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## Investors shouldn't be worried about Mexico's week from hell



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Thought you had a bad week last week? Spare a thought for Mexican president Enrique Peña Nieto. His week began with the humiliating jailbreak of Joaquín Guzmán, AKA 'El Chapo', Mexico's most notorious drug lord. Then on Wednesday his much-trumpeted energy reform debuted with an underwhelming oil auction that failed to achieve the expected number or value of bids.

Peña Nieto was already suffering from poor approval ratings. And these two latest episodes have given more ammunition to his critics. But he's not the only one that suffers. Both of these events made international headlines, casting Mexico in a poor light.

A lot of analysts – and Mexicans – felt that the week summed up the country's major problems. Namely the state's inability to stop organised crime, and the failure of the reforms to boost the economy.

Long-term *New World* readers will know that I am a big fan of Mexico, and that I'm especially excited by the opportunities offered by energy reform. So today I want to explain why I'm not too worried about the bad news coming out of Mexico.

### Mexico has a long and difficult history

When I wrote [my first piece about Mexico](#), back in 2012, I highlighted its security problems as one of the major challenges facing the country. To be fair, that didn't take much insight on my part. The frequent gory deaths in certain parts of the country are a constant and tragic reminder that Mexico is suffering from a brutal drug war.

The violence is between rival cartels battling for control of the lucrative drug routes between South America and the massive market of the USA. And as I said three years ago, any long-term solution to that will require new policies in the US.

Most Mexicans aren't directly affected by the drug war, as the violence takes place in certain strategic towns, mostly to the north of the country. Yet the presence of these powerful drug smuggling organisations has a pernicious wider effect of corruption and impunity. These gangs use a mixture of intimidation and bribes to get their way. And this erodes the power of the state.

And that's why Guzmán's escape has upset so many. Guzmán, whose billion-dollar fortune earned him a place in the *Forbes Rich List*, had already escaped from prison in 2007. When he was recaptured last year, it was touted as a sign that the Mexican state was able to deliver justice to even the most important crime bosses. So the fact that he was brazenly able to escape from Mexico's most secure prison, undermines that narrative.

And while the escape was sophisticated – it used a 1.5km tunnel with lights, ventilation and a motorbike on rails – it's clear that it also involved plenty of old-fashioned



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corruption. This prompts the question, if corruption can free Mexico's most wanted prisoner, is any institution there clean?



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## The oil auction might have 'failed' but it offers hope

Actually, there are clean institutions in Mexico. And that's why, unlike most analysts, I was encouraged by the recent 'failed oil auction'. Because, regardless of the amount of bids or amounts spent, it was a completely transparent process. As Gustavo Mohar from Mexico-focused risk consultancy Atalaya points out, the Mexican government bodies in charge of implementing the reform have acted with "a combination of Germanic efficiency and Scandinavian transparency".

"All the meetings between firms and the National Commission for Hydrocarbons (the sector's regulator) were videotaped and their minutes published online. The meetings could not take place unless two commissioners were present at any given time.

"The auction itself was almost pious in its emphasis of transparency. Not only was the entire process broadcast live (an almost five-hour long marathon), but even the desks on which the envelopes containing the bids were placed were made out of perfectly see-through glass."

I spent a few months in Mexico last year, researching a report into the energy reform. The business leaders I spoke to were excited about it, but your 'everyday Mexican' was far more cautious. The common line of thought was: "this is just another way for the corrupt elite to get more money from the country". But this reform has proved them wrong. It failed because the governments had very high expectations and requirements for fields that obviously weren't that valued by the private sector. But the most important thing is that the process was clean and transparent.

This round of the auction was won by a consortium of British, American and Mexican firms, including FTSE250-listed Premier Oil. They were the only winners, snapping up two of the 14 shallow water bocks on offer.

With the next rounds, we will see the government tweak the requirements to attract more interest. We'll also see more attractive oil plays being put up for auction. And as Mexico's hundred-billion barrel oil sale goes on, we will find more ways to invest in it.

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