

TEN POLITICAL RISKS FOR 2023




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This report analyzes the ten main risks that may affect the business environment and governance of the country in 2023. The analysis is based on a methodology from Integralia Consultores that assesses the potential impact and probability of occurrence of each risk, based on quantitative and qualitative indicators. **Each risk has a different probability of occurrence, which may change during the year.**

Most of the political risks that we visualize are related, in one way or another, to the main political risk towards the end of the six-year term: **the growing radicalization of President López Obrador**, whose main objectives are to ensure the victory of his party in 2024 and, thereby guaranteeing the continuity of his political project. In order to achieve these purposes, we anticipate that the ruling party will implement actions to weaken the counterweights of the Executive Branch, the electoral authorities, and the opposition, while exacerbating polarization and intensifying social mobilizations for political-electoral purposes. Consequently, it will be a year with high political risk.




Risk	Probability of occurrence ¹
 <p>1. <u>The ruling party intensifies its attacks against the autonomy and effectiveness of the National Electoral Institute</u> from three fronts: i) an attempt by the government and Morena to bias the process to appoint four electoral counselors with pro-government profiles (in the first quarter of the year), ii) operational problems for the Electoral Institute after the approval of the legal reform that reduces and modifies its structure, and iii) lawsuits over the implementation of the reform (before the Supreme Court, the Electoral Court, and labor courts) which increases the risk of concentration of power and legal uncertainty.</p>	Very High
 <p>2. <u>Criminal groups take advantage of electoral processes to impose or extend agreements with the upcoming administrations in order to operate with impunity.</u> Local players are especially vulnerable as they hold power at the territorial level. Given the weakness of the rule of law, the 2023 elections and the start of the 2024 electoral process increase the probability of political and electoral violence against political players and public officials. This may worsen public insecurity and government inefficiency.</p>	Very High
 <p>3. <u>Trade tensions with the US and Canada due to various disputes within the USMCA framework leads to legal uncertainty,</u> particularly due to the energy policy and the ban on transgenic corn import. If dispute panels are installed in 2023, Mexico would have a high probability of losing on both issues, something that would result in damage and risks for private investment.</p>	High






¹ Occurrence probability of levels: low, medium, high and very high.

Risk	Probability of occurrence ¹
 <p>4. <u>The regional hegemony of the majority party sharpens with the electoral victory in at least one of the two states in dispute,</u> something that increases the risk of concentration of power and government inefficiency.</p>	High
 <p>5. <u>President López Obrador keeps promoting the militarization of civilian tasks and responsibilities, which increases the government’s reliance on the Armed Forces and further fosters their political and economic empowerment.</u> We expect the military will to have more influence on political-administrative decision-making, which increases the prevalence of corruption, and the imbalance in the civil-military relationship.</p>	High
 <p>6. <u>In the final two years of the administration, the perception and occurrence of corruption will rise, as well as the omission to strengthen institutional capacities to combat it,</u> something that increases the risks of legal uncertainty and government inefficiency. Likewise, impunity due to the lack of criminal penalties causes illegal practices to be recurrent.</p>	High
 <p>7. <u>The anticipated pre-campaign acts of the Morena candidates for the presidency of the Republic will intensify</u> with self-promotions outside the legal framework and massive events, generating: a) legal uncertainty due to the lack of compliance with electoral regulations; b) reputational attacks directed towards the National Electoral Institute c) internal divisions in Morena. As for the opposition, we anticipate that their selection processes may contribute to increased polarization.</p>	High
 <p>8. <u>The federal Executive continues to attack the Federal Judiciary</u> in order to ensure that laws, decrees, and policies of questionable constitutionality that are key to the president are not revoked. Relevant issues include the electoral reform, militarization, “austerity” policies, the teachers’ union case, among others. The recent designation of Norma Piña as president of the Supreme Court is likely to increase this risk.</p>	Medium
 <p>9. <u>A recession in the US increases the risk of economic downturn in Mexico that could lead to further radicalization by the president.</u> The effects of a recession will be reflected in Mexico’s export sector and in the remittances sent to the country. Given this scenario, the federal government will have little room for maneuver to reduce the impact due to the little fiscal space it has.</p>	Medium

Risk	Probability of occurrence ¹
 <p>10. Public finances become more vulnerable as the sexenio nears its final due to: a) revenue lower than estimated due to a slower rate of growth, b) the increase in the costs of the president’s flagship infrastructure projects and the pressure to complete them on time, c) the expansion of priority social programs, and d) additional support for Pemex and CFE.</p>	<p>Medium</p>

Other relevant topics for 2023

	<p>Clashes between criminal groups and the armed forces are on the rise, increasing the economic and social costs of violence.</p>	<p>In 2022, there was a greater number of clashes between criminal groups and the Armed Forces, which led to riots and direct attacks against the civilian population. Given the intensification of the criminal conflict in several regions of the country, it is highly probable that the clashes and their social consequences will increase in 2023. Only in the first week of January, operations to arrest criminal leaders in Ciudad Juárez and Culiacán resulted in executions of soldiers, policemen, suspected criminals, and attacks on the population. In this context, an upturn in intentional homicides, and an upward trend in other high-impact crimes such as extortion, drug dealing, or femicides in 2023 are not ruled out.</p>
	<p>Attacks on organizations independent from the Executive Power are more intense.</p>	<p>In line with the discursive radicalization of President López Obrador, who seeks to exacerbate polarization and delegitimize his counterweights towards the 2024 election, it is foreseeable that the ruling party will redouble its rhetorical attacks against autonomous institutions such as the INE, the Cofece, the IFT, the INAI, the CRE, the CNH and even the UNAM. In the cases of organizations that will change management positions (notably, the UNAM, which will elect a new dean, and the INE, four counselors), the ruling party will seek to influence the appointments of related profiles, thereby increasing the risk of concentration of power.</p>
	<p>Mexico does not fully take advantage of the nearshoring opportunity.</p>	<p>Mexico has a wide comparative advantage to become the preferred transfer destination for some companies that have operated for decades in Asia, especially due to its proximity to the United States and its membership in the USMCA. 2023 will be the key year for Mexico to decide between maintaining or changing its current route to take advantage of nearshoring. The risk is that this opportunity will continue to be wasted since, coupled with a business climate surrounded by legal uncertainty, the country faces important challenges that may prevent the consolidation of nearshoring: violence, scarcity of water, lack of constant supply and insufficient electricity, as well as the lack of infrastructure and skilled labor.</p>

	<p>Unexpected legislative proposals</p>	<p>Although AMLO has stated that his legislative agenda would conclude with the electoral reform (after reforms on electricity and the National Guard were passed), surprises cannot be ruled out, such as the initiative on cabotage, changes to the powers of The Federal Economic Competition Commission (COFECE, per its Spanish acronym) or fiscal modifications in secondary laws. This risk will be more latent than in previous years, since the incentives to approve politically attractive reforms will be greater as the end of the six-year term approaches. Additionally, the president has proven the effectiveness of the formula of modifying constitutional matters through amendments to secondary laws and applying the new provision while the Judiciary decides. In addition, the polarization towards the end of the six-year term increases the risk of strident initiatives by Morena legislators.</p>
	<p>Water crisis triggers more attacks on companies</p>	<p>In the dry season, the president will increase his attacks against several industries with water licenses through reputational attacks, the issuance of decrees that limit their operation, the cancellation of licenses, and/or amendments to the legal or regulatory framework.</p>
	<p>Labor disputes and union activism</p>	<p>There are 500,000 collective labor agreements (CLA) in Mexico that must be legalized no later than May. As of November 2022, only 9,237 had been legalized (less than 1%). It is expected that more than 90% of CLAs will not be legalized. This possibility (coupled with the non-existence of unionization in many cases) empowers workers to organize and negotiate a new CLA with their companies. This could impact labor relations as new leadership and independent unions may emerge. Depending on the turn of the industry (especially manufacturing), the case could reach international instances, as it has already happened.</p>
	<p>The factious use of law enforcement agencies continues.</p>	<p>It is foreseeable that the practices of selective justice and attacks against “big shots” will continue, since political profitability will be sought to discredit opposition parties and figures, especially in the context of the 2023 and 2024 elections. After four years of government, there has been no move towards a Public Prosecutor’s Office autonomous from the Executive Branch, so we anticipate that the political persecutions and processes that violate human rights will continue. Likewise, the lag in the resolution of relevant files (even inherited from 2018) will continue, but which are not politically profitable.</p>
	<p>Poor provision of health services continues</p>	<p>It will be the first year for the IMSS-Bienestar as the main care institution for the population without social security. Some problems are anticipated: 1) limited budget; 2) poor coordination with the state health ministries, since the roles are not clearly defined; 3) limited care to highly specialized diseases, since it focuses primarily on prevention and primary care; and 4) a more limited list of services and medications than that of the IMSS or ISSSTE. Likewise, the federal government announced a biannual purchase of medicines 2023-2024, in order to reduce supply problems. However, the process has delays and only covers a part of the sector needs. It is foreseeable that the shortage problems and protests from patients will continue.</p>

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High inflation and a weak Banxico

After Mexico faced the highest inflation levels in the last two decades in 2022, this year the rise in prices will remain outside Banxico's target level. Domestic inflationary pressures caused by government decisions –a strong increase in the minimum wage, an increase in controlled prices and a high deficit– will test the reaction capacity of the Central Bank, in a context in which the president will seek to ensure that the restrictive monetary policy does not affect the economic growth.



The president's health

Andrés Manuel López Obrador is the oldest president the country has had since 1913. The information about his (vulnerable) physical condition released in 2022 is worthy of attention. In the event of the incapacity or absolute absence of the president, power gaps and internal struggles could occur in Morena, despite the fact that the Constitution provides for the replacement process.





Evolution of political risk in Mexico 2018-2022

Based on an analytical model, Integralia timely follows-up the development of political risk in Mexico, which refers to the actions, decisions, or omissions of the government(s) that may adversely impact the expected return of investors, the profitability of companies and/or the democratic stability of the State. This analytical model is based on six risk factors: government inefficiency, concentration of power, legal uncertainty, public insecurity, social unrest, and economic deterioration.

Four years after López Obrador's administration started, Integralia considers that the levels of risk of concentration of power, legal uncertainty, government inefficiency, and economic deterioration have increased, while those of social unrest and public insecurity have remained constant.

Risk Factor	2018	2019	2020	2021	2022	2023 Trend
Centralization of power	Low	Media	High	High	High	● →
Government ineffectiveness	Media	High	High	High	High	↑ ●
Legal uncertainty	Low	Media	High	High	High	● →
Public Insecurity	High	High	High	High	High	● →

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	Social unrest	Media	Media	Media	Media	Media	
	Economic deterioration	Low	Media	High	Media	Media	

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