

Aurora Mexico Report: AMLOcalypto, September 11, 2024

The Tearsheet

- Mexico's Senate has passed the judicial reform plan with an 86-41 vote after an extended and contentious session. The next step is for the reform to be reviewed and approved by a majority of Mexico's 32 state legislatures, 25 of which are controlled by the ruling Morena party.

Sep 26	Banxico Rates
Oct 01	Sheinbaum Inauguration
Oct 09	September Inflation
Oct 30	Q3 GDP - Flash
Nov 5	U.S. Election
- As Aurora has [long expected](#), it appears highly likely that the proposal will clear this final hurdle and be enacted into law.
- The reforms, driven by outgoing President Andrés Manuel López Obrador (AMLO) and supported by President-elect Claudia Sheinbaum, overhaul the judiciary, shifting from the current system of appointed judges to one where they are elected by popular vote. The changes are framed as efforts to combat judicial corruption but will likely do more harm than good by weakening the judiciary's ability to function as an independent check on executive power and introducing further instability into the political landscape.
- In undermining the courts' vital role as the last reliable counterbalance against what is arguably Latin America's strongest executive power (at least among the democracies), the reforms are likely to undermine Mexico's nearshoring attractiveness among investors at a crucial time, further complicating USMCA renewal in 2026.
- Politically, the move also seems likely to further entrench the authority of AMLO himself (as party leader) during his ex-presidency – making it harder for a fledgling Sheinbaum administration to pivot away from his policies in key areas like energy, spending, and foreign affairs should she want to.

1. A contentious birthing

- Mexico's Senate passed the judicial reform plan in a vote that was far from straightforward. After an intense, all-night session, which at one point was interrupted by opposition protesters storming the Senate floor, the reform was approved 86-41 in the early hours of Wednesday. The session's length and the tension that marked the debate underscore the high stakes surrounding the reform, which may permanently alter the balance of power in Mexico's government.
- Unsurprisingly, the reform has sparked significant protests, including from elements of the judiciary itself who view the changes pose an existential threat to the judiciary's impartiality. Judges, judicial staff, and other protesters gathered during Senate debates, with some storming the Senate floor and forcing the session to be relocated. Tear gas was eventually deployed to disperse crowds, highlighting the volatility surrounding the reforms.
- Backlash to the reform plan has been immediate and widespread. Mexico's currently enervated opposition has issued an unusually strong call to action against the changes, viewing them as a direct attack on the judiciary's independence. Meanwhile, protests have erupted across the country, with demonstrators blocking legislative sessions and voicing fears that democracy itself is at risk.

2. A new PRI

- The reform required a two-thirds majority in both houses of Congress, a threshold intended to ensure broad consensus for constitutional changes.
- To pass the reform bill on a tight schedule, AMLO and the ruling Morena party have engaged in a rash of aggressive political maneuvering to secure enough votes for the Senate's approval – reminiscent of, and similarly overt to, what was once common under the old PRI during Mexico's decades of one-party rule.
- Initially, Morena was one vote short of the required supermajority, placing the entire reform effort at risk. A last-minute defection from the opposition, however, ensured the reform's passage.
- The deciding vote came from Miguel Ángel Yunes Márquez, a senator from the opposition PAN party currently under criminal investigation. (Yunes Márquez framed his decision as a careful, if difficult, one.)
- Coupled with the unexpected absence of opposition party Movimiento Ciudadano Senator Daniel Barreda due to the detainment of his father by state authorities in Campeche, Yunes Márquez's defection allowed Morena to push through the reform.
- Now that the reform has cleared the Senate, it moves to state legislatures for approval, where Morena holds sway in around 2/3 of the 32 assemblies and only 17 are required for the reform to become law.
- The passage through state assemblies is expected to be relatively smooth politically, with Morena using similarly aggressive tactics to insure support as at the federal level.
- Morena dominated state legislatures are labeling the lightning approval sessions a “fast track” process and, as of Tuesday afternoon, it has already been approved by 4 Mexican States: Oaxaca, Quintana Roo, Veracruz, and AMLO's own home state of Tabasco.
- At current clip we expect at least another ten Mexican states to approve the measure, or at least be well on their way to doing so, by this weekend.
- This period could also well be punctuated by more moments of localized public unrest, especially in regions where Morena is less dominant.
- While unlikely to change the outcome, the messy strongarm optics of AMLO's passage of the reform bill through the necessary legislatures could compound Mexico's reputational damage among investors and key allies like the United States.
- The successful enactment of the judicial reform would further empower the ruling party above Mexico's various constitutionally independent and formal state powers structures, deepening and extending AMLO's relevance as uncontested party leader once he is no longer president.
- Alongside judicial reforms, AMLO is also targeting regulatory bodies for a drastic overhaul, a move that could further disrupt Mexico's economic stability during Sheinbaum's tenure.

3. A small and uncertain saving grace

- Once it becomes law, the phased implementation—which schedules the election of half the federal judiciary in 2025 and the other half in 2027—is strategically designed to give Morena time to solidify control and manage any potential disruptions in the judiciary.

- As enactment will take time, changes in secondary legislation could offer the incoming Sheinbaum administration an opportunity to modulate and potentially mitigate the damage in some areas. It may provide the Sheinbaum administration enough space to at least ameliorate the risk of diplomatic challenges, such as the USMCA renewal in 2026.
- The U.S. International Trade Commission (USITC) has begun soliciting feedback on the potential renewal of the USMCA, with plans to release a report on the matter by early 2026.
- Meanwhile, the Business Roundtable has scheduled a crucial meeting with President-elect Claudia Sheinbaum in March 2025, setting the stage for key negotiations that will shape future U.S.-Mexico relations.
- Crucially, given the likely timeline for AMLO's judicial reforms becoming law at present, the above negotiations will still be in progress, compounding uncertainty for these talks, their tone, and their eventual outcome.
- Given its track record and the makeup of party leadership, we have great reason to doubt Morena's ability to communicate the saving grace offered by these negotiations to markets in the near to medium term and we expect the currency and markets to continue to backslide in the interim.

4. A Manchurian reform

- To justify the reform, the government has claimed that the current system is plagued by corruption and controlled by elites. The government argues that electing judges will make the judiciary accountable to the people.
- Mexico is in desperate need of criminal justice reform, and corruption exists in the judiciary, but not to the extent AMLO has portrayed, especially at the Supreme Court level.
- Arguably the most important binding constraints to progress in this area often exist outside of the judiciary. Rather, police are underfunded, prosecutors (an appendage of the executive) are poorly resourced (and often personally compromised), and evidence management systems are broken.
- The prevailing market view, quite understandably, is that rather than addressing corruption, these reforms appear designed to limit the judiciary's ability to challenge executive authority.
- The timing of the reforms is highly suspect. They come after the Supreme Court blocked some of López Obrador's key policies, including a decision in 2023 that struck down his attempt to keep the National Guard under military command (another contentious constitutional reform due to be voted on in the coming weeks).
- At other times, as with various energy reforms, the court moved decisively to protect existing players through its broad amparo powers rather than overturning policies explicitly – reducing their actual impact considerably.

5. Risks to Governance

- Throughout the 20th century, judicial independence was more theoretical than real, as the Institutional Revolutionary Party (PRI) exercised near-total control over appointments. It wasn't until the 1990s that Mexico's judiciary began to function independently, playing a critical role in expanding civil rights and checking executive power.

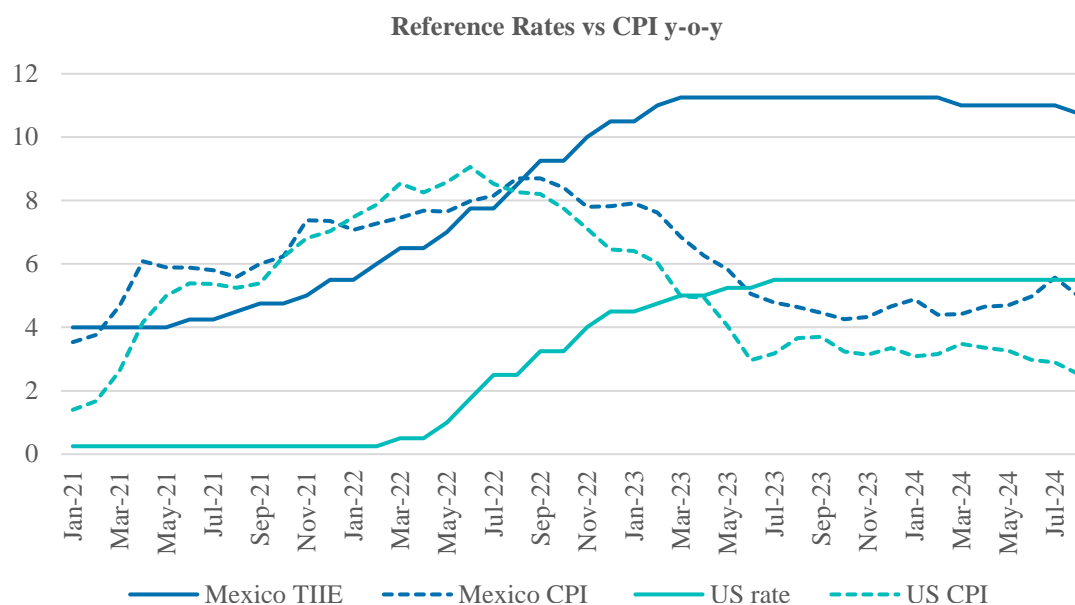
- While Mexico did elect judges under its 1857 Constitution, this system was abandoned for good reason when the 1917 Constitution sought to protect the judiciary from political interference.
- Electing judges is not a solution but a step backward. Bolivia's experience after instituting similar reforms in 2009 demonstrates how such changes can lead to increased political interference and reduced public trust in the judiciary. There, electing judges opens the door for the courts to become another political battleground, undermining their role as neutral arbiters of the law.
- For a country like Mexico, where corruption and impunity are already pervasive, politicizing the judiciary will likely weaken one of the few institutions capable of holding the government accountable. The judiciary has played a critical role in combatting organized crime, political corruption, and human rights abuses. Eroding judicial independence threatens to compromise these efforts, leaving Mexico's institutions more vulnerable to executive overreach.

6. Market Concerns and Future Risks

- Investors are already concerned. Following the Senate vote, the peso initially dropped 0.2%, though it later recovered.
- The MXN nonetheless remains 15% down since Morena's landslide victory in June. One casualty of this has been Mexico's high-flying carry trade, due in no small part to rising political uncertainty.
- Mexican economic data has likewise become [less rosy](#) in recent months, killing off the carry trade.
- Inflation, and particularly core inflation, remains persistently elevated—a significant economic headwind as Banxico has recently begun cutting rates.
- Data from the Mexican Social Security Institute (IMSS) shows that job growth in 2024 has been among the weakest since 2007.
- 365,449 formal jobs have been created to date this year, a 41% decline from 2023 and slightly edging out 2019's figures, which remain the worst since 2007.
- In the six months to June, the critical manufacturing and agriculture sectors showed a modest real terms employment decline.



Source: Bloomberg



Source: Bloomberg

- Mexico's construction sector has posted a 3% growth rate in formal employment, welcome amid the uncertain backdrop, but nevertheless 6.7% lower than the sector's 2023 growth rate.
- In this context, the imminent erosion of a crucial judicial check on executive power moving forward is unlikely to be easily digested by nervous markets, further exacerbating volatility as Mexico enters another sexennial cycle of an AMLO era with no definitive end in sight.

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