

# Mexico

<b>Status Index</b> (Democracy: 3.4 / Market economy: 3.4)		<b>6.8</b>	<b>Management Index</b>		<b>5.5</b>
<b>System of government</b>	Presidential democracy		<b>Population</b>	100.5 mill.	
<b>Voter turnout</b>	64 % (Presidential elections 2000)		<b>GDP p. c. (\$, PPP)</b>	8,430	
<b>Women in Parliament</b>	15.9 %		<b>Unemployment rate</b>	2.5 %	
<b>Population growth<sup>a</sup></b>	2.0 %		<b>HDI</b>	0.80	
<b>Largest ethnic minority</b>	12 %		<b>UN Education Index</b>	0.86	
			<b>Gini Index</b>	51.9 (1998)	
Data for 2001 – if not indicated otherwise. <sup>a)</sup> Annual growth between 1975 and 2001. Source: UN Human Development Report 2003.					

## 1. Introduction

Mexico's transformation process entered a new stage when Vicente Fox Quesada was elected president on July 2, 2000; he had convinced the people of Mexico to vote for change and that he would be its agent. In this, the "Friends of Fox" played a greater role than Fox's own party, the National Action Party (PAN).

Yet though the president was undoubtedly elected democratically, he faces not only vague and confused expectations for change, but a situation entirely new to the nation's political architecture. Although a strikingly unequivocal 42.52 % voted for Fox, only 38.23 % voted for the "Alliance for Change", which was comprised of PAN and the PVEM (Green Party); the PVEM left the PAN in 2001, it now allies with the PRI. With 208 MPs, Fox's PAN already in the 2000-2003 period held fewer seats in the Chamber of Deputies than the 209 held by the Institutional Revolutionary Party (PRI), and PAN also lacks a majority in the Senate; this relation has further worsened for the PAN after the mid-term elections 2003 (151 vs. 222). Of Mexico's 32 states, 10 are governed by PAN or electoral coalitions in which PAN is the majority partner, 17 states have PRI governors, and five are led by the Party of the Democratic Revolution (PRD).

Being a member of the party only since 1988, the president must continually seek new support for his political projects within his own party as well as in parliament. Fox and his cabinet have relatively little political experience. From the party's point of view at times they are complete strangers—the majority of the cabinet members do not even belong to the party—and ill acquainted with administrative structures and center-periphery relationships. By contrast, Fox's

predecessors had close political ties with their own party, the PRI, and had decades of experience both in the party and in public administration; they passed through various stages, becoming known outside their own regions before being chosen as presidential candidates.

Nevertheless, this situation is breathing unusual new life into the parliamentary system and federalism as it gives the legislature (the Chamber of Deputies) increased influence in relation to the executive branch and the president. Furthermore, it has opened new doors to the individual states and their governors with respect to the central authorities and what has until now been a powerful presidential system. The legislature is gaining independence, governors are gaining power, and the president must constantly seek new allies. On the other hand, the new political pluralism made possible by Fox's election is also impeding the swift decision-making and conspicuous changes needed to strengthen the transformation process. This is clearly illustrated by the limited success of President Fox's most important political projects so far: The Chiapas conflict remains unresolved, and tax reform, Fox's key economic project, is still incomplete, paralyzing the government's ability to act on economic and social issues.

## **2. History and characteristics of transformation**

Although indications that the old regime was eroding had been apparent for some time, a change in the ruling party and a government of an entirely different political persuasion did not become possible until the July 2, 2000, elections. Ruling for 71 years, the PRI regime's ability to adapt not only protracted the transformation process, it continues to have an impact on the present situation. For a long time, the old regime and its "official" party—as many refer to the PRI—relied on prestige from the Mexican revolution at the beginning of the last century (1910–1917) and the constitution that emerged from the revolution.

For decades, economic growth and political stability was based on a mixed economy, import substitution-based industrialization, and a nationalist-populist balance of power between the metropolitan coalition for modernization that dominated central power (comprising government, business, industry and unions) and regional or local power groups (*caudillos* and *caciques*). Close ties between the PRI and the president, and the president's strong position with respect to the 31 state governors and the head of government (*jefe de gobierno*) of the Federal District connected these two forces.

Among the key demands of the liberal forces in the 1910 revolution were free elections and the prohibition of re-election to political office. Yet although both of these conditions were included in the Mexican constitution and identify the republic as a representative parliamentary democracy, they have been as absent in

reality as the rule of law and true federalism. Nevertheless, a relatively mild and integrative, by Latin American standards, form of authoritarianism emerged that enjoyed broad social and popular support from the 1930s as well as a long period of political and economical success.

Presidents in the past, elected to a six-year term, held a strong position not only at the national level and within the PRI but in relation to the states. Although states elect their own governors and state legislatures, both they and the municipalities remain dependent on the central government for financial support. In the complex balance of power between the coalition for modernization in the center, and regional and local power groups, the most recent PRI governments depended heavily on support from the peripheral states.

Without an alliance between the neo-liberal economic reformers of the center and the traditional local *caudillos*, it would not have been possible to shift the economic model away from state controlled, import-substitution industrialization toward an export-oriented economy in which the state largely withdrew from its function as producer and regulator. Both the complex balance of power and the capacity to manage various interests of the old regime have been disrupted by the new political pluralism and the emergence of different majorities at the national, regional and local levels.

Key market-economy features such as private property, trade freedom, free utilization of profits, etc., were established as early as post-revolutionary Mexico and were not questioned at the time. However, the institutional framework, including anti-trust and competition policies, and banking supervision, was then and remains under-developed. A market-based economic model characterized by import-substitution industrialization and the coexistence of semi-state and private enterprises laid Mexico's industrial foundations, but it did so increasingly at the expense of agriculture from the 1960s onward. The impoverishment of peasants, particularly the rural indigenous population, and increasing migration to the cities and the United States are repercussions still evident today.

The debt crisis of 1982 created serious problems for the Mexican model. For becoming one of the most important producers and exporters of petroleum, Mexico had indebted itself to a great degree, which caused the crisis: in 1981 interests increased dramatically and the petroleum prices plunged. One of Latin America's biggest debtors to international banks, the Mexican government declared insolvency in 1982. Coupled with added pressure from international financial institutions, the situation caused the De La Madrid government (1982–1988) to initiate liberalization of Mexico's foreign trade relations (by entering GATT in 1986), to privatize or close the semi-state companies, and to introduce a severe austerity policy. Market liberalization was marked by a comparatively rapid and meaningful reduction in trade restrictions, the privatization of semi-state companies, with the significant exception of those involved in the production and

sale of oil, and the reduction or elimination of subsidies in the food and agriculture sectors.

There was, of course, significant outside support for this change; the United States and other creditor countries were far more willing to reschedule Mexico's debts than those of other debtor countries. The governments that followed under Carlos Salinas de Gortari (1988–1994) and Ernesto Zedillo (1994–2000) followed the course of this liberal economic policy and achieved the North American Free Trade Agreement (NAFTA) and Mexico's admission to the OECD in 1994.

The central bank was formally made independent and the banks were re-privatized. However, an ailing, inefficient banking system was the result. During the huge debt wave 1994–1995, although the main debtors were private entities, public money was used to dig out the indebted banks. Though the crisis was also due to millions of small debtors that had loans for cars, houses, etc. only the big debtors saw their debts absorbed by the government. With regard to fiscal policy, Mexico was unable to modernize its fiscal authorities, reduce dependence on oil revenues or stabilize the refinancing of government debts. The peso crash revealed that the various rescheduling negotiations had been for naught. Although they had provided some budget relief, particularly in the early 1990s when Salinas de Gortari managed to convert short-term debt into long-term debt, they were not accompanied by structural improvements. This situation puts tight limits on the Fox government's scope of action.

### **3. Examination of criteria for democracy and a market economy**

#### **3.1. Democracy**

Mexico has undergone significant changes in its political transformation, particularly with regard to the electoral process and the growing importance of elections to political legitimacy. These changes are closely related to the establishment and evolution of new institutions and procedures based on the rule of law and the emergence of civic organizations. Nevertheless, serious problems remain with respect to the rule of law.

##### **3.1.1 Political regime**

*(1) Stateness:* Although the nation is not currently faced with a fundamental crisis of stateness, it is experiencing several difficulties with respect to limits on the "reach" of the state. The biggest problems are drug trafficking and a sort of feudalisation of power that was formerly concentrated around the president. Many regions are now strongly controlled by local caciques, and often there is a clash between caciques or rival groups that lead to open fighting, as in Oaxaca, Chiapas, and Guerrero. Individual successes in purging the anti-drug police forces through

military involvement and the arrest of high-level PRI politicians who worked directly for the cartels are noteworthy. However, serious security problems, such as the smuggling of drugs, weapons and people at the country's borders, have not yet been overcome. Many of the large cities are plagued by violent crime while corruption within the police and the judicial system persists despite reform efforts. In regions where guerillas or paramilitaries have the upper hand, and in regions that are controlled by drug cartels, the state cannot effectively enforce its monopoly on the use of force.

Despite his personal engagement, Fox was unable to find a quick resolution to the Chiapas conflict. Conservative PAN and PRI MPs have repeatedly accused the Zapatista Indian movement in Chiapas of compromising national sovereignty—even of “Balkanizing” Mexico—by fighting for a constitutional amendment that would grant indigenous peoples greater self-determination and autonomy. However, the Zapatistas and their many followers within the indigenous movements are not separatists renouncing their citizenship; rather, they want to place their citizenship on a new constitutional foundation and make Mexican citizenship and legal status possible for many for the first time.

In reducing its military presence in the areas of conflict in Chiapas, and with the Zapatista March which ended in early 2001 with impressive speeches by Zapatistas before parliament, the newly elected president and the Zapatista Army for National Liberation (*Ejército Zapatista de Liberación Nacional*, EZLN) have laid a solid foundation for agreement. Fox himself introduced the agreements negotiated with the EZLN and the constitutional reforms prepared by the parliamentary Commission of Concordance and Participation (*Comisión de Concordia y Participación*, CCP) to the Congress. However, they failed to win a majority vote, and Fox lost to the PRI and his own party.

Although the current president openly professes his faith in Catholicism, Mexico maintains the separation of church and state. Nevertheless, the influence of the Catholic Church and its highly diverse groups—ranging from liberation theology to Opus Dei—has grown and is currently significant.

(2) *Political participation*: The Mexican electoral system has undergone a most radical transformation. Since the electoral reform of 1996, when the government gave the Federal Electoral Institute (IFE) total autonomy, elections are decided at the polls, and post-election disputes are addressed in a process grounded in the rule of law. This was not the case during the long period of transition, particularly during the last years of the PRI regime. In fact, between 1989 and 1994, it was almost common practice that opposition election victories resulted from post-election negotiations between the parties and the president.

The 1917 electoral law has been reformed numerous times since the end of the 1970s. The establishment of the IFE in 1990 created a new type of public institution for Mexico. During the 1990s, the IFE evolved into an electoral

authority independent from the PRI and the state in which civic organizations and election observers work together. Establishment of the IFE was initially a top-down action, but it not only survived various presidential terms, it has also gained influence, resources and independence, and represents a new type of public institution able to implement new legal procedures.

The IFE, which is now separate from the government, is responsible for creating and managing clean voter rolls, creating ID cards secure against forgery, and drafting reform proposals for the electoral law. The legislation initiated by the IFE has considerably improved party financing and media access for all parties, both of which had been controlled by the PRI for decades. The IFE is also responsible for conducting, monitoring and reviewing elections. It is recognized by all parties and has a good reputation abroad.

Together with the IFE one has to mention the creation of the TRIFE, the Tribunal Federal Electoral. Created in 1990, in 1993 it gained the competence to review elections, except the presidential elections. In 1996 this competence was also taken away from the Congress and given to the TRIFE, now part of the judiciary and renamed as Tribunal Electoral del Poder Judicial de la Federación (TEPJF). The TEPJF is the highest court in electoral questions. Any decision taken by the IFE or any disagreement between parties eventually arrives before this electoral court. It determines and declares final results and reviews election irregularities.

The TEPJF was able to use formal legal procedures to effectively thwart efforts by the old PRI power cliques in Yucatan and Tabasco to manipulate the 2000–2001 gubernatorial elections. Without the critical involvement of civic organizations, which give expression to a new awareness concerning elections and political forms of legitimacy, elections would not have become the flagship of Mexico's transition. The rights to political organization and communication have been expanded, and their enforceability has improved.

The mass media have played an inconsistent role in Mexico's transformation process. On one hand, numerous journalists critical of the absence of the rule of law and who reported concrete human rights violations were the victims of targeted government repression. On the other hand, most mass media were integrated into the regime in a unique way.

Although direct censorship was rare, those wielding political power, and some employers as well, exerted and continue to exert a heavy influence on reporting. A variety of disguised forms of advertising, solicited articles, the placement of information and pictures, the "augmentation" of news, and mixing news, commentary and advertising are all tools that continue to be used to manipulate the media in many areas and certain regions. These practices are facilitated by poor pay for many journalists and the lack of media laws.

It is not unusual for established networks between PRI groups and the local media to be used to discredit democratically elected PAN and PRD governments and governors. Nevertheless, a new form of investigative journalism and new print media emerged in the north and the capital in the 1990s; the mastermind and champion of this development was the weekly *proceso* and its publisher, Julio Scherer.

(3) *Rule of law*: Two years after Vicente Fox took office, the human rights situation in Mexico is ambivalent. Although significant progress has been made, systemic structural deficits persist, allowing for continued and severe human rights violations. The fact that human rights occupy a prominent position on the current president's political agenda can certainly be rated as positive. This importance is illustrated by Fox's appointment of human rights advocate Mariclaire Acosta as Ambassador for Human Rights and Democracy of the Ministry of Foreign Affairs.

One should also mention the National Commission of Human Rights which was created as a dependency of the Ministry of the Interior in 1990. In 1992 it was given constitutional rank, but remained within the Ministry. In 1999 it became completely autonomous with its own economic resources, although it is still the president that suggests the name of its head and it has to pass through the Senate for ratification.

The government has now admitted that human rights abuses were perpetrated by the state in the 1960s and 1970s. Thanks to the president's intervention, prominent victims of the justice system have been given early release from prison. Although a humanitarian gesture on the part of the president, his action highlights the shortcomings of the Mexican judiciary. Only personal intervention by the president—and not the initiation of a new trial—gave freedom back to those who had been wrongly imprisoned. Time and again, public prosecutors insist that they are not responsible when members of the judiciary are on trial.

Further, many human rights violations are perpetrated by members of the military, particularly in the states of Guerrero, Oaxaca and Chiapas. Since the 1960s, the military has been used increasingly for policing, and for “counter-insurgency” and “counter-narcotics” operations; military jurisdiction in such cases usually prevents fair proceedings. Even states where PAN has been in power for some time have not seen significant improvement in the court system. One example is the handling of a series of murders which has been going on for ten years in the border city of Ciudad Juarez.

This more than ambivalent picture also applies to other aspects of the rule of law. For a political system that was aptly dubbed an “elected monarchy” for decades, separation of powers became remarkably well institutionalized after Zedillo recognized the notion of a divided government following the 1997 parliamentary

elections. This applies not only to the relationship between the executive and the legislative branches—which is nonetheless subject to stalemate due to the balance of parties in Congress—but also between the executive and the judiciary. The increasing independence of election authorities and electoral tribunals has increasingly enabled the Supreme Court to safeguard its previously nominal independence and to secure competence over judicial review. However, this development has only had a limited effect on the independence of the judiciary as a whole. Serious deficiencies such as widespread official impunity and corruption, particularly in the lower courts, have thus far remained unresolved.

Cases also continue to exist in which court decisions are simply disregarded; in PRI-governed Yucatan, a federal electoral tribunal decision was only recognized after a long struggle.

### 3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: The election of Vicente Fox marks a change for the better in Mexican attitudes toward democracy. Following the presidential elections of 1988, in which PRI candidate Carlos Salinas de Gortari won by a small margin, and only with the help of electoral manipulation, an awareness of the importance of elections began to emerge in the population.

While the IFE and the human rights commission are still the only democratic institutions that enjoy popular confidence, even the IFE cannot claim the same trust that Mexicans place in the rather undemocratic Catholic Church. The police, the justice system and the fiscal authorities are neither effective nor accepted by their constituents; inefficiency within administrative structures remains a key problem. For example, the fiscal authorities can hardly combat tax evasion effectively without a uniform system for taxpayer registration.

(2) *Political and social integration*: The process of restructuring Mexican parties and the party system is not yet complete. Following the July 2, 2000 election losses, elections within the PRI were delayed until early 2002. The other parties also restructured at this time, but neither the PRI, the PRD nor the Greens managed to conduct clean internal elections.

Within the PRI, Roberto Madrazo Pintado, former governor of Tabasco and representative of the old *caudillo* guard, defeated Beatriz Paredes, the representative of the social-democratic reform faction. Many PRI and PRD MPs continue to act from a more traditional political ideology in which *gestión* (management), negotiations and individual constituencies are more important than parliamentary work in commissions. PAN, or at least parts of PAN, is often the more modern party in this respect.



Unions and employers associations are still corporately organized for the most part and have long been weakened by massive restructuring and serious crises. Civic organizations gained importance in the 1990s and can now expect to receive public financing under certain conditions, but they do not present an alternative to the parties. At the same time, though the number of autonomous NGOs is still very low, the Mexican society is characterized by a growing degree of self-organization to articulate positions peacefully within social movements. An example is the week-long Zapatista March from Chiapas to Mexico City, in which a variety of social forces were peacefully involved. Acceptance of democracy as the system of government is relatively high at 63 % in 2002, yet satisfaction with democracy as practiced is low, registering 18 % in the same year.

### **3.2 Market economy**

The “government of change” is building upon important economic reforms undertaken by its predecessors, including a general opening to the world market, membership in NAFTA and the OECD, and free trade agreements with the EU. Radical privatization was also carried out in the late 1980s and the 1990s, except for the oil extraction and processing company PEMEX, the state’s most important source of revenue, and a few other companies e.g. in the electricity and water sectors as well as the post office. When the new president took office, macroeconomic indicators were relatively stable. Since then, the weakness of the United States economy has had a severe impact on Mexican exports in general and the *maquiladora* industry in particular. The reforms neglected by the preceding governments also present a difficult legacy.

#### **3.2.1 Level of socioeconomic development**

After the 1994–95 peso crisis and consequent decline in economic growth, the Mexican economy, and manufacturing in particular, recovered to an annual growth rate of 5.6 % thanks to the devaluation of the peso between 1996 and 2000. The economic slump in the United States hit Mexico directly; Mexico’s GDP dropped 0.3 % in 2001 and has not yet recovered. Transformation’s social debt is revealed in the increasingly uneven distribution of income and wealth, the spread of insecure employment, falling or stagnating wages, and the increase in the number of people living in poverty from 19.0 million in 1990 to 23.8 million in 2000. Women in urban slums and rural areas are particularly hard hit, as is the indigenous population, particularly in the southern states.

At the same time, almost no public funds remain for the “war against poverty,” though renewal of the “war” is declared time and again. The government no longer has the option to apply privatization revenues to poverty reduction and social welfare programs, as it did under Salinas de Gortari (1988–1994) when the

solidarity program PRONASOL was largely financed by privatization funds.

### 3.2.2 Market structures and competition

The basic elements of free-market competition are more developed than other areas. Joining NAFTA on January 1, 1994 has played a decisive role in the liberalization of foreign trade and other market-based reforms. Since the de-industrialization of the 1980s, which hit Mexican companies hard, new international companies have set up facilities in the north and in the area around Guadalajara. These companies are part of an extremely flexible, international cooperation based on the division of labor and are highly competitive. However, they are similar to the technologically less complex *maquiladora* or “Border Industrialization Program” industries in that they are extremely dependent on the international economic situation.

Of the 400,000 formal jobs that were lost in 2001, many were in these new industries. The banking system and the capital market have increasingly solid foundations, a result in part to the fact that it has been acquired by foreign capital up to 80%, so by US banks (Banamex), Spanish (Bancomer, Serfin), English (Bital) and Canadian (Inverlat). Nevertheless, the banking system still suffers from the wave of collapses that followed the 1994 peso crisis.

### 3.2.3 Stability of currency and prices

Since 1988, Mexico’s stability policy has focused on attracting foreign capital by fighting inflation, maintaining high interest rates, and over-valuing the peso in order to offset a lack of capital and foreign trade deficits—even if the capital that comes in is only short-term and speculative. Although the 1994–95 peso crisis brought the limits of this policy into sharp focus, and real economic recovery was based on peso under-valuation and low interest rates, a tendency remains toward over-valuation and all of its associated risks. Not only is the economy dependent on the United States, which purchases 90 % of Mexico’s exports, the peso’s close connection to the dollar often results in over-valuation of the peso, which hinders Mexican exports elsewhere, such as to the euro area.

Mexico itself is less and less able to influence its own macroeconomic fundamentals. However, this was one of the declared aims of the NAFTA negotiations, as the negotiators did not want to leave certain market-based reforms to the whim of whoever might happen to be in power in Mexico. This applies to monetary policy as well as to industrial policy. For all the Mexican governments’ attempts to reduce the nation’s extremely high dependence on the United States for export trade, as by negotiating a free trade agreement with the EU for example, little has changed. Fiscal reforms, which have been unsuccessful so far,

can hardly have long-term effects without reform of the fiscal authority and a shift in the financial relationships between the central government, the states and the municipalities.

### **3.2.4 Private property**

Property rights, including those of foreign investors, are for the most part defined and safeguarded in principle. However, there are limitations on the legal security of these rights, particularly at the state level and in the south. Corruption and the preferential treatment given to the wealthy are as much a problem as unsettled property rights, particularly in southern states such as Chiapas.

### **3.2.5 Welfare regime**

The first fundamental changes in the social welfare system took place while Ernesto Zedillo was still in power. The Mexican Social Security Institute (IMSS) established in 1944 was reformed in 1997. The IMSS provided workers accident insurance, pension insurance, and health insurance for individuals formally employed in the private sector. It also provided child-care for working mothers as well as a number of other services. Reforms separated the individual areas and shifted the pension insurance program from a distribution scheme to a individual saving system. The reforms were motivated by the bank collapses and capital shortages caused by the peso crisis, which in turn resulted from a chronically low savings ratio and capital flight.

Privatization of the State Workers' Safety and Social Services Institute (ISSTE) is currently being prepared under the initiative of the World Bank. The ISSTE is the insurance program for individuals employed in the public sector. The costs involved in its privatization burden the national budget as much as the costs of the health care system. Previously, health care costs could be offset within the IMSS (or ISSTE) by redistributing funds from the pension scheme to the health scheme. The deficits resulting from the separation of these two schemes are enormous and must be reduced through health care reforms. Privatization of the social security system will result in the exclusion of the uninsured and reduce the number of enrollees, thus shifting social problems and increasing inequity.

### **3.2.6 Strength of the economy**

Mexico's economic performance is strongly dependent on outside influences, primarily the United States economy. Where the actions of the Mexican government are of key importance, in fiscal policy for example, the government is finding it difficult to deal with inherited problems, and its performance is

relatively weak. The Mexican government's total revenues are about 20 % of GDP. But if one looks only at the revenue from value-added tax (IVA), income tax and business tax—that is, excluding PEMEX and similar revenues— then the rate fluctuates between just 9.4 % (1980) and 10.7 % (2000). Measured in this way, Mexico's taxation ratio stands at the lower end of the middle-income Latin American economies and at the bottom among OECD countries.

Oil revenues still account for more than 30 % of the federal budget, and the price of crude oil, which is currently high, has a positive impact on the budget. In order to increase the taxation ratio, Fox attempted to implement tax reform based on two pillars: introduction of value-added tax (IVA) on all goods including food and medicine (at present, only 55 % of all consumption is subject to value-added tax) and the simplification of the direct taxation system.

For the 2002 budget, the top income tax rate was reduced from 40 to 35 %, a uniform tax rate was introduced for business income, and many tax subsidies were eliminated. Fox's plan to introduce a uniform value-added tax was defeated in Congress, but also met resistance within Fox's own party. Instead of a single rate, the agreed compromise provides for an IVA increase from 15 to 20 % on luxury goods such as mobile phones, alcohol and tobacco. Many companies, including some from the United States, would like to contest the tax reform, claiming that it violates NAFTA principles of equal treatment. The PRI also wants to contest the reforms on the grounds of economic discrimination. Thus, NAFTA could become a tool to block an increase in federal tax revenue, something the World Bank has demanded, and prevent the government from improving its achievement potential.

### **3.2.7 Sustainability**

Progress has been made in environmental policy in the past years. The extremely high level of pollution in Mexico City was reduced in the 1990s. There are very good educational institutions, particularly at the university level, but the state needs to step up its investment in primary schools and vocational training.

## **4. Trend**

(1) *Democracy*: By electing a “government of change,” Mexico has proved itself an effective democracy with respect to elections. After ten years of forced electoral reforms, the nation now has efficient public institutions capable of managing even conflict-laden elections in accordance with the principles of the rule of law. After 71 years of PRI rule, a strong presidential system and complex power relationships between the center and the periphery, the parliamentary system and federalism can finally be experienced in reality. However, this also means that rapid restructuring within the regime, as occurred in the economic

arena from 1988 onward, can no longer be prescribed from the top down. Instead, it will now have to be implemented by multiple stakeholders and within democratically legitimized institutions.

The biggest problems are those inherited from previous regimes: a state that is relatively weak in terms of economic and political order, an inefficient administration and deficiencies in the rule of law that are particularly problematic in some regions and with respect to certain sections of the population. At the same time, the development of public institutions new to Mexico indicates that the combination of the government's will to reform and civic participation can bring about relatively speedy progress.

For example, the Zapatista March's focus on the parliament indicates that the legislature has gained importance. In dealing with the Chiapas conflict, the Commission on Concordance and Pacification (COCOPA) was created as a working congressional commission, roll call voting was approved in the PRI and the PRD, and the parliament has become a public arena. The fact that COCOPA, the Zapatistas and Fox failed to push through their draft constitution demonstrates just how complicated and frustrating parliamentary democracy can be.

(2) *Market economy*: The restructuring necessary to create a deregulated market economy open to the world market has largely been accomplished. However, liberalization of the agricultural sector, which is to be dealt with in the next five years, will present a number of regional conflicts to the Fox government for which political mechanisms and financial resources do not yet exist. The structural problems inherent to the economic model, strong dependence on the United States for exports, monetary policy and investment are more likely to increase than to decrease. The underlying causes of the peso crisis have not been eliminated and could lead to a repeat of the 1994–95 crisis at any time. Migration also remains a key issue in this respect.

**Table: Development of socioeconomic indicators of modernization**

	HDI	GDI	GDP index	Gini index	UN education index	Political representation of women <sup>a</sup>	GDP per capita (\$, PPP)
1998	0.784	0.775	0.73	51.9	0.84	6.6 %	7,704
2001	0.80	0.790	0.74	n.a.	0.86	15.9 %	8,430

<sup>a</sup> Percentage of female members of Parliament. Sources: UNDP, *Human Development Report*, 2000, 2002.

**Table: Development of macroeconomic fundamentals (1998–2002)**

	1998	1999	2000	2001	2002
GDP growth, in %	4,8	3,7	6,6	-0,3	0,9
Exports, in billions of \$	117,4	136,3	166,5	158,4	160,7
Imports, in billions of \$	125,3	141,9	174,4	168,4	168,7
Inflation, in % (CPI)	18,6	12,3	9,0	4,4	5,7
Unemployment, in %	3,2	2,5	2,2	2,5	2,8
Budget deficit, in % of GDP	-1,2	-1,2	-1,1	-0,7	-1,4
Current account balance, in billions of \$	-16,1	-14,4	-17,7	-17,9	14,1

Sources: CEPAL: Balance preliminar 2002; Dresdner Bank Lateinamerika ([www.dbla.com](http://www.dbla.com)).

## 5. Transformation management

### 5.1 Level of difficulty

In its process of transformation to a market-based democracy, Mexico has crossed important hurdles including elections, peaceful changes of power, NAFTA and the free trade agreement with the EU. At the same time, the reforms highlight difficulties and shortcomings in the areas of state identity and the ability to govern. Difficulties are becoming evident in fiscal and social policy, in the development of an efficient and just form of federalism, and in the fight to remedy severe inadequacies in the judicial system and the military. In addition, efficient administrative structures are lacking in many areas.

The lack of good governance impedes development. Civic organizations and the fact that ethnic and religious problems are rather limited despite Mexico's ethnic plurality have had a positive effect on the nation's transformation. Mexico is at a middle level of development. It ranks as an upper-middle income country with high-to-middle human development, and shows a middle level of education with a UN education index of 0.84. However, the level of education is not evenly distributed due to social and regional disparities. The Gini index for 1998 was 53.1.

### 5.2 Reliable pursuit of goals

Mexico's economic reform strategy was for the most part clear and consistently pursued, but the social debt toward the poor and the numerous demands placed on a modern state have received little or no attention from the reformers. The

exceptionally high expectations people had in the “government of change” have not been fulfilled in the last two years. No agreement was reached either between the different parties or within the parties regarding the essential reform projects pursued during the period under study such as the tax reform, including the value-added tax, the energy sector, and the labor law. As a result, the government has not yet been able to implement its strategic priorities.

The mid-term parliamentary elections slated for 2003 will be a test for the Fox government. In general, the government’s policy is reliable and predictable. Social and economic stakeholders, including citizens, can reliably predict what impact their decisions are likely to have with regard to the administration’s actions. However, the same does not hold true for the other state authorities.

### **5.3 Effective use of resources**

The current president and his cabinet have little experience in governance and are having to deal with an unfamiliar administrative system and a generally alien political culture. Inefficiency has resulted, manifested in insufficient support for reforms from both the parties and the legislature and stalemating on the part of the governors. Employers from Fox’s own background in business, and industry in particular have accused the president of not having enough political wherewithal to push through his reforms.

On the whole, good intentions have tended to outnumber effective application of resources when it comes to implementing reforms. This is particularly evident in tax reform, which cannot be effective until the country’s fiscal authorities are in proper working order. With respect to fighting corruption, some integrity mechanisms have been effective while others simply do not work. Although the Fox government is trying hard to implement the appropriate measures, its success has been relatively small so far. This is due in part to corruption that has gained a firm foothold in many areas.

### **5.4 Governance capability**

The peaceful and relatively smooth transition from the old regime to the “government of change” illustrates the political elite’s flexibility and capacity to learn. The choice of political instruments is aimed at reinforcing the parliamentary system and federalism and indicates a rejection of the former omnipotence of the president—at least so far. However, this situation also carries the risk of stalemate and a resulting limitation of the government’s organizational capability. At the same time, consolidation can only be achieved if political powers are balanced at every level. This applies equally to the central power that must evolve into a federal government and to the regional and local power groups.

## **5.5 Consensus-building**

At the moment, no one in Mexico openly opposes democracy and a market economy. However, there is debate about how the market economy can be shaped in social terms (e.g., tax reform), and who should participate in political decision-making and how (e.g., decentralization, federalism, negotiations, representation). There are no real threats from anti-democratic forces, but the government has not managed to eliminate the worst of the problems inherited from previous regimes. This applies not only to the Chiapas conflict and tax reform, but also to fighting drug cartels and corruption. On the whole, the government has been able to prevent an escalation of structural conflicts, but it has not been able to reduce existing differences.

## **5.6 International cooperation**

Much like its predecessors, the present Mexican government is working with international donor organizations and especially within NAFTA to effect the transition to democracy and a market economy. Although there may be differences of opinion on individual points, the government projects an overall impression of reliability of expectations. However, the fundamental problems faced by Mexican migrants to the United States have not been resolved due to a lack of interest on the part of the Bush administration, even though a speedy resolution to the problem was a goal of Foreign Minister Jorge Castaneda, who resigned in January 2003.

After rejecting the non-aligned foreign policy of the 1970s, in which Mexico styled itself as the spokesman for developing countries, Mexico is now trying to pursue a multilateral policy. However, the nation's close ties to the United States place limitations on these efforts. The international media, in particular the American media, play a role in promoting the process of democratization, as does the socio-political involvement of Mexican migrants in the United States.

The "Economic Partnership, Political Coordination and Cooperation Agreement" between Mexico and Europe has put the problem of insufficient rule of law onto international and bilateral agendas and given more scope to the relationships between civil society in both regions. The so-called Global Agreement came into force in 2002 and is not only a free trade agreement, but has also created a starting point for the protection of human rights. Other important developments include the recognition of the International Criminal Tribunal in Rome and the admission of international observers from the UN, OAS and private NGOs into Mexico, which would not have been possible in the past.



## 6. Overall evaluation

(1) *Baseline conditions*: In the 1990s, the baseline conditions improved more as a result of Mexico's political transformation than its economic transformation. At the same time, fundamental problems remain unresolved, particularly with respect to state efficiency and the economic model's dependence on the United States. The transformation successes in the political regime, particularly political participation, are clearly the result of the interaction between the political elite and civic organizations. This interaction has allowed stable institutions to emerge in which processes based on the rule of law evolved quickly.

The shortcomings in the rule of law are still severe, but more and more they are being addressed publicly as human rights problems or citizenship problems. Furthermore, they are being taken seriously by the Fox government. Transformation of the market economy in Mexico was implemented by the central power through a strong, authoritarian presidential system, particularly by the last three PRI presidents. Support from outside Mexico—primarily from the United States—also played a significant role. As the peso crisis demonstrated, success with respect to currency and price stability has not been sustainable, and problems in socioeconomic development and social policy have not yet been solved. The banking and financial sector, and the government's limited scope for action resulting from tax reform failure reflect inherited problems that weigh heavily on the current government.

(2) *Current status and evolution*: If 1988 is the baseline for evaluating Mexico's evolution, it is clear that the nation has managed to establish new, credible public institutions such as the IFE and the human rights commission. Public attitudes toward elections have also improved and civic organizations have emerged to observe election procedures and openly condemn shortcomings in the rule of law. The election of a "government of change" has created a radically new political situation that has made the broadening and consolidation of democratic transformation possible. On the other hand, despite important reforms, Mexico has a long way to go toward remedying deficiencies in the rule of law and consolidating the market economy transformation in difficult economic and social arenas.

(3) *Management*: The evaluation of managerial achievements is mixed. The transition from the old regime to the "government of change" is rated as positive. The transition proceeded largely without problems, resulting in a strengthened parliament and federalism as established in the constitution. Regional disputes over subsequent election results have also demonstrated the achievement potential of the institutions that emerged from the process of transformation.

## **7. Outlook**

The first “government of change” will not be able to resolve problems requiring short- and medium-term solutions with regard to limited state identity, ineffective public administration, and social obligations. So far, the government has not even been able to implement its top priority projects. Creating a new constitutional basis for the integration of the indigenous population, achieving peace in Chiapas, implementing tax reform, and improving the situation of Mexican citizens in the United States are still on the agenda and still meet resistance within the president’s own party, parliament and/or the American government. At the same time, expectations of the new government are extremely high, and disappointment and frustration are on the rise. However, any concrete economic developments will be directly affected by the development of the American economy.