What AMLO Infrastructure Will Do to Mexico

Public-Private Partnerships Need Big Deficits for Embattled Regime

Around 100,000 SMEs have shut down, which means over 1 million jobs destroyed. (Canva)

On November 30, Mexican President Andrés Manuel López Obrador (AMLO) announced a US$11 billion investment program that includes 29 projects in infrastructure and energy.

This is the second of such government stimulus to boost the economy amid the COVID-19 pandemic. The first one came out in October, and Carlos Salazar, president of the Business Coordination Council, has said a third one is in the pipeline.

How do these public-private partnerships contribute to the Mexican economy?

So far, the Mexican government and the private sector have agreed to partner in 68 projects through concessions, permits, or joint ventures. Worth around $25 billion, these partnerships account for 2.3 percent of Mexico's GDP, the highest infrastructure investment in recent times.

The involved private companies have committed to securing at least 50 percent of the funding for the projects, and the government has cut red tape so that investors can funnel those funds.

According to Salazar, both investment packages will create 400,000 jobs. If completed, the infrastructure and energy projects could bolster Mexico's industrial activity and trade. Although the AMLO administration claims these projects will not increase the public debt, it remains to be seen how the government will raise the remaining funds.

Which are the investment program's projects?

Most projects are in the energy, roads, and sanitation sectors. A major one heralded by the AMLO administration is the construction of a $2.2 billion liquified natural gas (LGN) plant in Mexico's northwest by IEnova, the Mexican branch of the US firm Sempra Energy.

The program also includes eight roads to connect the new Felipe Ángeles International Airport (AIFA) and transportation facilities for industrial and trade sectors.

Mexico's Electricity Federal Commission (CFE) has a stake in seven of the 29 projects.

Project	Estimated Investment (US$)	Starting Date
Naucalpan-Ecatepec highway	10 billion	November 2020
Road junction to AIFA's main entrance	75 million	December 2020
Southern roads in the state of Mexico	770 million	December 2020
Costa Azul LNG plant	2.2 billion	January 2021
Colima beltway	135 million	January 2021
Cuapiaxtla-Cuacnopalan highway	211 million	January 2021
T-MFC logistics hub	652 million	January 2021
Brownsville-Matamoros bridge	5.4 million	February 2021
Altar-Sasabe highway	81 million	March 2021
Tecolutla Lerdo power stations	80 million	April 2021
Manufacturing plant for export	198 million	May 2021
Water supply and desalination plant in Los Cabos, state of Baja California Sur	55 million	May 2021
Water-management improvement in Los Cabos	30 million	May 2021
Internal combustion power plant in Baja California Sur	214 million	June 2021
Phase I of the internal combustion power plant Tuxpan	608 million	June 2021
Modernization of the Centinela-La Rumorosa highway	21 million	June 2021
Modernization of the San Miguel bridge and Los Mochis Topolobampo beltway	164 million	June 2021
Transisthmian gas pipeline	452 million	July 2021
Tultepec-Santiago Tolman highway	434 million	August 2021
Internal combustion power plant González Ortega	536 million	August 2021
Internal combustion power plant Mérida	361 million	August 2021
Internal combustion power plant San Luis Río Colorado	537 million	August 2021

Internal combustion power plant Valladolid	668 million	August 2021
La Gloria-Colombia highway	179 million	September 2021
Orizaba-Cd. Mendoza beltway	185 million	October 2021
La Piedad-La Barca highway	160 million	November 2021
Silao-San Miguel de Allende highway	259 million	December 2021
Interserrana highway	951 million	December 2021
US border connection for the Samalayuca-San Jerónimo beltway	35 million	December 2021

Source: *Economía Hoy*.

What has been the pandemic's economic toll in Mexico?

The lockdowns have reduced Mexico's GDP by 17 percent in the second quarter of 2020. In the third quarter, the GDP recovered 12.1 percent, but the year-on-year growth fell by 8.6 percent.

According to the Mexican Entrepreneurs Association, the pandemic has impacted eight out of 10 small and medium enterprises (SMEs). Around 100,000 SMEs have shut down, which means over 1 million jobs destroyed.

SMEs account for 95 percent of all Mexican companies, employ 78 percent of the workforce, and contribute 52 percent of GDP.

México Evalúa, a public policy watchdog, argues that rather than more helicopter money to citizens and businesses, SMEs need the government to dismantle regulatory hurdles holding back growth and competition. It also notes that state-run firms such as Pemex and CFE, which are heavily involved in the investment program, have chronically been in the red and cannot guarantee the projects will be delivered on time and on budget.

In addition, the Mexican central bank has forecasted the country will return to pre-pandemic productivity levels only in 2022. The United Nations Economic Commission for Latin America and the Caribbean expects poverty to increase by 7 percent in Mexico this year, highlighting that serious challenges lie ahead for the Mexican government in 2021. Managing several infrastructure projects across the country with different stakeholders will put a strain on officials at all levels.

Are there any risks that can compromise the projects?

- A lower tax collection in 2021 could lead the government to resort to public debt to finance these projects. If the government deficit widens as a result, Mexico could lose its investment grade and see its fundraising costs rise.

- In the same vein, a slower post-pandemic economic recovery could stall the investments as the private companies have less capital to invest. Furthermore, a sluggish economy cannot utilize the new infrastructure at its full potential.

- A slower recovery in the United States could also impact Mexico, its main trade partner, weakening the resilience of both the public and private sectors.

- According to Fitch Ratings, the main risks of these public-private partnerships lie at the state and local levels. Local officials should harmonize regulations with the federal government to increase confidence with investors.
- A mandatory requirement is to obtain the approval of local communities affected directly or indirectly by the projects. An opposition agitated by activists or politicians could halt development even at late stages.
- Mexican markets remain highly regulated. The gasoline and cargo transport markets, for instance, must deal with federal and local red tape that are not going away despite higher investments.

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