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The Rise of AMLO: Part I

Although many populist movements today, especially in the West, are viewed as a recent phenomenon, it is worth noting that Latin America has had a long history with populism. Populists in South American history include Hugo Chavez in Venezuela, Juan and Eva Perón, along with Nestor and Cristina Kirchner, in Argentina, Juan Evo Morales in Bolivia, and Alan Garcia in Peru, just to name a few. It should then come as no surprise that the leading presidential candidate in Mexico is also a populist.

Andres Manuel Lopez Obrador, who goes by AMLO, is no stranger to the presidential election process. He has run for the Mexican presidency twice, in 2006 and 2012, losing both highly contested elections by a margin of 0.59% and 6.62%, respectively. Prior to running for Mexico's highest office, he was the mayor of Mexico City, where he left office with an 84% approval rating. His supporters, especially those located in the southern region of Mexico, view him as their champion.

In Part I of this report, we will examine the history of Mexico to understand AMLO's appeal and relevance in Mexico today. The report will be divided into four sections: 1) Mexican Revolution; 2) Nationalization of PEMEX; 3) Post-Cardenas Period and the Mexican Miracle; and 4) The Lost Decade. This historical background will help readers understand the rise of AMLO, which will be discussed in Part II next week.

Mexican Revolution, 1910-1920

The start of the 20th century saw Mexico in political crisis. In 1910, Porfirio Diaz, after promising a fair and free election, jailed his political opponent Francisco Madero and declared himself the winner. Madero, who saw himself as the rightful president of Mexico, escaped prison and fled to the U.S. Upon his arrival, he published the Plan of San Luis de Potosi, in which he called for Mexicans to revolt and overthrow Diaz. Madero's proclamation that "the lands that were taken from peasant communities should be returned to them" resonated with disenfranchised groups such as farmers, laborers and ranchers. These groups did indeed take up arms in support of Diaz's removal.

Despite being united in their dislike of the Diaz regime, each group of the rebellion represented a different cause. From the north, Pascual Orozco represented disgruntled merchants and laborers; Poncho Villa, also from the north, represented landowners and ranchers. From the south, Emiliano Zapata represented the indigenous people and peasant farmers. After the overthrow of Diaz, there was intense infighting among these factions due to the lack of a transition plan and coherent ideology, a common problem with populism. Populism is more of a movement rather than an ideology and so infighting within populist movements is not unusual.

As a result, there were seven presidents between 1910 and 1920 as each group fought the others for control. Pascual's group eventually emerged as the victor with the other groups agreeing to fall in with the laborers. Despite his rise, Pascual's role

within the group dwindled and Venustiano Carranza replaced him and became president. Mexico's preference for laborers was codified in the Constitution of 1917. Regardless of their conflicts, these factions eventually formed the foundation of the Institutional Revolutionary Party (PRI).

The constitution classified basic human rights as well as expanded the government's powers. The most controversial clause in the constitution was Article 27, which stated that the land belonged to the people of Mexico and could not be sold to foreign nationals. It also gave Mexico the right to expropriate private property. It would take until the presidency of Lázaro Cárdenas for the PRI party to exercise that authority.

The Nationalization of PEMEX

In 1934, Lázaro Cárdenas was elected president. He was the first president to serve out a six-year term and is revered in Mexican history as the embodiment of a perfect politician. Cárdenas vowed to create a Mexico that would be "for Mexicans by Mexicans." During his presidency, he fought for labor unions, redistributed unused land to peasants and forced out foreign nationals.

His crowning achievement was the establishment of PEMEX, the state oil company of Mexico, which many believe contributed to Mexico's longest expansion in its history. Cárdenas pursued a policy of intense nationalism that often put him at odds with the United States and other developed countries. In his battle to ensure better working conditions, Cárdenas got involved in negotiations with oil companies to end the workers' strike. The dispute went all the way to the Supreme Court, which ruled in favor of the oil companies. Undeterred, Cárdenas utilized the authority granted to him by Article 27 to nationalize the oil reserves and oil industry,

expropriating all assets from Royal Dutch Shell and Standard Oil Company and forcing all foreign nationals to leave the country. Mexico now owned all its oil production and infrastructure; the new enterprise became known as PEMEX. There was some form of compensation given to the oil companies but it was below asking price. After his nationalization of the oil industry, Cárdenas improved working conditions and workers' compensation. Foreign companies would later retaliate by lobbying their governments to levy tariffs on Mexican goods.

Post-Cardenas and the Mexican Miracle

The implementation of Cárdenas's policies proved to be a success. From 1940 to 1970, Mexico was able to increase oil production as well as expand its economy as the war and postwar expansion boosted global oil demand. This allowed the Mexican state-owned enterprises to hire more Mexican workers. With industrialization, farmers began to move to the cities. As living standards improved, families began having more children. Much of this economic growth rested on oil production, essentially making Mexico a petrostate.

The growing influence of labor unions within the PRI party led to rising corruption. The PRI used PEMEX as a medium to fulfill its promise to raise the standard of living of its citizens. This is often a problem with nationalized companies under a populist government; the company becomes a funding source for the government and a source of employment for favored workers. The jobs offered at PEMEX were low-skill and high paying, with flexible hours and generous benefits. The quasi-proletarian political environment fostered by the PRI gave labor union leaders unprecedented power within PEMEX. Many of these leaders began establishing quid pro quo

deals to enrich themselves. In addition to creating jobs, the PRI insisted on offering subsidized fuel to its citizens and prioritized sales to domestic firms over foreign firms. The policies implemented by the PRI led to weaker profit margins and PEMEX was forced to maintain a bloated workforce and sell much of its product at subsidized prices. Thus, it usually did not have enough capital to fund oil exploration and development. To make up for the lack of capital, Mexico relied on borrowing from foreign banks.

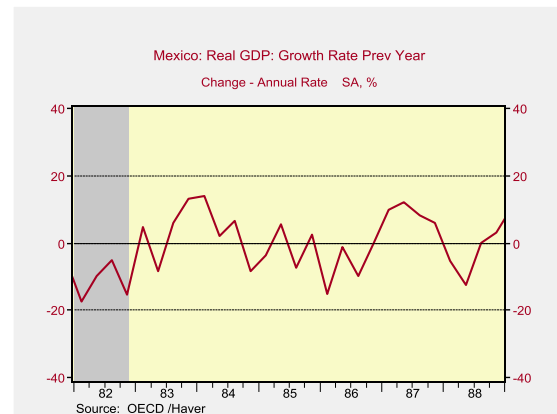
The constraints the government applied to PEMEX forced the company to make unpopular concessions to countries like the U.S. and other developed countries in order to gain access to capital markets. This is best exhibited by the time President Truman forced Mexico to raise its offer to UK oil companies for the expropriated land and equipment. In addition, the government took back the land from the indigenous people living in Chiapas and Tabasco to explore for oil and build refineries in those areas. The projects were reckless and ruined the environment within these areas.

As noted above, the industrial boom encouraged farmers to migrate to urban areas. In response, the PRI began to tailor its policies to favor the urban middle class, largely to the detriment of those living in rural areas. In order to feed this growing urban population, the government set prices for many agricultural commodities. As is often the case, these prices were established below the costs of production. Farmers struggled to maintain their livelihood and, consequently, the government had to quell small revolts in southern rural Mexico. During this period, the PRI became increasingly more authoritarian and began to retaliate against people who were openly critical of the party. Even though most people were aware of the corruption within

the PRI, they chose to remain loyal to the party due to its dominance in Mexican politics.

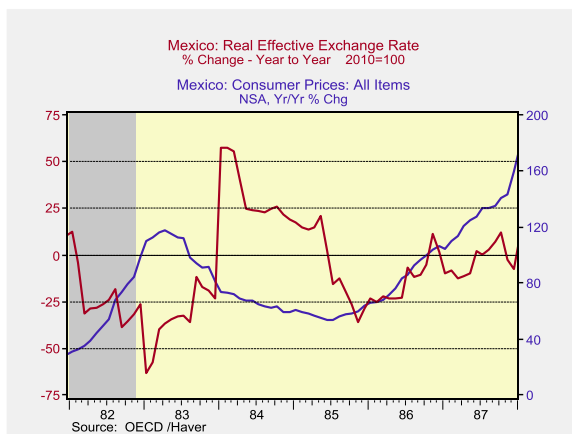
The Lost Decade

Paul Volcker’s anti-inflation monetary policy, which led to a sharp rise in U.S. interest rates and dollar appreciation, weakened Mexico’s financial position. In 1982, Mexico defaulted on its loans and had to accept a bailout from the U.S., the IMF and central banks from other developed countries. The conditions for this bailout were that the Mexican government had to cut spending, raise taxes and curb import restrictions in exchange for short term loans and partial debt forgiveness. The citizens of Mexico saw the measures as draconian and an infringement on their sovereignty. As a result, the measure led to strong opposition from the left-wing faction of the PRI. This period, commonly referred to as the “lost decade,” saw Mexico’s economy shrink 1% per year from 1981 to 1988.



The IMF austerity program was very painful for Mexicans as it was clear that their needs were no longer the priority. Domestic firms, who now had to worry about foreign competition, were forced to cut costs to survive. Many decided to relocate operations away from cities in central Mexico to the rural areas in northern Mexico. The move served a dual purpose; it helped firms avoid

negotiating with labor unions which were stronger in the south and also made it easier for them to sell goods to the U.S. The auto industry profited the most from this change as it received an influx of foreign direct investment. Although exports boomed due to these changes, GDP shrank due to a lack of government spending. Accordingly, the people of Mexico began suspecting that the PRI were prioritizing American interests over their needs. This became apparent in 1991 when Mexico began negotiations with Canada and the U.S. to establish a common market now referred to as NAFTA.



The standard of living for Mexicans fell sharply as the real exchange rate for the peso depreciated 7.6% per year, while prices rose by 83%. This situation, coupled with rising unemployment, hurt the PRI party's morale. As the situation deepened, rifts began to develop within the PRI as members sought to slow or halt some of these reforms. Disagreement between members led a left-wing faction within the party to break off and form the PRD in 1988. The PRI's popularity did drop significantly but it was able to maintain power in both the

legislative and executive branches throughout the '80s and most of the '90s. As a result, the party continued to push legislation that encouraged market liberalization. In 1991, the PRI party amended Article 27 of the constitution in order to allow foreign firms to bid on land in Mexico. Many Mexicans, especially those located in oil-rich Chiapas and Tabasco, felt slighted by the move. In the minds of a select few, the amendment was grounds for a revolution like the one in 1910.

All of this frustration came to a head on January 1, 1994, coinciding with the day NAFTA was enacted, as a militia from Chiapas known as the Zapatista Liberation Army launched a rebellion. Although unsuccessful, the revolt signified the growing mistrust people had for the PRI party. Andres Manuel Lopez Obrador, who headed the Indigenous Institute in Tabasco, would run to become the governor of Tabasco as the PRD candidate later that year. Running on a nationalist platform, he vowed to protect his people from foreign interests that were looking to exploit them. Despite losing the election in 1994, AMLO epitomized the lost soul of the revolution and proved to be a constant thorn to the PRI.

Part II

Next week, we will discuss Andres Manuel Lopez Obrador's rise in Mexican politics and how his presidency might affect U.S.-Mexican relations.

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