President-Elect Fox to Follow Similar Economic Policies as Predecessors

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President-elect Vicente Fox Quesada of the center-right Partido Accion Nacional (PAN) is planning to incorporate many principles employed by the administrations of Presidents Ernesto Zedillo and Carlos Salinas de Gortari into his economic agenda, including tight fiscal discipline, strong emphasis on private domestic and foreign investment, and targeting economic growth to create jobs and expand the economy.

Fox's chief economic advisor Luis Ernesto Derbez Bautista said the incoming president plans to present a comprehensive plan for his six-year term sometime in the next five months. Derbez, who has been given primary responsibility for budget negotiations for the future Fox administration, said the plan will include proposals for the 2001 federal budget, a comprehensive review of all transactions conducted under the bank-rescue program managed by the Instituto de Proteccion al Ahorro Bancario (IPAB), and proposals to boost private investment in the electrical and petrochemical sectors.

**Center-left PRD seeks input on budget**

In drafting the proposals, Fox is expected to meet with different groups, including members of opposition parties, to reach the broadest possible consensus. Derbez said the 2001 federal budget will attempt to incorporate many of the promises Fox made during the electoral campaign, including increased anti-crime and anti-poverty measures.

The center-left Partido de la Revolucion Democratica (PRD) is expected to accept Fox's offer for input on the 2001 budget. "As soon as we have developed a legislative agenda with our deputies and senators, we will request a meeting with the PAN and Vicente Fox to discuss our priorities for the budget," said PRD president Amalia Garcia.

Analyst Joel Estudillo of the Instituto Mexicano de Estudios Politicos said these meetings are important for Fox because they will set the tone for his relationship with the legislature. "The budget is really the most important thing to outline before [the Dec. 1 inauguration]," said Estudillo. "He will have to work with the opposition and this will give us a good idea of what he's likely to face in the future."

Derbez and fellow economic advisor Eduardo Sojo Garza Aldape, who are widely considered the most likely candidates to head the Secretaria de Hacienda y Credito Publico (SHCP) in the new administration, said Fox is expected to make a special push for a comprehensive tax reform that will expand the taxpayer base and close loopholes that have allowed some businesses to avoid taxes. But both Derbez and Sojo emphasized that the tax reform will not include any direct increase in taxes. The reforms could even eliminate certain fiscal charges, such as the impuesto sobre automobiles nuevos (ISAN).
Business leaders are also pushing Fox to review the value-added tax (impuesto al valor agregado, IVA), which is charged at the retail level. Fox proposes comprehensive tax reform. In an interview with Reuters, Fox said expanding the tax base is essential because 40% of the government's budget is already committed to programs to rescue the bank sector and the country's toll roads and to service internal and foreign debt. "A sweeping fiscal reform is essential to increase state revenues without boosting interest rates," said Fox. "This is the number one challenge we have in front of us." Sojo said Fox will probably delay his tax-reform proposal until fiscal year 2002, meaning that the IVA and the federal income tax (impuesto sobre la renta, ISR) will remain at current levels in 2001.

Any changes to the tax code must first be approved by the Mexican Congress, which is more divided than ever. The final election results released by the Instituto Federal Electoral (IFE) show the PAN won 208 of the 500 seats in the Chamber of Deputies, either through direct election or allocation based on the percentage of votes received. The long-governing Partido Revolucionario Institucional (PRI) will have 209 seats, while the PRD will hold 53 seats. The remaining seats will be divided among five small parties, including the Partido Verde Ecologista Mexicano (PVEM), the PAN's coalition partner in the 2000 election.

In the Senate, the PAN will control only 46 of the 128 seats, compared with 60 for the PRI, 15 for the PRD, five for the PVEM, and two for other smaller parties. "Fox doesn't have a majority, but he's close enough to build majorities issue by issue," said Jeffrey Weldon, a political-science expert at the Instituto Tecnologico Autonomo de Mexico (ITAM) in Mexico City. "He'll be able to negotiate some kind of coalition for almost everything he wants to get passed."

Weldon suggested Fox may be able to work out a deal with Mexico City mayor-elect Andres Manuel Lopez Obrador of the PRD, who will have to contend with a PAN-controlled Mexico City legislature (Asamblea Legislativa del Distrito Federal, ALDF). Weldon said Fox could offer the PAN's cooperation in the ALDF in exchange for Lopez Obrador's help in securing votes from the PRD's 10 federal deputies who represent Mexico City.

But Fox is expected to meet strong resistance from a PRD- PRI coalition for certain proposals, such as privatization of the electrical sector and the petrochemical complexes operated by the state-run oil company PEMEX. Many PRI deputies are expected to reject these privatization efforts because the proposals were originally submitted by the Salinas and Zedillo administrations, both of which have fallen out of favor with the party.

**Fox, Zedillo administration seek smooth transition**

In contrast to the potential conflicts with the future Congress, Fox's economic team has developed very cordial relations with the outgoing Zedillo administration. The two sides are working closely to ensure a smooth transition and to develop common ground on the 2001 budget. Slightly more than a week after the election, the Secretaria de Hacienda y Credito Publico (SHCP) announced an agreement with Mexico's creditors to expand the period for standby loans for another year. The US $23.7 billion in loans and credit guarantees, originally arranged in June 1999, was intended primarily to protect the Mexican economy against financial turmoil during and after the 2000 presidential elections (see SourceMex, 1999-06-30).
Under an agreement with creditors, these emergency funds have been expanded to US$26.4 billion, and the period for their availability has been extended until the end of 2001. "We hope this consolidates the level of confidence in the period of transition," said Finance Secretary Jose Angel Gurria Trevino. "Obviously the decision on whether to use these financial facilities is optional for the new administration."

Fox is also expected to continue the free-trade policies employed by Zedillo, although he is expected to push the US to make some changes to the North American Free Trade Agreement (NAFTA), including the addition of a section on immigration that allows Mexicans to travel more freely across the US-Mexico border.

Even with all the similarities to Zedillo's economic program, Fox has some differences with the outgoing PRI administration. For example, the new president is expected to decentralize economic decisions and transfer some powers to state and municipal governments. In addition, Fox is expected to place a major emphasis on programs to promote the growth of small and medium-sized businesses and to reward large companies that reinvest capital in Mexico. During his campaign, Fox frequently referred to Chile, where companies receive tax credits for reinvesting in the country.

(Sources: Agence France-Presse, 07/05/00; Reuters, 07/03/00, 07/06/00, 07/10/00; The New York Times, 07/07/00, 07/11/00; El Financiero, 07/04/00, 07/05/00, 07/06/00, 07/07/00, 07/10/00, 07/11/00; Excelsior, 07/07/00, 07/10/00, 07/11/00; La Jornada, 07/11/00; El Universal, 07/07/00, 07/10/00, 07/11/00; El Economista, 07/04/00, 07/06/00, 07/07/00, 07/10-12/00; Novedades, 07/07/00, 07/10-12/00; Reforma, 07/07/00, 07/11/00, 07/12/00)

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