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FEATURED Q&A

Would Government Decentralization Benefit Mexico?



Andrés Manuel López Obrador, who takes office as Mexico's president on Dec. 1, wants to move dozens of government agencies out of Mexico City (pictured above). // File Photo: Lidia Lopez via Creative Commons.

Q Mexican President-elect Andrés Manuel López Obrador announced earlier this year that he plans to move as many as 31 government agencies out of Mexico City to spread civil service job opportunities to smaller cities across the country and decentralize the federal government, a move that could prompt some 2.7 million people to leave the metropolitan area, according to *El Universal*. Is López Obrador's decentralization plan logistically and financially viable? What advantages and disadvantages does it have? What unintended consequences could the move have on workers, the domestic economy and urban planning more broadly?

A José Fernández Santillán, political analyst and professor and researcher at Tecnológico de Monterrey: "Mexican President-elect Andrés Manuel López Obrador's proposed plan to decentralize the federal government is based on the idea of decongesting the population concentration in Mexico's metropolitan area surrounding Mexico City, where approximately 22 million people live. The problem is that the measure will cost 147 billion pesos, or almost \$7 billion. López Obrador has said that when he takes office on Dec. 1 he will begin applying what he calls 'republican austerity,' which implies reducing public workers' salaries, dismissing staff and canceling public programs, including the huge airport infrastructure project in Mexico City. As a result, it seems incongruent to carry out an expensive decentralization plan that contrasts with his 'republican austerity.' It's a contradiction. What the French did to decongest Paris, for example, was 'urban furnishing.' They made French cities more attractive for the population, so that individuals

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TODAY'S NEWS

POLITICAL

Nicaragua Frees 37 Detained Ahead of Protest

Authorities in the Central American country freed nearly all of the protesters who were detained a day before, ahead of a planned anti-government demonstration.

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BUSINESS

Latin America Helps Fuel Citi's Earnings in Q3

Strong growth in consumer banking revenue in Latin America helped fuel the New York-based financial services company's earnings in the third quarter. The sale of a Citibanamex asset management unit in Mexico boosted the company's gains.

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ECONOMIC

Bolsonaro Eyes Revisions to Oil Contract Model

Jair Bolsonaro, the front-runner in Brazil's presidential race, may revise the country's production-sharing model for oil contracts if he is elected president, Valor Econômico reported.

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Bolsonaro // File Photo: Bolsonaro Campaign.

POLITICAL NEWS

Nicaragua Releases 37 Detained Ahead of Planned Protest

Nicaraguan authorities on Monday released almost all the protesters who were detained a day earlier ahead of a planned anti-government demonstration in Managua, *El Nuevo Diario* reported. Thirty-eight people were arrested Sunday for organizing and participating in what police called an illegal protest, which was canceled after the arrests, and for allegedly

“They keep calling for marches not for peace, but for blood, that’s what they want, they want blood.”

— Daniel Ortega

“disturbing the peace.” The release of 37 of the 38 detainees followed international criticism. On Sunday, the Inter-American Commission on Human Rights, or IACHR, said on Twitter it was profoundly concerned with the arrests and called on the Nicaraguan government to respect individuals’ right to social protest. A day earlier, Nicaraguan President Daniel Ortega criticized the planned demonstration in a speech to supporters. “They keep calling for marches not for peace, but for blood, that’s what they want, they want blood,” he said, *Reuters* reported. More than 300 people have been killed in anti-Ortega protests since they first started in April, according to local human rights groups. The government says only 198 people have died and blames the deaths on an alleged failed coup, Nicaragua’s vice foreign minister, Valdrack Jaentschke, said at an event at the Inter-American Dialogue last month. The U.N. Human Rights Commission has said Ortega has committed human rights violations and his government has failed to stop armed mobs from abducting, torturing and sexually assaulting protesters.

ECONOMIC NEWS

Bolsonaro Considers Revising Oil Contract Model: Report

Far-right Brazilian presidential candidate Jair Bolsonaro, the front-runner ahead of the country’s Oct. 28 runoff, is considering revisions to Brazil’s model of production-sharing contracts in its pre-salt oil fields, *Valor Econômico* reported Monday, citing unnamed sources within his campaign. The newspaper did not specify how Bolsonaro might revise the production-sharing model if elected president, but campaign sources said the changes would be part of an effort to fight political abuses that occurred during previous presidential administrations. Bolsonaro, who has been considering major changes to the country’s state-run companies, also may end overseas financing by BNDES, Brazil’s state-run development bank, the newspaper reported. Bolsonaro has long voiced support for state control of assets such as government-run oil company Petrobras and power provider Eletrobras. However, he has recently become more of an advocate for privatizing assets, in accordance with the views of some of his key advisors, *Reuters* reported. However, other advisors to Bolsonaro, including some military generals, have advocated maintaining state control of assets, such as Petrobras, that they see as strategic. Bolsonaro’s campaign did not respond to a request by the wire service for comment. Brazil’s leftist Workers’ Party created the production-sharing model for the pre-salt oil fields, and the model underwent revisions by the current government of President Michel Temer. In recent auctions, the model has attracted oil majors including ExxonMobil, Chevron, Repsol, BP and Royal Dutch Shell. In an Ibope poll published Monday, Bolsonaro maintained a commanding lead over his rival, Fernando Haddad of the Workers’ Party. The survey showed Bolsonaro with 59 percent support, leading Haddad, who had 41 percent. [Editor’s note: See Q&As on Brazil’s presidential election in the [Oct. 9](#) and [Oct. 10](#) issues of the Advisor.]

NEWS BRIEFS

IMF to Reopen Office in Argentina

The International Monetary Fund said Monday it will reopen an office in Argentina, six years after closing it, *Agence France-Presse* reported. Economist Trevor Alleyne was appointed to represent the Fund in Buenos Aires. The announcement comes several weeks after the international lender reached a deal with the Argentine government to speed up the payment of a \$57.1 billion standby loan. [Editor’s Note: See related [Q&A](#) in Monday’s issue of the Advisor.]

Honduran Migrants Heading to U.S. Push Into Guatemala

A group of between 1,600 and 2,000 Honduran migrants heading to the United States entered Guatemala on Monday, defying a Guatemalan government order barring their entry and pushing past government police sent to stop them at the border, the *Associated Press* reported. The migrants then spent the night in the eastern Guatemalan city of Esquipulas. Mexico’s immigration authority issued a warning to the group, saying only those who met migration requirements would be allowed to enter.

BHP Billiton to Nearly Double Stake in Ecuador Copper Project

Anglo-Australian mining company BHP Billiton is set to nearly double its stake in SolGold, the exploration company that says it has made a major copper discovery in Ecuador, the *Financial Times* reported today. BHP announced today that it had made a subscription agreement with the London-listed exploration company to buy 100 million shares at a price of 45 pence apiece, a premium of nearly 30 percent to their closing price on Monday. The deal will raise BHP’s stake in SolGold to 11.2 percent from its previous level of 6 percent.

BUSINESS NEWS

Latin America Revenues Help Fuel Citi's Earnings in Q3

Citigroup last week reported a better-than-expected profit for the third quarter, boosted by a strong growth of its consumer banking revenue in Latin America. The U.S.-based banking company in an Oct. 12 statement said its quarterly net income was \$4.6 billion on revenues of \$18.4 billion in the July-to-September period, as compared to a net income of \$4.1 billion on unchanged revenues a year earlier. Consumer



Corbat // File Photo: Citigroup.

banking revenue in Latin America rose 20 percent to \$1.7 billion, driven by a gain on the sale of a Citibanamex asset management business in Mexico for \$250 million, which closed last month, Citywire reported. Excluding that sale, Citi's revenue in the region grew by 8 percent, bolstering total global consumer banking revenue by 3 percent on a constant currency basis, according to the bank. In the group's earnings call, Citi Chief Executive Mike Corbat said he expects the Mexican business to keep growing, adding the bank would be watching President-Elect Andrés Manuel López Obrador's fiscal discipline, Citywire reported. Citi had expected total fixed income and trading revenue to remain steady and investment banking revenue to slightly drop. Earnings per share increased from \$1.42 in the same quarter last year to \$1.73, higher than what analysts had forecast. According to data from Refinitiv, experts had estimated earnings per share would jump to just \$1.69, Reuters reported.

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would move there voluntarily. But López Obrador has no preparation plan. To cite just one case, how can Ciudad del Carmen, a small village in Campeche State, host an enormous company such as Pemex? And there are many more cases like this one. López Obrador has proceeded in an authoritarian manner and without any reflection. This shows his inability and lack of common sense. His decentralization plan is destined to fail."

A Manuel Ordorica Mellado, actuary, demographer and coordinator of the demography master's program at Colegio de

México: "Mexico has a strong population concentration in the Mexico City metropolitan area, with more than 22 million people living in a territory of 7.9 square kilometers. Nearly one-fifth of the country's population lives in 0.4 percent of the territory, with 80 percent of the country's three million federal public workers living there. There are 23 million commutes a day, without counting pedestrians. Decentralization will reactivate the economy of the cities hosting state secretariats, driving state development more equitably. The places where the office headquarters will move were chosen based on each city's potential abilities. To complement decentralization, we must boost development in poor regions, which drive people away, especially in the south of Mexico, and reorient the population toward borders and coasts where resources, especially water, are located. One successful example is the case of the decentralization of Mexico's National Institute of Statistics and Geography, or INEGI, to the city of Aguascalientes in 1986. The move was difficult, especially while work continued, but it was achieved. Decentralization would cost nearly \$8 billion. This represents just 0.6 percent of this year's GDP. The cost is high, but it would be spent gradually. The private sector could participate once the project takes off and help consolidate the program. Secretariats

should be upgraded for better communication. This program is historic, and if López Obrador promotes the plan, it will succeed."

A Kristobal Meléndez Aguilar, analyst at Centro de Investigación Económica y Presupuestaria (CIEP) in Mexico:

"The decentralization of secretariats and main government headquarters that are currently in the capital to other states implies a strategy with long-term vision, because it would generate higher economic, social, political, labor and opportunity equality across the country. The project is financially viable because the resources that are destined to personal services and renting buildings will be distributed geographically in recipient states, without necessarily implying a high increase in budget expenses. The measures would not only benefit federal entities with more

“The measures would not only benefit federal entities with more resources, but would also benefit businesses in the recipient cities...”

— Kristobal Meléndez Aguilar

resources, but would also benefit businesses in the recipient cities, which would have better chances of winning tenders. Moreover, indirect business, including construction, retail and restaurants, would be more dynamic. These economic conditions would boost state economic growth and higher job creation, which would imply, as well, that state governments will be able to collect more in tax revenue. Decentralization would be gradual, beginning with high-level officials who could be named to new locations. Other workers can then move depending on their personal interests. It could even be an optional move for the worker, with alternative,

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temporary headquarters. Mexico City would see effects in its economy, in a general manner, as hundreds of thousands of people would move away. However, in a per-capita analysis, perhaps quality of life would increase, with less pollution, less traffic and more availability of resources such as water, which is beginning to become scarce.”

A Manuel Baltazar, general director of México Fiscal: “Is decentralization logistically and financially viable? In the short term, no. Every case that mobilizes entire families to very small cities and requires the creation of urban and transportation infrastructure as well as offices to receive them, which needs state participation, will take time, money and effort. For this reason, this process would take a long time, especially at first during the construction of roads, housing and other service infrastructure, adding to the cost of families relocating to a new residence. Among its advantages, the plan would create an economic movement which would require better training and education, overall improving the current situation of small provinces. Among its disadvantages is accommodation. For example, with previous administrations having already proposed the possibility of standardizing health systems where the Mexican Social Security Institute

(IMSS), the Institute for Social Security and Services for State Workers (ISSSTE) and the Health Ministry would merge, with the decentralization plan they would be separat-

“ This process would take a long time, especially at first during the construction of roads, housing and other service infrastructure...”

– Manuel Baltazar

ed as they move to Michoacán, Colima and Guerrero, respectively. This makes one think that the integration of several institutions into one is perhaps something that the president-elect is not considering. What unforeseen consequences might the plan have? Human behavior is most difficult to predict. Numbers and statistics—those are simple and at times inaccurate. We will have to invest a lot of time, money, effort and patience.”

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