MONARCH GLOBAL STRATEGIES

Monarch News

November/December 2019

CEO's Executive Summary

On December 19, the U.S. House of Representatives finally approved the United States-Mexico-Canada Agreement (USMCA). The Protocol of Amendments to the agreement, detailed below, won over the AFL-CIO, which garnered the support of the Democratic leadership in the House of Representatives without losing the backing of the Trump administration or the Mexican government. All parties – including Mexican President Andrés Manuel López Obrador (AMLO) – proudly declared victory…until the U.S. implementing legislation was made public. But a dispute over specific language in the legislation was quickly resolved, allowing the House to pass it and send it to the U.S. Senate, which is expected to ratify the agreement in early 2020.

A ratified USMCA, hopefully, will boost a Mexican economy that has officially fallen into recession. Reflecting this, the Bank of Mexico cut rates again – the third consecutive cut – but fiscal policy has not been similarly stimulative. Instead, the spending side of the 2020 budget, approved in late November, perpetuates the austerity Mexico experienced throughout 2019 in order to free up funds for AMLO's preferred projects and ensure a 0.7% primary surplus. In part to make up for this lack of fiscal stimulus, AMLO announced an infrastructure agreement with the private sector. Private firms promised to invest

US$44 billion in 147 projects, in the process sending a positive signal about business confidence in the current government.

In the energy sector, Pemex posted another massive loss and another production drop after several months of stability. But the firm also announced a new discovery, which leadership hopes will help reverse Pemex's fortunes. At the same time, the energy ministry approved a new regulation that dramatically undermines the value of clean energy investments in Mexico; the affected firms immediately challenged it in court.

At the end of his first year in office, AMLO's poll numbers remain high, around 67%, giving his allies in Congress room to press forward rapidly with AMLO's legislative agenda. Most recently this has included another set of changes at a series of autonomous institutions – the human rights commission, the electoral institute, the judicial council, and the Supreme Court – designed to make them more compliant with the AMLO administration. At the Supreme Court, AMLO's minister nominee, Ana Margarita Ríos-Farjat, received broad support to fill the seat left vacant by the resignation of Eduardo Medina Mora. Although Ríos-Farjat is widely respected and known for her personal integrity, her confirmation may give AMLO a group of four ministers who are likely to be sympathetic to AMLO's policies, producing a minority large enough to potentially block efforts to declare government policies unconstitutional.

Finally, the security situation in Mexico continues to be of concern, including a series of high-profile events that caught the attention of the White House, placing security front and center on the bilateral agenda for the first time in the Trump-AMLO period. This included the arrest of the Secretary of Public Security during the Calderón Administration on charges of taking bribes from the Sinaloa Cartel.

I. USMCA – Agreement Reached

More than a year after the namesake countries signed the United States-Mexico-Canada Agreement, representatives of each met again in Mexico City on December 10 to sign the Protocol of Amendments (the Protocol) to the agreement, which opened the door to ratification in the United States. Getting there was a heavy lift.

After weeks in which congressional Democrats and the U.S. Trade Representative, Robert Lighthizer, were said to be on the verge of agreement, the negotiations hit a serious snag. On December 2, the leading Mexican business confederation, the CCE, made public and sharply rejected a core Democratic ask – permitting on-site inspections by U.S. investigators of Mexican firms accused of labor violations. The following day in his morning news conference, AMLO made Mexico's position clear – it is unacceptable for U.S. inspectors to verify that Mexican companies are meeting their responsibilities under Mexican law. Voices coming out of Mexico – the government, the private sector, and analysts – began to hedge their bets, fearing that a final agreement may not be reached before the holidays, leaving ratification to early 2020. Then things appeared to fall into place.

The Democrats seemed to walk back their inspection proposal, suggesting that enforcement could be achieved without the unilateral on-site U.S. inspections Mexico had vetoed. The Protocol establishes a complex, bilateral process for verifying Mexican compliance with the labor provisions of the USMCA (free association and collective bargaining) embodied in new Mexican labor laws (specifically, transparent and democratic elections for union leadership and approval of collective agreements). According to a press release from House Democrats at the time, the verification process would include an inter-agency committee and on-the-ground labor attaches to monitor compliance. But absolutely no mention is made of this in the Protocol.

The Protocol of Amendments instead provides that should a Mexican facility producing goods for export to the United States in manufacturing, services, or mining be accused of not complying with the agreement, Mexico will have 45 days to resolve the matter before it goes to a three-member bilateral panel of labor experts (one member selected at random from each of three lists: one consisting of Mexican experts provided by Mexico, one from a list of U.S. experts provided by the United States, one from a list of experts who are non-nationals of the U.S. or Mexico and selected by consensus) to adjudicate the matter. If the company is found to be in violation of labor regulations, its U.S.-bound exports will be subjected to a proportional penalty. This could include a suspension of tariff preferences or the imposition of penalties for a first offense, or the denial of entry of goods for a second offense. This apparently was enough to win the support of the AFL-CIO, which in turn enabled House Democrats to back the agreement.

Beyond labor, the other main change to the original USMCA was the elimination of a provision establishing ten years of patent protection for biologics, a class of drugs produced from living organisms. But several other provisions related to pharmaceutical intellectual property rights protection were also modified. This includes the elimination of the obligation to provide patents for additional uses of known products, additional limitations on patent term adjustment for regulatory delays, and modifications to the patent linkage system including the opportunity to grant incentives for generic competition. The Protocol also ensures the right of third parties (in other words, generic manufacturers) to make, use, sell, offer to sell, or import products covered by a patent for the purpose of generating data for market authorization (akin to the Bolar Amendment in the United States). These changes are somewhat unusual since previous U.S. trade agreements have prominently protected drug patents; indeed, weaknesses in the pharmaceutical intellectual property rights language were often cited as a rational for Republican opposition to the Trans-Pacific Partnership. But these changes represent a win for congressional Democrats who hope they will help reduce drug prices.

On the environment, the Protocol amends the original USMCA text to state that any alleged violation of environmental laws is presumed to affect trade or investment. Previously, the party alleging the violation had to demonstrate the connection to trade or investment in order to pursue dispute settlement (a similar change was made with respect to labor). The Protocol also obliges the signatories to comply with seven specific multilateral environmental agreements.

Finally, the Protocol seeks to eliminate the potential for a signatory to block establishment of a dispute settlement panel. It does this by (1) changing language to ensure that a panel is automatically established upon delivery of a request and (2) mandating that the signatories establish and maintain a roster of dispute settlement panelists by the time the agreement enters into force and by allowing the roster to be established even if consensus is not reached on its composition.

The result of these negotiated changes is an updated trade agreement for North America that has deep bipartisan support in a way that has been lacking for years. All parties have hailed the new agreement: Trump, who has finally fulfilled his campaign promise to replace NAFTA; Pelosi and the Democrats, who won major concessions from the Trump administration and created what they consider to be the first labor-friendly U.S. free trade agreement; and AMLO, who was able to close the door on the uncertainties afflicting investors owing to questions about the future of NAFTA. The latter is particularly important. AMLO – a politician who long opposed NAFTA – proudly stood behind his trade negotiator, Jesús Seade, as he signed the Protocol on behalf of Mexico.

The Mexican Senate wasted no time and approved the revised USMCA on December 12. It appeared that the agreement was on a glide path to approval in the United States and Canada as well, but – in keeping with the winding nature of the entire negotiating process – one more hurdle came up that had to be overcome.

When the White House sent the agreement to the House of Representatives on December 15, the implementing legislation included the Democratic demands for two added provisions: The creation of a U.S. government inter-agency committee and, more problematically, five new U.S. labor attachés to the U.S. Embassy in Mexico City to monitor the progress of implementing the labor provisions of the agreement at Mexican firms. The second provision appeared to directly cross the very same Mexican red line that had held up the Protocol earlier in December, and, unsurprisingly, caused Mexico to loudly and angrily reject it. The leader of Morena in the Mexican Senate, Ricardo Monreal, made clear that Mexico has the right to reject the new attachés. Jesús Seade rushed to Washington to find a solution that would not involve turning back U.S. diplomats.

In a letter to his Mexican counterpart, U.S. Trade Representative Robert Lighthizer made clear that the mere deployment of additional labor attachés to the U.S. Embassy in Mexico does not confer any new substantive rights on them in Mexico that have not been agreed to by the Mexicans. With this letter in hand, Seade pronounced the Mexican side satisfied, suggesting the issue was more a matter of optics than substance. Still, the depth of Mexican political sensitivity on this issue suggests that it could be a source of bilateral tension in the months and years ahead.

So, despite the last minute drama, ratification of the USMCA is back on track. The U.S. House of Representatives voted to approve it on December 19, and now it goes to the Senate, which is expected to take it up after President Trump's impeachment trial in early 2020. We expect quick passage there, and, though Canada has not yet announced a date for its vote, we do not see any issues with ratification by the northern-most neighbors. With that, all sides can declare victory, and the USMCA should take effect in the very near future.

II. Mexican Economy – Falling Into Recession

After a year in the Mexican presidency, AMLO can point to several economic successes: macroeconomic stability, a national minimum wage increase of 16.2% (and 100% at the border) that had no impact on prices, a labor reform that laid the foundation for union democracy and autonomy, and social programs that have increased the purchasing power of less well-to-do Mexicans. But his core economic failing has been even more evident: the worst growth rate since the 2009 recession.

Declines in industrial production (including sharp falls in construction and manufacturing) and job creation, and drops in consumer and business confidence provided the backdrop for Mexico's National Institute of Statistics and Geography (INEGI) to revise its growth numbers for 2019 lower in late November. The economy contracted slightly during the first two quarters of 2019, putting the Mexican economy into a mild recession. The 0% growth registered in the third quarter confirmed the stagnation that has been evident in the economy for months. This motivated the Bank of Mexico (Banxico) to again revise down its growth estimates for 2019 to between -0.2% and +0.2% from +0.2-0.7% and for 2020 to a range of +0.8-1.8% from +1.5-2.5%. And while foreign direct investment is, surprisingly, up 7.8% so far this year, Mexican investment – the vast majority of total investment – remains well below the 2018 pace.

With inflation controlled and the peso relatively stable (up 4.5% over a year ago), reinforced by a new $61 billion Mexican credit line with the IMF, the Central Bank again cut its benchmark interest rate by a quarter percent for the third time since August to help spur growth. At 7.5%, however, interest rates remain high, leading the two new AMLO-appointed members of Banxico's five-member board to dissent once again in favor of a larger half percent cut.

There will not be a fiscal stimulus to match this monetary boost to the economy, however. The Mexican Congress approved an austere 2020 budget in November. The final document includes optimistic estimates for economic growth and oil production on the revenue side as we noted in our last newsletter. It also includes a 0.7% primary surplus, a contribution to a small rainy day fund, and further readjustments in spending to free up funds for AMLO's preferred investments (Pemex received over half of all investment spending) and social programs (the welfare ministry benefited from the vast majority of the reassigned spending). The budget also includes significantly reduced transfers to most Mexican states, leading opposition governors to call for a new Fiscal Pact to prevent this from happening again.

Adding a bit of drama to the process, deputies from AMLO's Morena party pressed for increased spending for their local constituencies, and a farmers' organization called for additional rural-sector spending. The first dispute meant that the lower house missed the constitutionally mandated November 15 deadline to approve the budget, finally passing the legislation in the early morning of November 22. The second forced the deputies to meet in an alternate venue as protesting farmers blocked entry to the legislative building. But at the end of the session, the approved spending plan was almost identical to the one the AMLO administration introduced in September. This was just as AMLO had demanded, demonstrating once again the obedience of the Morena-led Congress.

Where the final budget differed from AMLO's original proposal was in the size of the cuts to a series of autonomous institutions to help pay for social programs. These cuts hit institutions with which AMLO has been in conflict – the human rights commission and transparency institute, and, most importantly, the National Electoral Institute (INE). Just as it begins the process of registering new voters and organizing the 2021 mid-term elections, the INE has suffered the largest budget cut in its history, nearly nine percent, raising concerns about its ability to do its job.

The investment climate also continues to weigh on growth. According to a recent Bank of America poll, 77% of investors expect Mexico to lose its investment grade, with the government's economic policies as the key culprit. AMLO's rhetorical excesses continue to feed this perception. In early November, he accused private companies of earning "excessive" profits and suggested that they moderate their earnings. And Mexico's security challenges have begun to bleed into its economic outlook, with Moody's pointing to the security situation as one more challenge facing the Mexican economy.

Finally, the government and the private sector agreed to another increase in the minimum wage of 20% (and another 5% in the border region) beginning January 1, 2020. It is anticipated that in a recessionary climate this increase will not be inflationary.

Sector Focus: Infrastructure

Given Mexico's budgetary limitations on investment spending, the government has been working with business leaders for weeks to develop a private sector infrastructure plan that could help stimulate growth. The US$44 billion National Agreement for Private Investment in Infrastructure was finally presented on November 26. It contains 147 projects, the vast majority of which will be in tourism, air and sea ports, and transportation. The project was quickly criticized for its relatively small size, for not including any public funds, and for the fact that many of the announced projects are already under construction. But it also sent a strong signal about the importance AMLO places on the role of private investment in the Mexican economy and the capacity of AMLO and the private sector to cooperate in the promotion of national development.

Meanwhile, construction continues on the Dos Bocas refinery. Work on the new Santa Lucía airport is moving forward despite concerns among the airlines that will have to use it and a document suggesting that the airport's two landing strips will not be able to operate simultaneously. Bids for work on the Mayan Train are expected to begin in January, but now the government plans to finance a whopping 60-70% of the total cost, a significant increase over the original 10% estimate.

Sector Focus: Energy

The new head of the Energy Regulatory Commission (the CRE) dismissed several high-ranking directors, including those in charge of electricity, gas, and hydrocarbons, replacing them with individuals more in line with the thinking of the AMLO administration. This action not only further undermines the autonomy of the CRE, but also wipes out years of institutional memory essential to its effective operation.

In the petroleum sector, Pemex posted another massive loss, this time $4.4 billion in the third quarter. At the same time, Pemex made progress on reducing its debt and stabilizing production, no small feat for a firm that has seen production decline for more than a decade…or for a firm already with insufficient resources that is being pressured by the government to spend less in the final weeks of the year to ensure that the federal budget finishes the year with the promised 1% primary surplus. At the same time, there are serious questions about Pemex's production plan raised by a former member of the

National Hydrocarbons Commission and by independent analysts. Lending credence to their concerns, production fell by nearly 3% in October after having been stable since May.

All of this was briefly overshadowed by a cyber ransomware attack that paralyzed portions of the firm for a few days in mid-November. While Pemex was able to neutralize the attack, the event seemed to encapsulate the never-ending string of challenges facing the national oil company.

Then, on December 6, Pemex announced the discovery of a "giant" onshore field with the equivalent of 500 million barrels of oil. Quesqui, as the field is known, is expected to yield a daily maximum output of 110-135 thousand barrels of oil and more than 410 million cubic feet of natural gas by 2021. While it is an important addition to Mexico's oil reserves, industry analysts took the announcement with a grain of salt. The reservoir is in an early phase of development, with just one exploratory well drilled so far. Historically, these early stage announcements have been downsized by 85-90% once they are producing. In this context, the importance the administration gave to this announcement is very telling. It shows they are desperate for good news in the sector, suggesting a last-ditch effort to delay the anticipated downgrade of Pemex's credit rating. Still, this discovery, no matter its size, could negatively mpact the interests of private oil companies by strengthening the belief of AMLO's energy team that their approach – cancelling future oil rounds and farmouts – is the right path.

Turning to electricity, the Energy Ministry changed the rules governing Clean Energy Certificates (CEL's) in late October. Under the new rules, the Federal Electricity Commission (CFE) can obtain clean energy credits for hydroelectric plants constructed before the 2014 energy reform. This decision dramatically undermines the logic behind CEL's to promote new investment in clean energy production. By significantly increasing the supply of CEL's in the market, certificates already held by clean energy companies operating in Mexico are de-valued and commitments made to investors are negated. The change has led to a series of lawsuits challenging the new rule and adds further uncertainty to Mexican energy markets.

III. Mexican Domestic Politics

After suffering a brief dip in approval following the failed effort to capture the son of convicted cartel leader Joaquín "El Chapo" Guzmán, AMLO reached the end of his first year in office with approval ratings in the high 60's in most national polls. Evidence of this is seen in the quarter of a million people (according to the government) who showed up for AMLO's celebration of his first year in office held in Mexico City's main square, the Zócalo. While many were bussed in and some were required to attend, the enthusiasm of the crowd seemed to be an honest reflection of AMLO's popularity. At the same time the opposition held a competing anti-AMLO march, which drew several thousand participants.

Taking advantage of this level of popular support and exploiting the loyalty among Morena legislators it helps to reinforce, Congress has been busy implementing AMLO's legislative agenda. This has included additional actions to undermine the autonomy of key institutions, with the National Human Rights Commission (CNDH) and the National Electoral Institute (INE) as the most recent targets.

In a process of questionable legitimacy, Morena Senators elected AMLO's candidate to head up the CNDH, Rosario Piedra Ibarra. Not only was the fairness of the vote suspect, but the candidate failed to meet an essential prerequisite for the job – not holding a leadership role in a political party in the year preceding nomination. This led to the resignation of five respected members of the commission's consultative council to protest a process seen as undermining the legitimacy of the institution. It also motivated the political opposition to challenge the validity of the Senate vote before the Federal Electoral Tribunal. Nevertheless Piedra Ibarra, an AMLO loyalist, took the oath of office and quickly began to transform the human rights commission into a compliant institution.

With regard to the INE, beyond slashing its budget, the Morena-led Chamber of Deputies proposed that the term for the president of the institute be shortened from nine years to three. Their stated objective is to oust the current president who has not been friendly to the AMLO administration. Currently, this initiative remains a proposal, but one that reflects the administration's preference for a more friendly INE leadership, and one that will be debated further in the new year.

The process by which AMLO's influence is expanding in the courts is somewhat different. The Federal Judicial Council, the principal oversight entity for the Mexican judiciary, has been affected by normal turnover that has enabled AMLO to place allies in three of the council's seven seats. This, in conjunction with AMLO's close relation with the president of the Supreme Court who heads up the Judicial Council, gives the president a majority in this essential judicial regulatory entity.

For the Mexican Supreme Court, AMLO sent a list of three candidates to the Senate, all of them women, from which legislators selected a new minister to fill the seat left vacant by the resignation of Eduardo Medina Mora. On December 5, the Senate confirmed Ana Margarita Ríos-Farjat on the first round, with 94 votes out of 122 cast, meaning she was confirmed with broad support that included support from all of the PRI senators and half of the PAN senators and near unanimous support from Morena and its allies. The strength of her backing speaks to her reputation for integrity. Elected to a 15-year term, Ríos-Farjat is a tax lawyer (and previously a law professor) who worked on the AMLO transition team and had headed up the Mexican tax agency (SAT) for most of the last year. She is known to be close to AMLO's wife and to his chief of staff, Alfonso Romo.

Her selection has been criticized by some in the opposition who feel she is too close to AMLO to be a truly independent minister. That being said, Ríos-Farjat is eminently qualified for the post, and the fact that she is close to the current administration is not anything new: prior presidents have nominated and had confirmed ministers of the Court who are close friends and allies. Nevertheless, adding her to the Court creates a potential block of four ministers supportive of administration policies. Since it requires a supermajority of eight out of eleven ministers to declare legislation unconstitutional, AMLO could have a "blocking minority" that can protect his legislative projects if his nominated ministers prove sympathetic to his agenda. And AMLO will have the opportunity to name another minister in 2021.

Beyond institutions, Morena Senator and labor leader, Napoleón Gómez Urrutia, pushed legislation through Senate committees that would dramatically reduce outsourcing in Mexico. The practice involves employing portions of a company's workforce in Mexico through employment agencies, thereby reducing the number of workers directly employed by a firm. In addition to outsourcing activities outside of a firm's core competencies, this practice is also used to reduce the cost of worker benefits, especially for government-mandated healthcare, retirement savings, and profit sharing, which labor opposes. The proposed legislation produced an immediate outcry from business organizations, arguing that it would undermine investment, put millions of jobs at risk and potentially jeopardize ratification of the USMCA. In response, the head of Morena in the Senate, Ricardo Monreal, postponed the floor debate on the bill until January and promised to hold public forums on the proposal before bringing it up for a vote next year.

On November 1, Jaime Bonilla took the oath of office as governor of Baja California for a five-year term. This stood out because he was elected to a two-year term, and the law which extended his term by three years is highly controversial and is currently being challenged in court. Equally striking was a leaked video of President López Obrador's representative at the inauguration, Interior Minister Olga Sánchez Cordero, congratulating the new governor on his five-year term. In the video, she noted her belief that the law extending his term is legal and would survive challenges to its constitutionality. This directly contradicted her previous public statements on the matter, suggesting that the administration is secretly supporting Governor Bonilla's efforts to extend his term in office.

Governor Bonilla is close to and has the confidence of President López Obrador, and his background in business and politics coupled with a group of capable and experienced politicians surrounding him should allow a degree of independence not enjoyed by most Morena governors. He promises to be an important powerbroker in the Fourth Transformation, although the need for two members of his new administration to step down owing to corruption charges could dampen his political fortunes.

IV. Security and U.S.-Mexico Security Relations

Potentially the dominant failing of the AMLO administration during its first year in office has been the security situation. Homicides are on pace to break last year's record high, while extortion and common crime continues to grow throughout the country. A series of recent events punctuated this reality.

Within 48 hours in mid-October, twenty-eight police and civilians died in two confrontations with organized crime in the states of Guerrero and Michoacán. Days later, the government spectacularly failed in its attempt to capture the son of drug lord Joaquín

"El Chapo" Guzmán. In early November, nine American citizens were murdered by a criminal gang in northern Mexico, and a month later twenty-two died in a two-day shoot out in a small city across the border from Texas. In the meantime, piracy picked up in the Gulf of Mexico and gasoline theft has returned, increasing over 300% in the past 10 months.

This string of events deepened popular discontent with AMLO's security policy, by far the number one concern of Mexican citizens. In poll after poll, Mexicans approve of AMLO while sharply disapproving of his security policy. This sequence of events also caught the attention of authorities in the United States.

After months in which migration accompanied trade at the top of the U.S.-Mexico agenda, the tide seems to have turned. With the numbers of migrants crossing the U.S. southern border down sharply, events are threatening to transform security into a real source of tension in the bilateral relationship.

As we noted in our last newsletter, President Trump spoke with AMLO by phone following the failed attempt to arrest the son of "El Chapo" and offered U.S. assistance in the fight against organized crime. Reflecting deep-seeded concerns about national sovereignty, AMLO diplomatically refused this offer. In a congressional hearing the following week, a U.S. deputy assistant secretary of state criticized Mexico for not having developed a comprehensive strategy to fight organized crime and for a lack of political commitment "from the highest levels" to do so. Despite the truth in his comments, they elicited a strong rebuke from AMLO, reminding the Americans that they should not opine about internal Mexican matters.

Two weeks later, on November 4, six children and three women from a family of dual U.S.-Mexican citizens who had lived in Mexico for decades were murdered on a rural road in northern Mexico. Following their murder, President Trump offered U.S. assistance "to wage WAR on the drug cartels" while pointing to insecurity in Mexico as a justification for his border wall. Days later, U.S. Ambassador to Mexico Christopher Landau refined the message, warning in a speech at a Mexican university that Mexico has a parallel government controlled by "narcos" in certain parts of the country. And most problematically, in an interview with Bill O'Reilly posted online on November 26, President

Trump said that his government was looking into designating Mexican drug cartels as foreign terrorist organizations.

Such a designation would actually do little to fight Mexican drug cartels, which are profit-motivated organized crime entities, and thus a policing problem rather than politically-motivated terrorist organizations that are a military problem. But it would give the U.S. government justification for cross-border military operations against these groups, as has happened elsewhere in the world. This got Mexico's attention, immediately eliciting a barrage of statements from politicians and citizens of all stripes insisting that Mexico would never accept any action that would violate its sovereignty.

The Mexican foreign minister quickly reached out to the U.S. government, setting up a December 5 meeting in Mexico City between AMLO and several of his cabinet secretaries and U.S. Attorney General William Barr and Ambassador Landau. The two sides agreed to leave a potential terrorist designation aside and instead talked about working together to confront organized crime and drug trafficking. They agreed to increase cooperation through the High-Level Group on U.S.-Mexico Security created in August to deal with cross-border crime and arms trafficking. The next day, President Trump announced that the U.S. would hold off on designating Mexican drug cartels as foreign terrorist organizations at the request of AMLO, "a man who I like and respect and who has worked so well with us." Instead, the two countries will step up their joint efforts to deal with these criminal entities.

This sequence of events suggests that the Trump administration is reviving a tactic it used so effectively during the migration crisis – issuing an extreme threat to put Mexico on notice that it needs to toe the U.S. line to avoid a severe sanction. By holding this Sword of Damocles over Mexico, however, it threatens to plant the seeds of bilateral conflict. Although AMLO has gone out of his way to appease Trump during his first year as president, it will be difficult to do so on security matters. AMLO has staked his reputation on a policy that fights crime through social policy rather than force, precisely the opposite of what the United States would like him to do. Moreover, any U.S. threat of military intervention in Mexico immediately taps into a deep well of resentment widely held in Mexico given the historical record.

And yet, President Trump's words suggest that Mexico has earned political capital with the White House due to its willingness to cooperate on migration. For now, crisis averted. But we will be watching to see how this bilateral challenge develops in the coming weeks and months.

Also in U.S.-Mexico security relations, the secretary of public security during the presidency of Felipe Calderón, Genaro García Luna, was arrested in Dallas on December 9 on corruption charges. García Luna is accused of receiving millions of dollars in bribes from the Sinaloa drug cartel. This is quite a black eye for the former president, a political rival of AMLO who is still very active politically and who made his reputation on his hardline security strategy led in part by García Luna.

And in a final note on U.S.-Mexico relations, AMLO's quick decision to offer political asylum to former Bolivian President Evo Morales reflected AMLO's leftist sympathies, but was also in keeping with a long tradition in Mexican foreign policy of providing political asylum. This decision initially ruffled feathers in Washington, but AMLO's pragmatic alter ego was on display when, after the December 5 meeting with the U.S. attorney general, Morales boarded a flight for Cuba on route to asylum in Argentina.

V. Monarch Events, Speeches, Publications & News

November 1: Monarch Managing Director Andrew Rudman made the case in the *Latin America Advisor* Q&A that a strong regulatory framework for cannabis legalization would help Mexico capitalize on economic opportunities, protect consumers, and exclude criminal involvement.

November 12: Monarch Managing Partner Luis Ricardo Rodríguez spoke to the Nuevo León chapter of the maquiladora association, INDEX Nuevo León, regarding changes to the international trade framework.

December 6: Together with Deloitte Mexico and others, Monarch co-hosted the third annual Agro-Business Forum in Mexico City. Monarch President & CEO delivered a keynote address challenging the 400+ attendees to consider the disruptive challenges brought to the Agro-Business sector by technology and climate change as an opportunity for further collaboration to design and develop new products in North America and export them to the world.

December 11: Monarch Senior Advisor Juan Casillas participated in the *Latin America Advisor* Q&A discussion about the benefits and missed opportunities in the Mexican government's recently announced infrastructure plan.

December 19: Monarch and Privus Capital published the second edition of their joint newsletter on the cannabis industry in Mexico, the *Cannabis in Mexico Report*. This issue updates the status of legislation to regulate the use of recreational and medicinal cannabis and its derivatives in Mexico.

* * * *