

Mexico's Post-Electoral Political Reconfiguration

KEY POLITICAL TAKEAWAYS

MORENA's victory surpassed expectations, reaffirming popular support for its policies

Claudia Sheinbaum, representing the ruling party *Movimiento Regeneración Nacional* (MORENA), in coalition with the *Partido del Trabajo* (PT) and the *Partido Verde Ecologista de México* (PVEM), officially won Mexico's June 2 election, becoming the country's first woman president. Winning 60% of the votes, she led by over 32 points against Xóchitl Gálvez from the *Fuerza y Corazón por México* alliance (made up of *Partido Acción Nacional*, PAN, *Partido de la Revolución Democrática*, PRD, and *Partido Revolucionario Institucional*, PRI), and received the highest vote count ever for a presidential candidate in Mexico. *Movimiento Ciudadano* (MC), a relatively new party, has emerged as the third political force, surpassing the traditional parties of PRI and PRD.

While Sheinbaum was consistently ahead during the campaign, the results exceeded pundits' expectations. Her win, interpreted as a vote of confidence in President Andrés Manuel López Obrador's policies, was accompanied by a surge in support for MORENA. The party now controls 24 of the country's 32 states and has obtained a clear majority in Congress and the Senate. Electoral appeals by opposition candidates are happening but will not significantly alter the legislature's composition.

Decision-making in the next Mexican Administration will lie in the legislature

MORENA won 60 seats in the Senate, which with the support of its coalition parties (PT and PVEM) is only two seats short to reach the qualified majority needed to pass Constitutional reforms (a two-thirds majority). In Congress, the MORENA coalition already has the qualified majority of 372 seats paving the way for them to enact Constitutional changes without facing major opposition.

Securing López Obrador's legacy: the pending "Plan C" constitutional reforms

President López Obrador has agreed with President-elect Sheinbaum that he will reintroduce a series of 20 reforms, 18 of which require a constitutional amendment, to the new legislature when it begins work on September 1, taking advantage of the one-month overlap before he leaves office. This includes previously presented reforms that were not adopted because they did not reach a qualified majority by at least one of the legislative chambers or were struck down by the Supreme Court, as well as new ones aimed at fulfilling pending Presidential commitments.

The package includes strengthening civil and political rights, expanding labor rights, consolidating social programs, downsizing the public administration, modifying the electoral system, reforming the judiciary, reinterpreting the use of critical infrastructure and natural resources, and reforming national security (see Appendix).

The proposed reform of the judiciary sparked concerns due to its perceived potential to weaken checks and balances and significantly affect regulatory frameworks in various industries.

Cabinet announcements accelerated to reassure the markets and private sector cooperation

Following Sheinbaum's election and MORENA's decisive win, the peso depreciated by over 3% against the dollar, and the stock market fell, though these are expected to be short-term challenges. Responding swiftly, on June 3, Sheinbaum announced the retention of Rogelio Ramírez de la O as Minister of Finance in her Cabinet, aiming to ensure continuity and restore market confidence. Ramírez de la O promptly outlined plans to reduce national debt to 3% of GDP, collaborate with international financial institutions, utilize Pemex to bridge budgetary shortfalls, and strengthen the independence of the Central Bank's.

President-elect Claudia Sheinbaum shortly after brought forward, from October, the announcement of more Cabinet members intended to further bolster market assurance. Appointments include:

- Marcelo Ebrard, former Foreign Affairs Minister, as Minister of Economy.
- Juan Ramón de la Fuente, former ambassador to the UN and current head of the transition team, as Foreign Affairs Minister.
- Alicia Bárcena, current Foreign Affairs Minister and experienced UN diplomat, as Minister for the Environment.
- Rosa Icela Rodríguez, the current Minister for Public Security, will be the Minister of Government.
- Edna Elena Vega, current head of the National Housing Council, as Minister for Land Development.
- Raquel Buenrostro, current Minister of Economy, as Minister for Public Service.
- Ariadna Montiel, will remain as Minister for Wellbeing.
- David Kersenovich, current head of the National Institute for Health and Nutrition, the largest public hospital in the country, and current health lead of Sheinbaum's transition team, as Minister of Health.
- Ernestina Godoy, Attorney General of Mexico City, and one of Sheinbaum's closest allies will be her Chief Legal Officer.
- Omar García Harfuch, former Minister of Security of Mexico City during Sheinbaum's administration before leaving to run for the Senate, will now head the Ministry of Public Security.
- Luz Elena Gonzalez Escobar, former Finance Minister of Mexico City, as Minister of Energy.
- Mario Delgado, the current president of MORENA, will serve as Minister of Education.
- Jesus Antonio Esteva Medina, former Minister of Infrastructure of Mexico City, as Minister of Communications and Transport.
- Rosaura Ruiz, current Minister for Education of Mexico City, will lead the newly upgraded Ministry for Science and Technology.
- Julio Berdagué, Sheinbaum's agricultural lead on her transition team, has been appointed Minister for Agriculture.

The markets responded positively to the Cabinet announcements, which reassured stakeholders that experienced, trustworthy, and politically moderate individuals would oversee the implementation of the incoming president's foreign and economic agenda. Berdagué and Kersenovich's highly skilled technical backgrounds speak to the President-elect's vision for the health and agriculture sectors.

Sheinbaum's "shared prosperity" economic vision

Building on her "100 steps for transformation" campaign proposals, the President-elect has outlined the economic and political vision for her administration under the theme of "shared prosperity." This plan includes strategies focused on energy, security, water, education, digitalization, infrastructure, and regional development as pillars of the next six years of government in Mexico. The primary goal is to continue to build on the outgoing administration's macroeconomic stability to achieve well-being and sustainability for everyone through territorial planning, support for entrepreneurship, the relocation of supply chains, and the advancement of technology, and innovation.

- **Energy:** During her first year in office, President-elect Sheinbaum intends to invest over \$3 billion dollars in reinforcing transmission lines energy distribution enhancement. Additionally, she has indicated the need to expand national investment in solar, wind, hydro, and geothermal energy production, as well as in energy efficiency and household solar energy production. Her plan foresees the public sector as the main energy generator (at least 54% of the total production), allowing, under clear guidance, the private sector to generate the remaining 46%.
- **Water:** Linked to the upcoming water rights reform, one of the new administration's priorities will be updating the national water plan, which seeks to steeply reduce water overconsumption, particularly from the agricultural sector, by redistributing water rights and facilitating the implementation of technological interventions for efficient water management.
- **Education:** Claudia Sheinbaum will be focused on expanding middle and higher education, particularly in STEM.
- **Digitalization:** The President-elect announced the creation of an agency for digital transformation and telecommunications to increase the number of government processes carried out digitally, including those related to foreign investment. She will also pursue aggressively expanding internet coverage, including adding one more satellite in space.
- **Infrastructure:** The plans seek to consolidate existing projects, including the Interoceanic Corridor and the Tren Maya, and expand investment in transport infrastructure. This includes improving 13 highways and at least 3,000 kilometers of rural pathways, doubling the freight capacity of cargo trains, adding eight new passenger train lines, refurbishing 12 maritime ports, and expanding five airports.
- **Regional Development:** Sheinbaum has announced the establishment of 22 development hubs across the country through investment planning and industry re-localization, all tied with the previously mentioned strategies on water, energy, education, and infrastructure. Representatives from the private sector, government, civil society, and academia will play an advisory role in this project.

Security at the top of the mind

Security remains the foremost concern for all. Mexico continues to grapple with alarming levels of violence, marking this electoral period as its deadliest yet, with over 30 candidates murdered and more than 200 political homicides recorded. The proliferation of gangs under the current administration has escalated illicit activities beyond narcotics to include cargo theft and counterfeiting. These gangs pose ongoing threats to regional supply chains and contribute to displacement, fueling migration.

Claudia Sheinbaum's "shared prosperity" vision prioritizes addressing root causes of insecurity, particularly youth unemployment; centralizing and strengthening the role of the military in public security; and combatting corruption across all levels of government.

IMPACTS TO BUSINESS

New investment opportunities. President-elect Sheinbaum's new "shared prosperity" economic plan offers a clear roadmap of investment opportunities in the short and mid-term. This includes the existing and growing infrastructure projects as well as new areas such as digital technologies and renewable energies, which had previously been highly restricted. It will be important to closely monitor legislative changes that could potentially jeopardize or change priorities and how the private sector can engage with them.

Open season for engagement opportunities. The transition period until October when the new government takes power, offers an opportunity to informally engage with the transition team through those close to the incoming President and her advisors, especially through the academic networks she values. As such, business should accelerate their engagement and join ongoing efforts to establish early communication with the new administration.

Political and economic stability. A second MORENA term is expected to offer stability and potential growth in the banking and financial sectors, fostering a favorable environment for foreign investments. Anticipated consistency and continuation of economic and fiscal policy will create a favorable business environment. Increased investment in key sectors is expected to boost investor confidence and attract foreign direct investment, potentially expanding business operations in the short term. However, market volatility may pose challenges for companies planning long-term strategies and investments.

U.S. elections-related uncertainties. The relationship between Mexico and the U.S. will undoubtedly change depending on who arrives at the White House in January 2025; however, the agenda is expected to remain the same since the priority topics of migration, security, and the review of the USMCA will remain constant.

Clear economic priorities and cash flows. Nearshoring and further integrating Mexico into the global value chain to enhance foreign direct investment will continue to provide opportunities for growth. Analysts anticipate a prioritization of oil exports and austerity measures over increasing taxes to manage any potential spikes in public expenditure. Elevated corporate taxes will likely only be considered if there's a significant shock to the economy, such as falling oil prices.

Looking forward

From all the recent announcements, President-elect Sheinbaum has made three things clear:

1. She will rely on a foreign affairs team experienced in navigating both the Biden and Trump administrations, adept at understanding Mexico's current challenges and opportunities Mexico in economic growth, political influence and international presence. This includes managing an increasingly multi-polar and divided global landscape while also fostering the North America relationship in the context of the upcoming USMCA review.

2. Sheinbaum has winked at multilateralism, making her interest in elevating Mexico’s profile across international organizations palpable. This will likely translate into a more present Mexico in key international forums led by the Ministries of Foreign Affairs, Economy, and Environment, probably with a focus on sustainability and investment.
3. Claudia Sheinbaum emphasized the importance of academic credentials, indicating her preference for a technically proficient team. The downside is that technocrats may not inherently know how to engage the private sector. As such, businesses need to adapt their approach to communicate effectively with the new President and her administration.
4. As MORENA further consolidates, so does its network. It is important for companies to re-assess their government affairs strategies and communication channels to ensure they are using the right mediums.

Finally, it is important not to lose sight of pending announcements regarding the rest of the Cabinet, with special attention paid to who will lead the security portfolios.

UPCOMING KEY DATES

June – September	September 1	October 1	November 15
Presidential transition period, including Cabinet announcement	Inauguration of new Legislature (Congress and Senate)	Presidential inauguration	Presentation of federal budget to Congress

ANNEX: UNDERSTANDING THE “PLAN C” REFORMS

The Plan C reforms are expected to dominate when the new legislature begins work on September 1. Among the most important constitutional reforms to be discussed are:

- **Security:** would see the civilian National Guard come under the control of the armed forces. This move, previously blocked by the Supreme Court, would grant more power to the armed forces, who currently control customs, ports, the Isthmus corridors, and the Mayan Train, as well as construction contracts for strategic projects.
- **Judiciary:** seeks to "democratize" the Judiciary by putting up for popular election judges, magistrates, members of the Supreme Court and over 1,600 federal judges. This reform could impact the economic and financial sectors, among others, due to concerns over judicial impartiality and autonomy, essential for attracting foreign investment.
- **Energy:** reestablishes government leadership in the energy sector, with a particular focus on electricity, which could drive out private sector participation. The blackouts in May, due to the increased energy demand from the heat and the "pause" in the installation of Tesla in Nuevo León and Amazon in Querétaro, presumably due to the country's generation capacity, rekindled the discussion for several weeks.

- **Environmental:** would prohibit GMO corn, fracking, and new open-cast mining. It enhances the protection of water-stressed areas by limiting the use of hydric resources for human consumption and strengthening the ability of local communities to act in cases of dispossession or environmental damage. Both reforms are directed at Canadian mining companies, the largest water-consuming industries, and aims to halt the imports of GMO corn, the primary grain in Mexican diets.
- **Communications and transport:** would increase the use of railroads for passenger transportation and elevate the right to access the Internet, increasing investment in these sectors, opening new opportunities for the private sector.
- **Labor:** would seek to increase minimum wage above yearly inflation, set a special wage for essential workers (teachers, police officers, military personnel, nurses, and doctors), and reform the pension system to increase its coverage. This will undoubtedly require support from the private sector leading to complex negotiations in the coming months.
- **Autonomous agencies:** would seek to transfer the competencies of autonomous agencies to relevant Ministries to avoid duplicity and reduce public expenditure. The reform targets the Instituto Nacional Electoral (National Electoral Institute, INE), Instituto Nacional de Transparencia, Acceso a la Información y Protección de Datos Personales (National Transparency, Information Access, and Data Protection Institute, INAI), Instituto Federal de Telecomunicaciones (Federal Telecommunications Institute, IFT), as well as the Comisión Federal de Competencia Económica (Federal Commission for Economic Competition, Cofece), the Comisión Reguladora de Energía (Commission for Energy Regulation, CRE), and the Comisión Nacional de Hidrocarburos (National Hydrocarbons Commission, CNH). While the electoral implications have received significant attention, this reform would profoundly affect the energy and telecommunications sectors by compromising the independence of the main regulators. There is also uncertainty about what would happen to the Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geographic Information, INEGI) and the Banco de México (Mexico's Central Bank, Banxico).
- **Rights:** seeks to enhance the right to health and housing, including ensuring free and universal healthcare access. This will require strong collaboration with health and pharmaceutical companies to ensure equitable access to drugs and treatments and substantive investment in infrastructure.
- **Electoral:** contemplates reducing expenses allocated to campaigns and political parties, reducing the number of councilors in municipal governments, avoiding excessive bureaucratic electoral structures, and reducing the size of Congress and Senate by eliminating the proportional representation seats. It also incorporates provisions for popular consultations. There is concern that the reform, while expanding the mandate and scope for the INW, also reduces its capacity, forcing it to rely on executive support at the cost of its autonomy.

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