states. The former ruling PRI party, however, continues to decline, a politically significant trend since the PRI is all that stands in the way of Morena control of two-thirds majorities in both houses of the federal legislature.

Finally, Mexico began to deploy its nascent National Guard in its eight most violent states in May, before having to divert 6,000 guardsmen to southern Mexico. And a huge corruption scandal tied to the previous administration broke into public light. Pemex's purchase of a bankrupt fertilizer plant from a Mexican steelmaker for a very high price led to arrest warrants for the CEOs of both firms, the freezing of their bank accounts, and a U.S. Security and Exchange Commission investigation of former Mexican President Enrique Peña Nieto.

I. Tariffs and Immigration

On May 30, Donald Trump threatened to impose a 5% tariff on all Mexican exports, disregarding rules on trade established by NAFTA and the new USMCA that prohibit this. Frustrated by an increased flow of migrants into the United States, Trump announced that the tariff would increase by 5% every month until it reached 25% on October 1 unless Mexico took significant action to stem the flow of migrants through its territory.

Given that Mexico accounts for 15% of all U.S. imports, the 5% tariff, if implemented, would have cost U.S. consumers an estimated $28.1 billion every year and lead to over 400,000 lost jobs. The hardest hit sectors would be cars, medical devices, and aerospace with their cross-border supply chains, as well as electronics, machinery and fruit. Meanwhile in Mexico, with about 80% of its exports heading to the United States, the disruption would have been profound and could have pushed a weak economy into recession. The timing of this "tariff tantrum" could not have been more curious, as both Mexico and Canada were making significant advances in the ratification of the USMCA while the U.S. Trade Representative continued to push for congressional support.

Crisis was averted temporarily on Friday June 7 when, after several intense days of negotiations, the State Department announced a deal had been reached to call off the tariffs for 90 days. Mexico gave up a lot for this short-term reprieve. It agreed to the expansion of the Migrant Protection Protocols (MPP) across the entirety of the U.S.-Mexico border, meaning that as many as 100,000 more asylum-seekers would be required to remain in Mexico during their months-long wait for their day in U.S. court. Mexico also agreed to deploy of 6,000 members of its new National Guard to southern Mexico to interdict migrants long before they reach the U.S. border.

Neither of these commitments is new despite president Trump's attempt to take credit. Both were either agreed upon or discussed in the months before the threat. The MPP has been in effect at the Tijuana and Ciudad Juarez border crossings since January; so far it has forced more than 14,000 migrants to wait in Mexico and expanding the program was already a U.S. priority before Trump's threats. The deployment of the National Guard to secure Mexico's southern border with Guatemala was first announced by Mexican Interior Minister Olga Sanchez in late March following discussions with former Department of Homeland Security Secretary Kirstjen Nielsen in Miami. Following the agreement, Mexico announced the deployment of the National Guard to the border and the Isthmus of Tehuantepec, a narrow point in southeastern Mexico that migrants must cross on their journey through Mexico to the United States. That being said, since agreeing to the deal, Mexico has been more aggressive and visible in its efforts to prevent migrants from transiting Mexican territory en route to the United States.

Though a short-term deal was reached, the major point of contention – the asylum process – remains unresolved. The Trump administration pushed heavily for Mexico to agree to a "safe third country" pact that would require migrants to seek asylum in Mexico if they first pass through that country. Mexican officials have long opposed this strategy, viewing it as extremely costly and burdensome to the country and likely to create nationalist opposition in the Mexican Senate which would have to approve it. Since announcing that he was suspending application of the 5% tariff, President Trump has reserved the right to impose tariffs in the future if Mexico's efforts are deemed insufficient in curbing the migrations crisis. He also repeatedly referred to an unpublished part of the agreement that would require ratification by the Mexican

Senate. Observers inferred that this was the safe third country designation. It does not appear, however, that any objective or mutually agreed benchmarks have been established, leaving Mexico, as always, at the whim of a moody and politically reactive president.

At the June 12 mañanera, President López Obrador's daily morning news conference, Mexican Foreign Minister Marcelo Ebrard provided a detailed account of the negotiations with the United States and emphasized that Mexico did not succumb to U.S. pressure to agree to safe third country status. He insisted that there were no agreements beyond the one announced publicly on Friday, June 7. He also spoke of a 45-day window to reduce migration flows and an ensuing 45-day period of negotiations to reach an asylum agreement if the flows do not decrease (although there was no mention of this divided time frame in the publicly released agreement).

For his part, President Trump, on the same day Ebrard denied the existence of additional agreements, waved a sheet of paper in front of reporters arguing that it contained a "very long and very good" secret agreement. Two days later in testimony before the Mexican Senate, Ebrard presented a copy of the one-page agreement to which Trump referred, signed on June 7 by lawyers representing the two governments. In this document, Mexico agrees to discuss becoming a safe third country if migrant flows do not decline in 45 days, but with the important caveat that these discussions will take place within a regional, rather than a binational, context. The concept would be for asylum seekers to be required to request asylum in the first Latin American country they enter, whether that is Brazil, Panama, Guatemala, or Mexico, because, as Secretary Ebrard said, this is "not just an issue effecting Mexico" and any lasting accord must reflect this.

Unsurprisingly, the Mexican government and its supporters emphasized the regional context of the agreement and the fact that it would only go into effect if migrant flows do not decline in the coming weeks. AMLO's political opponents and the U.S. government, meanwhile, emphasized the safe third country clause.

Mexico appears to be banking on three things. First, Mexican attitudes toward migrants have soured in the past several months as recent polls in *El Universal* and *El Financiero* newspapers make clear. Over 60% think the Mexican government should impede the migrants' passage through Mexico and nearly 70% support the use of the National Guard to the southern border to deal with the migrants. Second, migrant flows tend to drop off during the summer months owing to rains in Chiapas and desert heat at the U.S.-Mexico border. This should buy Mexico time to pursue longer-term solutions to the migration problem, including a regional economic development plan coupled with a regionally coordinated safe third country agreement. Indeed, Secretary Ebrard met with the UN secretary-general on June 19 and won UN support for a regional development plan. Third, when migration flows pick up again, the proximity of the U.S. presidential election will militate against Trump risking the domestic economic costs of a tariff on U.S. imports from Mexico coupled with Mexican retaliation. Indeed, Mexico has already announced its readiness to retaliate should the tariffs be implemented at a later date.

Assuming that migration does fall off this summer, Mexico has bought itself a bit of time. Nevertheless, the threat of future U.S. tariffs looms in the distance, especially if migrant numbers pick up again when the weather is more conducive. As a result, one of the key achievements of NAFTA and that USMCA – confidence that free trade would define the U.S.-Mexico economic relationship for the foreseeable future – has been badly battered by this episode.

II. USMCA

Despite damaged confidence in bilateral free trade created by President Trump's obsession with migration, the months of May and June saw progress toward legislative ratification of the USMCA in the three signatory countries. On May 17, the Trump administration lifted tariffs on steel and aluminum exported from Mexico and Canada, an essential prerequisite to moving the USMCA through the U.S. Senate. Mexico and Canada responded by lifting their retaliatory tariffs on a wide range of U.S. exports. Four days later, U.S. Trade Representative Robert Lighthizer noted progress in his meetings with House Democrats to push forward the vote on USMCA even though House Speaker Nancy Pelosi continues to cite problems with the agreement that must be addressed before she will put it up for a vote.

Strikingly, even during the immigration/tariff spat, which directly violated the rules of trade under the USMCA, U.S. Commerce Secretary Wilbur Ross continued to promote this trade agreement and its congressional ratification. And following the spat, the administration revived its push for ratification this summer, including two days of congressional testimony by Lighthizer in which he called the USMCA "the strongest, most momentous trade agreement in U.S. history." In Mexico, consideration of the agreement in the Mexican Senate moved forward throughout the immigration/tariff crisis, and was ratified on June 19. Canadian Liberals, meanwhile, stated their willingness to call parliament back into session during the summer to ratify the USMCA should this be necessary.

In a separate trade matter, on May 7 the United States imposed a 17.5% tariff on Mexican tomatoes exported to the U.S. market. The two countries failed to renew a 2013 agreement that had suspended anti-dumping duties on Mexican tomatoes imposed in response to complaints by Florida growers. Although negotiations continue, significant price increases and likely shortages are in store for U.S. consumers and losses up to $350 million for Mexican exporters as Mexico accounts for half of all tomatoes imported into the U.S. market.

III. U.S.-Mexico Relations

The broader bilateral relationship also took a hit in May. President Trump's actions have exploited the power differential between the two countries in a way not seen since the mid-1980s. Worse yet, Trump's willingness to mix trade with migration has upset a long-standing bilateral policy to keep the issues separate. For thirty years, effective management of a very complex bilateral relationship has succeeded in large measure because of an informal agreement to silo different bilateral issue areas. Put differently, the very successful trade relationship should not be contaminated with the much more challenging and polarizing issues of migration and security. By breaking with this norm, and by exploiting the power differential between the two countries, Trump has brought into question the very foundations of a three-decade-long bilateral partnership.

At the same time, in the wake of Trump's tariff threat and the continued perception and fear that the U.S. is not a reliable partner, Mexico is taking a close look at options to reduce its trade dependence on the United States. In addition, Mexico's President López Obrador is questioning the core foundation of bilateral security cooperation, the Merida Initiative. AMLO proposed reprograming U.S. funds from building Mexico's crime fighting capacity to investment in a development program for southern Mexico. This comes after AMLO's questioning of previous Mexican administrations' collaboration with the United States in the arrest of key drug traffickers, calling instead for a focus on ordinary crime. Nevertheless, on May 16, the U.S. House Appropriations Committee approved funding for anticrime programs under the Merida Initiative (*subscription required*).

In short, we fear that what may seem to be political theatrics by President Trump are actually inflicting serious damage to the bilateral relationship. The consequences of these many months of tension are yet to play out fully and are worth careful monitoring.

In a final note, we are concerned about AMLO's decision not to attend the G-20 summit in Osaka, Japan, in late June. It would have been a great opportunity to meet with President Trump without all the pomp of a state visit and to talk with potential allies in Mexico's effort to build a development program for Guatemala, Honduras, and El Salvador. Although unsurprising given AMLO's limited appreciation for the important role foreign policy can play in advancing his domestic goals, it is nevertheless an opportunity lost.

IV. Mexican Economy

We are increasingly concerned about the status of the Mexican economy. Growth estimates for the Mexican economy have fallen once again. After preliminary data showed the economy unexpectedly contracted slightly in the first quarter, the Bank of Mexico lowered its estimated growth for the fourth time, cutting its 2019 growth forecast to 0.8-1.8% from 1.1-2.1% but maintaining 2020 growth at 1.7-2.7% though noting that the balance of risk is on the downside. At the same time, consumer confidence fell in each of the past four months, and business confidence turned negative in May, falling for the third straight month in the manufacturing sector. Private sector economists were equally pessimistic, pointing to risks associated with domestic political and economic uncertainty, public insecurity, Pemex, and weakness in the external market. And job creation in the formal sector plummeted 88% in May. Even AMLO lowered his growth estimate, now reduced to insisting that the economy can still grow 2% in 2019.

In part, anemic growth reflects sharp reductions in government spending, a normal characteristic of all presidential transitions in Mexico. This year, however, this reality has been magnified by the sheer number of projects and entire institutions eliminated by the new government and its steep cuts to spending throughout the government to free up funds to pay for AMLO's 25 priority projects. Meanwhile, this large number of new investment projects and spending programs are just ramping up, creating a short-term situation in which cuts are greater than the new expenditures.

Weak government investment also feeds into Mexico's overall 3% drop in investment during March, the second consecutive monthly decline. But low investment also afflicts the private sector, which accounts for 75% of investment in the Mexican economy. Despite a June 13 pledge from the Mexican Business Council to invest over $30 billion dollars this year, investors admit that actual investment will reflect the broad climate of uncertainty created by Trump's tariff threats and AMLO's economic policies and rhetoric, such as his recent nationalist promise to keep foreign investment out of his development project for the Tehuantepec Isthmus. Indeed, Mexico declined eight spots in the latest A.T. Kearney FDI Confidence Index despite increasing its global competitiveness ranking.

Reduced growth combined with declining oil production also translated into reduced budgetary revenues. In combination with the need to bail out Pemex (see below), this forced the government to implement another round of spending cuts and layoffs in early May, despite shortfalls in the health sector so severe that the head of the Social Security Institute (Mexico's main health provider) resigned in protest. This led some commentators to muse about the "neoliberal" austerity of Mexico's anti-neoliberal president while others rightly worry about the capacity of Mexico's much reduced state to implement AMLO's policies.

One would think that a cooling economy would lead to reduced inflation, and inflation did slow in May and early June, but only after reaching a four-month high in April, thereby restricting the Bank of Mexico's room for cutting interest rates. In part this reflects a large increase in wages during the first five months of the AMLO government, the largest such increase in 18 years. This has rightly contributed to a significant increase in worker purchasing power, but the Central Bank is concerned about its inflationary impact.

Equally problematic has been the volatility of the peso, which was severely jolted by the Trump tariff threat and Fitch's decision to downgrade Mexico's sovereign debt and relegate Pemex's bond rating to junk status in early June. Surprisingly, the peso recovered completely following the agreement to forestall U.S. tariffs on Mexican exports for 90 days. But the threat remains, as does its influence on the Bank of Mexico's interest rate calculus. The Bank thus held its benchmark interest rate steady at 8.25% in mid-May.

Fitch's decision to downgrade Mexican sovereign debt to two notches above junk, and Moody's decision to change its outlook on Mexico from neutral to negative, was informed by much of what we have noted above – the uncertainty inherent in the postponed but not eliminated Trump tariff threat, unpredictability in Mexican economic policymaking, and the situation at Pemex. These moves were not echoed by Standard & Poor's, but they still send a strong message about market confidence in Mexico and AMLO's economic policies.

Sector Focus: Energy

In the face of continuing declines in petroleum production and reserves (natural gas production, in particular, hit a 14 year low), and another loss for Pemex in the first quarter of the year, the Mexican government announced a two-pronged solution to the oil giant's problems. On May 13, it announced an $8 billion refinancing scheme for the firm underwritten by JPMorgan, HSBC, and Mizuho.

This was followed by a May 23 announcement of a $7.3 billion tax cut for the firm financed by the budget cuts announced earlier in the month. This followed the unenthusiastic market reaction to the proposal to use a portion of Mexico's rainy day fund to shore up Pemex's finances, something Monarch's Pedro Niembro portrayed to the *Latin America Advisor* as analogous to putting "a band-aid on a gunshot wound," i.e., hardly enough to address the underlying issues at Pemex.

The new cash infusions for Pemex were supposed to impress markets, but instead they met deep skepticism, as noted by Fitch. While these proposals were considered positive, they were also seen as wholly insufficient. Job one at Pemex ought to be increasing production and building reserves. Projects such as the Dos Bocas refinery, which distract from these objectives, are not helpful to the long-term capacity of the firm to pay off its mountain of debt.

Despite Fitch's warnings, five days later AMLO kicked off the Dos Bocas refinery project, now slated to be built by Pemex. Earlier in May, private tenders to construct the refinery all came in above the government's $8 billion budget and outside its three-year time frame. AMLO's reaction was to cancel the tender and announce that Pemex would build the refinery itself. This did little to reassure market analysts and the ratings agencies. If experienced firms were unable to meet the government's budget and time targets, it seems unlikely that a public entity with no modern experience with building a refinery will be able to meet the criteria. And there remained the over-arching question of how Pemex would pay the $8-12 billion construction cost. (While it is hard to defend the economic case for building the Dos Bocas refinery, we acknowledge it is understandable why AMLO would want to take action to reduce Mexico's reliance on imported gasoline from the U.S. – about half of Mexico's daily consumption – when his American counterpart can threaten to shut down the border on a whim.)

On June 5, just three days after the refinery kick-off, Fitch downgraded Mexico's sovereign debt rating, and Moody's shifted its outlook to negative. The very next day Fitch downgraded Pemex debt to junk status. Although Moody's and Standard & Poor's did not follow Fitch's lead, the decision still produced a sell-off of Pemex bonds. Unsurprisingly, AMLO's reaction was to question the objectivity of the ratings agencies and insist that their methodology did not correctly value his efforts to strengthen Pemex's financial situation, including a dramatic drop in what had been endemic fuel theft, which purportedly saved the firm billions of dollars. And just in case the administration's nationalist predilections in the energy sector were not clear enough, the National Hydrocarbons Commission cancelled auctions to select private sector joint venture partners for Pemex. These events reinforce our argument in our last newsletter that Pemex promises to be the Achilles' heel of AMLO's energy policy, and potentially of his economic strategy as well.

Shifting to the electricity sector, we have previously reported on decisions by the Federal Electricity Commission (CFE) that have raised market concerns. This includes efforts to rebuild CFE dominance in the sector, to reduce private investment in electricity production, and to shift generation away from low-cost, low-emission solar and natural gas in favor of higher-polluting fuel oil. More recently, CFE forgave a half billion dollar debt owed it by electricity users in the state of Tabasco for what were clearly political reasons. The firm also failed to meet an April 30 deadline to report its first quarter results to the Mexican stock market, leading to the temporary suspension of trading in CFE stock. Adding to these developments, Mexico's sovereign downgrade informed Fitch and Moody's decision to downgrade CFE debt alongside that of Pemex.

Finally, the independent head of the Energy Regulatory Commission (CRE), Guillermo García Alcocer, announced the he will resign on June 15. That this occurred was not all that surprising. It happened after months of conflict with the federal government including efforts to disqualify him and force him to resign, and it happened after turnover on the commission had already created an anti-energy reform majority. Still, it is another blow to institutional autonomy in Mexico and to independent oversight of the government's energy policies.

Sector Focus: Infrastructure

President López Obrador's plan for a new airport in Santa Lucía, Hidalgo, has hit several snags. After postponing the start date for the third time, this time until June, the logic of the Santa Lucía airport project was again brought into question. We previously reported on a December study by the Mexican College of Civil Engineers, which concluded that the project would be 66% more expensive than finishing the one-third completed NAIM. Now the Latin American Air Transport Association concluded that the new airport will not be an effective long-term solution to Mexico's air transport problems because it will be at capacity within a decade. Adding further to questions about the project, this time regarding its fiscal feasibility, the administration announced that the airport would not be financed through bonds or other investment tools but directly by the government. And, of course, it will still be built by the military.

Then the federal courts stepped in. They suspended the project because of its lack of an environmental impact study and concerns about air security. In a separate ruling, the courts also ordered the government to preserve the partly finished NAIM and to suspend plans to flood it as part of a project to convert its Texcoco location into an environmental park. AMLO was obviously displeased by the rulings, and he threatened to make public the individuals who were behind the court appeals. He continues to insist that development of the Santa Lucía project will be completed on schedule and has challenged the court rulings against it. Still, we would not be surprised if AMLO is secretly breathing a sigh of relief because this situation allows him to divert airport funds for other purposes, such as bailing out Pemex.

One other infrastructure note: AMLO announced the cancellation of his predecessor's "special economic zones" for southern Mexico. Despite cancelling $2.7 billion in private investment in the projects, AMLO argued at his April 25 morning press briefing that they were a failure because they did nothing to help the people.

V. Mexican Politics

Thousands marched in cities around the country in the first organized protest against AMLO and his policies on May 5. Nevertheless, although polling continues to suggest a gradual softening of support for AMLO, his approval continues to be over 70%.

This was reflected in the state and local elections held in five Mexican states on June 2. Morena's candidates won the two gubernatorial elections, in Baja California and Puebla, and took control of the state legislature in Quintana Roo. At the same time, in Tamaulipas, Aguascalientes, and Durango, the National Action Party (PAN) was able to maintain control of the legislature in three states where it also controls the statehouse. In addition, despite losing in Puebla, the PAN candidate for governor actually won more votes than the victorious Morena candidate whose victory was due to the support of two allied political parties. In short, Morena dominated but also showed signs of vulnerability at the hands of the PAN.

The PRI, meanwhile, was the big loser. Not only did its vote count continue to decline, but its ensuing efforts to elect new party leadership have led to further party splits and defections of life-long party members. For example, a candidate for the party leadership, José Narro Robles, left the party, and a traditional party power broker, Manlio Fabio Beltrones, announced on Twitter that he will abstain from the August 11 election. The dispute concerns the candidate who appears to be favored by the party leadership, Alejandro "Alito" Cardenas; he is seen as AMLO's favorite due to a good relationship between them leading some Priístas to fear he could undermine the independence of the party. Already a shadow of its former self, the PRI is on the cusp of political irrelevance, a particularly important matter since it's the PRI that sits between AMLO and a two-thirds majority in the Senate, which would make it easier for him to change the Constitution.

The past few weeks have also witnessed several important personnel changes in the AMLO administration. As noted above, Germán Martínez resigned from IMSS over frustration with never-ending budget cuts. In the same week, the environment secretary resigned in disgrace after an AeroMexico fight was asked to return to the gate to retrieve her. But she also made clear privately that she too had become frustrated over her inability get anything done because of a lack of funds.

Most noteworthy, however, was the expansion of Foreign Minister Marcelo Ebrard's responsibilities to include oversight of Mexico's implementation of the migration agreement with the United States. This places Ebrard in charge of both Mexico's migration institute and asylum agency, which will be responsible for housing and caring for migrants waiting in Mexico for their day in U.S. immigration court, and the accelerated deployment of the National Guard into southern Mexico.

This expansion of Ebrard's duties to include responsibilities formally under the purview of the Interior Ministry generated two reactions – demands that the decision be reversed because it was unconstitutional and associated rumors that Ebrard would become the new Interior Minister.

The call to reverse the decision comes from the speaker of the Chamber of Deputies, Porfirio Muñoz Ledo, a politician who has never hesitated to speak his mind but one without an independent power base that might force AMLO to take his concerns into account. AMLO has instead made clear that his decision stands. And the idea of moving Ebrard to the Interior Ministry makes little sense because of the dramatic reduction in this ministry's responsibilities undertaken at the start of the AMLO administration. It is no longer the super-ministry it historically was, and, as such, is likely too small for Ebrard and his central role in the AMLO administration.

VI. Security and Corruption

In what is shaping up to be the most violent year on record, Mexico began to deploy its National Guard in mid-May. This deployment was focused on the country's eight most violent states – Guanajuato, Jalisco, Michoacán, Estado de México, Ciudad de México, Veracruz, Guerrero, and Morelos – but it went forward despite the proper legal framework for such an action not being in place. The secretary of public security loudly defended this irregular approach to governing, something that has come to characterize the AMLO administration, and promised "tranquility" in three years.

The National Guard itself is something of a misnomer. Composed of about 20,000 police drawn mostly from the Military Police, but also from the Navy and units of the now defunct Federal Police, it is still very much a work in progress. Its units are still in the process of being trained and, much like the Federal Police before it, units will only gradually become acculturated to being members of this new policing agency. This nascent entity is now responsible for preventing the incursion of migrants into southern Mexico and the arrest and return of those who make it into Mexican territory.

On the anticorruption front, a new index that measures the capacity to confront corruption in Latin America ranked Mexico near the bottom. This followed a huge scandal tied to Pemex and the Peña Nieto government that broke into the open in late May. The Finance Ministry's Financial Intelligence Unit filed corruption charges against and issued arrest warrants for former Pemex CEO, Emilio Lozoya, and the chairman of one of Mexico's leading steelmakers, AHMSA. They were charged for their involvement in the sale of a bankrupt fertilizer plant owned by AHMSA to Pemex at a highly inflated price. In exchange for the high price, AHMSA is charged with funneling several million dollars into off-shore accounts that were managed by Lozoya.

The Intelligence Unit also froze the accounts of Lozoya and AHMSA for several days, making it impossible for the company to operate. Although the decision was reversed within days, the delay was long enough to incite strong complaints from the private sector over what was a clear case of government overreach.

And as the ultimate bombshell thus far, *El Universal* reported on June 18 that the U.S. Securities and Exchange Commission is investigating former President Enrique Peña Nieto for his involvement in the case, which could include violations of the U.S. Foreign Corrupt Practices Act. This drama is far from over; stay tuned.

VII. Monarch Events, Speeches, Publications

May 2: Monarch Chairman Ambassador James R. Jones wrote in the *Latin America Advisor* Q&A discussion that Mexico's recent crackdown on immigration at its southern border is due as much to domestic necessities as it is to pressure from the U.S.

May 10: Amb. Jones co-authored an op-ed in the *Los Angeles Times* that discussed the humanitarian crisis at the U.S.-Mexico border and proposed recommendations to address the situation.

May 23: Monarch Managing Director Andrew Rudman explained in the *Latin America Advisor* Q&A how inadequate and inefficient health care delivery are reducing productivity in Latin America.

May 24: Andrew Rudman participated in the *Latin America Advisor* Q&A to discuss how trade tensions between the U.S. and China could impact foreign investment in Latin America.

May 31: Amb. Jones appeared on CNBC's *The Exchange* to discuss President Trump's threat of tariffs on Mexican exports to the U.S. as a means to address the humanitarian crisis on the U.S.-Mexico border.

May 31: Monarch President & CEO Michael Camuñez expressed his concern to *The New York Times* that President Trump's tariff threat could hurt businesses and consumers on both sides of the border.

May 31: Michael Camuñez spoke to the *Los Angeles Times* about President Trump's tariff threat and the likelihood Mexico would respond in kind.

June 3: Amb. Jones participated in the *Latin America Advisor* Q&A to criticize President Trump's tariff threat against Mexico but state that there is still time to ratify the new USMCA agreement if cooler heads prevail.

June 5: Amb. Jones joined six other former U.S. ambassadors to Mexico in an op-ed for CNBC.com that argues against tariffs and in favor of cooperation to find solutions for the humanitarian crisis at the U.S.-Mexico border.

June 6: Amb. Jones appeared on *MSNBC Live with Stephanie Ruhle* to offer better options for addressing the humanitarian crisis on the U.S.-Mexico border than President Trump's proposed tariffs.

June 8: Amb. Jones stated on Canada's *Global National* newscast that the U.S. needs to join Mexico in doing more to address the migrant crisis at their shared border.

June 10: Michael Camuñez was quoted in *The San Diego Union-Tribune* expressing his optimism that Mexico would share in the responsibility for funding projects to clean up the Tijuana River.

June 10: Amb. Jones appeared on CNBC's *Worldwide Exchange* to discuss the agreement between the U.S. and Mexico to avoid President Trump's tariffs in return for commitments to stem the flow of migrants through Mexico.

June 10: Amb. Jones appeared on *CNN Newsroom* to discuss the humanitarian crisis at the U.S.-Mexico border, diagnose its causes, and offer possible solutions.

June 12: Andrew Rudman participated in the *Latin America Advisor* Q&A to discuss the causes of Mexico's current shortage of medicine availability in public hospitals and what should be done to address it.

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