

# Mexico

<b>Status Index</b> (Democracy: 7.55 / Market economy: 6.71)		<b>7.13</b>	<b>Management Index</b>		<b>6.03</b>
<b>HDI</b>	0.814		<b>Population</b>	104.3 mn	
<b>GDP per capita (\$, PPP)</b>	9,168		<b>Population growth<sup>1</sup></b>	2.0 %	
<b>Unemployment rate</b>	N/A		<b>Women in Parliament</b>	23.7 %	
<b>UN Education Index</b>	0.85		<b>Poverty<sup>2</sup></b>	9.9 %	
			<b>Gini Index</b>	54.6 (2000)	
Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. <sup>1</sup> Annual growth between 1975 and 2003. <sup>2</sup> Population living below \$ 1 (1990-2003)					

## A. Executive summary

The democratic transition signified by Vicente Fox's election as president in 2000 was not deepened. Instead, during the period under review, Mexico's political transformation process was marked by stagnation with some regressive tendencies. Despite the disillusionment associated with the Fox government's political performance, the Mexican economy showed solid growth. However, the Mexican economy lagged behind those of other Latin American countries. An extremely disproportionate distribution of social wealth, vast informal sector and increasing unemployment pose key challenges to economic development in Mexico. The Fox government has failed to successfully combat these problems.

Although well aware of the urgent need for substantial reform policies, the Fox government failed to implement such policies because of oppositional blockades formed by the Institutional Revolution Party (Partido Revolucionario Institucional, PRI) and the Party of Democratic Revolution (Partido de la Revolución Democrática, PRD) and the president's lack of support from his own party, the National Action Party (Partido Acción Nacional, PAN). Furthermore, the majority of opposition parties in the Mexican parliament and the president's inability to forge cross-party policy coalitions contributed to the poor political outcome of the "government of change." None of the government's top priority reform projects were successfully implemented. The government failed to deliver on a promised solution to the Chiapas conflict, the related problem of indigenous rights, urgently needed tax reform, deepening decentralization of Mexican federalism, justice reform and fight against widespread corruption.

These failures are reflected in growing discontent with the current government and increasing electoral absenteeism, which is particularly prevalent among younger voters. Absenteeism may lead to a PRI victory in 2006. After having ruled Mexico for 71 years, a PRI victory would likely result in a polarization effect on social actors such as the Ejército Zapatista de Liberación Nacional

(EZLN) and political parties. This in turn could result in increased political extremism.

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

Vicente Fox's victory in Mexico's presidential elections of 2000 as the PAN party's candidate signified the completion of a slow, smooth transition to democracy. Steadily increasing discontent with the entrenched single party government of the PRI and election fraud in 1988 - which would have otherwise resulted in the victory of the PRD candidate Cuauhtémoc Cárdenas - signaled the first indications of this process. Fox's victory constituted the end of over 71 years of authoritarianism under the PRI. The developmentalist state that emerged from the Mexican Revolution (1910-1917) constituted the key characteristic of the PRI regime and was the first of its kind in the 20<sup>th</sup> century. Drawing on the constitution of 1917, the state used the revolutionary myth as the main source of its legitimacy and showed a strong ideological commitment to the welfare of the population, which was manifest in strong state intervention in the Mexican economy.

One of the revolutionary Mexican government's first spectacular political moves was to expropriate the U.S.-controlled oil fields in 1938, which contributed to the construction of a Mexican national identity. The following decades constituted a "golden age" for Mexico, often referred to as "milagro mexicano." This period was characterized by economic growth, modest wage increases, the formation of a basic Mexican welfare state and the further construction of a Mexican national identity, as manifested in several writings intended to consolidate the Mexican state, its territory and people. For decades, the political arena in Mexico was characterized not only by a strong developmentalist state, but also by a nationalist-populist balance of power between a metropolitan coalition for modernization that dominated central power (government, business, industry and unions) and regional or local power groups (caudillos and caciques). These two forces were linked by the 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 of the Federal District. Compared with other Latin American dictatorships, a relatively mild and integrative form of authoritarianism emerged from this constellation. From the 1930s onward, this form of authoritarianism enjoyed broad popular support and brought about a long period of political and economic success.

The Mexican economy rapidly grew increasingly dependent upon the U.S. economy. Mexican migrant workers in the United States ("braceros") and Mexicans living on U.S. territory (later referred to as "chicanos") decisively contributed to the Mexican GDP, which was complemented by the United States' economic weight as a trade partner. Because of this, economic performance

developed in Mexico's northern regions, whereas economic hardship continued in the southern regions.

During the 1960s, the economic and political constellation underlying the "milagro mexicano" began to show signs of exhaustion. Also, growing discontent with the regime as expressed in the students' movement was violently suppressed in 1968 and 1971. Mexico's economic prosperity came to an end in the 1970s, which led to increasing capital flight and the non-competitiveness of Mexican products. Furthermore, the near 50% devaluation of the peso in late 1976 resulted in real foreign debt almost doubling, at \$50 billion. Ensuing negotiations between Mexico and the IMF over a \$1.2 billion loan imposed highly restrictive guidelines on the incoming government of López Portillo, particularly with regard to the federal budget, trade policies and wage structure.

The discovery of new oil resources defused the situation for a short time. However, the situation deteriorated again and culminated eventually in the debt crisis of 1982. The Mexican government, as one of Latin America's biggest debtors, declared the inability to service its international debt in 1982. Coupled with added pressure from international financial institutions, this situation prompted the De La Madrid government (1982–1988) to initiate the liberalization of Mexico's foreign trade relations by joining GATT in 1986, to privatize or shut down semi-state companies, and to introduce a strict austerity policy. Market liberalization was marked by a comparatively rapid and meaningful reduction in trade restrictions and the privatization of state companies, with the significant exception of those involved in the production and sale of oil. Liberalization also resulted in the reduction or elimination of subsidies in the food and agricultural sectors.

The governments that followed, Carlos Salinas de Gortari (1988–1994) and Ernesto Zedillo (1994–2000), continued the course of a liberal economic policy and achieved the North American Free Trade Agreement (NAFTA) and Mexico's admission to the OECD in 1994, which were countered by the neo-Zapatista uprising in Chiapas. Increasing political scandals, such as 1988's electoral fraud, the 1994 peso crash and the victorious performance of opposition parties at the state level created a climate of change that culminated in the first election of an opposition party president (Vicente Fox, 2000) in Mexico's post-revolutionary history.

## **C. Assessment**

### **1. Democracy**

PAN candidate Vicente Fox's presidential victory in 2000 raised hopes that after 71 years of PRI rule, Mexico would stabilize and improve its democracy. The PRI government had often been referred to as a "dictatorship in disguise." In spite of Fox's ambitious plans to change the rigid structures of the political landscape, no decisive political progress has been observed. Particularly from 2003-2005, stagnation has dominated the political transformation process.

#### **1.1. Stateness**

The state monopoly on the use of force is widely secured, although it does not cover the entire Mexican territory. In rural as well as in urban-periphery areas, the state's monopoly on the use of force is questioned considerably by the presence of actors involved in illegal activity such as drug-trafficking, actors who violate police and military authority, local caciques (particularly in Chiapas, Oaxaca and Guerrero), landowners' private armies (the "guardias blancas"), guerillas and to a lesser extent, paramilitary forces. In addition, parts of the police and military forces are involved in illegal practices and occasionally neglect the state's authority.

Indigenous minorities are denied certain basic civil rights. Indigenous population protest has been observed in the Chiapas uprising, started by a neo-Zapatista movement and its leading group, the EZLN (Zapatistas). Their primary goal is to integrate their citizenship within the Mexican constitution and thus widen the scope of Mexican citizenship by granting them an entirely legal status. In spite of Fox's ambitious campaign claim to resolve the Chiapas conflict "within 15 minutes," no tangible results have been achieved. However, dialogue has been constant and resulted in several debates in parliament, particularly during the Zapatista march in 2001. Nevertheless, this dialogue has yielded poor results: the constitution was changed to define indigenous rights as "objects of public interest" and not as "subjects of the public law." No serious dialogue on the issue took place during the 2003-2005 period.

The Mexican state can be defined as secular. The separation of church and state remains unchallenged, despite President Fox's Catholicism. A basically functioning administrative system is assured, albeit with some limitations throughout the country. However, the administrative system suffers from widespread corruption that is often linked to mafia or mafia-like organizations.

## **1.2. Political participation**

After decades of continuing electoral fraud (as observed in 1988), the 2000 elections can be regarded as a landmark of general free and fair elections in Mexico. Unfortunately, this positive development has suffered considerable setbacks in the last few years as illustrated by the case of the Instituto Federal Electoral (IFE), a formerly impartial institution that ensured legitimate elections between 1996 and 2003. In 2003, congress approved the replacement of nine IFE commissioners and its president with new board members elected via a secret quota system according to political affiliation. This process of selection raised suspicions of cronyism, or “compadrazgo” and can be regarded as the first step in a return of PRI-style leadership. The PRI, together with the PAN, influenced these negotiations by imposing its majority and employing its veto power. This series of events also clearly signify a step toward “partidocracia,” a political constellation in which political elites exercise excessive control.

In contrast to other Latin American countries in which a well-organized and repressive military frequently uses its veto power, it is impossible to detect similar structures in Mexico. The freedoms of association and assembly within the basic democratic order are unrestricted.

The freedoms of press and opinion had already improved a few years before Vicente Fox came to power. Freedom of expression has increased at the national level thanks to increased plurality since the end of the PRI regime. However, powerful constraints on these freedoms persist at the local level, where journalists can be harassed and murdered. Drug cartels have been found to be associated with the murder of several journalists in 2004. Three of the four murders were related to killings by drug-traffickers on Mexico’s northern border. Mexico has thus received only a “partially free” rating from Freedom House in its Freedom of the Press Index (2004). The radio and television act has yet to be ratified.

Although the separation of church and state exists in Mexico, the Catholic Church intervened recently to censor the film “El crimen del padre Amaro” (Carrera, 2002) shown nationwide in Mexican theaters. Generally, these efforts met with little success, excepting the strongly Catholic cities of Monterrey and Guadalajara.

## **1.3. Rule of law**

The separation of powers between the executive, legislative and judicial branches was institutionalized under President Zedillo, who acknowledged the “divided government” following 1997 parliamentary elections in which the PRI lost its majority in congress and the opposition parties PAN and PRD gained a majority.

However, the judiciary is not independent. Suffering from corruption, sections of the legal apparatus are involved with organized crime and drug trafficking. Impunity for officeholders abusing their authority is part of Mexico's legal culture. Public prosecutors often refuse to prosecute members of the judiciary. Aware of this dilemma, the Fox government has placed 1500 "critical sectors," such as specific police units, under state surveillance.

Civil rights have improved under the Fox government. The national human rights commission is supplemented by 32 commissions on the local state level, and a secretary of state for human rights has been appointed. Special efforts have been made to clarify the "guerra sucia" disappearances in the 1970s and acts of repression in 1968 and 1971. The Fox government has also ratified 30 international agreements and conventions on human rights. However, other human rights problems persist. Activists and journalists continue to be subjected to state surveillance, and they are criminalized, threatened and at times murdered. Torture is common within the legal apparatus and judges frequently accept confessions resulting from torture practices. Also, the legal apparatus has failed to sufficiently handle specific crimes such as the murder of women in Ciudad Juárez and the massacre of indigenous peoples in Acteal.

#### **1.4. Stability of democratic institutions**

After several decades of electoral fraud and the dominance of an authoritarian single party, the election of Vincente Fox can be seen as a landmark decision in Mexico's transformation toward democracy. However, corruption, an inefficient legal apparatus and bureaucracy, and friction between institutions limit democratic institutions' ability to perform. Nevertheless, relevant actors accept democratic institutions.

#### **1.5. Political and social integration**

As a consequence of 71 years of PRI rule, pluralism in Mexico's political culture is underdeveloped and not deeply rooted in society. However, developments in civil society in the 1980s and the electoral fraud of 1988 have led to the slow and steady development of a multiparty system. The PAN has established itself within the government and among the middle classes (particularly in North Mexico); the PRD has gained increasingly more support from leftists and indigenous peoples in Mexico City and the southern states. "Convergencia," the union of various leftist parties, has suffered many losses due to its lack of party structure. The Mexican Green party, the Partido Verde Ecologista de México (PVEM), which is largely controlled by one family and has contacts to non-governmental organizations (NGOs) and ecological movements, has grown from an NGO into a national party. However, PVEM's public support is and will remain limited.

There are close-knit networks of interest groups in different sectors of Mexican society. Heavy dependence on political parties such as the PRI is frequent. The Mexican “business community,” organized by the Consejo Coordinador Empresarial (CCE) (founded in 1976) constitutes one of Mexico’s most influential interest groups. Business leaders organized in the CCE and the Industrial Confederation of Mexico (CONCAMIN) were highly influential in pushing forward further privatization of the Mexican economy. In addition to the business organizations, trade unions have played for decades a significant role in the corporatist inclusion of key sectors of the Mexican labor force. Since the end of PRI rule, this role has changed.

According to Latinobárometro (2004), only 17% of the Mexican population is satisfied with democracy. This means only a small percentage of the population is satisfied with the Fox government. When compared with Fox’s election year results (36%), this low level of satisfaction reflects poor performance and underlines the failures of the PAN party. However, Fox maintains a personal advantage. According to Latinobarómetro, 39% of Mexican citizens accept the president.

Mexico has a close-knit web of several autonomous and self-organized groups that are either widely dispersed and effective only on a local level, as seen with many human rights activist groups, or they are embedded in a broad structure interconnected at the regional or national level, as seen with NGOs. There is also a wide range of neighborhood organizations, “movimientos urbanos populares,” student organizations, some of which have an elaborate social and logistic network as demonstrated by the UNAM students’ group performance during strikes in 1999 to 2000, women’s groups such as “Ganando Espacios” and environmental groups. Environmental groups play a particularly interesting role as they often transcend the national framework. All of these self-organized groups are part of informal, often invisible, but nonetheless existent social and political networks, which repeatedly result in more extensive forms of protest. In so doing, they contribute to political transparency. However, they are far from posing a significant counterweight to existing political constellations.

## **2. Market economy**

Fox continued with the neo-liberal policies of his predecessors. Despite low commodity prices and higher borrowing costs, Mexico’s economy showed remarkable resilience and increased economic growth after the U.S. economic recovery. However, serious problems persist regarding the failure to satisfactorily include vast segments of the population into formal economic structures, relatively low foreign investment, low human capital accumulation and heavy dependence on the U.S. economy.

## **2.1. Level of socioeconomic development**

Mexico's level of development is characterized by the inadequate freedom of choice for a large part of its population. The 2004 HDI, Gini coefficient (54.6) and GDI (0.792) indicate high levels of social exclusion and marginalization. The latter is also reflected in Mexico's disproportionate distribution of wealth: 50% of total income is concentrated among the upper tenth of all households, whereas 40-50% of the population lives in poverty and 20% in extreme poverty. Regionally determined distribution is also a problem. With 80% of GDP concentrated in North Mexico, there is a strong North-South divide.

## **2.2. Organization of the market and competition**

President Fox has made improving market competition to expand Mexico's international competitiveness a priority issue. The government's privatization policies reflect this goal, as seen by the attempt to open up the two remaining state-owned enterprises (PEMEX oil and the electricity sector) to private investment. However, the institutional framework for competition remains weak as a consequence of a large and substantial informal sector. Nonetheless, the basic elements of free-market competition are more developed than other areas.

The most important agency for combating monopolies and trusts and ensuring free competition is Mexico's Federal Competition Commission (CFC). As acknowledged by the OECD, in recent years, the CFC has intervened successfully to stop monopolies from forming. To improve its performance, the CFC must be strengthened by an improved judicial system. The CFC also requires legislation that allows the CFC to ensure that imposed fines will be paid.

Mexico's agreement with NAFTA on January 1, 1994 played a decisive role in liberalizing foreign trade. In 2004, Mexico held the most trade agreements worldwide of any country - 12 agreements with 48 countries. The Fox government made its first free trade agreement with Uruguay in November of 2003. Fox has essentially continued the free trade policies of his predecessors. However, there has been a political shift observed in the second half of his tenure. After the relatively straightforward ratification of the free trade agreement with Uruguay in 2003, negotiations of the free trade agreement with Japan were delayed for almost six months. Although ratified, a certain disillusionment with free trade has since ensued. Negotiations with Panama, Singapore, Argentina, New Zealand, Korea and Australia have been placed on hold; existing agreements must be consolidated and their potential enhanced before new contracts can be signed. These concerns can be attributed to disillusionment with the economic effects of several other accords, especially that with the EU, and to Mexico's growing competition with China, which should soon replace Mexico as the United States' second most important trade partner.

The Mexican banking crisis of 1994/95 resulted in a major government rescue operation that was estimated to have cost about 20% of the GDP. Financial sector reforms have since been introduced in Mexico and the Mexican financial system's performance has improved considerably, as shown by indicators of the solidity and profitability of the banking sector. An infusion of foreign capital resulting from international banks entering the Mexican market primarily via mergers and/or acquisitions has also bolstered performance. Despite these gains, the Mexican financial sector still faces several challenges. The banking sector remains relatively inefficient and the number of non-performing loans remains high in relation to international standards. State-owned financial intermediaries, either in the form of development banks or trust funds, continue to be of special relevance as they frequently overlap with commercial banks in several segments of the market. Furthermore, the regulatory framework is often complex and characterized by high compliance costs. All of the factors mentioned are associated with the gap in growth stimulation through improved capital allotment.

### **2.3. Currency and price stability**

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 compensate for a lack of capital and foreign trade deficits. The Fox administration is no exception. President Fox has made the fight against inflation a priority goal. After high gains observed in the first half of Fox's sexenio in which CPI fell from 11.02 at the beginning of 2000 to 3.98 at the end of 2003, a considerable increase of the CPI to 5.19 (November, 2004) was observed during the second half. Nonetheless, Mexico's inflation slowed in December 2004 for the first time in eight months as a result of decreases in the cost of tomatoes, beer and gasoline.

The central bank has been independent since 1993, when congress approved an amendment to article 28 of the Mexican Constitution grants the bank its autonomy. The establishment of the central bank's mandate to achieve price stability and attain low and stable inflation has become an essential feature of Mexico's monetary policy framework.

Although the Fox government has shown commitment to macroeconomic stability, serious problems remain in setting objectives and achieving a consistent stability policy. The government party's minority in parliament poses a key obstacle, as important fiscal reforms have been blocked.

## **2.4. Private property**

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

Private companies represent the backbone of the Mexican economy, but in some strategic areas, ownership rights are reserved for the state (oil and gas extraction, generation and distribution of electricity).

## **2.5. Welfare regime**

There have been several reforms aimed at improving Mexico's poor welfare system, but measures taken have yet to show positive results. Established during the "milagro mexicano" between the 1940s and 1960s, Mexico's welfare regime included obligatory insurance for private wage earners. In 1962, the Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado (ISSSTE) was established for state employees. The ISSSTE offered a wide network of social security that included the construction and maintenance of hospitals, and provided for medical services and pre-schools. The same applies to the Instituto Mexicano de la Seguridad Social (IMSS), created in 1943, which covers private industry employees. Following suggestions of the World Bank, the IMSS was privatized in 1995 according to neo-liberal norms that resulted in the individual capitalization of all workers' pensions affiliated through banking funds (Afores). This trend increased under Fox, subjecting even medicines to a VAT. The prospects for the second half of Fox's sexenio are gloomy as IMSS' debt has reached approximately \$35 billion, the pension age has increased from 53 to 65 and there are plans to raise premium contributions.

In general, there are not many institutions in Mexico that support equality of opportunity. Women have access to education, but the proportion of women and men is still unequal according to the 2004 GDI. According to the 2004 Latinobárometro, Mexico has one of the highest numbers of women in primary and secondary education in Latin America. However, these figures are deceptive upon closer analysis of further statistics such as the participation of Mexican teenagers in the OECD PISA assessment test in 2003. Even in regions with a high female population (such as Chiapas), the participation of males in the assessment test was higher. The same holds true for private schools. Children from wealthy families that pay high tuition fees also achieved much better results in the test. Furthermore, women in Mexico are still underrepresented in manager positions,

the legal system and at universities. Nevertheless, there are women in Mexico holding influential positions in politics and other areas - an achievement next to impossible in other Latin American countries such as Paraguay.

## **2.6. Economic performance**

Current economic data for Mexico indicate a recovery of the economic downturn of 2001. Over the past four years, GDP has grown 4.4%, exports 16.2% and inflation (measured by CPI) rose only 1%. The current account balance deficit decreased by \$12.7 billion. Growth of GDP and of exports, although they facilitated strong economic performance, could not catch up with the growth rate of 2000. Furthermore, since 2000, the official unemployment rate has steadily increased from 2.2% to 3.8%. However, this relatively low unemployment rate must be adjusted to account for the exclusion of the informal sector, which amounts to more than 40% of the Mexican workforce. Another relevant factor is Mexico's 2004 GDP growth. At 4.1%, this growth is relatively low, despite favorable oil prices as compared to other Latin American countries such as Brazil (5.0%), Chile (5.7%), Ecuador (7.0%), Argentina (8.2%) and Venezuela (17.0%).

## **2.7. Sustainability**

The Fox government has restructured existing institutions charged with environmental issues. The former National Institute of Ecology (INE) was transformed into first into the federal environmental authority SEMARNAP and then SEMARNAT, both of which were charged with coordinating at the intra-federal level and promoting climate change policies.

Major improvements were achieved, including improved air quality in Mexico City (carbon dioxide and sulfur dioxide have decreased), further decentralization of water management by creating river basin councils and helping municipalities develop water and waste infrastructure. Furthermore, more than 95% of the drinking water in Mexico is disinfected and there have been no new records of cholera. Furthermore, efforts have been made to improve hazardous waste management.

On an international level, Mexico supports the Kyoto protocol, has signed a World Bank agreement in 2003 with seven other countries to protect the Meso-American Biological Corridor and is making sustainable development an explicit goal of the National Development Plan. However, Mexico's ecological prospects are overshadowed by structural constraints (the devolution of environmental policy must be accompanied by provision on state and municipal levels), physical conditions (Mexico's deforestation rate remains one of the highest in the world and overgrazing of arid zones is a dominant practice), legal particularities

(legislation regarding pollution and environmental protection is not implemented) and the lack of environmental awareness among the population. Public interest in environmental issues is low, as observed when a foreign NGO, Greenpeace, intervened in the introduction of genetically manipulated corn in 2002.

Institutions for education, training and research and development are present in big cities in Central and North Mexico. However, in South Mexico and particularly in rural areas, not all children have access to basic primary education. Preparation for secondary education has not improved as the gap between public and private institutions has grown. For example, the Tecnológico de Monterrey now requires tuition fees on par with those of American universities. Tuition fees for public universities have not yet been introduced, although there have been several debates on this issue, as seen in the 11 month strike at UNAM from 1999 – 2000. According to the OECD, Mexico's spending on education is above the OECD average (5.9% compared to 5.6%). There are some education programs supporting students in small rural towns (Community Education), indigenous pupils (the National Program for the Development of Indigenous Peoples) and for disabled students (the National Program to Strengthen Special Education and Educational Inclusion). Nonetheless, only a small percentage of school-age children actually benefit from these programs; between 200,000 and 4 million. Although the Fox government created the education authority INEE, sustainable improvements to education have not been made. This is due to the following: Mexico's education is assessment and evaluation based (Mexico was one of only three Latin American countries to participate in the PISA study in 2000), recent cuts in education spending (the reform of article 122 of the Mexican constitution also affects education and halted implementation of education reform "Enciclomedia," which was intended to provide a basic educational structure for all of Mexico) and existing corruption (as manifested in the recent "education scandal" of 2004, in which the education authority SEP held monies intended for scholarships for private schools).

### **3. Management**

Fox's ambitious plans to transform Mexico's post-PRI political and economic structures and to steer the country with unprecedented leadership toward a market economy free of corruption have suffered major setbacks in recent years. Structural problems rather than poor leadership are the primary cause of these setbacks.

#### **3.1. Level of difficulty**

Mexico's heavy dependence on the U.S. economy (due to a strong business cycle linkage and in part to "remesas," or remittances from Mexicans in the United

States) constitutes one of the most salient structural constraints on the political leadership's capacity to govern. Other key constraints include inefficient administrative structures, low tax revenues, deficiencies in the rule of law, a vast informal sector, immeasurable high poverty rates and the loss of human capital. The "brain drain" effects of migration have not been countered by mechanisms aimed at a "brain gain." In addition to these constraints, there are several other factors contributing to Mexico's level of difficulty, including political-structural and personal issues, as seen in the example of President Fox's ousting of Mexico City's Mayor Lopez Obrador.

Civil society traditions in Mexico can be traced back to the massacre of students at "Plaza de las tres Culturas" in 1968 and to the emergence of social movements in the 1970s such as women's liberation and student movements, and independent trade unions. Mexican civil society began forming more close-knit groups in the 1980s after the 1985 earthquake and with the collaboration of the Catholic Church, trade unions and PAN during the 1986 government elections in Chihuahua. The neo-Zapatista movement EZLN, which voices indigenous peoples' claims to civil rights, is one of the most important agents of change and awareness in Mexico and a significant proponent of a pluralistic civil society.

States with a large indigenous population such as Chiapas, Oaxaca and Guerrero are prone to social conflict in rural areas. In recent years, conflicts have centered on indigenous peoples' rights and guerilla activities.

### Profile of the Political System

Regime type:	<i>Democracy</i>	Constraints to executive authority:	4
System of government:	<i>Presidential</i>	Electoral system disproportionality:	24.72
		Latest parliamentary election:	06.07.2003
		Effective number of parties:	3
1. Head of State:	<i>Vicente Fox</i>	Cabinet duration:	12/02-present
Head of Government:	<i>Vicente Fox</i>	Parties in government:	1
Type of government:	<i>divided government</i>		
		Number of ministries:	18
		Number of ministers:	18

Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Electoral disproportionality (Gallagher index) reflects the extent to which electoral rules are majoritarian (high values) or proportional:  $\sqrt{\frac{1}{2} \sum (v_i - p_i)^2}$ ;  $v_i$  is the share of votes gained by party  $i$ ;  $p_i$  is the share of parliamentary mandates controlled by party  $i$ . For presidential/ semi-presidential systems, the geometric mean of presidential election and parliamentary election disproportionality is calculated. Effective number of parties reflects the political weight of parties (Laakso/Taagepera index) =  $1 / (\sum p_i^2)$ ;  $p_i$  is the share of parliamentary mandates controlled by party  $i$ . Number of ministries/ ministers denotes the situation on 1 January 2005.

### **3.2. Steering capability**

While the government is committed to democracy and a market economy, it has shown limited success in implementing its announced reforms. Fox's plans for tax reform, the reorganization of Mexican federalism, the legal system and labor and education reforms have met limited success primarily due to severe structural constraints.

The political leadership's capacity for flexibility, learning and policy innovation has also been subject to severe structural constraints and is therefore limited. At the time of this writing, President Fox has only limited support from his own party and the PRI has a majority in the senate and congress, which clearly impedes the decision-making process.

### **3.3. Resource efficiency**

The government uses only some of its available human and cultural resources efficiently. The government's failure to implement urgently needed tax reform illustrates this fact; more than one-third of the state's budget depends on oil exports. Fiscal coordination between municipalities, states and the federal government also lacks transparency. Procedures are not clearly defined or conducted effectively. However, the federal government frequently uses fiscal coordination to increase its political influence on local entities, which was illustrated by the reform of article 122, which diminished the financial benefits granted to Mexico D.F. by the federal government. Mexico's tax revenues are however, one of the lowest of their kind.

The accumulation of human capital is low because an increasing number of unskilled, semi-skilled and professional workers continue to migrate to the United States in search of better professional and economic prospects. It remains difficult to attract scholars and other highly skilled professionals to Mexico because of a weak infrastructure that is not internationally competitive. Also, the government makes only limited use of its own human capital. Although Mexico has the fastest growing population of all OECD countries, only 58% of its teenagers attend secondary schools, compared to a near 100% attendance rate in Western European countries.

Initially, the Fox government was well aware of the necessity to coordinate conflicting objectives and engage in coherent policy-making. However, all attempts in this regard have failed due to inter-party conflicts, rivalry, the steady loss of PAN's political weight in congress and the senate (particularly since the federal elections of 2003 and the loss of government posts Nuevo León,

Michoacán and Oaxaca in 2004), the government's inability to build cross-party coalitions, and to a significant loss in credibility among the population—despite Fox's populist radio and television programs, "Fox contigo" and "Fox en vivo."

The state administrative structure remains inefficient as corruption has not been successfully combated and political decentralization measures failed to live up to expected performance levels. The Fox government has acknowledged the gravity of widespread corruption within Mexico's state apparatus. Several measures and reforms directed at the most serious forms of corruption were established, including the National Agreement for Transparency (*para la Transparencia y el Combate de la Corrupción*), which expanded punitive measures in corruption cases. The Fox government tried to establish a legal and institutional structure to combat corruption with a focus on three specific areas: prisons, the police force and customs. These reforms yielded clear results primarily in customs with smuggling and drug trafficking along Mexico's northern border. Punitive measures also achieved results as several kidnapped individuals were released and suspects charged with corruption were jailed.

Nevertheless, success in several other areas has been limited and some areas neglected. Reports of children tortured in detention centers and the poor treatment of immigrants close to Mexico's southern border have been neglected. Several suspects previously under political protection have been cleared. The Fox government itself is part of the corrupt Mexican system; IFE fined PAN for illegal financing practices related to Fox's presidential campaign with "Amigos de Fox," Fox's campaign organization. Corruption persists, as there are no rules prohibiting the use of public monies in election campaigns and no spending limits.

### **3.4. Consensus-building**

Mexico's political leadership under Fox has failed to establish a broad consensus with other relevant social and political actors on necessary reforms. However, there is a broad consensus of all relevant political actors on building a market economy in Mexico. At the time of this writing, there are no anti-democratic veto actors in Mexico.

Generally, the government manages political cleavages and prevents them from escalating into irreconcilable conflict. However, as seen in the cases of Chiapas and Guerrero, the potential for conflict is periodically inflamed. There are potential cleavage constellations, such as that posed by the influence of Catholics in North Mexico that resulted in a high turnout for PAN, or the suppression of indigenous peoples' rights in some southern states. Because there is currently no party committed to indigenous peoples' rights, infringements on their rights has no direct effect on the Mexican party system.

The political leadership tries to promote social capital, yet fails to attain or strengthen inter-personal solidarity of civic engagement. Although the Fox government failed to persuade the public with its populist “Fox contigo” and “Fox en vivo” programs, it did achieve a certain national cohesion reflected in interpersonal solidarity.

The Fox government immediately engaged in dialog with civil society groups such as the Zapatistas—a key distinguishing feature in contrast to the former PRI government. However, despite dialog and the opportunity granted Zapatista representatives to speak in parliament in 2001, the government failed to bring about legal regulations regarding Zapatista aims. True civil society participation has thus failed due to the government’s inability to formulate consistent policies on integrating civil society.

In addition to combating corruption nationally, the Fox government also aimed to address past injustices. A special commission was set up to investigate the repression of Tlatelolco in 1968, a student march in 1971, and the “guerra sucia” in the 1970s, which resulted in the disappearance of hundreds of innocent Mexicans. However, insufficient military cooperation and limited access to official documents impeded proceedings. Despite a landmark Supreme Court ruling in 2003 declaring “the whereabouts of those who disappeared must be brought to light” and the detainment of some high officials such as Nazar Haro and Cisneros in 2004, the government’s most ambitious claim - the indictment of former President Luis Echeverría in 2004 - was rejected by a court ruling. The political leadership has failed to reconcile historical acts of injustice.

### **3.5. International cooperation**

The political leadership cooperates with bilateral and multilateral international institutions and aims to make use of international assistance. Like his PRI predecessors before him, President Fox has cooperated with international institutions such as the IMF and World Bank.

The government tries to act as a credible and reliable partner in the international community. This is reflected by the fact that Mexico hosted several important international conferences, including the 5<sup>th</sup> WTO Ministerial Conference in Cancun, the third European Union – Latin America – Caribbean summit in Guadalajara, 2003, the 2003 APEC summit and the 9<sup>th</sup> Regional Conference for Women in Latin America and the Caribbean, organized by CEPAL in 2004. Mexico was praised for its capacity as a host and its fruitful thematic contributions at these conferences. The same is true of the UN Security Council presidency, where Mexico showed its commitment to a peaceful solution to international conflicts and strengthening multilateralism.

Mexico's political leadership actively and successfully establishes and expands as many cooperative international relationships as possible. This is clearly illustrated by the great number of Mexico's free trade agreements with several countries on four continents. However, discontent with these agreements has grown since 2004 as they lack the efficiency desired by the Fox government. As expected economic boosts have failed to materialize, further trade agreements have been put on hold; the last agreement was made in 2005 with Japan.

Equally striking is the shift in U.S.-Mexican relations. Once referred to as a "honeymoon" of sorts, U.S.-Mexican relations have deteriorated since 9/11, which triggered several debates. Mexico's presidency in the UN Security Council directly challenged U.S. foreign policy toward Iraq. Also, Fox's top bilateral priority of reaching "an expanded migration accord" has not been achieved. Indeed, U.S. policy toward Mexico changed with the fight against terrorism, which resulted in increased border controls and investment shortfalls negatively impacting industry on the Mexico - United States border. The fallout of 9/11 also re-shaped the United States' strategic perspective of the U.S. - Mexico border and extended its focus to include the Mexico - Guatemala border, which resulted in a strong militarization and "protection" of this area. There have also been some U.S. legislative proposals to allow more temporary workers into the United States - for instance the Agricultural Jobs, Opportunity, Benefits and Security Act (2003), the Land Border Security and Immigration Improvement Act (2003) and the Border Security and Immigration Reform Act (2003).

#### **4. Trend of development**

Mexico has undergone significant changes in its political transformation, particularly in terms of its electoral process and the growing importance of elections for political legitimacy. Since 2000 however, little progress has been made and there have been some signs of regression. The "quasi impeachment" of 2006 presidential candidate López Obrador from his position as Mayor of Mexico City and the suspicion of cronyism surrounding the election of IFE commissioners are two indications of regression. Also of concern: a steadily growing absenteeism, particularly among young voters.

##### **4.1. Democratic development**

There have been some, albeit limited, improvements made in stateness, political participation and the rule of law. Formidable structural constraints on the rule of law persist, as does corruption. The power of local caciques and their influence on political processes underscore further constraints.

In some areas of the stability of democratic institutions and political and social integration, the consolidation of democracy has regressed. The lack of successful tax, administrative and rule of law reforms and the continuing high social costs of neo-liberal reform policies have deflated the high hopes associated with Fox's election in 2000.

#### 4.2. Market economy development

According to HDI data, Mexico's level of development has not substantially improved in the last four years; it grew by only 0.002 points from 2000 (data from 1998) to 2004 (data for 2002). One of the main reasons for this lack of improvement can be attributed to the institutional framework for market-based activity in Mexico, which has not changed significantly since Vicente Fox entered office in 2000. After the economic downturn in 2001, the Mexican economy enjoyed a solid recovery, with GDP growth of 0.7% in 2001, 0.7% in 2002, 1.2% in 2003 and 4.1% in 2004. Nevertheless, these growth rates failed to reach the 6.6% of 2000.

##### Development of macroeconomic fundamentals (2000-2004)

	2000	2001	2002	2003	2004
Growth of GDP in %	6.7	- 0.3	0.7	1.2	4.1
Export growth in %	16.4	-3.8	1.5	1.1	12.4
Import growth in %	21.5	-1.6	1.4	-1.0	10.5
Inflation in % (CPI)	9.0	4.4	5.7	4.0	5.4
Investment in billion \$	16.1	23.1	14.2	9.5	13.5
Tax Revenue in % of GDP	18.5	18.8	18.1	19.5	n.a.
Unemployment in %	2.2	2.5	2.7	3.2	3.8
Budget deficit in % of GDP	- 1.3	- 0.7	- 1.8	-1.1	n.a.
Current account balance in billion \$	-17.7	-17.9	- 13.792	- 8.741	- 7.2

Source: CEPAL 2005; OECD 2004.

#### D. Strategic perspective

Mexico runs the risk of experiencing regression, should the PRI party be reelected in 2006 - which is likely due to the Fox government's failures and a strong PRI presidential candidate, Roberto Madrazo. Reforms that have been put on hold, including fiscal, tax, labor and education reforms, are not likely to be resolved within the remainder of Fox's sexenio as political debates are already focused on the 2006 presidential election campaign.

The reelection of the PRI party could result in increased political extremism by triggering the polarization of actors such as the EZLN. This could also affect the

PRD, which must move to the center if it is to stand a chance in the upcoming elections. Moving to the center would likely cause a party split, as left-wing members (“civicos” and “mobis”), with ties to the EZLN, might be forced to look for a political alternative. In the worst-case scenario, this could result in violent actions that would deter foreign investors.

Furthermore, a new political orientation looms over Mexico that transcends the nation-state both beyond and within Mexico’s borders. Suffrage for Mexicans in the United States is about to be introduced and there are PRD, PAN and PRI parliamentary candidates living in the United States. The political uncertainty associated with this issue and the high number of new potential voters (approximately 8 million) might lead to further investor hesitation.