

# Mexico's Strong Hand Weakens Trade

By returning to resource nationalism, the Mexican state is angering its trading partners.

By Vaibhav Tandon



Economic liberalization involves free trade, deregulation and relinquishing government control over commerce. Denationalization of state-owned institutions and assets is an integral part of the strategy. It spurs foreign investments and trade, helping economies grow at a faster pace.

Many emerging markets have embraced liberalization over the past few decades, but **economic nationalism** has been on the rise in some resource-rich Latin American (LATAM)

countries. The Mexican government's attempt to redraw its energy sector for the benefit of state-run corporations is the latest move in this direction.

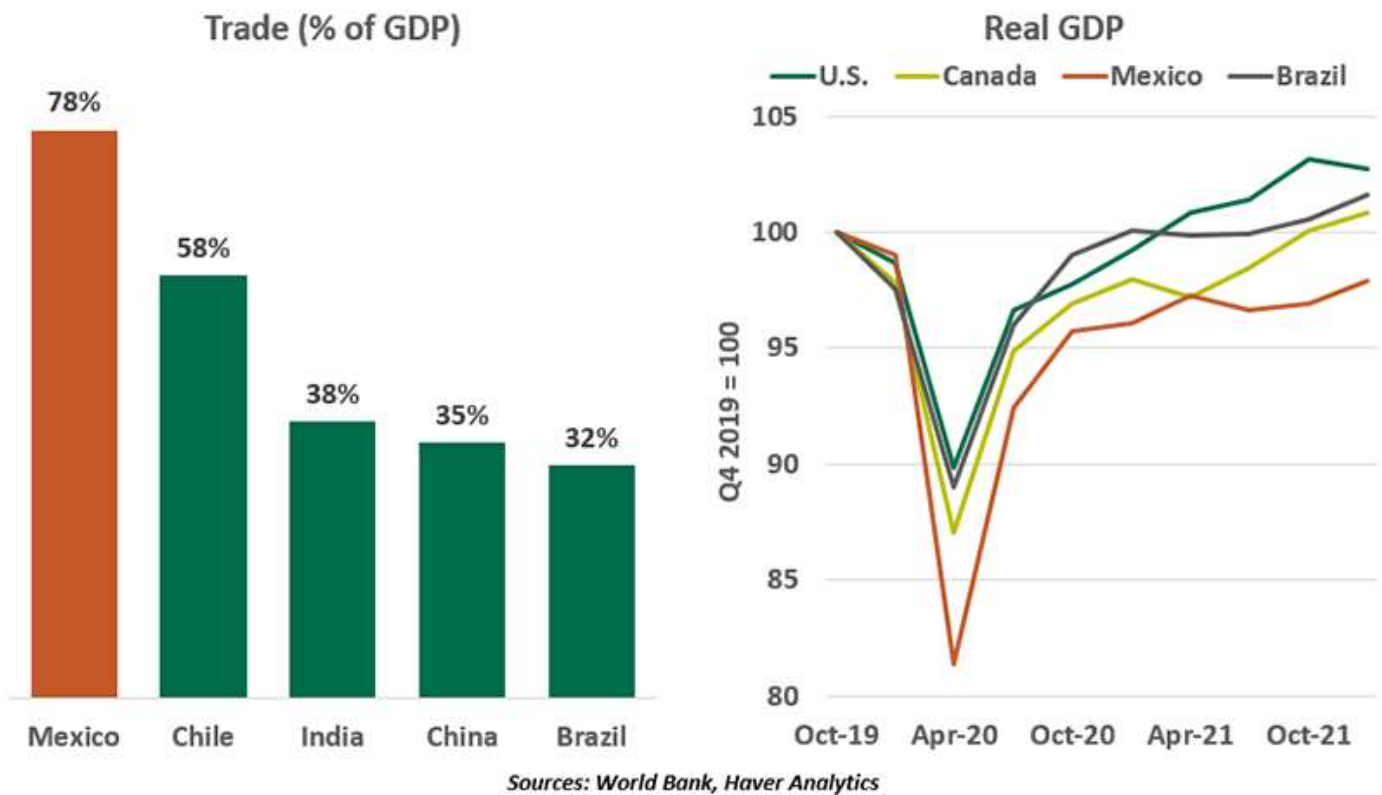
Populist president Andrés Manuel López Obrador (AMLO) has been clamping down on private operators in the nation's energy sector. A two-decade old power plant in Monterrey has been operating at half capacity after it was forcibly shut down by the government last January. The government closed three foreign-owned fuel import terminals last year, appropriated a major American oil discovery, and is trying to annul the license of a large Japanese-owned wind farm. The push to reinstate the domination of state-run fossil fuel operations will have consequences for trade, climate, competitiveness and cooperation between Mexico and its neighboring states.

In the decades prior to COVID-19, Mexico had evolved into one of the most open and globalized economies of the world, signing free-trade agreements with 50 nations. But the country is now at odds with its top trade partners. Favoring domestic firms over foreign firms is seen as a violation of trade treaties, including the United States–Mexico–Canada Agreement. Because trade represents 78% of Mexico's gross domestic product (GDP), any retaliatory counter measures from its trading partners will prove to be very expensive for the Mexican economy.

The government has drawn the ire of the private sector and of the U.S. administration amid an already delicate commercial environment. Foreign direct investment flows to Mexico are substantial and have played a vital role in economic development since the 1990s.

Nationalization will prevent firms from doing business in Mexico due to the fear of losing assets without compensation. According to the U.S. trade representative, about \$10 billion worth of American investments alone are at risk.

*Mexico's resource nationalism is another example of the retreat from the rules-based global order.*



Moreover, Mexican firms and consumers are being forced to rely on inefficient and more expensive state-provided power. According to a [study](#), prioritizing generation from state-owned power plants would increase electricity production costs by 32-54%. This would make Mexico less competitive for companies and investors looking to reshore or diversify their supply chains away from China.

Most of Mexico's clean energy is produced by the private sector, thanks to reforms implemented by the previous administration. But the preference given to the state-owned Federal Electricity Commission, which primarily generates power from fossil fuel, suggests that carbon-intensive energy will continue to maintain dominance over renewable sources. This would jeopardize investments and climate goals of multinationals operating in Mexico. According to Bloomberg, over \$22 billion of foreign-owned renewable-energy projects are at risk.

The Mexican economy has struggled under AMLO's tenure. It was the only major economy that didn't stimulate activity or provide cushion to struggling businesses at the peak of the pandemic. The Mexican government spent less than 1% of its GDP as direct stimulus (the U.S., by contrast, spent more than 25% of GDP). As a result, Mexico is among the few countries in the region whose output hasn't returned to pre-pandemic levels.

By returning to nationalism, AMLO has made matters worse. The international credibility of the Mexican state, hard-earned over recent decades, has been deeply damaged. Reputation takes a lifetime to build, but often requires only one misstep to destroy.

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