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united states
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Rice University's Baker Institute for Public Policy



MEXICO COUNTRY OUTLOOK 2022

December 2021

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“Mexico Country Outlook 2022”

I. Introduction

Three major issues will dominate Mexico's economy, politics, and relationship with the United States in 2022.

The central axis of Mexico's quandaries will run through the country's politics. President Andrés Manuel López Obrador will continue to exert power in an increasingly autocratic fashion, aggravating a conflict between his desire for the government to centrally manage the economy and Mexico's pre-established commitments in international trade and investment, on which Mexico depends heavily for future development. This economic predicament will continue to create clashes and uncertainty in the country's business environment and to complicate Mexico's recovery after the pandemic-driven slump. Moreover, López Obrador will again try to succeed where he has so far failed—to reverse Mexico's historic energy reforms of 2013 and 2014. To date, the courts, civil society, and economic actors have managed to rein in the president. But his ambitions will persist, and he will carry on with his onslaught on the reforms in 2022.

A second major issue will involve López Obrador's response to his party coalition's election losses in June 2021. While he won the presidency in a landslide, with slightly over 30 million votes in 2018, his coalition—led by the National Regeneration Movement, known as MORENA—only drew 20 million votes in 2021. This was largely viewed as a rebuke of his policies by the middle class—and the president's political anger has only grown in response. Consequently, in 2022 he will try to dismantle Mexico's exemplary electoral system. Adding to an already polarized political environment, López Obrador will continue his attacks on public intellectuals, the press, the middle class, and the private business sector. The president is not likely to successfully undermine the electoral system next year, but his efforts will further poison the country's already toxic social and political environment.

A third key issue in 2022 will be López Obrador's relationship with the administration of Joseph R. Biden. Although the Biden administration has so far tried a traditional political and diplomatic approach to gain Mexico's cooperation on migration, security, and trade issues, President López Obrador actively dislikes Washington's plans because he believes they interfere with his vision of Mexico—and ultimately because they run against his nationalistic view of Mexico, one in which the United States is its number one adversary. It is likely that in 2022, the Biden administration will lose some patience and seek to increase pressure on Mexico to collaborate on key issues with the United States.

Apart from these key issues is the important 2024 race for Mexico's next president. López Obrador has all but announced his preferred candidate—Claudia Sheinbaum, the mayor of Mexico City—and is actively promoting her around the country. This will have two key consequences, both of which will emerge in 2022. First, his favoritism will create additional fractures within his party and electoral coalition, as there are two other candidates who want to run—Marcelo Ebrard, the current foreign minister, and Ricardo Monreal, an influential senator from the president's party. This conflict may weaken the coalition that

has been built around the president. Second, the early start of the de facto race for president—though López Obrador’s term does not end until well into 2024—has emboldened civil society to more aggressively oppose his agenda (mostly because he is perceived as having accepted his agenda’s defeat), and has moved the opposition to come together, perhaps with a unity candidate capable of defeating the president’s party in 2024.

The following sections break down these issues into more specific discussions ranging from the political and regulatory environment to the economy, security, public health, and binational and border issues.

II. The Political Atmosphere in 2022

The 2021 Election Results will Affect Mexico’s Political Dynamics Next Year

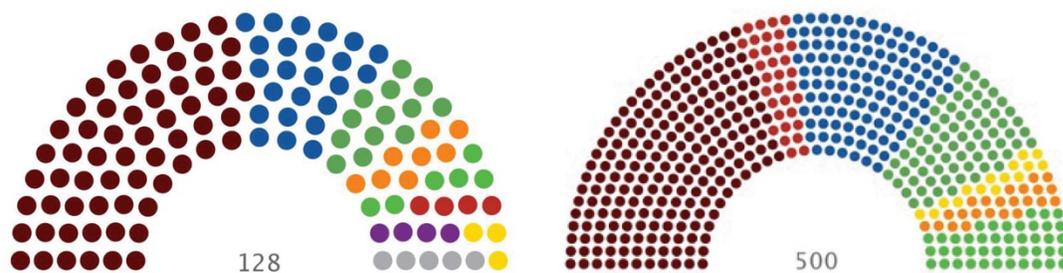
The 2021 midterm election results produced a more complex political landscape in Mexico.

At the local level, MORENA, President López Obrador’s party, and its allies—the Green Party (PVEM) and the Labor Party (PT)—won 11 of 15 governorships. Consequently, MORENA and its allies govern 18 of 32 states. By contrast, the National Action Party (PAN) holds eight states, the Institutional Revolutionary Party (PRI) four states, and the Citizens’ Movement (MC) two states. MORENA, however, lost most of Mexico City and the important industrial states of Nuevo León, Chihuahua, and Querétaro. MORENA’s advances at the local level are largely due to a divided opposition, which splinters between 55% and 65% of the overall vote.

MORENA did not fare as well as the president expected in the congressional elections. It lost its qualified majority in the lower house of Congress, going from 252 to 201 members out of 500. Still, in a coalition with PVEM and PT, the president can count on 277 of 500 deputies (or members of Congress’ lower house). There were no election-related changes in the Senate, whose members serve six years. However, five senators (two from PT, one from PAN, one from MORENA, and one independent) left their parties and created a group called the “Plural Group.” This will affect the president’s agenda, as his coalition lost three senators as a result of this move.

Curiously, the MORENA/PVEM/PT coalition, with 277 out of 500 deputies, is struggling to pass key legislation in López Obrador’s agenda, especially constitutional changes that require a qualified majority. This may reflect fractures within the coalition that are partly caused by the president’s own pick for the presidential race well in advance of 2024. Thus, in 2022, we expect a weaker MORENA due to internal conflicts provoked by the early, unofficial start of the 2024 presidential race.

Figure 1. Breakdown of Mexico’s Congress by Political Party: House of Representatives and Senate



Senate			House		
	Morena	61		Morena	201
	PAN	24		PAN	114
	PRI	13		PRI	71
	MC	8		PES	-
	PT	4		PT	33
	PVEM	6		MC	23
	PES	4		PVEM	43
	PRD	3		PRD	15
	Independent	5		Independent	-

Source: Authors

Additional Political Challenges in 2022

Presidential Recall Election

On March 27, 2022, Mexico will hold a presidential recall election—the first in its history—that will be organized by the National Electoral Institute (INE). Voters will be asked whether López Obrador should end his presidential term early due to a “loss of trust” or whether he should remain in office until his term ends in 2024. The opposition is united in opposing this recall. They largely interpret it as the president’s manipulation of the electoral system—a way to inject new enthusiasm into his fading presidency by hitting the campaign trail to rally his supporters. Worse, it introduces great political uncertainty, as there is no tested succession mechanism should he be forced to vacate the presidency early.

We expect low participation in the recall election, much as in Mexico’s August 2021 referendum on whether former presidents can be prosecuted for corruption—only 7% of Mexicans turned out. Also, increasing numbers of Mexicans are weary of López Obrador’s political theater, which he seems to have mounted to avoid dealing with the country’s multiple crises. These include the COVID-19 pandemic, which has killed, by some estimates, upward of 600,000 Mexicans—and led to a near total collapse of the health care

system; an economy in recession and a stalled recovery; worsening poverty and inequality; the collapse of public investment in infrastructure and services, with deadly consequences; skyrocketing crime and violence, with 2021 marked as the bloodiest year in Mexico's history. What's more, the already ineffective administration of justice system has further deteriorated, Mexico's foreign policy is in disarray, and the country is politically polarized. We expect these serious challenges to extend well into 2022.

2022 Odd-Year Elections

On June 5, 2022, local elections will be held in six states: Aguascalientes, Durango, Hidalgo, Oaxaca, Quintana Roo, and Tamaulipas. All are currently governed by opposition parties. We expect MORENA to consolidate its advances in local elections by winning at least some of these states. Key political offices MORENA will likely target include the remaining PRI governors, such as in Hidalgo state and in Oaxaca, where the PRI governor is close to the president. Elections in Aguascalientes, Durango, and Tamaulipas—whose governor has been persecuted by the federal government—will test the strength of PAN as the main opposition political party.

People to Watch

Table 1. People to Watch in 2022

Political Party	Up	Stable	Down
MORENA	Marcelo Ebrard Claudia Sheinbaum Ricardo Monreal	Mario Delgado	Alejandro Gertz Manero Rocío Nahle Jorge Alcocer Cuitláhuac García Miguel Barbosa
PAN	Ricardo Anaya Cortés Mauricio Vila María Eugenia Campos		Francisco Javier García Cabeza de Vaca Marko Cortés
PRI	Miguel Angel Riquelme	Alejandro Moreno	
MC	Samuel García Luis Donaldo Colosio	Enrique Alfaro Dante Delgado	
Other	Lorenzo Córdova (National Electoral Institute)	Arturo Zaldívar (Supreme Court Chief Justice)	

Source: Authors

In general, not much will change politically in 2022. The country will continue to be politically divided and even polarized. The administration will continue to neglect addressing most crises. The president's three-party coalition will likely show additional fractures. The opposition, which held together well in 2021, will try again to mount a united front, with the MC party going it alone.

III. The Legislative and Regulatory Environment

This section covers legislative initiatives passed in 2021 whose impact will extend into 2022; new legislative changes proposed by the López Obrador administration; and key issues before the Mexico's Supreme Court.

Legislation Passed in 2021 with Impacts in 2022

New Legislation on Outsourcing

In April 2021, Congress approved legislation eliminating outsourcing, except in cases of specialized services. The legislation aims to force companies to hire employees outright and to prevent them from evading taxes and social security fees by using temporary workers. This law, however, will increase production costs because companies will be forced to pay higher-salaried workers to perform most of the work in-house. Although some companies have permanently hired temporary workers, many have chosen to lay off numerous temps and shifted their workload to existing employees. We expect this legislation to continue to significantly affect companies in 2022 because a considerable number relied on the work performed by outsourced workers.

Elimination of Tax Deductions for Contributions to NGOs

Mexico's government will seek to further weaken the country's civil society in 2022. Such attempts to undermine or eliminate civil society organizations began as rhetorical posturing by the government. But this has now become a reality as all funding and grant opportunities for NGO activities were cut from government budgets in 2020 and 2021. These efforts will go even further through recent legislation that eliminates all tax deductions for contributions to nonprofits in 2022. The president has given several reasons for pursuing this path. First, he has argued that NGOs seek to undermine his administration by organizing against many of his programs and plans. He has also argued that many companies contribute to NGOs to avoid taxes. And finally, he has argued, without evidence, in his daily press conferences that foreign governments and foundations that gave money to these organizations are illegally intervening in Mexico's politics. None of these reasons is valid, however. These organizations were targeted because they have been a check on President López Obrador's power. The measures against them will inevitably weaken civil society, and their effect will continue to be felt in 2022. We expect that many NGOs will not survive these measures, although a few will find new sources of funding.

New Legislative Initiatives Expected in 2022

The 2022 Federal Budget and the Strain on Public Finances

Spending by the government of Mexico (GOM) has severely strained public finances. This is not to say that the GOM has spent profligately. López Obrador is an unlikely fiscal conservative whose austerity measures include eliminating entire government departments and instituting cost-cutting measures across the board. At the same time, his government failed to generate substantial new revenues and as a result, chose to redirect resources from targeted government programs and endowments to help fund its budget priorities. So far, the GOM has burned through the national stabilization fund (US\$25

billion); consumed funding for various arts, science, sports, and infrastructure maintenance programs, as well as natural disaster endowments (US\$3.5 billion); and exhausted the tax revenues collected from businesses and corporations (also billions of dollars). Now that the GOM is running out of programs it can tap into for additional funds, the budget—and López Obrador’s intent to maintain fiscal discipline—are under pressure.

To raise more funds, the government wanted to access the Central Bank’s dollar reserves—but could not because the law forbids it, and it would have had disastrous consequences for monetary policy. The 2022 federal budget does not raise taxes, but it eliminates many deductions, a move that will ultimately undermine an economic recovery. Gains from combatting tax evasion will only minimally add resources—and with little or no economic growth, the president cannot count on expanding the tax base. But López Obrador needs money:

1. To complete his controversial infrastructure projects (Dos Bocas Refinery, the Mayan Train, and the Santa Lucia Airport) before the end of his term. None of these projects is expected to pay off with additional revenue any time soon.
2. To continue his cash transfer social programs, primarily designed to help his party hold onto power in 2024.
3. To try to rescue PEMEX, the national oil company, from imminent bankruptcy—and address its whopping \$120 billion debt.

These needs will not be met in 2022. Consequently, the GOM will likely propose legislation to raise taxes, although most economists agree that raising taxes during an economic crisis delays recovery. Or it may borrow in the international markets, as it has already done to some extent.

Changes to Election Laws

From the beginning of his term, López Obrador and his MORENA party have tried to rewrite Mexico’s electoral laws. MORENA has introduced several bills to replace the highly effective and independent National Electoral Institute (INE)—which organizes and oversees the country’s elections—with a centrally controlled federal electoral commission. These and other changes are seen as strategic moves to tilt the playing field against the political opposition and return Mexico to a time when partisan government appointees ran elections. MORENA will again try to change election laws in 2022. But we expect that López Obrador and MORENA will fail because such changes require a constitutional amendment, and MORENA lost seats in Congress in 2021. Civil society is also likely to organize in defense of the INE.

Changes to the Legal and Regulatory Framework of the Energy Sector

López Obrador has tried and failed to roll back the energy reforms put into place by the previous administration. His plans not only include a return to a state-led energy sector, excluding all private investment, but also a proposal to eliminate or weaken the sector’s independent regulatory commissions. A pending bill to change the Constitution would do away with the National Hydrocarbons Commission (CNH) and the Energy Regulatory

Commission (CRE). Congress has postponed debate on that bill until 2022 primarily because the president did not get the votes needed. Still, the proposed constitutional change may not pass in 2022, since (as previously noted) MORENA lost seats in Congress, but we expect López Obrador to keep trying to monopolize the energy sector through executive mandates and legislation that does not require a constitutional amendment. The courts are likely to continue to push back, but this will add to the regulatory uncertainty that already plagues the sector.

Monetary Policy

During the first half of López Obrador's term, Mexico's Central Bank (Banxico) has adhered to a disciplined monetary policy. In 2022, we expect Banxico to continue measures that contain high and rising inflation caused by price increases for gas, electricity, and agricultural products. Inflation is a global problem due to the disruption of supply chains and increased consumer demand as the economy reopens. The worrisome trend in Mexico's case is that inflation is higher than in most countries and could in part be a structural issue. The president continues to introduce considerable uncertainty into the economy. He recently cancelled the nomination of his former treasury secretary to become the governor of the Central Bank (Banxico), replacing him with a party loyalist, Victoria Rodríguez Ceja, who is thought to be unqualified to manage Mexico's monetary policy.

Relevant Supreme Court Rulings Expected in 2022

Mexico's judicial branch has been an effective check on other parts of the government, notably the executive branch. In fact, most of the legislation promoted by López Obrador and his coalition has been challenged by opposition parties, which found an amenable forum in the judiciary. Despite criticism in 2021 for meddling in politics, the Supreme Court overcame these difficulties and demonstrated its autonomy through its rulings. Still, López Obrador will have appointed four out of 11 Supreme Court justices by the end of the year; in 2022, these justices will rule on critical cases for the administration, such as the constitutionality of the legislation that seized funds from 109 public endowments. Also, the court will decide if the federal government is complying with a constitutional mandate that requires civilian leadership for the National Guard—as opposed to the administration's push for military control. In 2022, judicial rulings that conflict with the aims of the executive branch will trigger further attempts by López Obrador to capture the Supreme Court.

IV. Economic Outlook

A series of government decisions before and during the pandemic have negatively impacted Mexico's economy. In 2019, before the pandemic, the GDP had already contracted slightly, by 0.9%. In 2020, GDP fell an additional 8.2%. Amid the pandemic, Mexico's tepid economic stimulus response—one of the lowest in Latin America (1.9% of GDP)—did not help. The absence of a long-term strategy led to hundreds of thousands of business bankruptcies and millions of job losses; many workers moved into the informal sector. In 2021, Mexico's economy started to recover, but this was mainly due to U.S. demand for Mexican goods and to remittances sent home to Mexico—not the

government's economic strategy. In this sense, the U.S. economic recovery will help Mexico, but if American demand stalls, Mexico's recovery will slow as well. Mexico's growth forecasts keep getting revised downward as it is. Remittances—money sent home by Mexican migrants living in other countries, particularly the U.S.—have reached record highs: over \$47 billion in 2021. Remittances are likely to increase to some \$50 billion in 2022. In sum, Mexico's recovery depends heavily on remittances and U.S. demand for goods produced in Mexico. Currently, we expect GDP growth to come in around 5.8% by the end of 2021 and 2.9% in 2022 (Figure 2). We may not see Mexico return to 2018 levels of economic activity until 2023.

Figure 2. GDP Growth Rates for the United States and Mexico (1985-2022)



Source: World Bank; 2021 and 2022 are authors' estimates

Dramatic changes in the variables affecting Mexico's economic growth in 2022 are unlikely. And since political and regulatory uncertainty is likely to continue, foreign and domestic private investment, which are key economic drivers, will not soon rise. This means Mexico's economy will not recover quickly.

Factors Influencing Mexico's Economic Performance in 2022

Mexico's economic performance in 2022 will be affected by several factors, some related to specific decisions by the López Obrador administration:

- a) The GOM will continue to improvise its economic strategies, primarily due to the absence of a long-term vision for Mexico's economy and the clash between the president's preference for a state-led economy and Mexico's prior commitments to international trade and investment through its many commercial accords.
- b) The GOM's political and electoral calculations will continue to drive economic decisions.
- c) The GOM will not raise taxes and will try to maintain fiscal austerity, but the federal government budget will be under pressure as there is no substantial additional revenue to fund all the president's projects and social programs.
- d) The regulatory environment will continue to be uncertain due to the president's ongoing conflict with the judiciary, independent regulatory commissions, the private sector, and civil society. This situation will force most companies—foreign and domestic— to cancel or postpone their investments.
- e) The GOM will continue efforts to reestablish a government-led economy, beginning with attempts to capture all energy projects; to create new parastatal companies; and to grant hefty subsidies to the two state energy monopolies—PEMEX and the electric utility CFE.
- f) The GOM will continue to disregard or rapidly change federal rules and regulations in several areas, further destabilizing to an already volatile business environment.
- g) The GOM will increase FY2022 transfers to states and municipalities; there will be a 5.3% increase over FY2021, which is effectively a return to 2019 levels. The allocations vary by state, however, and MORENA governors are likely to be favored.
- h) The GOM is likely to increase spending by 8.9% in FY2022 compared to FY2021, but most will go toward the president's infrastructure projects and social programs that run without clear operating rules or accountability mechanisms. Much of the increase will be financed through an additional debt of some \$900 billion pesos (US\$45 billion).
- i) Fiscal pressures will continue to mount in 2022 as pension payments to the elderly increase by 72% over 2021, forcing the GOM to cancel other programs such as support for microenterprises.
- j) The GOM will not propose any new initiatives to foster economic growth, preferring instead to increase funding by 30% to its priority programs and by 20% to its priority projects compared to FY2021—and paying for it through additional debt and cuts to other government programs and institutions.
- k) Tax collection efforts by the GOM will continue but given that most one-time income has already been realized, the GOM will not reach its planned revenue goals.

In summary, we expect government policies to have a negative impact on foreign and private investment; a possible return to a monopoly in electricity generation; more price controls and subsidies for state-owned concerns. This will in turn introduce further inefficiencies in Mexico's economy and create negative externalities in the markets. The potential outcome is greater uncertainty in the business environment, less foreign and private investment and thus lower economic growth, which will affect millions of Mexicans, particularly those living in poverty.

Key Economic Health Indicators in 2022

Labor Markets

Mexico's labor market will continue to show signs of weakness in 2022. Some of the jobs lost during the COVID-19 pandemic will be mostly recovered next year, but there will continue to be a deficit in formal jobs—full-time and well-paid jobs with benefits. We may not see pre-pandemic levels of job recovery until the end of 2022. This means that many Mexicans will continue to work informally or part-time. In fact, around 57% of all jobs in Mexico will likely be in the informal sector in 2022. Given the surplus of labor, wages will remain stagnant and further eroded by inflationary pressures. The jobless rate in 2022 will hover around 4%. The government is not likely to generate a job-creation strategy or incentivize private investment to reduce the job losses.

Inflation Pressures

Inflation in 2021 has been around 6%. This will continue into 2022, but ease toward the second half of the year. Another factor creating inflationary pressures is the global supply chain problem. The Central Bank (Banxico) will respond by increasing interest rates, with little effect given the broader structural and global conditions that affect Mexico's economy. But there are no generalized pressures on aggregate demand, so inflation will slow and return to the Central Bank's target of 3% by the end of 2022, plus or minus one percentage point. That is, headline inflation will be around 3.6% and core inflation will reach 3.5% in 2022.

Currency

Mexico's peso has been under pressure due to uncertainty about the country's domestic and international policies. The peso has performed better than last year due to the increase in Banxico's reference rate and the international economic reopening. Banxico will continue to increase this rate in the coming months, causing the exchange rate to fluctuate within a narrow range in the short- and long-term. Nevertheless, international oil prices, oil supplies, and the possible rise in interest rates from the U.S. Federal Reserve could put pressure on the peso in 2022. The U.S. dollar–Mexican peso exchange rate is expected to stand at around 20.3 or 20.7 on average in 2022 (Figure 3).

Figure 3. Mexican Peso Exchange Rate (2008–2022)

Source: Banxico, 2021; Authors' estimates, 2022

Note: MXN per USD average annually (inverted axis)

Interest Rates

Banxico aims to return to an inflation target of 3%, so it will continue to increase its benchmark interest rate until that objective is reached. The interest rate will likely reach 5.0% by the end of 2021 and 5.25% by the end of 2022. At this higher level, the interest rate will ease inflationary pressures, but can negatively affect investment and consumption, which will cause a decrease in aggregate demand during this process.

Fiscal policy

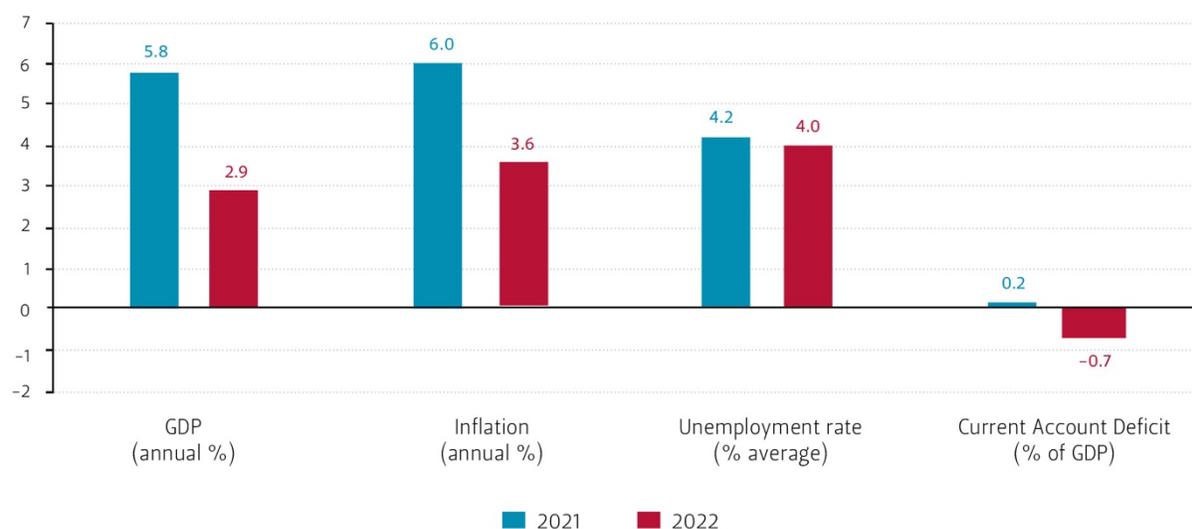
Mexico's government will continue its adherence to fiscal discipline in 2022. Austerity has been a central feature of the López Obrador administration. However, there will be greater fiscal pressures in 2022 due to increases in social expenditures, particularly pensions, and the president's priority infrastructure projects. The pressure will threaten the fiscal balance in Mexico. This is in part because, as already stated, the GOM has already spent all rainy-day funds and endowments and collected most taxes owed; in addition, the tax base is not expanding given the economic recession. The GOM erroneously assumes that it can obtain additional resources by further reducing tax evasion, but the extra taxes collected will not be enough. The GOM no longer has savings, such as through the Budget Revenue Stabilization Fund, to fall back on. So, it seems that the only way the GOM can obtain additional resources is through a tax hike, which will further slow the economy and the president does not want to do, or by acquiring more debt in the international markets. Thus, Mexico's gross general government debt as a percentage of GDP for 2022 will likely grow. This figure will be higher than 60.5% of GDP next year.

The Current Account and Remittances

The current account balance as a percentage of GDP indicates a country's level of international competitiveness. In Mexico, this figure is likely to be 0.2% in 2021 (a surplus). This is due to the rapid recovery of exports following a better-than-expected international economic recovery (specifically in the U.S.), and a smaller increase in imports due to weak domestic demand. Given that domestic demand will accelerate more than international demand in the coming months, we estimate Mexico's current account will be around -0.7% (a deficit) in 2022.

Remittances will remain strong—and a key element in the economic recovery. This resource has been one of the main drivers of Mexico's economy, as remittances have grown at a faster rate in recent years. In 2021, they will stand at a record \$48.5 billion. We expect remittances to exceed that amount in 2022.

Figure 4. Primary 2021 Economic Indicators and 2022 estimates



Source: Banxico, 2021; Authors' estimates for 2022

V. Public Health

Mexico will continue to face numerous health challenges in the coming year. The country's five leading causes of death are coronavirus disease (COVID-19), heart disease, diabetes, malignant tumors, and influenza/pneumonia. The COVID-19 pandemic continues to affect millions of Mexicans. It has further pressured an already strained health care system that struggles to combat pervasive chronic diseases and other serious public health issues, such as economic disparities that lead to severe inequities among those who can access diagnostic testing and treatment for COVID-19. The Mexican government's failure to respond effectively and in a timely manner to the pandemic has been widely criticized. COVID-19 cases and deaths have been underreported, testing has been limited, and the vaccine rollout has been slow. We expect that in 2022, health issues will continue to burden Mexico's population and its health care institutions, as well as contribute to greater disparities in health and health care.

The COVID-19 Pandemic and Vaccination Effort

Mexico has a high number of COVID-19-related deaths, although the official count is likely low. With 130 million people, the government has confirmed only four million cases of COVID-19, although other sources report much higher infection rates. Similarly, the government has recorded only 300,000 deaths from COVID-19, but this number, too, is likely much higher. The prevalence of comorbid health conditions and metabolic diseases including obesity, cardiovascular diseases, diabetes, and hypertension has aggravated the severity of COVID-19 infections, and presumably led to many deaths and increased cases of disability and diminished functional capacity. In addition, Mexico's struggling and underfunded health care system is unable to help many of those who need it; countless poor or low-income individuals have little or no access to treatment or preventive measures such as vaccinations. Given these and other factors, the true burden of the pandemic is best reflected in excess mortality data—a term that refers to the number of recorded deaths in addition to the annual expected deaths from all causes. Advancing the vaccination campaign through next year's first quarter is essential to reduce risk, prevent further harm, and start the recovery process.

As of October 2021, 36% of the adult population in Mexico has been fully vaccinated, with estimates varying depending on the reporting source. Among the vaccines received are Pfizer, Sinovac, Sputnik, AstraZeneca, Johnson & Johnson, Cansino, and Moderna. The government's vaccination campaign has faced problems or setbacks, including delays in vaccine shipments, uneven distribution, and barriers to vaccination, including personal, environmental, and community level barriers. Factors such as vaccine hesitancy, vaccine misinformation, fear-inducing rumors, and mistrust of the government, vaccine administrators, and manufacturers prevent some Mexicans from being vaccinated. For those open to vaccinations, no guidance has been announced on COVID-19 booster shots.

A challenging area in need of attention in Mexico is the prevalence of long-haul COVID. The Mexican Institute of Social Insurance has begun providing rehabilitation services for this condition.

None of these basic conditions are expected to change dramatically early in 2022, although they will improve slightly over the coming year.

Cross-Border Mobility

Beginning March 21, 2020, the U.S. imposed restrictions on nonessential travel at the border's ports of entry. The intention was to prevent the spread of the virus, although U.S. citizens and residents could move across without restrictions. Only Mexican citizens were barred from entering the U.S. As of November 8, 2021, however, Mexicans fully vaccinated with U.S.-approved vaccines can now reenter the U.S. We expect this to be the beginning of the economic recovery for the borderlands.

Irregular Migration Patterns

Mexico continues to struggle with a growing flow of in-transit migrants and asylum seekers heading to the United States. American immigration authorities have used Title 42, a public health provision, to keep most migrants in Mexico under the Migration Protection Protocol ("Remain in Mexico" policy) negotiated by both countries. While it will be harder for the U.S. to justify the use of Title 42 to keep migrants in Mexico in 2022, the Trump-era "Remain in Mexico" program, which Biden ended when he took office, has been reinstated and will likely be the key instrument to manage binational migration flows throughout the year—especially because asylum seekers.

Mexico will continue to contend with trans-migrant flows, deploying its National Guard to the southern border with Guatemala to aid U.S. immigration efforts there. Against this backdrop, civil society organizations are documenting human rights violations and excessive use of force by Mexican authorities. Migrants and asylum seekers are facing ever more dangerous, unsanitary, and overcrowded conditions in shelters and encampments in Mexico. Poor housing conditions and unsafe living environments will lead to increased risk of communicable diseases and a mental health toll for this population. The unmet health and safety needs of migrants make them a particularly vulnerable and underserved transient population. Violence and insecurity in Mexico, along with the pandemic, have worsened conditions for this population. This will not change in 2022, as Mexico's law enforcement is more corrupt and punitive than ever, and its justice system remains in tatters.

Public Health Outlook: 2022

In the coming year, Mexico's existing public health challenges will continue and possibly escalate due to the ongoing COVID-19 pandemic, economic hardship, and fragile health care system. Mexico also faces concerns about the mental health of its citizens, and an exacerbation of chronic illnesses due to delays in care and the inability to access treatment. Mexico's budget for health-related matters is set to increase by 15% relative to 2021,

according to its 2022 Economic Package. The increase comes nearly two years after the coronavirus pandemic began. The additional funds will provide more free health services and medicine, expand Mexico's vaccination strategy, and pay for more COVID-19 vaccines. It is a notable increase, but Mexico requires a much more robust investment in its health care system to combat the pandemic as well as major health problems such as obesity and its associated comorbidities.

The coronavirus will continue to pose challenges for Mexico. In 2022, Mexico must address both barriers to vaccination and vaccine hesitancy. Beyond the disease itself, the coronavirus has taken a toll on mental health, especially on its health care workforce. Mexico urgently needs to prioritize and support the well-being of its health care workers, who were left drained by the pandemic. Furthermore, the long-term effects of coronavirus are still an issue that will affect the population in the coming months.

VI. Public Safety and Security

Security and public safety in Mexico did not improve in 2021, and the outlook for 2022 is not promising. In October 2021, Cabinet-level officials from the U.S. and Mexico met to reset bilateral security cooperation. They crafted a new framework to replace the Merida Initiative. The reimagined bilateral plan promises to prevent transborder crime and pursue criminal networks, but we expect it to be largely ceremonial and rhetorical, delivering little in the way of meaningful and substantive public safety reform in 2022.

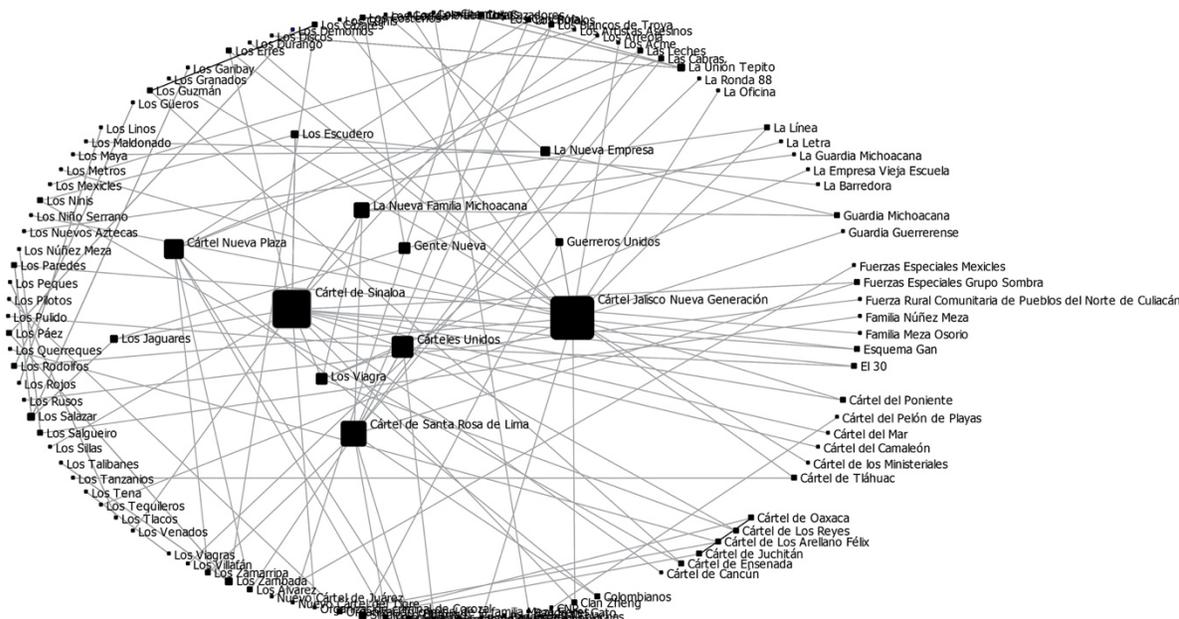
Up to now, Mexican organized crime has benefitted from the GOM's lack of engagement in combatting crime, especially the violent activities of the country's drug cartels. In response, ordinary citizens are taking up arms in greater numbers, leading to the development and entrenchment of self-defense forces. These groups have taken the law into their own hands to protect property, businesses, and life in cities and towns where the government has abdicated its responsibility to ensure the safety of its citizens. This situation will continue through 2022.

The absence of a public safety strategy, anti-organized crime actions, and effective policing opens the door to U.S. conservative arguments that Mexico's deteriorating internal security could threaten U.S. national security. This is not an idle argument, as some Mexican cartel activities are putting pressure on American interests—including the criminal movement of thousands of migrants through Mexico to the U.S. border, activity apparently ignored by corrupt elements of the López Obrador administration. The arrival at the U.S. border of over 200,000 migrants per month over the summer of 2021 has strained U.S. Border Patrol and other federal immigration resources and drawn the ire of state governments that are struggling to absorb thousands of arrivals perceived to be a drain on budgets that fund medical care, education, housing, and others. The rhetorical argument of whether the U.S. is on the losing side of Mexico's indifference and lack of meaningful immigration control on its own soil has yet to reach a tipping point but may cause further severe strains on the binational relationship.

Organized Crime Structures Dominate the Landscape

Mexico's organized crime groups have generally settled into two factions, with most allying with either the Cartel de Jalisco Nueva Generación (CJNG) or the Sinaloa Cartel.

Figure 5. Mexico's Cartel Alliance Network



Source: Author's elaboration of UCINET and alliance data from Lantia Consultores

In Figure 5, we can observe the interconnected structure of Mexico's organized crime groups. The nodes are sized by their degree of centrality to the two dominant criminal groups or their number of ties to other groups. We see clearly that the two largest nodes are the Sinaloa Cartel and the Cartel de Jalisco Nueva Generación.

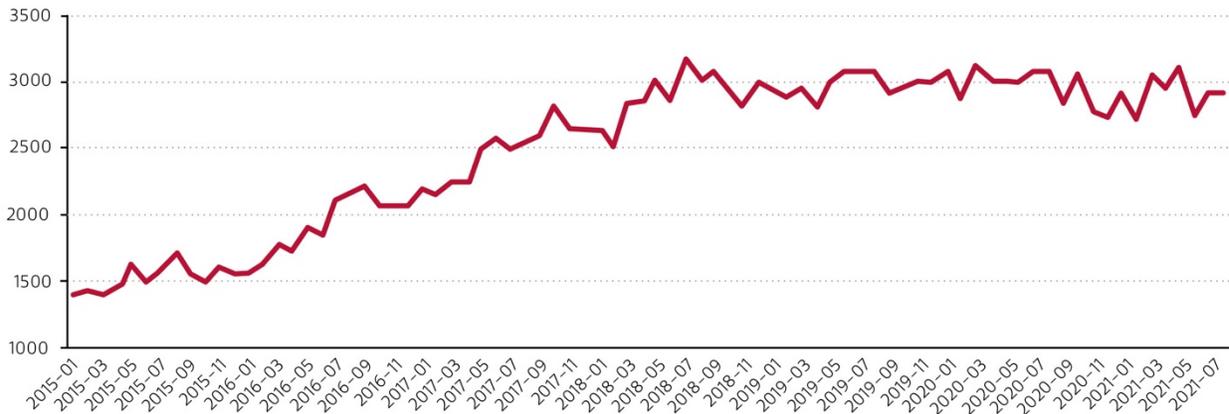
The pandemic has not stopped cartels from diversifying through criminal operations such as extortion and other activities that victimize the population. The most violent areas in Mexico now appear to be where these dominant poles battle for power either directly or through proxies; these locations include Baja California, Zacatecas, Colima, Michoacán, Guanajuato, and Morelos.

The most violent Mexican state is now Baja California, where Tijuana, its largest city, has for years been the site of a battle between the Cartel de Jalisco, the Sinaloa Cartel, and the remnants of the Arellano Felix Organization (Tijuana cartel). Increased violence in Zacatecas is linked to control of highways toward the U.S.-Mexico border, and some have identified fentanyl as increasing the value of those Zacatecas highways. While states such as Guerrero and Tamaulipas have not been the *most* violent in 2021, they continue to suffer from endemic violence and corruption. Violence has been so bad in some areas of Guerrero that indigenous communities have resorted to training child soldiers in self-defense.

The Mexican public is increasingly frustrated with government inaction on narco-violence. However, it has effectively given up hope that the political system will be responsive on this issue and is resigned to living with a high level of violence that includes an average of 36,000 homicide victims per year or about 3,000 intentional homicide victims per month (Figure 6). The homicide rate is roughly 28 per 100,000 people (likely an undercount, given the number of disappeared but not officially deceased persons in the database), a figure roughly five times that of the United States.

This basic landscape will not dramatically change in 2022, and it may get worse.

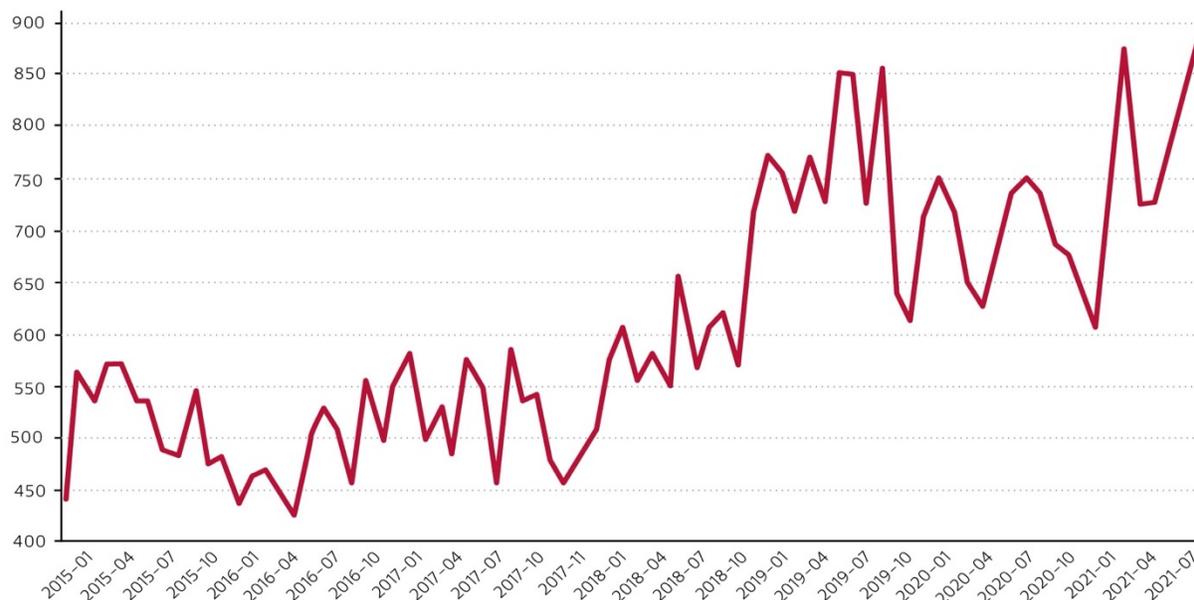
Figure 6. Homicide Victims Mexico (2015-August 2021)



Source: Observatorio Nacional Ciudadano

While 2020 saw a slight decline from very high 2019 extortion figures, data for 2021 available through August suggests a return to very high extortion levels (Figure 7). However, homicide cases appear to have stabilized, although also at a very high level. They are not likely to increase dramatically in 2022.

Figure 7. Victims of Extortion in Mexico (2015-August 2021)



Source: Observatorio Nacional Ciudadano

Electoral Violence

Election-related violence was a serious problem in 2021. And although the issue appears to have stabilized, albeit at a high level of incidents, it could be a permanent feature of Mexico's federal political system. The Etellekt Security consulting firm reported that "89 politicians, including 35 candidates, have been killed in the 200 days of campaigning" as of June 4, 2021. The firm counted 782 attacks against politicians or candidates that ranged from verbal threats to beatings and kidnappings, etc. (Table 2). Seventy-five percent of these attacks were against opposition candidates. "Opposition" does not necessarily mean against the López Obrador administration or MORENA, but rather against the dominant party in power at the state level. Organized crime wants to control local and state governments in order to control the appointment of security forces and act with impunity. The odd-year elections of 2022 will test whether Mexico's government can contain this problem.

Table 2. Violence during midterm elections in Mexico (2015-June 2021)

	Acts of Violence	Politically-related Killings
2015		65
2018	774	152
2021	782	89

Source: Etelekt Security, as cited in “Violence Eclipses Upcoming Midterm Elections in Mexico,” *Al Jazeera*, June 4, 2021

The Military Will Continue to Assume Civilian Duties

In 2021, the Mexican Navy (SEMAR) was assigned control over Pacific port operations and customs duties as an anti-corruption measure, given that organized crime was dictating the pace of supply chain tempo by extorting bribes from the transportation industry.

Criminal or corrupt elements also allowed drug precursor chemicals and other illegal drugs to be piggybacked onto the supply chain, much to the detriment of the U.S. illegal drug reduction efforts. SEMAR has not been able to successfully operate the ports or reduce the influence of the Cartel Jalisco Nueva Generación at the ports. In our view, this poses risks for civilian rule in Mexico, and further exposes Mexico’s military to corruption by the cartels. This will likely be the case in 2022.

Binational Cooperation

As 2021 began, binational law enforcement cooperation was reduced to a minimum following López Obrador administration restrictions on liaison activities between Mexican functionaries and U.S. federal law enforcement agents. In December 2020, the GOM pushed through a change to the National Security Law that restricted the activities of U.S. law enforcement agents operating in Mexico. There will no changes to that law in 2022.

The new law stripped the U.S. Drug Enforcement Administration, FBI, ICE, and all other U.S. federal law enforcement agencies of their diplomatic immunity and required them to submit any intelligence they gathered in Mexico to the Mexican government. This effectively shut down the ability of those agencies to recruit and develop informants, witnesses, and other sources of information who trust Americans more than their own corrupt government. The restrictive measure was championed by López Obrador and was unquestionably linked to the DEA arrest of Mexican General Salvador Cienfuegos, former secretary of defense during the administration of President Enrique Peña-Nieto.

This situation suggests that the López Obrador administration continues to be suspicious of U.S. law enforcement activities in Mexico and that the GOM wishes to avoid another national embarrassment such as occurred with Cienfuegos’ arrest, which was based on DEA evidence gathered in Mexico.

A Lack of Political Will to Improve Public Safety

President López Obrador has not demonstrated the political will to advance efforts to fight crime. As a result, 2022 will see few substantive improvements in public safety and security. The security framework proposed in late 2021 (and described above) is not expected to reduce violent crime, drug production, drug smuggling, or migrant smuggling during the remaining years of the López Obrador administration. While the number of some crimes may drop, the change will be temporary.

VII. Energy

During the first half of his administration, López Obrador sought to reshape Mexico's energy sector by halting the implementation of the 2013-2014 energy reforms. Despite this, private firms in markets such as fuel commercialization and power generation and supply, which are significant streams of revenue for PEMEX and CFE, continued to capture a sizeable share of domestic demand. As this development jeopardizes the pivotal role that López Obrador has sought for both state-owned firms, his administration will seek tighter control of the energy sector in 2022.

The power market is a top priority of the GOM's agenda. Both houses of Congress approved amendments to the Electricity Industry Law in February and March 2021, prompting numerous successful legal challenges to the new law. López Obrador has not given up, however. He will continue to seek to strengthen the market position of the state utility CFE and will present aggressive legislation to that end in early to mid-2022. López Obrador will also seek to amend the Constitution, scrap independent energy regulatory commissions, such as the CRE and the CNH, and introduce provisions that grant the state exclusive rights to exploit lithium reserves. Given changes in the composition of Congress after the mid-term elections of 2021, however, he will not succeed. But the uncertainty in Mexico's energy businesses environment caused by this tug of war will continue. Whatever the fate of López Obrador administration's legislative actions, the reality is that the GOM's persistent support for state-owned energy firms will show no signs of waning in 2022. The accuracy of this argument is demonstrated in the financial and operating safeguards the government contemplates for PEMEX, which continues to be a concern. PEMEX's problems will in turn affect the expansion, efficiency, and success of the sector.

On the financial side, three issues will stand out in 2022. The first concern is PEMEX's budget. The government is poised to allocate up to \$636,281 million pesos (US\$31.34 billion) to PEMEX, an amount considered to be the highest the firm has received from the government and that represents a 12.7% increase over 2021. Another key feature of the GOM's support is related to PEMEX's duty to share profits with the Secretariat of Finance and Public Credit (SHCP); the SHCP intends to cut the amount due from 54% of profits in 2021 to 40% in 2022. Ostensibly, these two policy decisions are projected to boost capital expenditures on upstream activities in order to meet the company's crude oil production target in 2022, estimated by the SHCP at 1.826 million of barrels per day. At first glance, one can be bullish about the oil production outlook in 2022, but it remains to be seen if it

could be dimmed by the PEMEX's financial obligations. Total consolidated financial debt increased from \$110.259 billion in September 2020 to \$113.045 billion in September 2021, of which \$23.08 billion is short term. Since PEMEX may be under great financial stress as a result, it is anticipated that López Obrador will provide additional support to help alleviate the company's debt commitments in 2022.

VIII. Binational Relationship

USMCA Implementation Challenges

Implementation of the USMCA is in most respects proceeding smoothly. However, several areas are likely to provide challenges for Mexico, and Mexico-U.S. relations, in 2022.

Investment

The López Obrador administration's efforts to roll back energy policies to the 1970s, with PEMEX and the CFE regaining their monopoly powers, ignores the fact that neither entity has the capital, the technology or general competence to meet the needs of Mexico's energy users. Multiple challenges to the actions taken by the CFE against alternative energy investors have been filed in Mexican courts and may well land in investor-state arbitration. A Houston consortium headed by Talos Energy has already filed a notice of dispute under a 2017 lease agreement that guaranteed its oil field development rights if and when it discovered oil. It did so after President López Obrador subsequently awarded development rights exclusively to PEMEX. Talos will seek over \$600 million in arbitration if the dispute is not resolved through negotiations.

The government's actions on hydrocarbons and electricity are a probable violation of Mexico's constitution. As noted earlier, however, López Obrador will have more difficulty amending the constitution now that his party coalition no longer has a super-majority in the lower house. A second obstacle is the USMCA's Article 32.11, which provides that Mexico will not institute trade and investment measures more restrictive than those it ratified before the USMCA. Eventually, if such conflicts are not otherwise resolved, the U.S. government may request consultations under various USMCA provisions.

In addition to their probable illegality, the government's actions are unwise and dangerous for Mexico's economy. If Mexico bars foreign investment in the hydrocarbons industry, the country's oil production will continue to decline by about 6% to 7% a year because PEMEX lacks the resources, expertise, and general ability to reverse the decline. The same bureaucratic deficiencies exist in the CFE. Furthermore, the recent actions will lead to higher energy prices and related economic consequences; and pollution will also worsen, leading to public health implications and violations of Mexico's commitments under the Paris Accord.

It is important to understand that major investment decisions are being made right now because of the U.S.-China decoupling. Decisions on electric car and component production, including batteries, and other areas such as production of semiconductors and

semiconductor parts, are also being made. Mexico's ability to attract a reasonable part of that new investment depends to a significant degree on reversing the anti-business policies of the López Obrador administration. Many of these investments will be long-term; if enterprises decide to invest in the United States, Canada, or elsewhere instead of Mexico, the investment and accompanying jobs will be lost to Mexico.

Automotive Sector

The key changes in the auto rules of origin under the USMCA are the following:

- The regional value content increases from 62.5% to 75% over three years.
- After seven years, 70% of steel must be “melted and poured” in North America.
- Forty percent of cars and 45% of trucks by value must be produced by workers earning at least \$16/hour, meaning that most such plants will be American or Canadian.

The USMCA parties disagree over how to calculate regional content under the new automotive rules. The U.S. favors an approach that will make it more difficult for auto companies to meet the regional content requirements if auto parts are not produced in the United States. Canada and Mexico disagree with this approach, and the issue may result in a state-to-state dispute settlement proceeding under USMCA Chapter 31 before the end of 2022.

The Biden administration, as the Trump administration before it, is a strong proponent of “America First” policies in the automotive and other industries. This means businesses and corporations are strongly encouraged to invest and create jobs in the United States rather than in Mexico or anywhere else. The USMCA auto rules of origin, along with large U.S. government subsidies for semiconductors and electric vehicle batteries and components, will make Mexican production less competitive than in the past. It is no coincidence that Ford announced in September 2021 that it would spend more than \$11 billion in a joint venture with SKI of Korea to build four new electric and battery factories—in Kentucky and Tennessee. López Obrador's anti-business policies will make it more difficult for Mexico to attract new investment from U.S. enterprises in 2022.

Agriculture

The USMCA made few significant changes in the area of U.S.-Mexico agricultural trade. Measures that would have made it more difficult to export Mexican tomatoes, for instance, were excluded from the trade agreement. However, in this and other agricultural areas, the U.S. can take actions that are not inconsistent with the USMCA, but still hurt Mexican agricultural exporters.

Efforts by U.S. growers to restrict Mexican blueberry exports were defeated in a U.S. International Trade Commission administrative proceeding in February 2021. It is likely that other efforts to restrict Mexican exports of avocados, bell peppers, and other fruits and vegetables will arise in 2022—a congressional election year in the U.S.—some of which will be limited to administrative actions with some due process safeguards, and some strictly political. In this climate, we believe it is important for Mexico to avoid provoking U.S. agribusiness interests with actions that seem arbitrary, or where the consequences have not

been fully considered. For instance, the World Trade Organization and U.S. Department of Agriculture must be notified if Mexico institutes new import certificate requirements or bans the use of glyphosate (a fertilizer widely used in the U.S.) and genetically modified corn, which it would like to do. Violations of the notification rule, along with Mexico's failure since 2018 to approve applications for new biotech crops could sour bilateral relations in the future and lead to U.S. retaliation against Mexican agricultural interests, such as a prohibition on avocado exports.

Labor Rights

The USMCA's labor rights provisions are among the most important parts of the agreement for Democrats in Congress and the Biden administration. The first of the long-awaited actions using these provisions was filed by U.S. and some Mexican union organizers last May against Tridonex—a Mexican auto parts producer in Matamoros—whose workers had unsuccessfully fought to form an independent union, and against a General Motors truck plant in Silao. Through the active (and welcome) cooperation of the U.S. and Mexico governments at various levels of the bureaucracy, the disputes were resolved to the satisfaction of both countries, but it is inevitable that new labor actions will be filed in 2022. It can be hoped that future disputes of this nature can also be resolved without damaging U.S.-Mexico relations.

Migration

Mexico is struggling to contain a record number of migrants and asylum seekers on its southern border. The Mexican Commission for Refugee Assistance (COMAR) received a record 77,559 asylum requests between January and August 2021. It is expected that by the end of 2021, such requests will exceed 100,000—and the number does not account for the undocumented migrants that cross Mexico's southern border who do not request protection. This silent group is especially vulnerable, as they comprise large numbers of undocumented immigrants and refugees who are children and adolescents—many are unaccompanied minors escaping violence and poverty. Their journey is perilous, and they are at-risk for exploitation or human trafficking.

In recent years, the top five nationalities seeking refuge in the U.S. are from Honduras, Haiti, Cuba, El Salvador, and Venezuela. Migrants from these and other countries face dire socioeconomic and security conditions, including unrest, poverty, corruption, weak governance, impunity, and the presence of violent gangs and transnational criminal groups. Displacement of people due to climate change and natural disasters has also increased in recent years, leaving experts to predict a migration and humanitarian crisis on Mexico's southern and northern border. Migrant flows are not expected to decrease in 2022 without a robust regional strategy, political commitment, and cooperation between North American and Latin American countries. Mexico does not have the adequate resources, capacity, or infrastructure to handle a dramatic surge of migrants and asylum seekers.

Economic, health, and social conditions in the sending countries deteriorated further during the pandemic, causing migrants to flee to Mexico in search of safety, security, and health care. This situation is overwhelming Mexico's efforts to provide health services, as

the country's health care industry is underfunded, understaffed, and severely strained. As a result, inhumane, crowded, unsafe, and unhygienic conditions are common in shelters and detention facilities, and migrants traveling in caravans under hazardous circumstances have limited health care options.

Another salient concern is the trauma endured by adults and children as they travel to the U.S.-Mexico border. They commonly experience homelessness and material deprivation, or are victims of rape, extortion, assault, or human or sex trafficking. These dangerous conditions put immigrants at-risk for adverse physical and mental health outcomes, including worsened chronic conditions, infectious diseases, post-traumatic stress disorder, depression, anxiety, and suicide. Furthermore, there have been various documented abuses of migrants and asylum seekers by Mexican police, immigration agents, the National Guard, and criminal groups.

Mexican government migration control operations require adequate training and resources to address the complex and multiple health, social, and economic needs of undocumented migrants and asylum seekers. Despite the existence of government-sponsored groups (e.g., Grupos Beta) that protect the human rights of migrants, Mexico's National Institute of Immigration (INM) operates with a limited budget and has been accused of corruption.

This dynamic is not likely to change in 2022, although we expect it to become worse over the summer months, as it always does.

U.S. Immigration Policies and Pressure

Mexico's immigration policies have long been dictated by the U.S. and have shifted under U.S. pressure to control undocumented migration. Two Trump-era policies that have exacerbated the current migration crisis are the "Remain in Mexico" Policy (MPP), which returned over 70,000 migrants to Mexico to await their court cases; and a public health order, known as Title 42, which allows border agents to immediately deport migrants illegally crossing the border, without giving them a chance to seek asylum in the U.S. More than 900,000 migrants were expelled under Title 42 in the current fiscal year. These policies have contributed to an escalating humanitarian crisis at the U.S.-Mexico border that requires a prompt resolution. Resumption of the U.S.-Mexico High Level Economic Dialogue, abandoned by Trump, affords an opportunity for greater cooperation on migration in 2022. The HLED promotes strategic economic and trade priorities for the U.S. and Mexico, with the common goal of fostering economic development and growth, job creation, global competitiveness, and reduction of poverty and inequality.

The 2022 Outlook

It is unlikely that Mexico will develop a multi-pronged, long-term vision or approach to migration that appropriately funds the country's immigration system and agencies in 2022. Amid the country's largest humanitarian migration crisis in its history, Mexico's Economic Package for 2022 provides no substantial increase in spending for INM or COMAR. INM's budget would slightly increase 0.29% and COMAR's would drop by 0.58% compared to 2021.

The MPP poses significant dangers to migrants. Even with increased coordination with the U.S. and more funding, forcing asylum seekers to wait for their court proceedings in another country is unacceptable, as their court dates could be months or even years away—and in the meantime they are vulnerable to crime and violence in Mexico.

The United States and Mexico have not yet developed a modernized framework for migration. The flows will continue to strain governments and budgets in 2022.

Climate Refugees and Regional Consequences of Climate Change

The climate crisis is already affecting most countries, especially the poorest and most dependent on agriculture. Desertification, irregularities in precipitation patterns, and temperature increases in 2022 will play key roles in food insecurity and poverty for farmers and field workers in Mexico, a country the Intergovernmental Panel on Climate Change predicts will be one of the hardest hit by climate upheaval. A Climate Refugee Protection Plan is already on the Biden administration agenda, which is engaging neighboring transmigration countries such as Mexico and Guatemala to better address the complex and multi-causal drivers of forced migration, as well as its disproportionate effects at the regional and local levels.

Despite the climate risks, the López Obrador administration continues to invest in refineries and oil, as well as open pit mining, which causes groundwater contamination and deep environmental damage to an already fragile ecological balance. The situation has already forced people to move internally.

When your land is no longer suitable for farming or even habitation and water is scarce, people look for a better life elsewhere. Climate change is the most significant threat to Mexico's stability, but it is clearly not a government priority. By 2050, climate change is expected to compel over 17 million people in Latin America to move. Their forced migration will be due to lack of investment in projects that protect vulnerable communities against this challenge.

IX. The U.S.-Mexico Border

U.S.-Mexico border relations are improving after a trying 2020-2021. Several areas along the border, such as retail sales and tourism, are poised for incremental gains. Binational trade will also continue an upward trajectory in 2022 as imports and exports rise. Despite ongoing pandemic hurdles, the production of exports along the border gained momentum in 2021; this trend should continue in 2022. Thus far, border manufacturing industries have avoided trade disputes, a problem experienced by some sectors of the binational trade economy. Retail trade is another matter, as the two countries maintained a ban on nonessential travel for 19 months, which hobbled tourism and the flow of ordinary commuter traffic across the border—the lifeblood for many border retailers. Though COVID-19 infection rates remain high in Mexico, Arizona, and Texas, the U.S. and Mexico governments lifted the nonessential travel ban on November 8, 2021, for vaccinated commuters and travelers. This change will improve the border’s economic prospects in 2022.

The Border Wall

The Biden administration’s early 2021 decision to suspend federal financing of the controversial border fence, a project long opposed by Mexico, has signaled an easing of unilateral measures in boundary-related security and migration issues. Even so, certain pre-contracted work is still underway on the wall. The Texas Legislature recently approved a \$750 million appropriation for additional structures on private land along the boundary, setting up a potential clash between Washington, D.C., and Austin over barrier construction. One conflict has already emerged: the U.S. Section of the International Boundary and Water Commission (IBWC) has filed a federal lawsuit against private contractors who, while building the wall, impaired Rio Grande River flows—a violation of the 1970 Boundary Treaty. The case remains undecided. As with immigration, however, the trends favor more consultation and less confrontation in the year ahead.

Infrastructure Deficits

The chronic infrastructure deficits in border cities will continue to cause binational friction, particularly on the issue of transboundary sanitation. Mexico’s border cities continue to grow, outstripping sewage capacity and leading to spills of contaminated water into rivers—and to disputes between cities along the border. Binational sewage collection and wastewater processing facilities at Tijuana and San Diego and Ambos Nogales, both operated by the IBWC, have proven inadequate to deal with flooding, sediment deposits, and renegade sewage flows to the Tijuana River and Nogales Wash. A \$300 million U.S. Congress appropriation for border sanitation that came with the USMCA, hailed in 2019, seems inadequate to address a problem that in Tijuana-San Diego alone will cost an estimated \$566 million to fix. Discussions focused on the development of a second international sewage plant to intercept Tijuana sewage are underway in the U.S.

Binational Resource Management: Water

Border region water managers' concerns about water availability continue as droughts persist, straining both the Rio Grande and Colorado River basins. In one incident, a sharp dispute over Mexico's treaty-obligated payments for the use of water from the Rio Grande was temporarily resolved by the IBWC in October 2020 with Mexico's transfer of stored water in Rio Grande dams to the United States and a binational pledge to seek more reliable mechanisms for Mexico's treaty compliance by 2023. In another incident, the U.S. Bureau of Reclamation on August 18, 2021, declared an unprecedented shortage at Lake Mead, which is fed by the Colorado River. That announcement triggered first-ever water cuts to Colorado River stakeholders throughout the basin, including Mexico, under terms set by a 2017 IBWC agreement. Fortunately, these recent IBWC agreements plot a short-term path forward, buying time for further binational discussions on drought-related shortage sharing—in which Mexico stores part of its treaty water in U.S. reservoirs—and needed conservation measures.

Border Public Health

Public health concerns also rose on the binational agenda in 2020-2021 as linked border cities struggled to cope with the COVID-19 pandemic. Both Mexican and U.S. border cities sustained some of the highest infection rates in their respective countries in the summer and fall of 2020 and into 2021. Modest U.S. goodwill vaccine donations helped buoy Mexico's pandemic mitigation campaign, but it continues to suffer one of the world's highest infection rates. The Trump administration's ill-timed 2017 shuttering of the U.S. Section of the Border Health Commission (BHC) contributed to binational coordination difficulties in mitigating COVID impacts over the past year. Several border state federal legislators back renewal of U.S. commitment to the BHC's founding agreement signed in 2000. The BHC would assess the response to COVID-19 and the impact of the disease along the border, and lead to a binational strategic plan for how the border region may strengthen its pandemic response and mitigate the pandemic's economic impact.

Health experts are wary of predicting any abatement of COVID-19 in Mexico or the U.S. prior to spring 2022.

X. Conclusion

In general, in 2022 Mexico's 2021 public health, security and public safety, economic and political and social dynamics will continue largely unchanged. Only the electorate can put a check on the president's power and the next opportunity will not be until 2024. To some extent, this scenario has materialized already: MORENA and its allies have lost ground, especially in Congress, where the president appears weakened and unlikely to garner the votes needed to push the kinds of constitutional reforms that he wants.

The year 2022 will be a year best characterized by the term "muddling through." Mexico will not be fully out of the pandemic. The economy will recover slowly and at a pace well below what is needed, and the country will mostly rely on strong trade with the U.S. and

remittances. Its infrastructure will continue to deteriorate slowly. The president's pet projects, such as the Mayan Train, the Dos Bocas refinery, and the new Mexico City airport, will again be delayed, further frustrating the president. The political landscape will continue to fray, especially under the March 2022 recall election charade. And Washington will likely increase pressure on Mexico to address U.S. concerns, primarily immigration, security, and trade and investment protections. We do not expect major events, but rather a slow and ineffective slog through the remainder of López Obrador's term.

The real danger is that by the end of 2022, the president may have given up. He may no longer seek to effectively govern but could serve out his term largely neglecting the severe national problems that plague the country—which will further delay the resolution of issues that Mexico must address if it is to become a truly functional liberal democracy and market economy.

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