

MEXICO: AMLO stance on trade dispute signals turbulence ahead

President Andres Manuel Lopez Obrador (AMLO) seems intent on exploiting a trade dispute with the US and Canada to stir up nationalist sentiment. While there has been speculation locally that AMLO could even be considering withdrawing from the United States-Mexico-Canada Agreement (USMCA), Mexico's exit is unlikely. However, AMLO's belligerence will only worsen already-fragile investor and business confidence, while entangling bilateral relations with the US and complicating trade.

AMLO announced earlier this week that he had sent a letter to his US counterpart Joe Biden putting forward his defense of Mexican sovereignty. This follows the announcement on 20 July that the US has filed a request for a dispute settlement process under the USMCA. Canada is submitting a similar request. The dispute relates to aspects of Mexican energy policy including grid dispatch rules that benefit the state-run CFE electricity utility; inaction, delays, and revocations of energy-related licenses for US companies; unfair emissions standards; and attempts to modify regulations governing the use of natural gas pipelines. In essence, Mexico is accused of violating the USMCA by restricting competition from private companies as AMLO tries to reconstitute former state monopolies.

The parties have 75 days from the date of the launch of the process to resolve the issue. If the dispute has not been resolved in this timeframe (i.e. by early October), then the complainant can request a formal dispute panel be set up. To judge from AMLO's hostile response, as well as the fact that the complaint touches on AMLO's deepest held convictions about the CFE and state-run oil company Pemex, a quick resolution looks unlikely. AMLO has said that he will provide a full response on 16 September (when Mexico's independence is celebrated). This is likely to involve more of the same from AMLO: appeals to patriotism, a strident defense of Mexican sovereignty, and general scapegoating of the US, as well as attacks on domestic opponents for being in thrall to US interests.

AMLO is calculating that wrapping himself in the flag (and presenting this dispute as one over oil rather than the power market) will reap political dividends among an electorate that is always susceptible to nationalist rhetoric. Gubernatorial elections in the state of Mexico represent AMLO's immediate electoral goal, though these are the curtain-raiser for the main event: the 2024 presidential election, which AMLO wants to control as much as possible even if he himself will not be able to participate as a candidate.

AMLO's electoral objectives provide one of the main reasons why Mexico's withdrawal from the USMCA is not on the cards – the economic costs of disrupting trade with its main commercial partner would be extreme. The more relevant question is whether AMLO has considered the costs of a defeat in an eventual dispute settlement process. AMLO may be betting that he can convert a defeat into a victory by presenting his government as the plucky underdog while blaming his energy policy failings as the fault of the US and its allies in the traditional political parties. The problem is that AMLO's strategy is solidifying a toxic combination of policy radicalization, regulatory uncertainty, domestic legal challenges – and

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now international trade litigation and the threat of trade tariffs – which will further stifle growth and keep investor wariness elevated.

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