

**SPECIAL REPORT**

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**AMLO'S**  
**FIRST YEAR IN OFFICE**

2018-2019

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# NUMERALIA

## **I. GLOBAL VISION: ACHIEVEMENTS, SETBACKS, PRESIDENTIAL POPULARITY AND PARTY SYSTEM**

### **Five achievements**

First, López Obrador has managed to regain confidence in politics as an instrument of progress and justice that in recent years had been eroded by the growing phenomenon of corruption, inequality, abuse of power, discrimination and insecurity. All surveys show that trust in institutions and politics has recovered in this first year.

The second achievement is having reduced lavishness in the public administration through an austere governing style, although it has also had negative consequences such as weakening strategic government areas and the loss of competent cadres from the public administration.

The third achievement has been keeping public finances in balance, something particularly important when the economy has stagnated, and the president has promised not to raise taxes or indebtedness.

The fourth positive aspect is to have maintained the commitment to free trade with North America. Although the strategy to react to Donald Trump's protectionism comes from the previous government, this administration has done what is necessary—even betraying its promises on immigration matters—to achieve the USMCA's ratification.

Finally, the government has placed the social inclusion agenda as the national priority. Doing so has generated hope. It deters social conflicts and fosters political stability in an international environment of instability and social protests, such as has occurred in Chile, Colombia, Brazil and Bolivia, among others.

### **Five Setbacks**

The first setback is the exercise of presidential power without opposition that comes from the vast majority of Morena in the federal legislative powers and in twenty states of the country, but above all by a personalist presidential style that tends to disdain diverse voices and govern by his own will. A side effect of the unipersonal style is the attack and weakening of some regulatory and autonomous bodies.

The second setback is the lack of technical criteria for the design, implementation and assessment of public policy, which has led to the initiation of infrastructure projects with no master plans and to the expansion of social programs without procedural regulations, clear goals and without transparent and complete beneficiary registers.

The third risk or setback is insecurity. Although the president has said that reducing crime is one of his priorities, his actions do not prove so. A comprehensive strategy is lacking, the preventive policy through social programs will be ineffective in persuading criminals to abandon their activities and the National Guard has not been implemented within the agreed deadlines. This year will be the most violent in modern history.

The fourth setback is the economic stagnation: 2019 will be a year with no growth and the estimated rates for 2020 are also very low.

Finally, a general risk is the increasing polarization that the president causes with his binary rhetoric, which creates fictitious adversaries to justify his narrative and many of his policies. This trend is common in governments with populist leaders and only increases over time.

### Presidential Popularity

López Obrador is the most popular president during the first year of office in the last decades. Although Vicente Fox (2000-2006) and Felipe Calderón (2006-2012) were also popular during their first term year, AMLO is a few points above. According to *Oraculus's poll of polls*, Fox finished his first year with 60% approval; Calderón with 65%; and López Obrador with 68%.

His high popularity rests on his personal governing style: close to the people, austere and with a discourse in favor of the most vulnerable groups. However, surveys show that the population begins to question the results of his government: one survey from *El Financiero* (November 26) shows that government performance is negatively evaluated by 52% of respondents. Some decisions, such as freeing Ovidio Guzman or offering asylum to Evo Morales, are rejected by 43% and 44%, respectively.

Likewise, even though the president is very well evaluated, the intention of the vote for Morena is far from it. According to Buendía & Laredo, the intention to vote for Morena was 38% in August 2019.

### Party system and opposition weakness

The overwhelming triumph of López Obrador and Morena in 2018 has modified the foundations of Mexico's party system. For almost three decades we had a three-party system —PRI, PAN and PRD— which together obtained —on average— 80% of votes. After 2018 the PRD has entered into an extinction phase with voting intention at around 5% or lower. For its part, the PRI, despite being still the party with the highest number of governors, is perceived in a decline phase.

Based on the data of the six local elections of 2019, the emergence of a bipartisan system with two basic formations is envisioned: on the one hand, Morena and its allies and, on the other hand, the PAN in alliance with some other newly created ones. Or, the emergence of a system of 2.5 parties: Morena and PAN as the main forces and in a distant second place some emerging or medium-sized parties such as the Movimiento Ciudadano party (Citizen's Movement) and whatever the remnant of the PRI is (other cadres of this party are already joining Morena in various states of the country).

While the configuration of the new party system is defined, a weak opposition is anticipated: lacking a narrative of how to recreate their national presence and a programmatic offer of why the population should vote again for them. Without this reconfiguration of the opposition, Morena could win elections uninterruptedly in the coming years, even with an intention to vote of less than 40%, as the PRI did for a long time.

Finally, it should be noted that Morena faces two obstacles to be competitive. First, it is not a party but a conflicting configuration of movements, "tribes", leaders and opportunistic politicians who fail to coalesce in a party with structure, discipline and a clear programmatic agenda. Second, the lack of government results in terms of security and economy.

## II. DEGREE OF COMPLIANCE WITH AMLO'S 10 MAIN COMMITMENTS MADE ON DECEMBER 1, 2019)<sup>1</sup>



**Taxes will not increase beyond inflation, and no new taxes will be created. We will not increase public debt. We will not spend more than what is received in the Public Treasury.**

Part of this promise was achieved by the strict fiscal discipline, but also by the under-exercise of expenditure and thanks to the extraordinary resources obtained through the Budget Income Stabilization Fund (BISF). It should be noted that public finances in the third quarter show a progressive weakening of federal revenues in an environment with very low growth and less-than-expected oil production.



**In 2019, 100 public universities will be running, with specializations according to each region of the country to provide 64 thousand higher-education students with quality education and without tuition payment.**

In September, López Obrador said that 87 of the 100 Benito Juárez universities were already in operation. However, the places in which they are located, the admission process, the number of students registered in each of them, among other data, are unknown. AMLO acknowledged that the construction and implementation of these universities has been affected by administrative obstacles and complications in the delivery of resources.



**The "so-called Educational Reform" will be canceled, the right to free education at all levels of schooling will be established in Article 3 of the Constitution and the government will never again disrespect teachers.**

On May 9, the Senate approved the ruling sent by the Lower House, which guarantees free education from preschool to university. In the following days, the state legislatures ratified this reform and on May 15 it was published in the Official Gazette of the Federation (DOF in Spanish). On September 20, the three secondary laws of the new constitutional reform in education were passed.



<sup>1</sup> To prepare this section, ten of the one hundred commitments that the president made during his speech of December 1, 2018 in the Zocalo of Mexico City were selected.



**The salaries of senior officials will be reduced and the salaries of classified and unionized workers who earn less than 20 thousand pesos a month will proportionally increase.**

In June, a salary increase between 1 and 3% was announced to public officials who earn less than 200 thousand pesos net per year (around \$16,500 pesos per month), regardless of the ordinary percentage increase of 3.35% corresponding to 2019. Based on the Federal Law on Compensation of Government Employees and considering a monthly salary of \$108,248 —established by AMLO as salary for the President of the Republic— senior officials (from deputy general directors) received a salary cut of approximately 50%



**The pension for senior citizens will be increased throughout the country; that is, each elderly will be given one thousand 274 pesos every month.**

On January 13, the president announced that 2 million 500 thousand senior citizens would see their pension doubled as of the next day, to receive \$2,550 pesos every two months. However, in mid-July, López Obrador acknowledged that the Welfare Cards given to the senior citizens did not have money or were not activated. On the 26<sup>th</sup> of the same month, the president assured that the situation had already been fixed and that everything had returned to normal. It has not been possible to verify this statement made by the president since there is no official information available that provides further details about the delivery of these resources.



**The federal government will be decentralized, and the ministries will be located in different states of the republic because the whole country is Mexico.**

Late in September, López Obrador acknowledged that the decentralization of the government had not advanced as planned. So far, there is a record that only nine units (out of 28) have moved any of their departments or opened an office in the states to which they should move. Among these units are the Ministry of Public Education (Puebla), the Ministry of Culture (Tlaxcala) and the Ministry of Welfare (Oaxaca). However, it is important to note that no ministry has transferred all of its operations to the states.





**In three years, the saturation problem of the current Mexico City airport will be finally solved; by then the roads, two new runways and the passenger terminal at the Santa Lucía air base will be working, which will save Lake Texcoco and the treasury more than 100 billion pesos.**

After facing more than 140 lawsuits against the works at the Santa Lucia air base, on October 17, construction work on what will be the Felipe Angeles airport began. At the end of November, Rodolfo Paz Sánchez, responsible for the construction of the terminal building, assured that the new airport will be inaugurated on March 21, 2022, and that the works will be completed six months before in order to perform flight tests. However, specialists point out that the final scope of the work will be much less than initially proposed by the president. Therefore, the saturation problem the current airport is facing would remain unsolved. To this information we can include the refusal of some airlines to operate in two airports at the same time. Finally, it is worth noting that, although construction work has already begun, about 15 documents that are legally binding remain unknown. Among them are airworthiness studies and for simultaneous operations with Benito Juárez airport, risk analysis, cost-benefit analysis and a master plan.



**The six existing refineries will be restored and the construction of a new refinery in Dos Bocas, Paraíso, Tabasco will begin in a few more days, so that in three years all the gasoline we consume is produced in Mexico.**

In June, the Ministry of Energy pointed out that the first phase of the National Refining Plan consists of the refurbishment of the six existing refineries. Regarding the construction of the new one in Dos Bocas, Minister Nahle said on November 18 that, despite the bad weather that has affected the area where the construction is being carried out, "the work is being done" and she highlighted some advances in the cleaning, compaction and filling of the lands. However, specialists and rating agencies predict that the original investment figures and construction time will be exceeded.



**Two million 300 thousand unemployed youngsters will be hired to work as apprentices in productive activities in the countryside and the city and will earn a salary of 3,600 pesos per month.**

At the beginning of November 2019, the Minister of Labor said that 10 million 3,000 youngsters have been included as apprentices 10 months after starting the Youngsters Building the Future program. However, a research conducted by Mexicans Against Corruption and Impunity (MACI) showed that the business list registered by the program contains errors and inaccuracies that call into question its veracity and usefulness as a mechanism of transparency and therefore of evaluation. The investigation also concludes that the evolution of the register over time is atypical and statistically unlikely.



**We will respect the autonomy of the Bank of Mexico and its policies to prevent inflation or devaluations.**

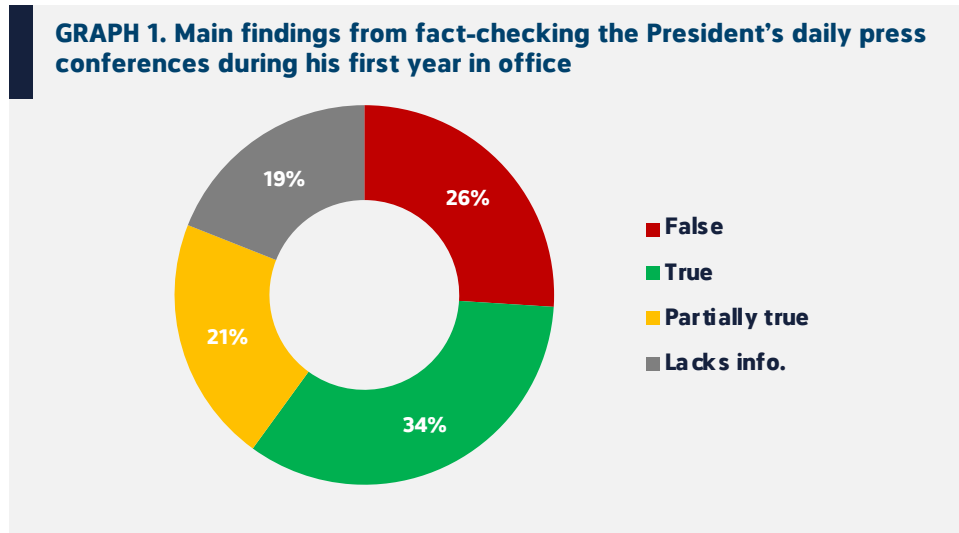
Although the president has repeatedly pronounced himself in favor of lowering interest rates by the governing board of the Bank of Mexico (Banxico), AMLO's statements have not directly affected Banxico's autonomy. The decisions made so far by the Governing Board have reflected that, despite the national and international economic environment, inflation in Mexico is within the parameters established by Banxico itself.



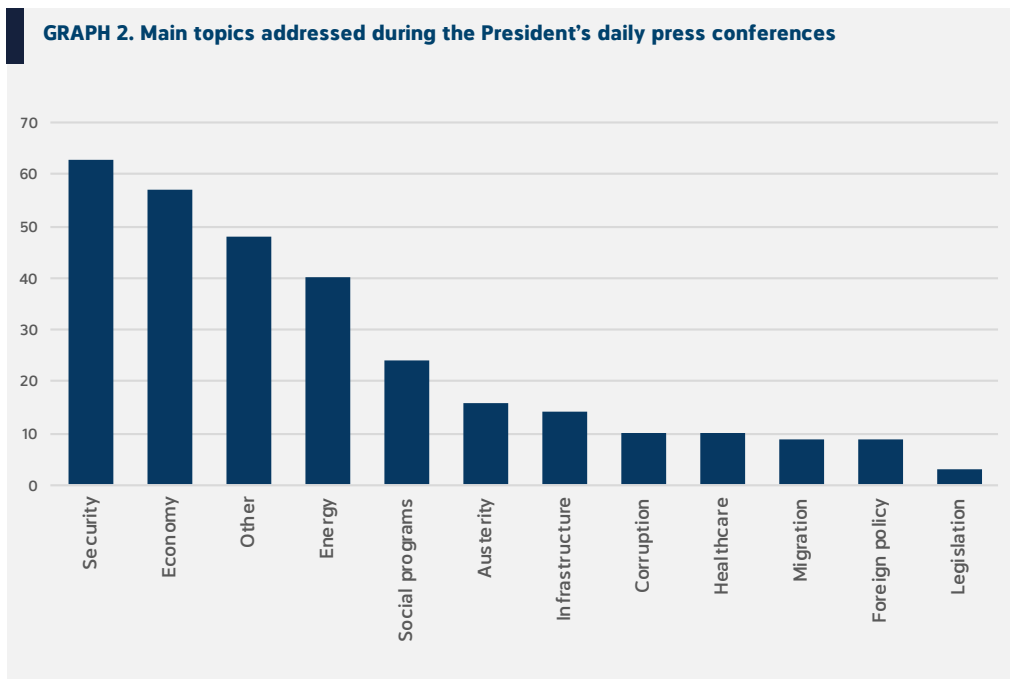


### III. FACT CHECK: THE FIRST YEAR OF PRESIDENT'S STATEMENTS IN HIS MORNING NEWS CONFERENCES

Of the 306 verified statements<sup>2</sup> from February 11 to November 22, 2019, 34% (103) were true; 26% (80) were false; 22% (66) were partially true and the remaining 19% (57) lacks information to be verified.



#### Main topics:



<sup>2</sup> Statements identified in the stenographic versions of each morning press conference and selected due to their quantitative nature. Only statements of interest to customers were included. The data indicated on more than one occasion were verified only once.

## Findings:

- **Security.** The majority of false statements (23%) were about security. It is worth noting that, of the total statements on this subject, 29% of them were false whereas 27% was true. The rest was partially true or lacked information to verify them.
  - Incorrect security data is mainly linked to the number of homicides —which are generally lower than official figures.
- **Economy.** Most of the true statements (24%) were about economics. Of the total statements on this subject, 44% were true and 26% were partially true. Only 18% were false.
- **Energy.** 37% of the statements on this subject were true and 20% were false.
- **Social programs.** This topic has the least information. 42% of statements about social programs could not be verified due to lack of information (the list of beneficiaries has not been published).

#### IV. THE TEN MOST RELEVANT LEGISLATIVE REFORMS

Topic	Impact
<b>Law on Compensation of Public Officials</b>	<ul style="list-style-type: none"> <li>▪ Defined the income of the senior officials of the Federal Public Administration (FPA), taking the president's as a reference.</li> <li>▪ It has led to a talent drain and the admission of unqualified personnel to the FPA, as well as litigation of members of autonomous bodies due to determination of salaries.</li> </ul>
<b>National Guard</b>	<ul style="list-style-type: none"> <li>▪ It was the first major consensus with the opposition and civil society organizations when a civil command and a transition period were reached to achieve it.</li> <li>▪ It could lead to greater militarization of public security and lack of police professionalization follow-up.</li> </ul>
<b>Preventive custody</b>	<ul style="list-style-type: none"> <li>▪ The catalog of federal crimes of constitutional article 19 including the following was expanded: sexual abuse or violence against minors; organized crime; homicide; femicide; rape; kidnapping; human trafficking; burglary; use of social programs for electoral purposes; corruption in the case of crimes of illicit enrichment and improper use of office; theft of cargo transportation in any of its modalities; crimes involving hydrocarbons, petroleum or petrochemicals; crimes related to forced disappearance of persons and disappearance committed by individuals; crimes committed with violent means such as weapons and explosives; crimes involving firearms and explosives for exclusive use; serious crimes determined by law against the security of the nation, the free development of personality and health.</li> <li>▪ It implies a risk of violating the principle of presumption of innocence since preventive custody must be an exceptional measure.</li> </ul>
<b>Labor reform</b>	<ul style="list-style-type: none"> <li>▪ Changes employer-union relations with new rules regarding collective agreements and freedom of association. Mandates free vote to elect union leaders.</li> <li>▪ Labor union polarization risk and the multiplication of leadership certifications by the government due to the bureaucratization that this process would entail.</li> </ul>

Topic	Impact
<b>Education reform</b>	<ul style="list-style-type: none"> <li>▪ A large part of the previous reform remained, with the difference that it eliminated evaluation as a condition for work permanence.</li> <li>▪ However, it strengthens the position of the teaching staff in the process of assigning jobs and evaluation controls are reduced to guarantee the quality of public education.</li> </ul>
<b>Republican Austerity Law</b>	<ul style="list-style-type: none"> <li>▪ It reduces lavishness and collateral expenses considered as excessive boosting the president's political message. It is an extension of existing provisions.</li> <li>▪ However, it accelerated the de-professionalization of the public service and reduced the government's operational capabilities.</li> </ul>
<b>Popular consultation and revocation of mandate</b>	<ul style="list-style-type: none"> <li>▪ The plebiscite reform makes the figure that has existed since 2013 more flexible. The other is newly created whose approval was given after the date of execution (2022) and the applicants were modified.</li> <li>▪ Risk that the president will mobilize his electoral base to convene popular consultations every year and legitimize controversial decisions. In the case of the recall vote consultation it will be the same president who requests it through his followers, and this will polarize the political environment.</li> </ul>
<b>Elimination of status</b>	<ul style="list-style-type: none"> <li>▪ Removes procedural immunity from the president through a political trial for causes other than treason and common law serious crimes.</li> <li>▪ It impacts the stability of the presidential work, although a minimum impact is expected in this six-year term, as it is subject to the approval of both houses.</li> </ul>
<b>Counterfeited invoices</b>	<ul style="list-style-type: none"> <li>▪ It seeks to eliminate the margin for tax evasion that prevails with the use of fake receipts, reducing tax losses.</li> <li>▪ Homologates major tax crimes with organized crime and threats against national security, both subject to preventive custody.</li> </ul>
<b>USMCA</b>	<ul style="list-style-type: none"> <li>▪ Approved virtually unanimously. It has not yet been ratified by the US and Canada. Questions remain about the implementation of the labor reform in Mexico.</li> </ul>

## V. POLITICAL RISK EVOLUTION AND ITS IMPACT ON THE PRIVATE SECTOR

According to the Integralia Political Risk Model, it has increased throughout 2019.<sup>3</sup> The trends of three of the Integralia model factors are presented below: public insecurity, legal uncertainty and government inefficiency.

### 1. Public insecurity

It is likely that at the end of the year, more than 38 thousand homicides accumulate, which, according to INEGI figures, would mean an increase of at least 3.5% compared to 2018, and the highest figure of this indicator since records began (early- 1990s). Only some crimes have decreased, such as car theft. To this, we must add violent events with enormous symbolism such as the Culiacán failed operation and the massacre of members of the LeBaron family.

The new administration promoted the implementation of the National Guard as one of the main components of its security strategy. However, it has not been possible to recruit the required members and its deployment has been given without a clear technical rationale.

#### What to expect for the next year?

That the number of homicides, extortion, and theft remains or even continues to increase in 2020.

### 2. Legal uncertainty

This risk component has been increased by government decisions that undermine contract compliance and by the use of "popular" consultations that justify arbitrary decisions: here the cancellation of Texcoco Airport (NAIM), the renegotiation of contracts for the construction of gas pipelines and their corresponding supply for the power industry, as well as changes in the regulation of Clean Energy Certificates (CECs).

It is important to note the constitutional and legal reforms that could be applied selectively, such as the increase in the catalog of crimes that deserve ex officio preventive custody and the one that typifies tax fraud as organized crime.

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<sup>3</sup> Political risk means the decisions, actions and omissions of the government and other national and international political and social actors, which may adversely impact the expectation of returns of investors, the profitability of companies and/or the democratic stability of the State. To measure it, Integralia developed a model that takes into account six risk factors: concentration of power, legal uncertainty, public insecurity, social divisiveness, government inefficiency and economic deterioration. Based on a monthly qualitative and quantitative analysis, which assesses the level of impact and the probability of occurrence, Integralia gives a risk level to each of them. Thus, this model allows permanent monitoring of the latest economic, political, social and security events that could adversely impact the business environment and/or the democratic stability of the country.

Likewise, the government's anti-corruption discourse has not been accompanied by a strengthening of institutions and processes, both in the public and private sectors. For example, the vast majority of government contracts have been granted by direct award (77.4% of the total, with figures as of June). However, Integralia considers that the relevance given to the fight against corruption in the presidential discourse, the financial investigation measures promoted by the Ministry of Finance, as well as lower budgetary resources, could reduce large-scale corruption of cabinet members, senior federal officials and governors.

### What to expect for the next year?

High legal uncertainty. Although the government sent a positive signal with the publication of the "National Program to Combat Corruption and Impunity and to improve Public Management 2019-2024", its implementation will be delayed, and it will be necessary to assess whether it is carried out effectively. In addition, it is foreseeable that the president will maintain his threat of reputational attacks against companies without mediating a prior judicial process. A key consideration for the evaluation of this risk towards the future has to do with the political pressure exerted on the judicial powers, which include a possible legislative reform.

### 3. Government inefficiency

The government has raised a strong austerity discourse, and to combat corruption and eradicate intermediaries in the execution of social policy. However, budget cuts and the salary reduction policy have resulted in the loss of qualified personnel and institutional memory. Likewise, the weakening of regulatory and/or autonomous bodies –such as the Energy Regulatory Commission (CRE for its initials in Spanish), the National Hydrocarbons Commission (CNH, for its initials in Spanish) and the National Human Rights Commission (CNH, for its initials in Spanish)– by reducing their budget [see Annex] as well as through the appointment of government-related officials and without technical experience has reduced their ability to make decisions guided by considerations of impartiality and effectiveness.

Moreover, the government has centralized the exercise of expenditure in various areas such as those for promoting agricultural activities, and this will reduce the capacity to address local problems. Finally, the government has shown willingness to hastily implement large infrastructure projects without having the impact and technical feasibility studies.

### What to expect for the next year?

This risk will remain high for several reasons. First, although the learning curve ends and that means better government performance, there are conflicts and differences within the

cabinet that will negatively impact its operation. Second, a personalist style of government prevents an adequate planning process. Third, the centralization of the exercise of spending reduces flexibility and opportunity to address regional problems. Fourth, the deterioration of regulatory and autonomous bodies will continue through appointments that do not meet the legal requirements, or by political or ideological affinity with the government.

In 2020, a new president of the Federal Telecommunications Institute (IFT, for its initials in Spanish) and a commissioner of the Federal Economic Competition Commission (COFECE, for its initials in Spanish) should be appointed. Also, two vacancies must be filled in the CNH and one more in the CRE that are still pending. Likewise, two positions will be renewed at the National Institute of Transparency, Access to Information and Protection of Personal Data (INAI, for its initials in Spanish). Finally, in March four members of the National Electoral Institute will be renewed (INE, for its initials in Spanish).<sup>4</sup>

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<sup>4</sup> See Annex II.

## VI. THE ECONOMY IN AMLO'S FIRST YEAR

A year ago, shortly before President López Obrador's decision to cancel the new Mexico City airport, there was a moderate optimism in the business world –national and international—and in the financial markets. The new government inherited an economy with modest but stable growth, with reasonably sound macroeconomic fundamentals and an acceptable external environment. In turn, the then economic team of President López Obrador (Alfonso Romo, Carlos Urzúa, Gerardo Esquivel) had done an impeccable job in improving the perception of entrepreneurs and investors regarding the López Obrador economic program, providing guarantees of moderation and pragmatism.

The cancellation of the most relevant infrastructure project in the country, however, disrupted the confidence of entrepreneurs and led to a cycle of economic slowdown with no bottom in sight. A series of public policy decisions during AMLO's first year have further discouraged the business climate in Mexico.

### Controversial public policy decisions that have contributed to generating uncertainty

- Cancellation of the new airport
- Renegotiation of the gas pipeline contract
- Construction of the “Dos Bocas” Refinery
- Veto to medication distributors
- Tender Centralization in the SHCP
- Elimination of the “Seguro Popular” health insurance program
- Elimination of housing subsidies
- Suspension of oil rounds and *farmouts*
- Suspension of energy auctions
- Change of rules in the renewable energy market
- Trunk Network Public Tender Suspension
- Change of rules in bidding for purchase and distribution of medicines
- Suspension of real estate works in CDMX (decision of the Mexico City government)
- Elimination of the Tourism Promotion Council and ProMéxico
- Tightening of fiscal measures
- Policy cuts in the agricultural sector
- Pemex Business Plan
- Budget weakening and political appointments in regulatory bodies
- Use of resources from the Budget Revenue Stabilization Fund (FEIP)
- Severe budget cuts in various areas of government

As a result of all this, during the first nine months of the year, the economy grew 0% compared to the same period of the previous year; the lowest growth in a decade and the slowest six-year economic start of the last four six-year periods. The stagnation of the



economy is mainly associated with the weakness of physical investment that accumulated a 4.7% drop during the first eight months of the year compared to the same period of 2018 and, more recently, the slowdown in private consumption and exports. The four engines of aggregate demand today show relative weakness, a synchronization not seen since the 2009 recession.

Among the positive aspects, it is worth pointing out the commitment to reach a primary surplus, to not finance Pemex's expenditure through debt, to respect the autonomy of the Central Bank and to maintain Mexico's trade openness. This has helped –along with other factors– to preserve a certain exchange rate stability and to maintain inflation at levels close to the Central Bank's expected range. Additionally, the financial system continues to show strong indicators and external accounts have been kept under control. Also noteworthy is the minimum wage's increase and the expansion of social spending that has contributed to improve the perception of a better future among a relevant segment of consumers.

### What to expect for the next year?

On November 26, the government launched the National Infrastructure Program (or a part of it) that seeks to be the starting point for a recovery of private investment. Other positive aspects, such as the promise of a more agile spending exercise, greater public investment, an additional expansion of social spending, a more fluid relationship between the government and the private sector, could translate into a gradual improvement of the economic activity (the analysts' consensus places the 2020 growth rate at 1.4%).

However, there are risks in the economic environment that could have a negative impact on the economic activity: the increasingly likely delay in the USMCA approval, Pemex's fragile financial situation, the risk of a downgrade of the oil company's rating and of the sovereign rating itself, the visible fragility of public finances, the increasing levels of insecurity, a challenging external environment and a business confidence that is far from being reestablished. All of this suggest caution in what seems to be another year of considerable political risk.

## VII. SOCIAL DIVISIVENESS AND ENVIRONMENTAL AGENDA

At the end of the third quarter of the year, there has been an increase in manifestations of conflict throughout the country, especially protests by Federal Police officers, labor disputes in the north of the country, teacher mobilizations and the crisis of the countryside for the delay in the supply of fertilizers. Part of these mobilizations is the result of some of the actions –or inactions– of President López Obrador’s government, which have resulted in social conflicts with different groups. Next, the conflicts arisen in the present administration are highlighted.

### 1. Elimination of the Federal Police

During the second half of the year there were at least 10 mobilizations of Federal Police elements not satisfied with their incorporation into the National Guard (NG). The blockades had up to 400 elements, taking place simultaneously in several points of Mexico City. These protests intensified during the months of August to November. Their replicas will depend on several factors, among which the following stand out: the gradual incorporation of more federal police into the NG; timely and sufficient payment of settlements to the police, as well as other resignations of police officers linked to the approval of medical, physical and trust exams to join the NG. However, it is foreseeable that after the salary settlement agreement, **the conflict will decrease significantly.**

### 2. Labor Conflicts

Labor disputes were present during the first three months of the year, mainly in the northeastern states of the country (Nuevo León, Tamaulipas, Coahuila). During these months, 15 strikes broke out in that region and about 380 strike notifications and more than 35 labor conflicts were registered. The most significant labor incident occurred in Matamoros, where 45 manufacturing companies made partial and total strikes. The number of strikes at the beginning of the year is significant since it represents about 71.5% of the total strikes that broke out during the entire administration of Enrique Peña Nieto (21 strikes).<sup>5</sup>

These phenomena, in part, are characteristic of the first three months of each year, as they are presented in the framework of collective bargaining agreements. However, it is also possible that these conflicts do have some relationship with the changes implemented by this administration, such as trade union democracy, or the differentiated minimum wage differentiated for the border states. Therefore, **the current forecast is uncertain**, and it is

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<sup>5</sup> Strikes accounted for between 2013 and 2018. For details see *Sexto Informe de Labores, Secretaría de Trabajo y Previsión Social, Anexo Estadístico*: [https://www.gob.mx/cms/uploads/attachment/file/385402/6o\\_Informe\\_de\\_Labores\\_de\\_la\\_STPS\\_2017-2018.pdf](https://www.gob.mx/cms/uploads/attachment/file/385402/6o_Informe_de_Labores_de_la_STPS_2017-2018.pdf)

necessary to make a retrospective analysis in March 2020 in order to be able to determine whether these are temporary events or if they are related to any governmental measure.

### 3. Teachers' Protests

Teacher protests can be counted in two parts. First, the railroad blockades at the beginning of the year carried out by the National Coordinator of Education Workers (CNTE, for its acronym in Spanish) in Michoacán. Second, the strikes and blockades at the national level mainly located in Mexico City, during the months of April to June, where the main demand was the annulment of the previous administration's education reform.

After AMLO's education reform, mainly characterized by the elimination of the National Institute for the Evaluation of Education (INEE, for its acronym in Spanish) and the announcement of agreements for the drafting of secondary laws that allegedly benefit the teaching staff, [a cooling phase in the conflict can be identified](#). However, it should be noted that the CNTE, despite the agreements obtained, resorts repeatedly to social protests as a pressure strategy to secure job positions and/or salary increases.

### 4. Fertilizer crisis

The conflict concentrated in the state of Guerrero, where there were protests, blockades and illegal occupation of federal offices by peasant organizations. According to estimates by the state government, as of July, only 15% of the programmed fertilizer had been delivered, when this had to be done before the end of June. On the other hand, as there are no clear guidelines for the operation of the program or a purged list of beneficiaries, an atmosphere of uncertainty prevails among the producers.

These social conflicts [could increase](#) in subsequent seasons, should this delay in the provision of support continue and, above all, if there is still a lack of operating rules and a purged list of beneficiaries. However, it will be until the National Fertilizer Program begins that the level of risk can be set.

### 5. Environment

The current administration has been characterized by contradictory and discretionary decision making, which has led to an environment of uncertainty. These actions range from a significant budget reduction for federal and local environmental agencies in 2020 (with a total decrease of around 40%), to the lack of transparency in strategic projects, for example, in the Dos Bocas refinery, where, despite the federal government's denial, massive mangrove deforestation has been documented in the area.

On the other hand, sector offices have been left leaderless, as is the case of the heads of key organizations for environmental transparency in Profepa; the termination of all Semarnat delegates; and the absence of an executive director at ASEA. In addition, the federal government has disregarded its international commitments in terms of reducing greenhouse gas (GHG) emissions, highlighting the recent detriment of the renewable energy market due to changes in obtaining Clean Energy Certificates (CEC). In this sense, **social conflict related to natural resources is expected to increase**, especially in areas where large infrastructure projects are developed.

## 6. Budget allocation for agriculture

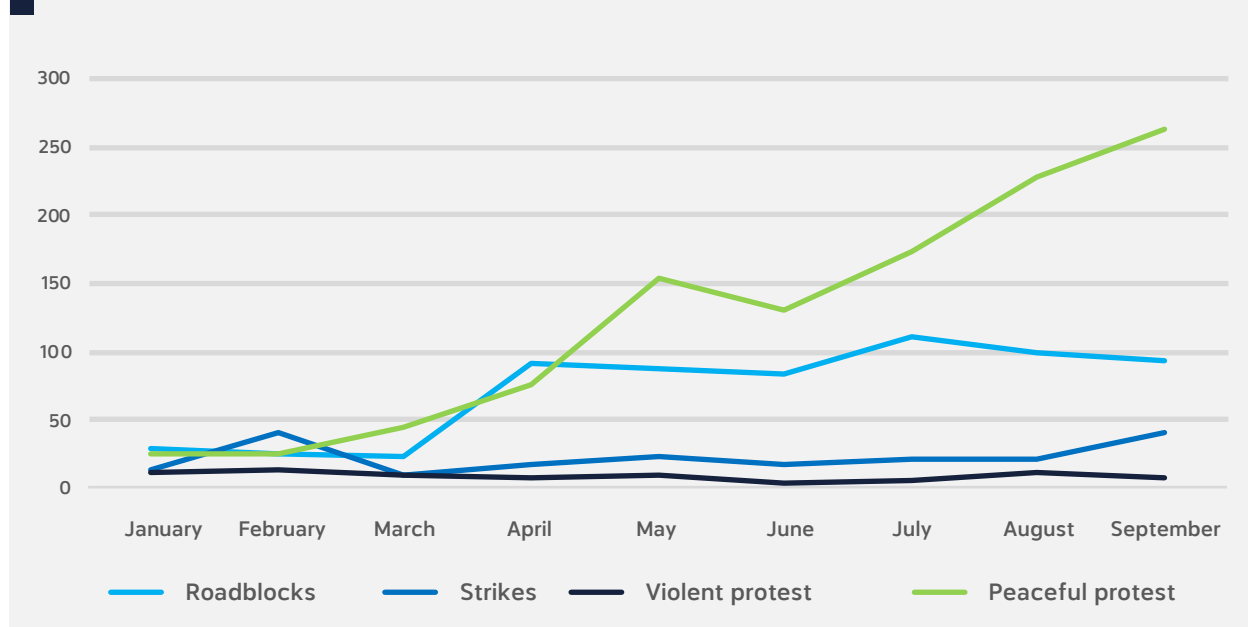
A relevant incident was the peasant mobilization that erupted after the approval of the 2020 Federal Expenditure Budget. It began with the occupation of Congress to demand additional resources for the agricultural sector.

The implications of not meeting these demands could be seen in the medium term. First, the lack of resources for agricultural and livestock development could affect the profitability of commercial agriculture. The country's farming regions could shrink the area planted with corn, wheat and sorghum, threatening the goals of self-sufficiency and food sovereignty that the Federal Government itself defends. Secondly, the reduction of federal resources allocated to the states could hinder the state governments' capacity to operate local social programs. In summary, **social divisiveness and protest symptoms could increase as the six-year term evolves**.

### What to expect?

The first year of AMLO's government has been marked by the emergence of some political-social conflicts that have had important repercussions for the country's productive sectors, mainly the extractive, agribusiness, communication and transportation industries. Protests and blockades of communication channels have proven to be effective strategies for different social groups to position their agendas. Therefore, **it is expected that the trend will continue to rise** (see graph).

**GRAPH 3. Number of conflicts that resulted in roadblocks, strikes, and peaceful or violent protest**



Source: Social divisiveness reports made by Integralia Consultores (January-September 2019).

## VIII. BUSINESS COMMUNICATION IN AMLO'S GOVERNMENT

There are five trends that Integralia has identified in the business communication during the first year of AMLO's administration:

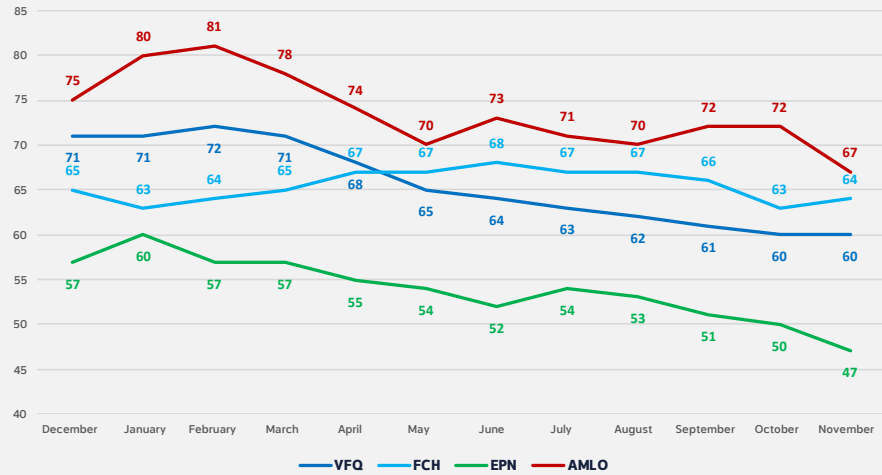
- 1. Populism returned to even more influential companies.** The big events in Los Pinos, where big companies and business chambers announced investments, became even more palatial events, announced on social networks with photos or short videos of the president meeting with CEOs in the stately meeting rooms of the National Palace. This has led more than a few companies to believe that achieving this photo is the "Holy Grail", instead of finding new ways of communicating with ordinary citizens and other audiences more open to their messages.
- 2. The failure of the "EBN" model.** Previously, the EBN (Event - Bulletin - Note) model was more than enough for companies to communicate more or less well. Today, the communication environment is characterized by the dominance of a single voice, a polarized public discussion, a crisis of credibility of the traditional media and by the post-truth, in which opinions and emotions replace data and arguments. In this context, companies must seek new ways of communicating, with more direct, emotional and close to the audience messages, in which their "purpose" –their values and their real contribution to the country– becomes the axis of communication.
- 3. The "good" and "bad cop" strategy of CCE and COPARMEX.** During the first year of AMLO's government, the Business Coordinating Council (CCE, for its acronym in Spanish)

has stood out for adopting a patient and conciliatory tone with the government, while the Employers Confederation of the Mexican Republic (COPARMEX) has taken the role of critic of the president's controversial economic decisions. After the first year, it is not yet clear if this strategy is helping companies represented by both bodies to obtain what they need to invest, and if they are really influencing the president's decisions, or if it will be necessary to find new ways of communication to generate effective political pressure.

4. **The emergence of a new reputational risk, the “morning conference effect”.** The risk that the president mentions a company in his controversial press conferences as one of his ideological adversaries, that it is accused—even without evidence—of corruption, tax evasion or inappropriate behavior has emerged as a new reputational risk for which, the company's corporate communication managers should be prepared. The best vaccine against this risk is proactive communication. The newsletter or explanatory display of the next day is already too little, too late.
5. **The urgent need to find their own positive narratives and to proactively communicate them in an innovative way and with languages closer to key audiences persists.** Those responsible for the company's public affairs and communication face the challenge of shaking the inertia that for years made corporate communication a routine and technocratic exercise. The low-profile spokespersons who communicate with speeches full of figures in relevant events will have to give way to figures more present, close and capable of transmitting the values of their companies. There are many topics on which the government is frankly reactionary, such as the environment, corporate ethics, gender equality, diversity and inclusion, the technological revolution, and a long etcetera. These are opportunities for business communication in this six-year term.

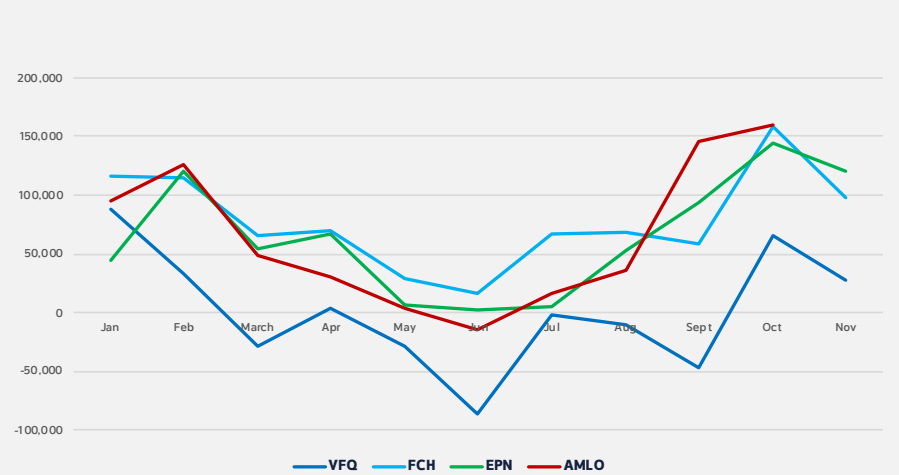
# AMLO's FIRST YEAR IN NUMBERS

GRAPH 4. Presidential approval ratings



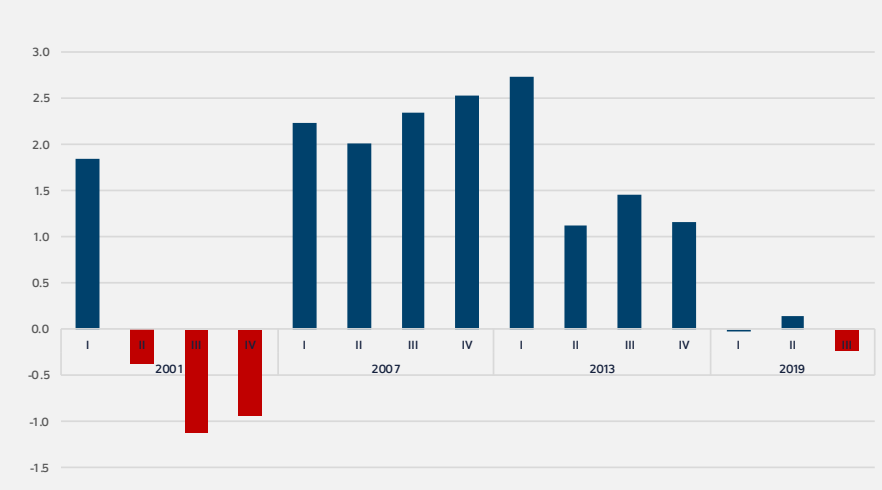
Source: Oraculus

GRAPH 5. Job creation during each president's first year in office



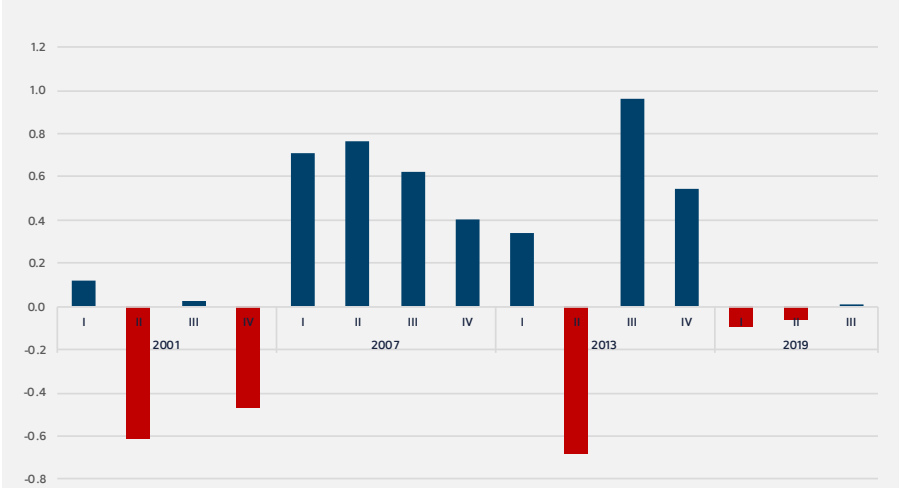
Source: IMSS

GRAPH 6. First year: Percentage change in GDP compared to the same quarter of the previous year



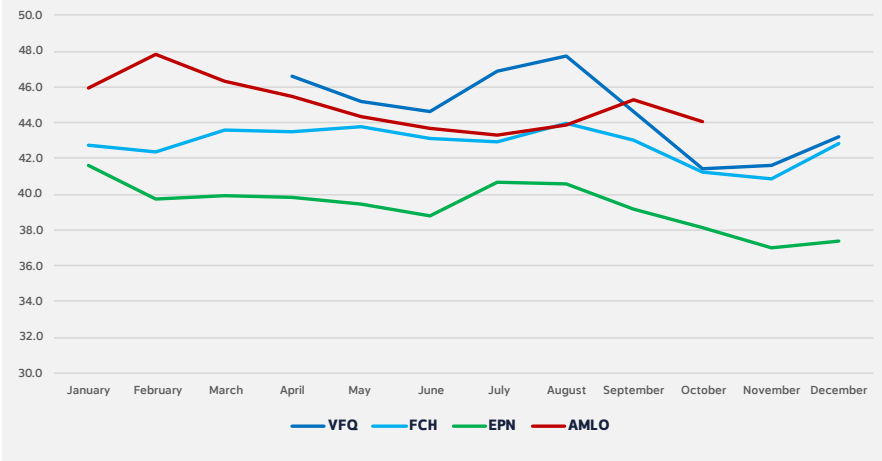
Source: Inegi

GRAPH 7. First year: Percentage change in GDP compared to the previous quarter



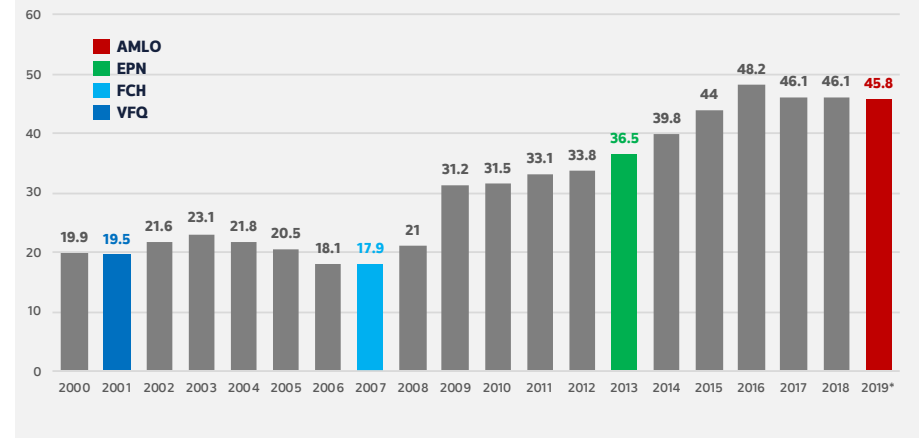
Source: Inegi

**GRAPH 8. Consumer Confidence Index during each president's first year in office**



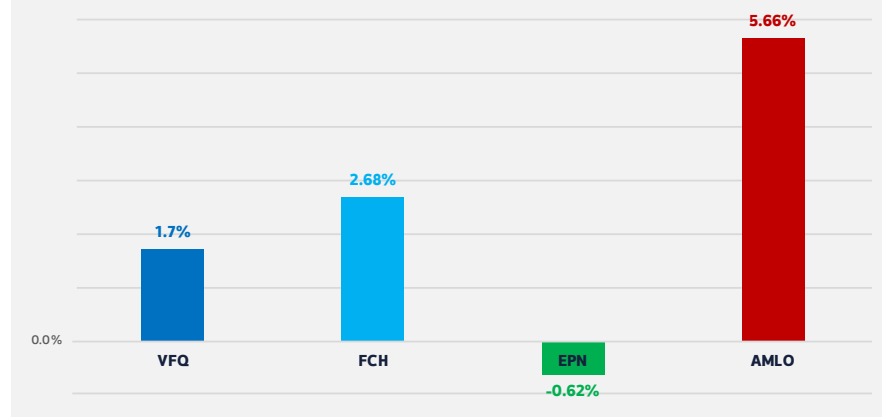
Source: Inegi

**GRAPH 9. Public debt as percentage of GDP**



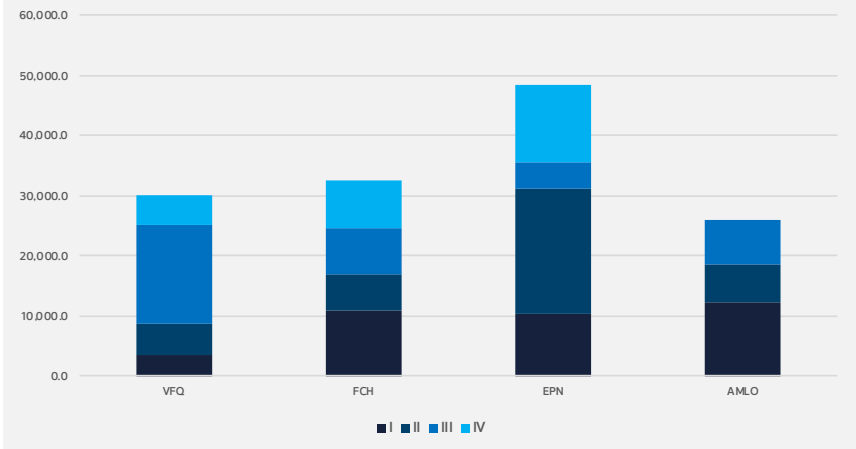
Source: SHCP

**GRAPH 10. Change in Mexican peso's exchange rate during each president's first year in office**



Source: Banxico

**GRAPH 11. Foreign investment by quarter during each president's first year in office**



Source: Banxico



## ANNEX I. Administrative and autonomous branches (millions of pesos, 2020 prices)

Autonomous or regulatory body	Exercised 2018	PEF 2020	2020/2018
CNDH	2,101	1,874	-10.8%
COFECE	655	581	11.3%
IFT	2,345	1,541	-34.3%
INAI	1,128	877	-22.3%
FGR	NA	16,702	NA
INEGI	8,506	16,573	94.8%
CRE	1,240	253	-79.6%
CNH	1,047	220	-79.0%

Source: Integralia with information from the Chamber of Deputies

## ANNEX II. Appointments in autonomous and regulatory bodies, 2020

Autonomous or regulatory body	Who?	When?	How?
IFT	Gabriel Contreras Zaldívar, Commissioner President.	Their positions are to be renewed on February, 2020.	The Evaluation Committee sends the president a list of the 3 and 5 best evaluated for each position. The president, chooses from that list a candidate that he sends for ratification to the Senate (requires qualified vote of 2/3 of Senators).
COFECE	Jesús Ignacio Navarro Zermeño, Commissioner.		
CNH	Héctor Acosta Félix, Commissioner.	He resigned in November 2018	The president submits a list of three people for each position for consideration by the Senate, which will appoint the Commissioner by the vote of 2/3 of its members.
	Gaspar Franco, Commissioner.	He resigned in February 2019	
CRE	Guillermo Zúñiga, Commissioner.	He resigned in April 2019.	
INAI	María Patricia Kurczyn Villalobos, Commissioner.	Their positions are to be renewed on March 31, 2020.	The Senate, after conducting a consultation with society, at the proposal of the parliamentary groups, with the vote of two thirds, shall appoint the commissioner. The appointment may be objected by the president.
	Joel Salas Suárez, Commissioner.		
INE	Enrique Andrade González, Counselor.	Their positions are to be renewed on April 2020.	The technical evaluation committee proposes to the JUCOPO a list of five people for each position. The JUCOPO sends to the Chamber a candidate who must be elected by the vote of two thirds of the Chamber of Deputies. At the expiration of the
	Marco Antonio Baños Martínez, Counselor.		

## ANNEX II. Appointments in autonomous and regulatory bodies, 2020

Autonomous or regulatory body	Who?	When?	How?
	Pamela San Martín Ríos, Counselor.		constitutional term, without having finished the election, the Session of the SCJN will make, in public session, the appointment by drawing off the list formed by the evaluation committee.
	Benito Nacif Hernández, Counselor.		
<b>BANXICO</b>	Javier Eduardo Guzmán Calafell, subgovernor.	Their positions are to be renewed on December 31, 2020	The appointment is made by the president with the approval of the Senate or the Permanent Commission, if applicable.
<b>INEGI</b>	Enrique Jesús Ordaz López, Vicepresident.		

Source: Integralia, with public information