



**CANADIAN GLOBAL AFFAIRS INSTITUTE  
INSTITUT CANADIEN DES AFFAIRES MONDIALES**

# **President López Obrador: His First 100 Days**

**by Francisco Suárez Dávila**  
March 2019

# POLICY PERSPECTIVE

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**A**ndrés Manuel López Obrador, the president of Mexico, has passed the emblematic number of 100 days in government. He won the presidency with a clear majority of 53 per cent and his party won control of the two legislative chambers and of many state assemblies, in an unequivocal mandate for change. As in other countries, the stage was set for a populist leader by a populist anti-establishment anger directed at the traditional parties and the elites. This anger is the result of a crisis provoked by inequality, poverty, widespread corruption, insecurity and uncontrolled violence by organized crime.

AMLO, as he is called, has really rocked the boat beyond expectations. He holds a daily press conference at 7 a.m., covering a broad range of topics and responding to questions with a reasonable degree of knowledge, although he sometimes resorts to “alternative facts”. He sets the agenda, and provokes debates, reactions and support. He demonstrates a marvelous knowledge of the common man, the use of popular language and catchy slogans.

His blueprint for the nation is not a haphazard one. It was basically laid out in *2018, The Starting Line: The Decline and Renaissance of Mexico*, the most recent of his several books, which was published in 2017. There are few surprises regarding his model of government.

## **Economic Policies**

López Obrador is a fiscal conservative, which is unusual for a populist. He presented a sound budget, close to equilibrium (three per cent of GDP), little resorting to debt, committed to price stability and to respecting the Central Bank’s autonomy. He has proposed two nominees for its board, respectable economists from two different schools of thought. The budget is based on reasonable macro assumptions. Further proof of his fiscal conservatism is that he has rejected introducing fiscal reforms until his third year, with no new taxes or an increase in existing ones, including a more progressive income tax. On the other hand, in the border regions, he reduced the corporate tax from 30 per cent to 20 per cent as U.S. President Donald Trump did, and he lowered the value-added tax from 16 per cent to eight per cent.

A key issue is increasing Mexico’s growth from a mediocre two per cent per annum, which is near stagnation, to a minimum level of four per cent. To do so, he must increase public and private investment from a historic low. To achieve this goal, he needs the private sector. The government has gone out of its way to establish cordial relations with business leaders. López Obrador recently set up a joint public private council to promote investment, employment and growth.

López Obrador believes there is a need for regional development to correct the huge income gap that exists between the country north of Mexico City and the backward southern and southeastern regions. Large infrastructure projects will figure prominently in his plans. His first major project is a sensible Trans-Isthmus of Tehuantepec corridor. This is basically a land channel with fast road and railroad links for freight between the revamped port of Salina Cruz on the Pacific and



Coatzacoalcos on the Gulf coast. His other ambitious plans include a Maya tourist train which will circle the Yucatan Peninsula. One part of this project may be economically profitable, because it covers the northern arc of the peninsula where there is heavy tourist traffic between Tulum, Cancún, the Mayan Riviera and the capital cities of Merida and Campeche. On the other hand, an 800-kilometre southern arc through the jungle, similar to that of other tourist trains like the Malayan Peninsula Orient Express, risks damaging the environment and the Mayan habitat, and its profitability and financial soundness are in doubt.



*Figure 1: Mexico City's new international airport in Texcoco under construction. As the author notes, this project has subsequently been cancelled by the López Obrador government, effectively abandoning billions of dollars in investment. (Source: Reuters)*

Possibly the government's worst mistake thus far is cancelling the proposed new Mexico City airport in Texcoco, a megaproject beautifully designed by architect Norman Foster, that was 30 per cent complete and practically fully financed. The new airport would have made Mexico City a regional hub. The government has had to bail out US\$2 billion worth of bonds, with some \$4 billion more outstanding among bondholders who will continue to receive the proceeds of airport taxes. This will mean over \$10 billion buried in the ground with no benefit. Since the current airport is at capacity, the idea is to expand the military airport at Santa Lucía, 80 kilometres away, which would require construction of a costly suburban railway.

Another major economic issue relates to energy policy. López Obrador has essentially declared a halt to major energy reforms, including future stages of bidding. There will be a review of the progress and the status of contracts as well as the degree of compliance achieved. However, the real issue is Pemex itself, the state-owned petroleum company, which has been downgraded by



the rating agencies and barely maintains investment grade. The new Pemex administration has failed to command investors' confidence in its business plan. López Obrador is committed to a costly new refinery in Dos Bocas Tabasco, on swampy land that is not technically or financially feasible for the project. Lack of investment in exploration and extraction has not reversed the drop in production to below 1.7 million bb/d from a maximum of 3.4 million bb/d. After the initial rating agency reaction, the government injected further capital and reduced its very large tax burden, but only by insignificant amounts. Further financial support from the government to Pemex is now seen as a rating risk to itself, if it is not done convincingly. Pemex is perhaps the most vulnerable point in Mexico's economic prospects.

## **Strengthening the Social Welfare State**

López Obrador is introducing some new elements into the social welfare state. One of these is a youth program along the lines of one that made up former U.S. president Franklin Delano Roosevelt's New Deal, to cover more than two million young people who neither study nor work. There is also a fixed amount for relief for the elderly outside of the formal pension system. Also introduced was a farm support program, based on price guarantees for basic products in poor, rural areas, but which won't be enough to solve farmers' social problems.

## **Foreign Policy**

López Obrador's government strongly endorsed the new treaty with the United States and Canada that replaces NAFTA. He supported the need for Canada to be part of it and sides with Prime Minister Justin Trudeau as a necessary counterbalance to our neighbour in between. Mexico and Canada are third trading partners to each other and either Mexico or Canada is the main trading partner of all the states in the United States. There is uncertainty as to whether the Democratic majority in the House of Representatives will ratify the agreement in the middle of an electoral free-for-all. Ratification might be delayed until 2020. No major uncertainties should be created except for the risk that President Donald Trump will throw a tantrum and denounce the current pact.

López Obrador has sought to maintain cordial relations with Trump and has prudently learned to disregard his antics regarding building the "wall". Migration is, however, a difficult political and social issue. There is no longer a new net migration of Mexicans to the United States. However, there remain large numbers of Mexican legal and illegal immigrants from previous years, including children. The new problem is that Mexico is a pass-through territory for a large movement of people from Central America. López Obrador supports a proposal for North American countries to set up a type of Marshall Plan to tackle the root causes of this migration, which are the severe poverty, unemployment and stagnation in Guatemala, Honduras and El Salvador, through economic investment and trade.



On the Venezuelan crisis, Mexico has opted for a neutral stance favouring dialogue and negotiation, opposing armed intervention and staying at arm's length with respect to United States policy on the issue. Mexican foreign policy principles reject the idea of recognition or non-recognition of foreign governments, but simply retain the right of maintaining diplomatic relations with whom we please.

Mexico is a founding member of the Lima group, which is a worthwhile initiative among several Latin American democracies to help address Venezuela's crisis. Canada's participation has also had a positive impact. However, recently Mexico has become lukewarm toward the group. With the addition of pro-military President Jair Bolsonaro, Brazil's newly elected leader, the group is perceived to favour policies associated with U.S. interventionism.

Mexico should take a significantly more belligerent public stance condemning Maduro for his responsibility in Venezuela's serious humanitarian crisis, pushing for a negotiated agreement while staying short of intervention.

## **Strategy Against Corruption and Violence**

The two most important issues besides the economy are the fight against organized crime and violence, and an anti-corruption strategy. López Obrador recently succeeded in achieving unanimity in Congress on a constitutional reform to set up a new permanent National Guard, initially based upon 70,000 existing well-trained military police, but under a civilian top command. This was the result of a democratic process that involved listening to civilian experts who wanted a civilian command. It should yield early encouraging results.

On the other hand, the fight against corruption is lagging, although the government is tackling the serious problem of widespread theft of gasoline from the pipelines network. One of those thefts recently resulted in a serious explosion and more than 100 dead.

To prevent corruption, López Obrador has also embarked upon a republican austerity program, setting a salary cap of US\$5,000 per month (his own salary) for all civil servants and eliminating most perks. There had evidently been much abuse before, but this extreme measure has meant the flight of top officials from government, and has provoked a brain drain of qualified civil servants who will be sorely needed. This has led to a paralysis in current expenditures, over and above that which occurs in a new administration, and economic activities have decelerated. Mexico might even face a recession in the first half of this year.

## **The Politics of His New Popular Style of Government**

López Obrador's new style of government has introduced a number of initiatives that have had great popular appeal, including converting the presidential residence (Los Pinos) into a museum. He has sold the presidential plane and eliminated the presidential guard so that he now relies on



a very small civilian protection squad. He drives around in a Jetta and travels on commercial flights.

Thus, in spite of the mistakes mentioned above, people are delighted with the political change. His popular support rating is around 80 per cent, one of the highest in recent Mexican history and no doubt the envy of many heads of government. The conservative minority at the top, however, is highly critical and skeptical of the results, although everyone acknowledges that he is a talented political and communicator.

López Obrador clearly has much in common with other world populist leaders, including Trump. Populists now rule the majority of nations, including the United States, China, Brazil, Russia, Turkey, the Philippines, and some Eastern European and African countries. López Obrador desires to increase his power over all institutions. He is committed to basic policies and holds irreducible beliefs on some issues, but on others, he listens to other people's views and when he meets resistance or finds he is wrong, he rectifies the matter.

Political analysts are concerned that he needs more checks and balances. Democracy everywhere is subject to new threats and challenges, and Mexico is no exception. However, there are already some checks and balances. The adverse behaviour of financial markets is a key check. Up to now, our armed forces, the Supreme Court, the autonomous public institutions like the Bank of Mexico, vocal minorities in Congress, state governors who do not belong to his party, Morena, and business leaders have also proven to be checks. However, sometimes they have tended to resort to accommodation rather than confrontation. Mexico has a very active civil society with activists in human rights and women's issues. López Obrador will, of course, through the political process, try to weaken those checks and balances to strengthen his power. This is his political instinct.

He knows his Mexican history well and identifies the country's three greatest moments of transformation. These are Mexico's war of independence; the era of Benito Juárez, the reformist who expelled the French and limited the church's power; and the Mexican Revolution and former president Lázaro Cárdenas, a nationalist who brought about social reforms and expropriated oil from foreign companies. López Obrador believes he will lead the fourth transformation. He undoubtedly has a sense of history.

Some very exciting 100 days have passed, full of shifts and turns as well as some basic trends. There are many uncertainties both domestically and internationally. Each policy move must be examined individually with the utmost objectivity and equanimity. Mexico undoubtedly needed a change after 30 years of mediocre growth (two per cent), in one of the world's most unequal countries, in a region of extreme poverty. Fortunately, change came through a peaceful electoral process, through votes and not by violence in the countryside or in the streets, as with the French "yellow vests". The issue now is: what strategy and direction will overcome existing problems without creating new ones? We shall see in the coming months where the fourth transformation will lead us, or if instead it will be a de-formation.

## ► About the Author

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**Francisco Suárez Dávila** was Ambassador to Canada 2013 to 2016. He holds a Law Degree from the National Autonomous University of Mexico (UNAM) and a Master's Degree from the University of Cambridge, King's College. During President Peña Nieto's electoral campaign and until very recently, he served as Secretary General of the Colosio Foundation, the think tank of the PRI. He also held the post of Vice President of the Mexican Council on Foreign Relations (COMEXI) (2008-2011).

He began his career at the Bank of Mexico where he became the General Manager of International Economic Affairs (1976-1980). Was an Executive Director on the Executive Board of the IMF (1972-1976); Financial Director at Nacional Financiera, Mexico's industrial development bank (1980-1982); Undersecretary of Finance and Public Credit (1982-1988); and Director General of Banco Mexicano Somex, now Banco Santander (1988-1992).

For two periods he served as a Federal Congressman (Député), and chaired the Finance Committee (1994-1997). Later he was Ambassador of Mexico to the OECD (1997-2000), where he headed the Budget Committee.

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