

PRI Party Makes a Comeback in Mexico—Why and What's Next?

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Yesterday, millions of Mexicans celebrated presidential, congressional, and federal district elections, so far deemed free and fair by international election observers. Preliminary results indicated that the Institutional Revolutionary Party's Enrique Peña Nieto won about 38 percent of the vote, the Democratic Revolutionary Party's Andrés Manuel López Obrador won 32 percent, and the National Action Party's Josefina Vázquez Mota won 26 percent. What is behind this outcome and what challenges and changes are likely to crop up next? We asked three distinguished CSIS experts—George Grayson, Arturo Porzecanski, and Duncan Wood—for their views.



Behind the PRI's Comeback—George Grayson

Despite a remarkable showing by Mexico's Left, the Institutional Revolutionary Party (PRI) captured the presidency, the lion's share of 500 deputy and 128 senate seats, and a robust number of state and municipal posts, according to a preliminary count still underway.

Enrique Peña Nieto deployed his Midas-sized war chest to dominate the media—with suspected hefty outlays to conglomerates Televisa and TV Azteca. He also coaxed most PRI notables under his broad tent, still smarting from their national drubbing six years ago.

The Hollywood-handsome victor spoke in generalities rather than specific proposals while on the stump. He pledged to curb drug-based violence, shun pacts with kingpins, and continue bilateral cooperation in combating diabolical criminals. The public will cut the next resident of Los Pinos some slack, but his popularity will melt quicker than a popsicle in the Sonoran desert if he doesn't act with dispatch to reduce the bloodshed.

Peña Nieto's publicity machine trumpeted him as the paladin of the "new PRI." Several moves would help convince skeptics that this is more than puffery. He could exhibit tolerance—the keystone of democracy—toward opposition parties, involving them in devising a security strategy.

And rather than trying to govern alone with his dubious Mexican Green Ecological Party (PVEM) alliance partner, he might forge a coalition with the outgoing National Action Party (PAN) to update the labor code, open the state oil company Pemex to private capital, and slash the Federal Electoral Institute's largess to special-interest groups that masquerade as political parties. He could engage the Revolutionary Democratic Party (PRD) to bust trusts, tackle tax reform, encourage regional development, and boost job training.

Even more important would be appointing such champions of modernization as Claudio X. González Guajardo or Otto Granados Roldán as education secretary to seize public schools from the SNTE Teachers' Union headed by Elba Esther Gordillo. Further, he could direct Luis Videgaray Caso, his probable finance secretary, to crack down on money laundering in concert with the U.S. Treasury Department.

It would be unrealistic to expect that he would rein in governors, the nation's new viceroys, who either cut deals with drug syndicates or turn a blind eye to their crimes. He might, however, throw his weight behind the idea of reelection, beginning with mayors, to inject a modicum of accountability in a regime whose governors and other officeholders act with impunity.

On the flip side, the PAN suffered a blowout. Its attractive candidate Josefina Vázquez Mota could not overcome perceptions of former president Vicente Fox's incompetence, Felipe Calderón's inept antidrug crusade, her own amateur campaign management, and her quirky idea of naming Calderón her attorney general.

Not only did Vázquez go down in flames, but the PAN's political neophyte Isabel Miranda de Wallace crashed in the Federal District (DF) mayoral race, while the PRI snagged the governorship of Jalisco, a PAN bastion, and the left seems poised to pick up the Morelos state house. Not even the Mayo Clinic could heal the PAN's deep wounds in the foreseeable future. Pundits are now claiming that the title of the next best seller will be *The Rise and Fall of the PAN: 2000–2012*.

The PRD piled up a landslide in the DF, flexed its muscles in gubernatorial matches in Tabasco and Morelos, and boasts two interesting competitors for the presidency in 2018: DF mayor-elect Miguel Ángel Mancera and his predecessor, senator-elect Marcelo Ebrard. Both appear effective while appealing to independents. Two-time loser Andrés Manuel López Obrador remains a player. By early Monday he had gathered almost one-third of the ballots cast and was not about to concede to Peña Nieto. While promising to act "responsibly," he has blasted "inequalities" in the campaign.

A weak state, Mexico makes progress when it has a decisive president. Is Peña Nieto up to this challenge or will he imitate the PRI of yore?



Mexico's Postelection Economic Challenges—Arturo C. Porzecanski

A decade ago, Jim O'Neill, then chief economist of Goldman Sachs, coined the acronym "BRIC" to identify the four developing countries (Brazil, Russia, India, and China) that he thought would most likely experience rapid economic growth and thus be able to join the club of top-10 economies in the world. By now, all four of the BRICs have indeed become members of the world's top 10, as measured by the size of their GDP adjusted for the purchasing power of their currencies. They have done so by managing to grow their income levels much faster than the world's richest countries and also by not getting caught in the financial crisis of 2008 and its European aftermath.

With the benefit of hindsight, O'Neill was absolutely correct to exclude Mexico, because the country has had lackluster performance. Despite enjoying economic, financial, and political stability, as well as unparalleled access to the U.S. and Canadian markets, underemployment, poverty, and inequality in Mexico have not been significantly reduced. Indeed, since 2000, the yawning gap in per capita income between Mexico and the United States (measured on a similar, purchasing-power adjusted basis) has not narrowed at all. Indeed, it is wider now than it was 30 years ago.

The principal reason is that Mexico has stagnated in terms of badly needed structural reforms involving its educational system, energy production, tax regime, labor markets, and other modernizing inputs, while it has deteriorated markedly in terms of public safety. Moreover, consumers and producers have remained squeezed by a number of monopolies and duopolies that dominate the food, beverage, telephone, television, electricity, and other basic industries and services. The rapid development and sophistication of Mexico's financial markets, spurred on by a series of legislative and other initiatives adopted in the past dozen years, and major advances in retailing thanks to the arrival of Walmart and other mass distributors, have not been enough to propel the economy forward. Thus, the average Mexican still has a purchasing power that is not even one-third that of the average American.

This relative stagnation is turning Mexico into a comparatively low-cost, low-productivity destination for a number of assembly and other labor-intensive activities that are no longer as profitable to pursue in the BRIC nations—particularly in China, where wages in coastal areas used to be 50 cents an hour but are now \$3 to \$6 per hour. While this suggests that employment creation in Mexico may accelerate in the years to come, it also implies that the country may attract mainly the kinds of factories that pay low wages and that do not have many linkages with the rest of the economy.

Therefore, all eyes should now be on the makeup of Congress following the July 1 elections, as well as on the ability of President-Elect Enrique Peña Nieto and his team to forge understandings in the legislature with the defeated PAN—to break the reform and liberalization paralysis that has tended to prevail in Mexico during the past dozen years. The new Congress

takes office on September 1, three months ahead of the president-elect, and passage of at least some of the needed economic reforms before year's end would augur well for the Peña Nieto administration—and, more importantly, for the economic future of Mexico.



Prospects for Structural Reform—Duncan Wood

With Enrique Peña Nieto's victory in Sunday's election, the scene is set for progress on energy reform. Last November, it was Peña Nieto who first broached the issue of the need for private investment in the oil sector, sparking one of the more intriguing debates during the campaign. His PANista rival, Josefina Vázquez Mota, soon joined him in calling for an increased role for the private sector, whereas Andrés Manuel López Obrador rejected any opening and instead called for a cleansing of Pemex from corrupt practices and massive investment to allow it to fulfill its mandate.

Peña Nieto's triumph means that there is likely to be a proposal presented to Congress, either in the fall session of this year or in the spring session of 2013, to radically reform the energy sector. Although one cannot say exactly what the reform proposal will include, it is thought that the president will present an initiative to allow private investment in Pemex (without surrendering state control of the firm) and may allow production-sharing agreements. This will necessitate a constitutional reform requiring a two-thirds majority in Congress, as well as the support of the state governors.

Aligning all those stars will be a highly chancy political gamble: the PRI will need the support of PANista deputies and senators and will face a vitriolic attack from the left, as well as some nationalist political forces. Despite the risk, the stakes are sufficiently high to make it all worthwhile, due to the rapid decline in oil production in recent years and the importance of oil-based revenue for government finances.

One could very well see some kind of labor law reform in Mexico. Various initiatives to free up labor markets that were presented by the PAN government of Felipe Calderón were blocked by opposition from the PRI in Congress. However the PRI also had its own initiative that was not passed by Congress that would have done little to make labor markets more flexible, but instead focused on guaranteeing worker's rights. During the campaign, Peña Nieto talked of the need for labor reform to improve productivity and competitiveness, but it is unclear what direction this will take. It will be intriguing to see how the party, now that it has the reins of power, will engineer a reform that matches the needs of the economy.

Lastly, there are two areas that are unlikely to see significant change. The first concerns competition policy, an area that was a primary focus of the Calderón administration but in which little progress was made. Monopolies are frequently mentioned as a central factor that is holding

back the growth of the Mexican economy, as well as holding back greater job creation. Yet the PRI has not shown any enthusiasm for attacking the monopolies, and it is unlikely that Peña Nieto will see this as a political battle worth fighting.

The other area is education. Given the utter failure of the Mexican education system and its detrimental impact on both the economy and society, it would seem that this should be a priority for any government. However, just as the Calderón government shied away from confronting the powerful teachers union, the SNTE, and its leader Elba Esther Gordillo, there are signs that the PRI has made a political deal with the New Alliance Party (PANAL), which was created by and is controlled by Gordillo.

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