

Mexico's Election: Fears are overblown, but significant changes for business are coming

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The election of Andrés Manuel López Obrador (AMLO) as president is significant to businesses for a number of reasons.

- His share of the vote (53%) was larger than expected and his Morena party won a working majority in both houses of Congress, giving him the strongest leadership mandate in a generation. This will enable AMLO to push through his policy priorities.
- This was a wave and change election: AMLO's victory humbled the PRI and PAN—the two main establishment parties—as well as the smaller PRD. They will spend years in the wilderness seeking to regroup.
- While AMLO's policy platform is not clear or coherent, key themes in his domestic agenda represent a potentially significant shift from the northern- and export-oriented economic strategy of the past 30 years. The policy priority will be combating widespread poverty and promoting equitable growth by allocating more resources to rural areas (especially in the south), boosting social subsidies, and improving infrastructure and public services.
- AMLO's objective is to pull a vast population working in low-wage jobs in the informal economy into more skills-intensive and higher-wage roles in the formal economy. If successful, this will broaden Mexico's economy and expand the middle class.

AMLO has been branded as a leftist, a populist, and an autocrat, and some view his election as an existential threat to Mexico's democracy and market-oriented and export-led development strategy. Such monikers are simplistic and dated.

- As mayor of Mexico City, AMLO proved to be largely pragmatic and he implemented a number of respected, pro-growth policies and programs, sometimes in collaboration with business elites.
- Over his long political career, AMLO has moderated his policy stances, though his colorful rhetoric has persisted. As this election approached, he toned down his critiques of NAFTA, oil field concessions, and education reforms. He also sought to court business leaders. In contrast with past elections, a number of top CEOs have stated they are not worried about AMLO harming Mexico's business and investment climate.
- AMLO will be constrained by Mexico's institutional setting. Morena does not have a supermajority required to make constitutional changes (regarding, for example, the oil industry). The party is still relatively underdeveloped at the grassroots and it does not control many states. AMLO will have one 6-year presidential term, voter expectations ►



are sky-high, and he will have to show significant progress in his first two years to sustain political momentum. Political resistance, lawlessness, and corruption will impinge on his ability to implement reforms nationwide.

- AMLO will also be constrained by budget realities. The economy is forecast to putter along at about 2.3% growth in 2018 and he will be dependent on the productive north to sustain that pace. Cutting corruption is unlikely to free up significant resources and his proposals to reallocate government spending could undermine confidence and growth in the near term (a major threat to his poorer constituency). Of note, AMLO has pledged to maintain Mexico's hard-earned reputation for fiscal prudence.
- Instead of Venezuela's Cesar Chavez, more apt analogs are Brazil's Lula da Silva and Chile's Michelle Bachelet: Some policies will be pro-growth and pro-business, while others will have notable shortcomings.

Corruption, gangs, drug cartels, and a record homicide rate (4x that in the US) also were electoral issues. Addressing these fundamental governance and growth challenges will be a slow and exacting process that is likely to disappoint.

- To improve security and rule of law in Mexico, AMLO will need to rebuild governing institutions at the same time that he attempts to sweep out corrupt officials and practices. So far he's been vague on details, other than saying that he'll start from the top down and boost economic opportunities to engage disaffected youths.
- Over the last decade, presidents from the PAN and PRI have dismantled some organized crime groups and arrested or killed a number of cartel capos. They have failed, however, to build effective police forces, especially at the local level. Mexico needs a massive investment in local policing and its not clear where the money and organizational leadership and discipline would come from.
- Expect criminal groups to continue waging intimidation campaigns.

A major renegotiation of NAFTA—as pushed by the Trump administration—is highly unlikely.

- NAFTA was not a top issue in the campaign and AMLO both railed against it and said he supported the existing agreement. The outgoing PRI leadership tried to curry favor with the Trump administration, but this strategy lead to humbling outcomes. Having seen this, AMLO will not bend over backwards to accommodate a White House that is broadly seen as anti-Mexican.
- Despite outward statements of optimism, some Mexican and Canadian officials privately concluded months ago that there may be no significant deal to be had with the White House.
- In a best-case scenario for mulitnationals, NAFTA will be sustained, perhaps with some modest revisions. In a worst case, Trump would jettison the agreement. Despite the many domestic economic costs, this would likely depress the peso which would help maintain export competitiveness while spiking a pro-AMLO nationalist wave. ▶



Business leaders are accustomed to a very stable policy environment in Mexico. While the election is unlikely to result in a broad anti-business climate, businesses should be prepared to weather near-term uncertainty and move quickly to adapt to different leadership.

- The new administration will not be inaugurated until December 1 and many of AMLO's nominees and Morena elected officials do not have established track records in policymaking, government, or business.
- The lack of clarity and inconsistencies in the AMLO/Morena agenda also foster a climate of uncertainty that will likely persist for months after the leadership change.
- The outlook for NAFTA and growth and interest rates in the US will play a major role in Mexico's near- and medium-term economic and exchange-rate trajectories. The peso fell by 10% in the April-June period—a result of election jitters, growing concerns about NAFTA, and higher interest rates in the US.
- Businesses cultivated close working relationships with PRI and PAN policymakers at the federal, state, and local levels. This produced benefits and a measure of protection against the risks of operating in Mexico. Businesses will have to scramble to forge new relationships where there is a changeover to Morena rule.
- As seen in Brazil, a concerted anti-corruption drive could expose many businesses and business leaders to legal and reputational risks. ■