Mexico faces political and economic turmoil on the eve of Obama visit

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US President Barack Obama is visiting Mexico Thursday amid rising political turbulence. Mexican President Enrique Peña Nieto was forced to suspend this week's planned introduction of federal legislation to reform the banking sector following the release of recorded evidence that operatives of his Institutional Revolutionary Party (PRI) in the state of Veracruz had plotted to tie disbursement of federal anti-poverty funds to support for the PRI in the upcoming July 7 state elections.

Peña Nieto took over as president in December after 12 years of rule by the right-wing National Action Party (PAN), which itself followed on 71 uninterrupted years of PRI rule. The Veracruz scandal called into question, at least temporarily, the viability of the so-called Pact for Mexico. A deal was reached last December between these two parties and the third major Mexican party, the center-"left" Party of the Democratic Revolution (PRD), to back Peña Nieto's "reform" agenda.

This 34-page agreement proposed 95 reforms to the judicial and educational systems, national security, labor relations and the banking, energy and media sectors of the economy.

At the time that the PRD's president, Jesús Zambrano, signed the pact, the party's general secretary, Alejandro Sánchez Camacho, said that Zambrano's signature was a personal choice, and did not bind the PRD. But so far the PRD has supported the legislation, including Mexico's recent labor reform bill, which allows hourly wages for a maximum of eight hours per day, temporary hires, subcontracting labor, and probationary employment periods of up to six months. The legislation was passed after measures purportedly aimed at creating union transparency and accountability were weakened at the hands of PRI and PRD legislative deputies, who have long maintained cozy relations with corrupt union bosses.

In his campaign, Peña Nieto had promised a new, more democratic and less corrupt PRI. The revelations of election corruption in Veracruz naturally call all this into question.

PRI Social Development Minister Rosario Robles, a former PRD member, initially came under heavy fire for these shenanigans. When Peña Nieto refused to fire her, additional sparks flew. As a result, Peña Nieto was forced a few days later to insist there would be no tolerance for the use of social programs for electoral ends.

The PAN, said its leader, Gustavo Madero, would not attend the banking reform presentation in the wake of the corruption allegations, threatening to withdraw from the pact. Certain PRD officials then echoed this threat.

On Friday of last week, Mexican Government Secretary Miguel Ángel Osorio Chong told the Spanish daily *El Pais* that the crisis of the Pact for Mexico arising from the corruption allegations had not been overcome.

Jesús Ortega, former chairman of the PRD and a member of the pact's presiding board, told Reuters that the reform would proceed once the inter-party disputes are settled. Jesús Zambrano, president of the PRD and another member of the pact's board, after initially expressing outrage, agreed. Similar sentiments were expressed by other senior officials of the PAN.

According to the Mexican *El* weekly magazine *Proceso*, of all three parties in fact met over the weekend and reportedly agreed to measures to shield social programs from being used for electoral ends.

An indication of how this will play out will likely be seen in whether a sweeping telecom sector bill passes this week as expected. The bill was ostensibly designed to curb the power of billionaire Carlos Slim Helú's phone giant América Móvil and the largest Mexican broadcaster Televisa, permitting competition from foreign and domestic firms.

The immediate casualty of the dustup was a delay in the banking legislation. Mexico's commercial credit market, at 10 percent of GDP, is the smallest of any country in Latin America, with less than half the share in Brazil. That is because historically, Mexican banks have preferred to make money on high-interest rate credit cards, buying government bonds and lending to large companies.

Because it is difficult to execute on loan collateral in Mexico, small and mid-sized businesses, which account for 98 percent of companies in Mexico and employ 70 percent of its workers, have had great difficulty obtaining credit. Under the new banking plan, government development banks will offer more loan guarantees through commercial bank lenders, along the lines of the Brazilian model.

What has been invariably left unsaid is that because almost all large Mexican banks are now owned by giant foreign banks, the legislation will greatly benefit them as well.

In 2009, the Mexican economy, the thirteenth largest in the world, plummeted 6.4 percent. Mexico averaged 2.5 percent growth over the last decade, slower than the 3.6 percent pace in this period for all of Latin America. Last year the Mexican economy grew 3.9 percent, far faster than Brazil, Latin America's biggest economy, which had stalled.

The securities firm Nomura has predicted that the economic overhaul will help Mexico overtake Brazil in GDP within a decade. But the economy expanded at the slowest year-on-year pace in more than three years last month, due to a drop in industrial activity.

Mexico's unemployment rate also rose in March to a seasonally adjusted rate of 5.01 percent, further stoking concerns of sluggish growth. Official unemployment rates still have not reached pre-crisis rates, which were below 4 percent.

Rising wages in China since the 2009 crisis have, in fact, led many firms to relocate their manufacturing plants to Mexico, where wages remain relatively low. The labor legislation passed earlier this year was designed to constrain wages in order to maintain this competitive advantage.

Easier access to US and Canadian markets through the North American Free Trade Agreement, and shorter distances to travel to these markets, have also contributed to the increase in Mexican production.

US-Mexico trade amounted to $500 billion last year. Mexico is the most important export market for 22 of the 50 US states.

Much of the recent growth in the Mexican economy is due to foreign direct investment in high-tech production in Mexico's central states, from Jalisco to the west to Guanajuato and Aguascalientes to Querétero in the east. Guadalajara, Mexico's second largest city, in Jalisco, is now heralded as Mexico's Silicon Valley.

According to Peña Nieto's chief economic adviser, Mexican Finance Minister Luis Videgaray, the overall goal of the Pact for Mexico program is to boost annual economic growth to 6 percent.

Other economic measures Videgaray says he expects to contribute to the higher growth rate are "zero deficits—excluding investment in state oil company Pemex—and fiscal responsibility."

Peña Nieto is stressing foreign investment to upgrade the productivity of Pemex, which has seen production drop from 3.8 million barrels per day in 2004 to just 2.9 million in 2011. In its turn to opening the Mexican economy to international exploitation, the PRI, which nationalized foreign oil holdings under President Lázaro Cardenas in 1938, long ago dropped its populist and nationalist objections to selling off Pemex.

Peña Nieto has discussed going beyond joint ventures with foreign companies to permitting investment in ownership of Pemex, even though the Mexican constitution bans this.

In the last two elections, the PRD's presidential candidate, Andrés Manuel López Obrador, raged against privatizing Pemex. But since the December election, that position has been exposed as little more than political showboating. Now elements of the PRD have eagerly embraced these proposals to restructure Pemex. They simply want to maintain their relations with the corporatist leadership of the oil workers union during that process.

In the final analysis, all three of the major Mexican political parties are now united in opening up the Mexican economy to foreign capital. All have become conscious servants of international finance capital.

Their unity in approving the Pact for Mexico reflects this. Whatever squabbles they may have amount to tactical disagreements about how to best accomplish these ends.

Inevitably, despite some political grandstanding over the Veracruz electoral scandal, all of the Mexican bourgeois parties will back these reforms so as not to upset investor confidence.

Accolades for Mexico's reforms have come from the highest levels of international finance. At a press conference in March during a meeting of the World Bank and the International Monetary Fund, the IMF's director, Christine Lagarde, lauded Peña Nieto's reform program, particularly stressing his efforts at "privatization of various sectors of the economy."

Over the last year, indirect foreign investment in Mexico has reached a flood, with Mexican shares and bonds routinely depicted as highly promising. Foreign funds tracked by the EPFR Global index invested a record $8.78 billion in private Mexican debt in 2012.

This investor optimism overlooks that growth in the Mexican economy, geared for exports, is completely tied to the fate of the world economy, which continues on shaky footing and is heading downward.

The Mexican bourgeoisie and its "reform" program also ignore the precarious position and suffering of the Mexican working class. Over half of Mexico's population, well over 50 million people, continue to live in poverty. Upwards of 18 million Mexicans go hungry.

Most jobs created since the 2009 economic crisis pay only around $10 a day. A high percentage have been temporary or part time. Yet the cost of food and other necessities continues to rise. This is the result of international speculation in commodities and the gearing of large-scale Mexican agricultural production for export.

In contrast, the wealth of the richest 39 Mexican families amounts to over 13 percent of the country's gross domestic product. The wealth of the ten richest people in Mexico, including that of Carlos Slim Helú, the world's richest man, exceeds ten percent of GDP.

The Mexican working class has no voice whatsoever, including among the groups that posture as "left" critics of the reform programs.

Conditions are growing increasingly ripe for mass struggles against the current political and economic order. These are being fueled by Peña Nieto's reforms. Recent struggles of teachers across the central and southern Mexican states of Michoacán, Guerrero and Oaxaca and elsewhere reflect this brewing cauldron. (See "Teachers struggle erupts in Mexican state of Guerrero")

During his visit this week, Obama is expected to join in the accolades for reform of the Mexican economy and push to end any lingering restrictions on the penetration of US capitalist investment.

Behind the scenes, Obama will attempt to deal with a new setup in terms of the security relationship between the US and Mexico.

During the six years of Felipe Calderon's presidency, the US played a historically unprecedented role in Mexico's internal security. It spent $2 billion providing intelligence and drug agents, police and military trainers, drone aircraft and other assistance. CIA, DEA, FBI and border patrol agents had direct access and worked side by side with units of Mexico's federal police, army, navy and other agencies. These activities were purportedly focused on Calderon's "war" against the drug cartels, which cost 70,000 lives while thousands of others disappeared.

Much of this activity had been channeled through a powerful Public Security Ministry, which included the federal police. A law approved December 13, 2012 dissolved that agency, leaving all federal security efforts under the umbrella of the Interior Ministry.

In an interview with the Associated Press on Monday, Sergio Alcocer, deputy Mexican foreign secretary for North American affairs, emphasized that all US contacts will now have to go through senior channels at the interior ministry.

Alcocer seemed to depict the drug war as a diversion from Mexico's striving "to convert the North American region into the most competitive and the most dynamic region of the world," and "integration" of the US and Mexican economies.

The *Chicago Tribune* said Monday that the PRI wants to assert much more control over how US officials operate in Mexico, citing a former Mexican official with close ties to the administration who said that the "doors [to the Americans] are closing."

This may not prove to be so easy, given that US involvement has become so deeply entrenched in Mexico's security establishment.