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## Conference Call - Mexico elections

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The Mexican elections are just two short weeks away on July 1. Polls suggest that Andrés Manuel López Obrador, better known as AMLO and variously described as a leftist, populist nationalist and maverick, has a commanding lead.

These days we know to take polls with a pinch of salt, but it would raise a lot of eyebrows at this point were he not to win as expected. This would represent a crushing defeat for the outgoing President Enrique Peña Nieto and the ruling Institutional Revolutionary Party (PRI). It would also be a reset moment for a country bedevilled by rising levels of violence and corruption and facing a belligerent neighbour to the North.

So, which will we get, the new Chávez or the new Trump with policies as radical and populist as they are controversial, as his detractors say? Or will we get the old AMLO, the veteran politician who ran Mexico city's government for five years as a pragmatist?

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### Politics surrounding the elections

AMLO seems set for victory, what in particular should we be looking out for in the results?

Election day is two weeks away, and his victory appears to be inevitable. Voting intention polls give him between 46% and 52% of the vote. In contrast, Ricardo Anaya Cortés, the candidate of the conservative National Action Party (PAN) has only 25-30% of voting intentions and the candidate of the ruling Institutional Revolutionary Party (PRI), José Antonio Meade has between 18 to 22%. AMLO, therefore, has a significant lead that shows no signs of shrinking.

What is not so clear is what can be precisely expected of López Obrador as president. The only reference available of him in office is his mayorship of Mexico City around 15 years ago. His administration was not radical. He ran the government in a pragmatic way and catered to different constituencies that included the middle classes and business.

More recently, one of the main features of López Obrador in his bid for the presidency has been his more moderate rhetoric. On the surface, the AMLO of 2018 is not the same as the one of 2006, but inconsistencies have been frequent during the campaign and before. The belligerent López Obrador has resurfaced repeatedly, and his moderate advisors, in particular a businessman called Alfonso Romo, had to come out to clarify his statements. They assured the public that AMLO would not draw back every reform that has been carried out recently and that he would not pick a fight with business.

Traditionally, López Obrador is not the typical leftist. He is socially conservative, and human rights issues are not at the centre of his discourse. He has also said that he would not raise taxes or increase the deficit or the country's debt. At the same time, his platform entails huge amounts of public expenditure. His proposals are varied and ending corruption features prominently in them. They also include various social policies and other plans such as decentralising the federal government and cancelling some of the reforms that were carried out by Peña Nieto. These include education and energy reforms.

One of the surprises of the campaign so far is how well AMLO's National Regeneration Movement (Morena) is doing in the congressional races. This was not expected. López Obrador has long been the front runner in the polls, but in the legislative campaigns, it was not anticipated that Morena candidates would be polling at around 39%. The PAN, in contrast, only has about 21% of voting intentions and the PRI around 16%.

Based on this share of the vote, Morena would end up having more than 50% of seats in both chambers. This is quite an unexpected development and would give López Obrador greater room for manoeuvre regarding policymaking. Morena would, however, not be receiving a qualified two-thirds majority, which is what is necessary to pass constitutional amendments.

How radical López Obrador's agenda will be will also be determined by how much influence Alfonso Romo and his cabinet (which would contain mostly moderates, if AMLO appoints the individuals he has nominated) have versus the more radical Morena base. Ultimately, López Obrador is seen as a pragmatic politician. It is likely that he will look to achieve some compromise between both sides. Apart from that, AMLO's presidency will likely be very powerful as Morena will not only dominate in Congress, but also increase its presence in the states.

The main three parties that have so far dominated politics in Mexico will emerge from the elections weakened. The PRI and the Party of the Democratic Revolution (PRD), in particular, will be in danger of becoming minor players. The PRD could even disappear before the end of the administration. Even though the PAN would remain as the main opposition in a Morena administration, it will come out of the election very bruised due to internal divisions caused by Anaya's candidacy and the coalition with the PRD. To be an effective counterweight to López Obrador and Morena, the PAN will have to look inwards and fix its internal problems. Overall, we are entering a period of considerable change in Mexican politics.

### **The Economic background**

*An AMLO presidency would represent a significant economic policy change from the liberalising Peña Nieto agenda across the piece in energy, agriculture, infrastructure and NAFTA. What are the critical areas to look at and the likely consequences?*

AMLO wants to tackle two main issues -- high inequality on the one hand and the rule of law on the other. As concerns inequality, he wants to increase the real value of the minimum wage. Mexico has one of the lowest minimum wages in the region. AMLO's goal is to double it by the end of his six years in office. Ricardo Anaya has also proposed this same policy.

The other social policy that AMLO wants to implement immediately on taking power is the doubling of old-age pensions. At the moment, the pension is less than 30 US dollars per month. AMLO wants to increase it to around 55 dollars per month.

Another important part of his programme is to reduce inactivity by young people. He attributes the crime and violence in the country to the lack of opportunities for young people and wants to reduce school dropout rates, especially between the ages of 15-18. He furthermore wants to increase work participation rates, which he hopes to achieve through the more effective use of training programmes and scholarships. These two programmes are the most important ones in his agenda.

The other emphasis in López Obrador's economic programme is on inequality at the regional level. Mexico suffers from great regional disparities. The south is much poorer than the north. In the last 20 years, disparities have increased. The south is as poor as it was 25 years ago and there has been no economic progress in this region. AMLO intends to use higher investments in infrastructure to tackle this. His economic programme treats the south as a priority. He frequently mentions the lack of infrastructure in terms of schools and health facilities. He has also proposed two large economic projects in the south, a 'Maya' train route to promote tourism in the region and the establishment of a connection between the Pacific Ocean and the Gulf of Mexico.

There is discussion about how AMLO will be able to fund these initiatives. He has proposed that resources can be freed up by reducing expenses at the national level and reducing or eliminating corruption. He is however pragmatic and will likely also use private sector participation to raise funds. He has promised that in the first three years of his presidency there would be no new taxes or tax increases.

Does this agenda make him like Chavez or Trump? No, he is very pragmatic and intends to decrease regional inequalities in the country and to reduce poverty in the south. This is not necessarily a socialist agenda. He appears worried about inequality and slow growth and Mexico at the moment more or less has the same poverty rate as in 1992 in spite of growth and structural reforms.

## Challenges of the security situation

*On the campaign trail, AMLO's position on dealing with the cartels behind much of the violence has been somewhat ambiguous. What will AMLO do to deliver on his campaign promises to make Mexico not only more prosperous and honest but also more secure?*

His position on security policy has been somewhat vague, but he has pledged a dialogue and amnesty. He will no doubt face a very complex security environment. Mexico's economy has not grown over the past four decades while the number of people living in poverty has barely changed (53% in 1992 and 51% in 2016) -- a fact that, rightly or wrongly, AMLO links to the insecurity problem.

He will assume power in a context characterised by unprecedented levels of violence and with a rapidly changing and violent criminality. In January, the Peña Nieto administration deployed federal forces in states where the peak in homicides was particularly dramatic and widespread (including Tijuana, Ciudad Juárez, Cancún, Nayarit and Colima). The situation will be very problematic with the current homicide rate increasing by 18% over the last few months compared to the same period last year. The Peña Nieto administration will have seen more than 130,000 violent deaths. The violence is not only more acute but more indiscriminate, affecting more civilians and the electoral process itself.

Kofi Annan recently visited the country and after several days of talking to the president, the electoral authorities and other actors, he concluded that the violence is affecting some regions but may not affect the whole electoral process. Annan regretted that he was unable to speak to security actors and agencies and reminded political actors that they would have to come together and close ranks to bring peace back to the country.

The security situation has also affected economic sectors. The business community, with whom AMLO has had disagreements over his economic programme, has already spoken out on this issue. Coparmex at the end of May urged the Peña Nieto administration to tackle this situation in light of a 34% increase in oil theft. There has also been an increase in robberies targeting trains and rail tracks, as well as a rise in cargo theft. Some important companies have closed down distribution centres (e.g. Coca-Cola in Guerrero, a milk company in Tamaulipas and mining companies in Chihuahua).

The business community has reminded the Peña Nieto administration and given warning signs to AMLO that the violence and security crisis are affecting economic activities and thus employment. AMLO's security strategy remains vague. It tends to emphasise the impact of inequality and poverty to explain the violence and security crisis, something which is correct but also only partial. There is little that he or other actors who will likely play a role in his cabinet (Alfonso Durazo and Olga Sánchez Cordero) have offered in the way of concrete solutions.

## Critical foreign policy issues (Relationship with the United States and President Donald Trump)

*How will the relationship between Mexico and the United States play out?*

If AMLO comes to power, there will be a period when he takes office at the end of the year where foreign policy will be more clearly defined. The outgoing US ambassador Roberta Jacobson, who is a good analyst, was asked what she thought about AMLO and she responded that she simply did not know what an AMLO presidency would be like.

This seems an accurate assessment in light of the situation. Campaign presentations, past behaviour and a close examination of AMLO's advisors still do not provide a clear indication of how he will act and what choices he will make when the time comes. Partly, this is because US President Donald Trump is the large foreign policy question for him and it is difficult to determine what he will be confronted with. It is not clear how Trump will behave either. A large fraction of what López Obrador will have to do, will be to decide how to react to Trump and the things he has already set into motion.

One also has to distinguish between the short run and the long run in Mexico. Although the election in Mexico is happening on July 1, AMLO will not take office until December 1. A lot will be happening in the United States in the meantime, in particular the US midterm elections in November. Someone advising AMLO on how he should relate to Trump would likely indicate that there will be some bumps around the midterm elections and then thereafter there would be a possibility for a deal or some more defined relationship once the election outcome is clear.

There is a long list of things that are both foreign policy and intermestic issues (issues that concern both the foreign policy of Mexico and the United States). These are, for instance, migration and NAFTA (leaving it or imposing artificial sanctions over trade issues).

Up to now, AMLO's campaign strategy has entailed a positive and conciliatory stance ('peace and love') toward the United States. He has not chosen to occupy a radical nationalist space and has not attacked Trump, who has made various disparaging comments about Mexicans. He has not needed to do this as the other candidates would not have been able to express themselves in this way credibly and AMLO is the only candidate who is seen as having an authentic voice to defend Mexico.

Assuming AMLO receives about half of the vote and gets strong representation in Congress, he will have considerable discretion to choose how he will use that power. He has submitted a list of individuals whom he will appoint to his cabinet. Some of these are very experienced and moderate advisors. AMLO will however ultimately not be constrained by them and can decide whether to follow or ignore their advice or whether to replace them. He will not be strongly constrained by Mexican institutions either. It is worth remembering that he is the founder and virtually the owner of his political party. He, therefore, does not have to negotiate with 'barons' of the party as would be the case if he was a PRI or PAN candidate, for instance.

It is also important to remember that there will be nine parties in Congress. There will be scope for him to pick and choose and to build coalitions and possibly even to achieve constitutional reforms by negotiating with the small parties, which under the new rules of Congress will be considerably more independent and difficult to manage.

Coalition building will come from the presidency. Looking at AMLO's team of foreign policy advisors, their basic idea will likely be to hope that they can avoid excessive friction with the United States and to hope that Trump will see in López Obrador a fellow leader, a self-made man with whom he can cut deals rather than a traditional politician. There might be hope that key focus will be placed on US frictions with Asia for example, where the help of Mexico is needed. This is however only a hope and not a guarantee. There are not many levers in the possessions of the policy makers, and in any case, those policymakers will not know until December what position they really have in the forthcoming López Obrador administration.

## Questions

**Is it possible in these last two weeks for an anti-AMLO vote to coalesce at the last minute and if so is there any real chance for Meade or Anaya to capitalise on that?**

Polls seem to indicate that this is not the case. While polls cannot necessarily be taken as a predictor or what is going to happen, the key thing is that López Obrador's lead is huge and there is no indication of support for the other two candidates increasing or for trends to change drastically.

A lot has been made of the number of undecided voters captured in voting intention polls. This is around 20% in most polls, but these are not necessarily people who are undecided. A large part of this percentage might be individuals who simply refuse to reveal their political preferences and only a small fraction is likely truly to be undecided. Some undecided people might not be interested in political participation in general. Even if all undecided individuals were to vote against López Obrador, which is unlikely, it would still be difficult for either of the three other candidates to receive all these votes and for López Obrador not to win the presidency. It therefore still seems likely that López Obrador will win with a comfortable lead.

**Looking at the constitution of the Congress after the election, will López Obrador command a majority in Congress or will he rely on the support of some of the smaller minority parties as well as the three that are backing him? Could he get to a constitution-changing two-thirds majority in Congress that way?**

Yes, it is possible. Morena is the dominant party in his coalition. The other two parties are the Labour Party and the conservative Social Encounter Party (PES) party. Labour and the PES are minor players here. It should also be taken into account that while the Labour Party is ideologically closer to Morena as a more leftist party, the PES party has strong evangelical aspects. Therefore, in some regards, they will not agree. However, there are other smaller parties that will achieve representation in Congress, and there could also be some margin for them to form coalitions.

At the moment, the latest figures indicate that the Morena candidates have around 39% of voting intentions for both the Chambers of Deputies and the Senate. This is substantial against the second-placed PAN, which has 21% of voting intentions. According to figures from a Mitofsky poll carried out in mid-May, these figures could translate into a maximum of around 298 seats of 500 in the lower chamber and 73 out of 128 in the Senate. This would give simple majorities in both chambers to López Obrador's party. A qualified majority of two-thirds is necessary to carry out constitutional amendments. This does not seem likely to be achieved. It would mean reaching 334 votes in the lower chamber and 85 in the Senate. López Obrador will have to seek support. If there are plans to carry out constitutional amendments, cross-party support will be essential. He has been pragmatic as a politician, and if there is something that he wants to achieve, he will likely look for support wherever he can find it. He welcomes everyone under the banner of 'peace and love' and everyone is welcome into Morena. This means that the most unexpected coalitions might be formed to secure the necessary numbers to pass any particular bill.

**What are Morena candidates like in general? Do they have a consistent view, or will they be a very diverse group in the Congress?**

This is a new party, although of course building on a long trajectory, which AMLO had in the PRD. About 40% of the candidates are defectors, individuals that were already well-established politicians in their regions for a different party who then came over to join Morena. This is a relatively heterogeneous set of people. Some inside Morena are left-wing, some right-wing. There are people of every ideological description, including people who were very powerful and prominent in opposing AMLO in 2006. Morena will be a catch-all party, and the leadership of it will depend significantly on the presidency. If it is López Obrador with 50%, he will have a great deal of legitimacy.

The Mexican system works on a six-yearly cycle. López Obrador would be a one-term six-year president. Usually at the beginning of the six-year presidency, there is a rallying around the new incumbent. The incentive to join AMLO if he is going to win is very high. The price of staying with one of the defeated parties is higher than before. The new voting system in Congress, which allows a member of Congress to stand for a second term also changes the relationship. Not only AMLO has to be considered in this regard but also his cabinet, how it is coordinated and how it relates to Congress. There are signs that the cabinet leader could be Marcelo Ebrard, the former mayor of Mexico City who has been giving policy advice across the board to AMLO. In this case, the agenda might be taken in a more centre-left direction.

**Governorships elections. Does it matter how many governorships AMLO wins?**

It does matter because Morena is such a new party. It only entered the register a few years ago. Out of the nine races that will take place on July 1, Morena is leading in six. The races in which Morena is leading are southern and central states (Chiapas, Tabasco, Morelos, Puebla, Veracruz, Mexico City). Morena is also expanding its grip in areas where it was not a considerable force a few years ago. The key thing is that Morena is taking away Mexico City from the PRD, which was historically a PRD stronghold. It also shows that the PRD is suffering from an exodus of peredistas.

In the last few years more fiscal and public employment initiatives have passed down from the centre to governorships. There is something of a genuine separation of power with governors having considerable discretion. It remains to be seen how Morena governors will behave and to which extent they will create fiefdoms of their own independently from AMLO and how far they will toe the line. There is no highly structured disciplinary control once someone has been elected as governor. Governors have legal and other advantages which enable them to bargain with the president. There are 32 states in total, and while there are nine elections this year, there will be further elections every subsequent year. The remaining bastions of opposition might crumble away with time.

**Has this election raised the security threats to businesses? How is the business community likely to react if AMLO, as he may or may not have suggested, offers some sort of amnesty to the criminal groups that have been behind so much of the violence in the country?**

The election itself has not increased the security threats to the business community. The trends and the dynamics of the violence preceded the election. This is the case in terms of oil robberies that keep shifting from state to state. At the moment, Guanajuato state, which was relatively calm just a year ago, is the main state suffering from this type of crime. To the extent that AMLO reestablishes the links, communication and dialogue with the business community, the chances are good that suitable responses will be identified and implemented.

Governors and the result of the elections will undoubtedly have an impact on the security environment. The federal structure of Mexico has no doubt played a part in the security situation. AMLO has so far not identified this as a priority in terms of his security strategy but it has been clearly addressed by Anaya, who proposed a new single federal agency entrusted with a mandate to tackle organized crime exclusively, and by Meade, who proposed a single criminal federal law to unify the type of crimes which are handled differently between states and the federation. This has been a major problem in tackling crime. The decision whether a crime falls in federal or state jurisdiction has often led to paralysis, and this would be an important factor that would need to be considered.

**With regard to tackling cross-border drug trade, what can be expected of AMLO's cooperation with the United States?**

The first challenge the AMLO administration will face is a very long and protracted transition process that will take five months, which requires strong efforts to establish coordination with key security actors, including the United States.

The drug issue has been basically absent in debates during the campaign. AMLO's proposal to tackle the security situation with anti-poverty and inequality programmes faces limitations in this regard given the trends taking place right now between the United States and Mexico concerning drugs and especially Fentanyl, a new synthetic opiate setting off an unprecedented scale of criminal profits. This problem requires creative and brave answers, which are currently not sufficiently present in AMLO's proposals.

**How can the fiscal soundness of AMLO's plans be assessed? How is AMLO going to pay for the security measures he is proposing, the social welfare programmes to tackle inequality and the pension changes?**

He has suggested eliminating social programmes that are not useful. He has pledged that he would try to reorganise the federal administration to achieve some savings there. He has also frequently said that he would reduce corruption. The question is of course if this is enough. This remains to be seen.

He will likely eliminate some existing programmes and start small with some programmes of his own to satisfy his political base and then increase the rollout of these later on.

AMLO's economic team is very aware of the fiscal issues. They might release the economic package earlier than usual to send the right signal to markets that they are fiscally responsible. They will likely have a primary surplus in the budget. This signal will calm markets considerably. It could be scheduled for late September, early October to reduce uncertainty.

**What about the energy reforms? Which sectors are going to be the most affected? What is the outlook for Mexican oil production (in 2019, 2020, 2021 and 2022)? How much will AMLO likely impact exploration and development, as well as production?**

AMLO is unlikely to undo the energy reforms but is likely to review all the contracts that have been awarded. Once that is clear, he will presumably slow the pace of new auction rounds.

Mexican oil output fell to 1.9 million barrels per day in April 2018 having peaked at nearly 3.5 million barrels per day in 2004 and fallen steadily since. The energy minister is seeking 640 billion dollars by 2040 to revive the sector and has two oil and gas auctions planned and seven joint ventures lined up.

The energy minister estimates that if the auctions go ahead (he hopes to fit them in before AMLO would take office in December), output could rise to 2 million barrels a day by 2023. Output could get back to 3 million barrels a day by later in the 2020s if the investment plans proceed.

Otherwise, output will stay below 2 million barrels per day and risks falling steadily further.

Mexico's energy mix is not ideal -- it is a net exporter of crude oil, which the United States no longer needs to import -- but it has always been a net importer of natural gas, so it is not in a position to benefit from the trend of liquified natural gas that is increasingly being shipped around the world.

As concerns the other sectors, AMLO has a large infrastructure programme which indicates that the construction industry will benefit in the future. There is controversy in Mexico about mining companies in light of claims that they have been abusive towards indigenous communities, complaints about their negative environmental impact and allegations that they were involved in the assassinations of environmental activists. AMLO will likely side with mining workers and affected communities, and the mining sector is expected to change.

The other sector that will be particularly impacted is banking. Changes in the public administration might have an impact here, particularly with regard to the Ministry of Finance and the banking regulation institutions. The AMLO cabinet will push to enforce compliance with market competition and changes in the banking regulation sector are likely.

## **NAFTA**

As concerns NAFTA, Mexico is unlikely to accept a worse deal than the current one. AMLO might ultimately be more vocal in this regard than Pena Nieto.

### **What about the agricultural sector? AMLO has talked about stimulating it. Is this a reasonable aspiration?**

The question is what he is going to do. He is proposing to give more power to small landowners rather than large producers (e.g. of coffee). He wants to advance organic production and small landownership. It is not clear how well he will do this and if this will be a lasting policy. He will mainly look to advance the agricultural sector in the south.

### **How might an AMLO government manage the currency?**

It is important to recall the general trend in currency markets at the moment. Any assessment of what happens to the Mexican peso is partly a product of what happens in Mexican politics but also of broader international dynamics.

On the internal politics front, if the fiscal policy looks reassuring, and it has been suggested that this might be the case, this could be a device for reducing speculation against the peso after the election. The peso is currently at 21 to the dollar. This level creates a lot of internal inflationary pressures. It means that the country is undervalued from the point of view of investors who think it has a future. It could go a lot further as there is really no guaranteed mechanism for controlling the exchange rate. The interconnections between the peso and the US economy are such that it is at the mercy of the treasurers of multinational corporations. The situation could become worse, but it could equally stabilise and improve shortly after the election, as has been estimated by some observers, including Citibank.

It also depends on whether one is looking at the immediate turbulence and uncertainty between now and November or the rebirth of hope and the emergence of a more coherent and longer term position, which may follow in December.

### **Is AMLO going to be welcoming to foreign investors, especially given some of these infrastructure projects? Will there be any areas of the economy which will be off limits to foreign investors in an AMLO presidency?**

AMLO is pragmatic and will likely accept foreign direct investment and push a partnership between public and private investments. Public investment in Mexico is at a historical low and he will seek to work together with the private sector to increase and improve infrastructure, especially in the south.

As concerns the question of economic sectors which will be off-limits, it is unlikely that he will attempt to change the constitution. The energy reform will likely continue, and emphasis will be placed on the mining sector, but it seems unlikely that AMLO will attempt to change the constitution at least in the first three years of his presidency.

**To look South, what is the impact of an AMLO presidency on the rest of Latin America?**

If Mexico was not so tightly integrated with the United States, it would be one of the major ten economies in the world and could have a considerable role in various international forums. All this has been subsumed by the last 25 years of trying to fall into line with the constraints of NAFTA at the expense of non-North American possibilities.

The effect of Trump serves at least to raise the interest of Mexicans in the possibility of, for example, importing some agricultural products from Brazil rather than the United States and sending some manufactured goods to Brazil rather than the United States. More generally, there is a need to look at what scope there is for diversifying a presently extremely concentrated and therefore over-dependent economic model. Any of the prospects for this are unlikely to be transformative, but changes will presumably only occur at the margin.

Nevertheless, there will likely be a lot of interest and activism in the Mexican government, even independently of the new president. This is a consequence of Trump's policies, which are also forcing other US allies to look in unexpected directions for new outlets.