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How Businesses In Mexico Can Prepare For The AMLO Era

By **Jonathan Adams** (August 3, 2018, 3:19 PM EDT)

On July 1, Mexicans went to the polls to elect a new president and renew both houses of the Congress of the Union. Andres Manuel Lopez Obrador, better known as AMLO, will be Mexico's next president, after winning 53 percent of the ballots cast. Perhaps even more tellingly, his political party, Morena, which was formed only three years ago, will have control of both houses in Congress. To top it all off, voter turnout surpassed anything seen in Mexico during this century.



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Amlo has run in every presidential campaign since 2006, which marked the end of the Vicente Fox administration. Fox, who entered office at the start of the millennium, was expected to bring change in Mexico, because he was the first president to come from the PAN party, rather than the PRI party which had ruled for over 70 years.

Voters narrowly gave the PAN another chance in 2006, but then returned to the PRI in 2012, in response to promises that the party had been cleansed of its old corrupt ways. However, continuing scandals throughout the government led Mexicans to give in finally to AMLO's messianic promises and populist proposals, which he updated for this 2018 campaign.

In past elections, AMLO's theme was clear and memorable: "For the good of all, the poor come first." In this election, as a frontrunner from the outset, he set out a 10-point campaign platform, including promises to eradicate corruption, renegotiate NAFTA and either cancel or radically restructure the new airport for Mexico City already under construction. Many analysts claim that the overwhelming vote for Lopez Obrador was not necessarily a vote for him, but a vote against old political parties that had disappointed the Mexican people time and again. He will be inaugurated on Dec. 1 of this year, but he is already taking steps to make good on the pledges that gave him the presidency.

AMLO's radical promises are intended to symbolize his anticorruption and "working person" image. He has announced that he will sell the presidential airplane "to Donald Trump," and will vacate the presidential palace and turn it into a museum. He will reduce his own salary as president of Mexico by 50 percent. This will have a knock-on effect throughout the federal government, where salaries are in lockstep by hierarchical level. The president-elect says these salary reductions throughout the federal government will reduce the federal payroll by about \$2.2 billion in U.S. dollars.

Less than a week after the elections, the Ministry of Finance and Public Credit has stopped all government contracting processes in all federal dependencies as part of the government transition efforts. This is an unprecedented move, which is aimed at avoiding "lame-duck" awards of contracts to feather the nests of outgoing public servants in the waning months of an administration. In a press conference, Carlos Urzua, the speaker for the new administration's economic cabinet, stated that all government purchases will be centralized in the Administrative Office of the Ministry of Finance and Public Credit, to avoid corruption through public bids.

The measure is one of the most important ones so far, as it centralizes all expenses in one office. Urzua claims that this centralization will allow for bigger savings when all purchases are consolidated. There are a few ministries that have participated in consolidated purchases since 2013, with claimed savings of almost \$1 billion in U.S. dollars.

The incoming administration has also stated that they will review each one of the development and infrastructure public contracts granted by the current and previous administrations, to decide whether any of them should be cancelled due to corruption. Public contract awards to private parties will be limited to the bare essentials, and will be subject to a higher level of scrutiny.

The New International Airport for Mexico City, or NAICM, is already being affected by these measures, as the Superior Federal Auditor has found excess payments of nearly \$1 million U.S. to private contractors for cleaning and construction services. AMLO has promised in the past to cancel the project or allow for a private investor to take it over, if it becomes a greater burden to the national budget. He has promised to make a decision on NAICM within a month of taking office.

For Lopez Obrador, austerity for the government comes hand-in-hand with an expansion of social programs. For decades, Mexico has unsuccessfully implemented a variety of social programs without any real impact on poverty in the country. AMLO has accused these programs of being paternalistic and used for corrupt purposes, benefiting only a few leaders in different sectors of the population. In proposing leaders for the Ministry of Agriculture and the Mexican Institute of Social Security, he has sought people that would add a "human touch" to these institutions as well as efficiency and transparency. He has emphasized creating social programs that would actually help people move forward and create a sustainable economy.

It has been scarcely a month since the presidential election, and Lopez Obrador has already been very active in making good on his promise to end corruption. He claims that once that problem is under control, the rest of his program will fall into place, as government resources increase and violence and crime declines. Mexicans have continued to be very involved in his political decisions since giving him their vote of confidence. His every move makes headlines daily in the media, and it is that level of accountability that may be able to make a change once and for all in Mexico.

So how should businesses react? What concrete steps can they take to prepare for this "new normal" in Mexico?

First, businesses should conduct a review of their activities for anything that could create the appearance of corruption. If a business does any government contracting, it is important to understand all of the company's interactions with government officials, whether direct or indirect. Counsel should oversee all government contacts and communications, to avoid any misunderstanding.

It is important to understand the government contracting process that the company or distributor is using in its government sales. Businesses with government contracts should have a lawyer review the award process to ensure that it is in compliance with Mexican public awards regulations. A recent study showed that only about 12 percent of all government contracting in Mexico is by public bid, and our experience tells us that even these processes are open to manipulation.

It is also important to make sure any essential licensing and permitting regulations are being complied with appropriately. Finally, in light of the social conscience underpinnings of AMLO's winning campaign, businesses should evaluate their social responsibility profile, specifically in relation to creating opportunities for historically and economically disadvantaged groups.

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