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Charting a New Course: Mexico's Legal and Financial Outlook for the Future

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The upcoming administration of President-elect Claudia Sheinbaum in Mexico is poised to navigate a complex landscape marked by a need for national unity, fiscal prudence, economic stability, and continuity of progressive policies. Claudia Sheinbaum's election is historically significant, marking the first time a woman has been elected to the presidency of Mexico. However, beyond this milestone, it is essential to understand her political beliefs and the challenges her administration and agenda will face. In particular, the administration must address Mexico's energy and infrastructure needs to capitalize on nearshoring momentum and foster a predictable legal framework that incentivizes and protects investments. Many of the proposed governmental reforms both present opportunities and create uncertainties to address these challenges.

I. Unifying the Country

Claudia Sheinbaum's victory in the presidential elections was achieved with a significant and historic margin (approximately 58%), leaving no room for interpretation or doubt regarding the position of the electorate. To foster national unity, her administration must focus on bridging the gap between different political and social factions, and re-engaging the electorate as a whole. Beyond social integration, the President-elect will also need to contend with reconciling social programs and civil society on the one hand, and enhancing an economic and legal environment that is friendly towards and reliant on the business community, domestic and foreign alike, on the other. A successful unification effort will likely involve inclusive policies, transparent governance, and fostering a national dialogue to address the concerns of all citizens, including those who did not support her candidacy or those who do not support her political party. Effective and comprehensive communication and engagement with opposition parties, the business community, and civil society will be crucial in this endeavor.

II. Cabinet Composition and Foreign Investors

The composition of Sheinbaum's cabinet sends important signals to both domestic and international stakeholders. The appointment of experienced and competent individuals, particularly in key economic, energy, and infrastructure matters, is essential to reassure foreign investors. Key appointments include Marcelo Ebrard (former Secretary of Foreign Affairs in the Andrés Manuel López Obrador (AMLO) administration) as Secretary of Economy, who brings experience in international trade discussions, and Luz Elena González Escobar as Secretary of Energy, who aims to balance traditional energy development with renewable investments. Rogelio Ramírez de la O, continuing as Secretary of Finance and Public Credit, emphasizes financial discipline and macroeconomic stability. The cabinet appointments reflect a mix of ministers currently serving in AMLO's government, with some re-arranging of ministries, and new appointments more in line with Sheinbaum's energy agenda, as well as the creation of new ministries to address specific needs—all of which demonstrate a strategic approach to governance. Transparency in the selection process and a demonstrated commitment to upholding the rule of law and property rights will further enhance investor confidence. The administration's ability to foster a business-friendly environment while pursuing progressive policies will be closely scrutinized. Ms. Sheinbaum has her work cut out for her in reconciling (or pivoting away from) policies of her predecessor, which hampered growth in key sectors of the economy, particularly the energy sector.

III. Macroeconomic Concerns

Mexico is grappling with broad macroeconomic challenges that affect various aspects of its economy and is facing some tremendous opportunities that are hugely advantageous to its economic growth. Challenges include issues related to fiscal discipline and transparency, inflation control, and maintaining investor confidence. Exchange rate volatility since the election is a manifestation of these underlying concerns. To address these issues, Sheinbaum's administration will need to implement sound macroeconomic policies, maintain a clear and consistent economic agenda, and strengthen financial institutions. In a bid to stabilize the markets and reassure investors, Sheinbaum appointed Rogelio Ramírez de la O as Secretary of Finance and Public Credit the day after the election, emphasizing the importance of financial discipline and macroeconomic stability.

Nearshoring presents a truly golden opportunity for Mexico, as it is at the crux of geographic positioning, the desire to lessen dependency on Chinese manufacturing, the need to address supply chain disruption issues, the importance of cementing the singular trade partnership between the United States and Mexico, and bringing greater focus to sustainable manufacturing, logistics, and delivery. Sheinbaum should not let this unique opportunity pass asunder—harmonizing a regulatory environment, with the economic potential nearshoring brings, could be the hallmark of success for her administration.

Lastly, continuing the United States-Mexico-Canada Agreement regional trade pact discussions is mandatory and crucial for Ms. Sheinbaum's administration and the economic growth of Mexico.

IV. Budgetary Constraints and Social Programs

Mexico faces substantial budgetary constraints, necessitating careful fiscal management. Despite these constraints, Sheinbaum is expected to continue funding essential social programs initiated by her predecessor, AMLO. These programs, aimed at reducing poverty and inequality, especially through increasing the minimum wage, will require innovative financing strategies and include optimizing tax collection, reducing public sector inefficiencies, and seeking international financial assistance. Expanding the tax base and finding new funding sources have historically been key issues for Mexican public finances and such actions will be crucial not only for supporting social programs but also for driving investments in Mexico's energy and infrastructure sectors, as well as for addressing the macroeconomic challenges that will confront her administration. By boosting revenue, the administration can ensure that social welfare initiatives and critical infrastructure projects, such as renewable energy development and transportation enhancements, are adequately funded. Balancing the budget while sustaining social spending and advancing infrastructure development will be a key challenge for the new administration, but not an impossible task.

The appointment of Raquel Buenrostro Sánchez as Federal Comptroller is particularly significant in this context. Ms. Buenrostro is currently Mexico's Secretary of Economy. Known for her stringent approach to financial oversight, Buenrostro Sánchez is expected to play a crucial role in expanding the tax base and improving fiscal management. Her expertise and firm stance on financial discipline are aligned with

Sheinbaum's agenda to increase government revenue without imposing new taxes on the lower and middle classes. By enhancing tax compliance and reducing evasion, the administration aims to secure the necessary funds to support both social programs and critical infrastructure investments, which would be an all-around win for any administration.

V. Energy and Infrastructure Needs

Mexico's energy and infrastructure sectors are critical to leveraging the nearshoring momentum as global companies seek to relocate closer to the North American market. However, in addition to the severe shortfall (actual and projected), in the installed capacity in the country arising from the lack of investment in greenfield construction during the AMLO administration, the energy sector faces significant challenges, including declining oil and gas production, the need to increase exploration activity, high dependence on gasoline imports, constrained power supply amid the transition to renewable energy, and an outdated and deficient transmission infrastructure. Attracting private investment will be vital to begin to address these issues and addressing the crisis of confidence in the rule of law deriving from actions of the former administration. The foregoing will all be conduits for a successful presidency.

Recent efforts have focused on strengthening Pemex, the state-owned oil and gas company. However, Mexico faces difficulties in meeting domestic demands and may need to increase imports, as Mexico analysts expect oil and gas demand to grow by 2% this decade, and oil production to decline. Accordingly, the administration must prioritize investments in renewable energy sources like wind and solar, modernize the power grid, and enhance transportation infrastructure, including highways, railways, and ports.

The appointment of Luz Elena González Escobar as Secretary of Energy is particularly significant in addressing these challenges. With a background in public administration and finance, González Escobar is well-positioned to balance traditional energy development with renewable investments. Her role will be crucial in navigating the complexities of the energy sector, ensuring that both state and private investments are effectively leveraged and synergized to modernize infrastructure, increase exploration activity, and transition to renewable or clean energy sources. Fostering a predictable and workable legal framework is paramount to attract and protect investments. This includes clear regulations, transparent bidding processes, and safeguards for investor rights. A stable legal and political environment will encourage both domestic and international investors to commit to long-term projects essential for Mexico's development. Ms. Sheinbaum's administration must strive to bolster autonomous and transparent energy regulatory bodies and institutions that seek to exercise the operational control of the National Grid and guarantee the correct performance of the Wholesale Electricity Market.

VI. Influence of Andrés Manuel López Obrador and the Revocación de Mandato Tool

AMLO's continued influence over Sheinbaum's administration is expected to shape its policy direction significantly. While Sheinbaum may seek to assert her independence, the alignment with AMLO's vision, especially regarding social programs and anti-corruption measures, will likely remain. Navigating this dynamic will require a delicate balance between continuity and innovation, ensuring that the administration remains responsive to current challenges while honoring the legacy of AMLO's presidency. Moreover, since the Morena majority in the new Congress aligns more closely with AMLO than with Sheinbaum, she will have to navigate her administration under the influence of both AMLO and a Congress that may not fully support her initiatives or policies, complicating her ability to distance herself from her predecessor's policies, assert independence, and establish her own governance style, particularly against the specter of the *revocación de mandato*.

The “*revocación de mandato*” (recall referendum) tool, which allows citizens to initiate a vote to remove the president before the end of the six year term, adds another layer of complexity. While it serves as a democratic check on executive power, it also poses a risk of political destabilization. Sheinbaum’s administration will need to work under the shadow of this tool and foster a culture of accountability while preventing its misuse for partisan purposes.

VII. Concerns Over Governmental Reforms

Proposed governmental reforms, including those affecting independent institutions and the election of Supreme Court justices by popular vote, present significant concerns and uncertainties. If these reforms are passed in September before Sheinbaum assumes the presidency, they could significantly alter the legal and institutional landscape of Mexico. Changes to independent institutions might affect their autonomy and effectiveness, potentially undermining investor confidence. Electing Supreme Court justices by popular vote could lead to greater politicization of the judiciary, impacting the impartiality and stability of the legal system.

It is unclear to what degree the incoming administration supports these changes.

Conclusion

Claudia Sheinbaum’s presidency heralds a period of significant legal and financial challenges, and opportunities for Mexico. As a major player in Latin America and a crucial trade partner to the United States, Mexico’s stability and growth under her administration will have far-reaching implications. Her administration’s success will depend on its ability to unify the country, manage budgetary constraints, stabilize the exchange rate, address energy and infrastructure needs, appointment of a capable cabinet, navigate AMLO’s influence, and effectively manage the inherent risk to stable governance in the *revocación de mandato*.

Re-engaging the electorate and addressing the concerns of non-voters will also be crucial to ensuring a truly representative and cohesive administration. As Sheinbaum leads Mexico, her policies and decisions will not only shape the nation’s future but also influence the broader economic and political dynamics of the region. With effective governance and strategic vision, Sheinbaum has the opportunity to solidify Mexico’s role as a leader in Latin America and a dependable partner in the global economy. Balancing the proposed governmental reforms with the need for stability and investor confidence will be a critical aspect of her administration’s strategy.

By establishing a predictable legal framework and prioritizing critical investments, Sheinbaum can position Mexico for sustainable growth and development in the years to come, including well beyond her presidency. Mexico’s strategic geographic position and robust trade relations with the U.S. make it a vital link in the global supply chain, especially amidst the growing trend of nearshoring. Ensuring a business-friendly environment while maintaining social equity will be key to attracting foreign investments and fostering economic resilience. These are not incompatible and a policy driven towards growth can capitalize on the synergistic nature of these actions.

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