

MEXICO IN TRANSITION

Woodrow Wilson Center Reports on the Americas • #1

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Rafael Fernández de Castro

Rodolfo Stavenhagen

Guadalupe González

José Luis Orozco

Carlos Elizondo

Santiago Levy

David Brooks

Gustav Ranis

Marta Lamas

Raúl Benítez

Adolfo Gilly

Edited by

Andrew D. Selee

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TABLE OF CONTENTS

Preface **vii**

Introduction **1**

The United States and Mexico at the Millennium
Andrew Selee, Woodrow Wilson Center

PART I: MEXICO'S ECONOMIC TRANSITION

Chapter 1 **15**

Reform and Development: What Have We Learned?
Gustav Ranis, Yale University

Mexico's Need for Fiscal Reform **26**

Carlos Elizondo, Centro de Investigación y Docencia Económicas

Chapter 2 **27**

Reorienting Mexico's Social Policy
Santiago Levy, Mexican Social Security Institute

Privatizing the Commons **35**

Adolfo Gilly, Universidad Autónoma de México

PART II: POLITICS AND SOCIETY IN TRANSITION

Chapter 3 **39**

Indigenous Communities and the Peace Process in Chiapas
Rodolfo Stavenhagen, El Colegio de México

Mexico's Need for Security Reform **42**

Raúl Benítez, Universidad Nacional Autónoma de México

Chapter 4	43
The Role of Women in the New Mexico	
<i>Marta Lamas, Debate Feminista</i>	

Are We Missing the Big Picture?	48
<i>David Brooks, La Jornada</i>	

PART III: U.S.-MEXICO RELATIONS IN TRANSITION

Chapter 5	51
Cooperation and Conflict in U.S.-Mexico Relations	
<i>Rafael Fernández de Castro, Instituto Tecnológico Autónoma de México</i>	

Mexico's New Pragmatism	57
<i>José Luis Orozco, Universidad Nacional Autónoma de México</i>	

Chapter 6	59
Cooperation in Drug Control Strategies	
<i>Guadalupe González, Centro de Investigación y Docencia Económicas</i>	

Appendix A	65
<i>Mexico at the Millennium book</i>	

List of Contributors	67
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On May 3–4, 2000, the Woodrow Wilson Center’s Latin American Program and Yale University held a conference, *Mexico at the Millennium*, to assess the profound transformations underway in Mexico and in U.S.–Mexico relations. Two months later, as had been anticipated during the conference, Vicente Fox Quezada was elected President of Mexico, ending seven decades of rule by the Institutional Revolutionary Party (PRI). Fox’s election marks the beginning of a new period in Mexican history that coincides with the dawning of the new millennium. It also points to the multiple social, political, and economic changes that have been taking place in Mexico over the past two decades, changes which have opened up the political system and redefined the meanings of citizenship. Moreover, at the beginning of 2001 both Mexico and the United States had recently inaugurated new Presidents, a rare occurrence that takes place only once every twelve years. This presents an opportunity to strengthen cooperation and understanding between the two governments.

This volume presents several of the presentations from the “Mexico at the Millennium” conference which address three areas of concern: political and social transition in Mexico; new directions in economic policy; and the changing nature of U.S.–Mexico relations. Six presentations are included in their entirety. Excerpts from five others are included in boxes throughout the volume. Although these presentations were made before the July 2 elections in which Vicente Fox was elected President of Mexico, these presentations remain as fresh now as they were in May of 2000.

The Woodrow Wilson Center is currently preparing a full-length book, *Mexico at the Millennium*, with chapters from the presenters at the conference and a few additional authors, which be available in early 2002. A full table of contents for the book can be found in Appendix A.

ACKNOWLEDGEMENTS

We are grateful to the William and Flora Hewlett Foundation which has made the conference and this working paper possible through their generous support. Amelia Brown and Heather Golding, Program Associates at the Woodrow Wilson Center, coordinated the conference “Mexico at the Millennium,” which also benefited from the insight and support of Gilbert Joseph, director of the Council on Latin American and Iberian Studies at Yale University. Two dynamic interns, Craig Fagan and Marianne Benet, helped edit the manuscript and supplied important research. Joseph Tulchin, director of the Latin American Program at the Wilson Center, oversaw the entire project from start to finish and provided guidance at every step. Assistant Director Cynthia Arnson provided critical advice and comments on the manuscript.

AGENDA: CONFERENCE ON MEXICO AT THE MILLENNIUM

Woodrow Wilson Center Latin American Program and Yale University
Washington, D.C., May 3-4, 2000

WEDNESDAY, MAY 3

- 9:30 a.m. OPENING ADDRESS**
Amb. Jesús Reyes Heróles, Mexican Ambassador to the U.S.
Introduction by the **Hon. Lee H. Hamilton**, Woodrow Wilson Center
- 11:00 a.m. SESSION I: ECONOMIC REFORM**
Chair: Gustavo Vega, El Colegio de México
Speakers:
Gustav Ranis, Yale University, *Reform and Development: What Have We Learned?*
Victoria Murillo, Yale University, *The Challenges to Mexican Labor in an Open Economy*
Carlos Hurtado-López, Presidency, *Economic Policy and Economic Reform*
Stephen Clarkson, Woodrow Wilson Center, *The Role of NAFTA and the WTO in Transforming Mexico's Regulatory Regime*
- 12:30 p.m. BUFFET LUNCH**
- 2:30 p.m. SESSION II: SOCIAL ISSUES**
Chair: Gilbert M. Joseph, Yale University
Speakers:
Adolfo Gilly, Universidad Autónoma de México, *The Social Consequences of Globalization*
Erika Pani, Mora Institute for Research, *La Calidad de Ciudadano: Past and Present Rhythms of Suffrage in Mexico and the U.S.*
Santiago Levy, Mexican Ministry of the Treasury, *The Logic and Scope of President Zedillo's Social Policy*
Rodolfo Stavenhagen, El Colegio de México, *The Process of Peace in Chiapas*
Marta Lamas, Grupo de Información en Reproducción Elegida, *The Role of Women in the New Mexico*

CONTINUED

THURSDAY, MAY 4

**10:00 a.m. SESSION III: CONSTRUCTING COMMUNITY
BETWEEN NEIGHBORS**

Chair: **Gustav Ranis**, Yale University

Speakers:

José Luis Orozco, Univesreidad Autónoma de México, *Toward a Closer Political Culture Between Neighbors*

Guadalupe González, Centro de Investigación y Docencia Económicas, *Drug Trafficking as a Threat to Community*

Rafael Fernández de Castro, Instituto Tecnológico Autónomo de México, *Cooperation and Conflict in U.S.-Mexico Relations*

12:00 p.m. BUFFET LUNCH

2:00 p.m. SESSION IV: POLITICAL REFORM

Chair: **Yemile Mizrahi**, Woodrow Wilson Center

Speakers:

Raúl Benítez, Universidad Auónoma de México, *State Reform in the Matters of Security and Governance*

Carlos Elizondo, CIDE, *The Challenges Ahead*

David Brooks, La Jornada, *The Media and Political Reform*

INTRODUCTION

ANDREW D. SELEE

Woodrow Wilson Center

Mexico and the United States have never been closer. Not only are the two countries neighbors that share a 2,000-mile border, but Mexico has also become the United States' leading trade partner after Canada, and one of the principal countries for U.S. investment abroad.¹ Since Mexico and the United States joined with Canada to create the largest free trade area in the world, the economies of the two countries have become increasingly intertwined, and what happens in one country inevitably affects the other. Equally important, over 23 million Americans, 8% of the population, trace their heritage to Mexico, including seven to eight million who were born in Mexico.² The increasing interrelationship between Mexico and the United States requires a new vision of the bilateral relationship that goes beyond framework laid out in the North American Free Trade Agreement (NAFTA) and contemplates other aspects besides trade.

The election of two new presidents in Mexico and the United States has set the stage for a new era of cooperation. Political relations between the two countries, which in the past were often characterized by mistrust, are now closer than ever. U.S. President George W. Bush and Mexican President Vicente Fox have each expressed interest in seeking closer ties and better coordination on a range of bilateral issues, including immigration, drug control, energy policy, and law enforcement. This is an encouraging sign, and early indications suggest a genuine interest on the part of both leaders to deepen mechanisms of bilateral cooperation.

The election of Vicente Fox as Mexico's first president with a clear democratic mandate has also boosted U.S.-Mexico relations and given substantial credibility to his administration in international

affairs. Fox's election is the culmination of two decades of political change taking place in Mexico that has led to the emergence of new democratic institutions and social and political organizations. His election marks a new era in Mexico's history and opens the possibility for increased accountability, political participation, and respect for citizenship rights.

For over five decades Mexico effectively had a one-party regime. The Institutional Revolutionary Party (PRI) was created in 1929 in the aftermath of the Mexican Revolution as a means of coordination among diverse revolutionary leaders, regional *caciques*, and factions. It incorporated most of the social organizations in the country, including the major labor unions, peasant organizations, professional associations, and unofficially, business and military leaders. Its continuity in power revolved around a strong presidency endowed with "metaconstitutional powers," and the party was structured around a series of clientelistic relations that channeled collective action toward ends that were localized and fragmented, and thus did not challenge the control of political elites.³ Conflict generally occurred within the party or in small, localized opposition movements.⁴

This political system continued with minimal challenges until the 1980s largely because Mexico's strong economic growth and stability created benefits that could be distributed throughout society, though unequally. The economic crises of the 1980s and 1990s, however, took their toll on the system's viability. Under Mexico's structural adjustment plans, government expenditures fell throughout the 1980s and stabilized in the 1990s.⁵ The slimmer state could no longer mediate conflicts or maintain its clientelistic networks in the same way as before. Moreover, GDP growth, which had averaged 6 percent over the previous three decades, suddenly slowed to an average of 1.1 percent in the 1980s and 2.7 percent in the 1990s.⁶ Real wages dropped 40 percent between 1983 and 1988, and fell even further in the 1990s.⁷ Dissatisfaction with the PRI and the government grew along with these changes.

Citizens' frustration with the government's economic policy and the state's reduced capacity to co-opt dissenters contributed to the rise of new forms of political and civic mobilization. In 1983 the National

Introduction

Action Party (PAN) won several local elections in Mexico's northern states. In 1985 the government's inability to cope with a massive earthquake in Mexico City led to the formation of dozens of independent citizens' organizations that stepped in to solve problems in the face of government inaction. In 1988, Cuauhtémoc Cárdenas and several other PRI leaders left the ruling party and mounted a significant challenge in the presidential elections of that year.⁸ In 1989 the PAN won its first governorship, which was followed by several other gubernatorial victories in the early 1990s. In Chiapas, indigenous peasants staged an uprising on New Year's Day, 1994, under the banner of the Zapatista Army for National Liberation (EZLN), in response to falling coffee prices, the elimination of government credits for small rural producers, unresolved land tenure claims, and centuries of discrimination, political exclusion, and violence.⁹ Around the same time, local and national civic organizations formed a pro-democracy coalition, the Alianza Cívica, which mobilized over 18,000 electoral monitors in the 1994 elections to prevent voting fraud.

The political opposition and civic organizations benefited from the increasing sensitivity of the Mexican government to outside scrutiny. In the 1980s and 1990s the Mexican government was eager to show the outside world that it was a government of laws and an equal partner in NAFTA. Groups as different as Alianza Cívica, the PAN, and the EZLN used this sensitivity to force changes in the Mexican political system.¹⁰ An increasingly independent press also played a vital role in opening the Mexican political process, as David Brooks describes in this volume (page 48).

The pressure from the opposition political parties and civic organizations led to the creation of an independent Federal Elections Institute (IFE), with wide-ranging authority to set the rules for elections and a series of independent electoral tribunals to resolve disputes. The IFE proved to be a key element in the establishment of free and fair elections. This set the stage for the congressional elections of 1997, in which the PRI lost its absolute majority in the lower house for the first time while Cárdenas won the mayor's race in Mexico City, and for the 2000 elections in which the PAN's Vicente Fox defeated the PRI's Francisco Labastida for the presidency.

Fox's election signals an important shift in Mexican politics. The president had been the central element of the previous, one-party political regime, with his authority serving to mediate disputes among all other political leaders at a national and state level. Today, however, Mexican politics is divided like never before. The PAN holds a plurality in the Chamber of Deputies, but not a majority, and is the second party in the Senate. Meanwhile the PRI controls 19 of 31 state governorships, with the PAN and PRD, Mexico's third largest party, controlling the remainder. In this fragmented political panorama, it appears likely that the metaconstitutional powers of the presidency, already somewhat weakened under President Ernesto Zedillo, will continue to wither away and the political system will develop new rules of contestation and mediation.

The PRI's fall from power has been paralleled by a resurgence of local and state authority, which began in the 1980s with opposition victories in local elections and the reduced budget of the central state. Municipal and state governments now control a substantial percentage of total government resources and have significant responsibilities in education, healthcare, and social development, although in some cases the federal government still makes decisions on how these resources are used. This increased role for subnational governments has created new opportunities for democratic participation and for local innovations in government programming. However, decentralization has also had the contradictory effect of bolstering authoritarian regimes in some subnational governments, as recent crises in Tabasco and Yucatán have shown. The PRI was originally created to solve the problem of regional factionalism in Mexico, and its demise may also presage the resurgence of regional political elites.¹¹

In order to consolidate a democratic and transparent regime, President Fox will also need to address institutional reform in a number of areas. The most significant of these is national security, which continues to follow the logic of an authoritarian past. Raúl Benítez argues that public security, the justice system, and defense need to develop new mechanisms for transparency within the context of Mexico's democracy (page 42, this volume). The increased involvement of the armed forces in public security, in particular, gives reason for concern, includ-

ing Fox's appointment of several high-level law enforcement officials who are retired military officers. In addition, serious human rights violations continue as a result of decades of authoritarian rule. Several people considered political prisoners by international human rights groups remain behind bars, including General José Francisco Gallardo, while in Chiapas paramilitary groups created by previous governments are proving hard to dismantle. The Fox administration has sent positive signals about its commitment to human rights, but the current government will need considerable determination and skill to undo the legacies of the past and avoid the pitfalls of the present.

Another dimension of Mexico's democratization process has been the growing debate on the inclusion of the country's indigenous peoples, who make up over 10% of the country's population. Adult illiteracy in indigenous communities is more than four times the national average, and the mortality rate for pre-school age children is almost three times the national rate.¹² Only eight of the country's 620 congressional representatives are Indian.¹³ Indigenous organizations demanding access to the economic and social benefits of development and respect for indigenous forms of governance began in the 1970s, and have become increasingly prominent since the Zapatista uprising in 1994.¹⁴ In 1996, the federal government and the Zapatista rebels, with the participation of representatives from most of the indigenous peoples of Mexico, signed the San Andrés Accords, which guarantee indigenous communities a voice in development, natural resource management, and education policies within their communities, and also allow for the use of traditional governance systems in internal matters. President Fox has endorsed the accords and sent a bill to Congress that would make the necessary constitutional changes to implement it. On March 28 several speakers from the EZLN and National Indigenous Congress addressed two congressional committees in a nationally televised broadcast, and momentum appears to be building for the passage of some form of indigenous rights legislation in the near future.

The San Andrés Accords, however, are only the beginning of a much larger process of including indigenous communities as full participants in Mexico's development. Rodolfo Stavenhagen argues in

Chapter 3 that the Chiapas conflict is “Mexico’s most important unfinished business” and that Mexico can only be considered truly democratic when indigenous peoples are fully included in the nation’s political and social agenda. He suggests that a change in the law is likely to help, but that the government also needs to address power structures and racist ideologies that maintain the exclusion of indigenous communities.

In recent years, women in Mexico have been increasing their participation significantly in political, social, and economic life of the nation as well. Marta Lamas in Chapter 4 notes that gender inequality and violence against women permeate Mexican society. Nonetheless, she argues that rising female education levels, access to birth control, and struggles for gender equity have led women to strengthen their role in the workplace and in politics. Women now constitute 32% of the country’s workforce, and they have held high profile positions in government and politics. Still, they continue to be marginalized in management and in many important spaces of decision-making, leaving considerable work for feminist and gender justice organizations to address.

The gains of Mexico’s democratic opening must be measured against an economic panorama that includes growing inequality and worsening poverty. The structural reforms of the 1980s and 1990s have widened the gap between skilled and unskilled workers; those who live in the northern and southern states; and rural and urban workers.¹⁵ The 1982 crisis precipitated a substantial decline in real wages. There was a brief period of recovery in the early 1990s, but the *peso* crisis of 1995 dropped real wages even further. Despite economic growth since 1996, real wages have not yet recovered their 1994 value—and are far below their 1980 value.¹⁶ As a result, poverty also grew during the last six years of the millennium.¹⁷ Adolfo Gilly describes this as a direct result of the “deregulation of trade, capital flows, and labor relations,” which he refers to as a “new wave of expropriation of the commons” (page 35, this volume).

Nonetheless, some advances were made in poverty alleviation during the 1990s. In Chapter 2, Santiago Levy, Mexico’s former Deputy Treasury Secretary and current Director General of the Mexican Institute for Social Security, argues that the Zedillo administration

took an aggressive approach to eliminating extreme poverty by guaranteeing income transfers to 2.6 million families in extreme poverty with the *Progres*a program. Overall, the Zedillo administration increased *per capita* social spending by 19 percent, prioritized elementary education and primary health care, and reoriented poverty alleviation programs from the urban to the rural poor. These are promising steps that have helped reverse some of the inherent biases built into social spending in previous administrations, and President Fox will need to build on these advances.

To do this, President Fox and the Congress will need to carry out a substantial fiscal reform. Carlos Elizondo notes that Mexico generates about 8 points of GDP less in tax revenues than it should, based on its level of *per capita* income, demography, geography, and other variables (page 26, this volume). Fiscal reform will be a significant challenge, however, since taxpayers do not necessarily believe that additional taxes will improve government services to them. Therefore, increased tax revenue will need to be coupled with concerted efforts to increase the efficiency and effectiveness of government expenditures so that people can see palpable results from their tax contributions.

Perhaps Mexico's greatest challenge is to find a comprehensive development strategy that generates both growth and equitable distribution. Gustav Ranis argues in Chapter 1 that Mexico has made considerable strides in recent years by implementing sound macroeconomic policies and clear regulations for foreign direct investment. International agreements make major policy shifts unlikely and savings rates have improved. All of this augurs well for Mexico's long-term economic growth. The challenge remains, however, to find a way of addressing Mexico's unequal distribution of wealth by investing in education and supporting small and medium-scale business. Banking and labor market reform are also pending tasks. Ranis suggests that providing local governments with increased taxation authority would also benefit development.

José Luis Orozco suggests that Mexico's leaders have always been extremely pragmatic, and that they have now adopted a "new pragmatism" to allow Mexico to participate in an increasingly interdependent global economy (page 57, this volume). This new pragmatism includes a new approach to relations with the United States based on a new

form of nationalism that is willing to seek further integration with the neighbor to the North, but on terms that respect Mexico's sovereignty, heritage, and national interests. Similarly, U.S. leaders are increasingly adopting a more open and pragmatic approach to the relationship with Mexico. These changes are driven in large part by the trade relationship and the exigencies of the global economy, but also by the complex array of institutional relationships between the two governments and by numerous informal relationships among citizens and civil society organizations in both countries.

Rafael Fernández de Castro (Chapter 5) outlines six challenges in U.S.-Mexico relations: first, managing the chaotic nature of the border, which requires increased cooperation between local U.S. and Mexican authorities in both countries; second, developing a new framework for cooperation in matters of security; third, anchoring NAFTA with adequate institutions to facilitate trade and redistribute its benefits to the population at large; fourth, breaking the cycle of bilateral conflict around immigration; fifth, managing the increasingly complex, decentralized, and chaotic relationship by making sure that the two national governments give priority to coordinating the diverse agendas and key players involved; and sixth, deepening Mexico's democratic transition. The increased attention that Presidents Bush and Fox are paying to the bilateral relationship gives hope that they may manage the relationship in a more consistent way—and at a higher level—than has been done in the past. The creation of a cabinet-level bilateral working group on immigration in April 2001 gives an early sign that this may be happening. However, much remains to be done to ensure that NAFTA benefits all citizens in both countries and that greater integration of the border region proceeds smoothly.

Drug policy is one of the most difficult areas of cooperation that the leaders of both countries must address. Guadalupe González (Chapter 6) suggests that current strategies for combating drug trafficking are not likely to succeed because of three key factors: the U.S. government's "penchant for unilateralism," which includes the process of certifying Mexico's compliance in drug control efforts annually; the limited capacity of law enforcement agencies and courts on both sides of the border to combat drug cartels effectively; and unrealistic expecta-

tions of the potential success of supply-based drug control strategies. She notes that successful drug control efforts have done little to reduce supply, though they have helped redirect transshipment routes for narcotics. Various U.S. government estimates put the total value of the profits generated by the Mexican cartels at \$7 to \$10 billion per year, slightly more than the annual revenues of Mexican oil.¹⁸ These funds introduce a highly corrosive element into Mexico's political system since they open the possibility for wide-scale corruption of political, judicial, and law enforcement officials. This makes the search for new approaches to drug policy a particularly important bilateral concern.

Despite these challenges to the U.S.-Mexico relationship, there is considerable reason to believe that the combined pressure of the increased commercial, political, and civil society interactions between the two countries will continue to drive the relationship forward, with occasional stops and starts. We may still be far from the day when President Fox's vision of a North American Common Market could become reality, but there are vital opportunities which should be seized to expand cooperation not only in trade matters, but also migration, energy policy, environmental concerns, labor relations, and social and economic development. In the new millennium, the fate of a successful United States may well be in our capacity to create with our neighbors to the south a prosperous and equitable North American region—and a prosperous and equitable hemisphere.

NOTES

1. Mexico accounts for 10.3% of U.S. imports and 12.3% of U.S. exports. At the same time, the United States accounts for 88.1% of Mexican exports and 74.1% of Mexican imports. IMF, *Direction of Trade* (Washington, DC: IMF, 2000) .

2. U.S. Census Bureau. 2000 Census figures. On website: www.census.gov.

3. Wayne A. Cornelius, *Mexican Politics in Transition: The Breakdown of a One-Party-Dominant Regime*. (La Jolla: Center for U.S.-Mexico Studies, 1996), p. 35; Kevin Middlebrook, *The Paradox of Revolution: Labor, the State, and Authoritarianism in Mexico* (Baltimore: Johns Hopkins, 1995), pp. 6-8.

4. The National Action Party (PAN) and a few other small political parties competed in elections, and a few, usually localized social movements developed, but few of these seriously sought to challenge the hegemony of the PRI. The exceptions, such as the student movement of 1968, the railroad workers' strike of 1958, and several rural rebellions in Morelos and Guerrero were violently suppressed.

5. Government spending fell 6.9% between 1983 to 1988 and then remained constant as a percentage of GDP from 1989 to 1996. Nora Lustig, *Mexico, Remaking of an Economy* (Washington, DC: Brookings Institution, 1998), pp.80-81 and 211.

6. World Bank, *World Development Report*, 2001, p. 295.

7. Lustig, *Mexico, the Remaking of an Economy*, 1998, pp. 68-69; Enrique Dussel Peters, *Polarizing Mexico: The Impact of Liberalization Strategy* (Boulder: Lynne Rienner, 2001), p. 116.

8. Cárdenas may well have won the elections in 1988, but official returns gave the victory to the PRI's Carlos Salinas de Gortari after a very questionably counting process.

9. Neil Harvey, *The Chiapas Rebellion* (Durham: Duke University Press, 1998); John Womack, *Rebellion in Chiapas* (New York: The New Press, 1999).

10. The U.S. government also abandoned its uncritical support of the PRI, which had been seen as the best guarantor for stability in Mexico, in the aftermath of the Cold War. See Sergio Aguayo, *Myths and [Mis]Perceptions: Changing U.S. Elite Views of Mexico* (La Jolla: Center for U.S.-Mexican Studies, 1998), p. 226.

11. See Alicia Ziccardi and Enrique Cordera, *Políticas sociales al fin del milenio: descentralización, diseño y gestión* (Mexico City: Miguel Angel Porrúa, 2000); and Wayne Cornelius, Todd Eisenstadt, and Jane Hindley, *Subnational Politics and Democratization in Mexico* (La Jolla: Center for U.S.-Mexican Studies, 1999).

12. Instituto Nacional Indigenista and the World Bank, "National Profile of the Indigenous Peoples of Mexico" (Mexico City: INI, 1997).

13. According to former PRI deputy Enrique Ku, cited in "Solo ocho legisladores representan a 10 millones de indígenas," *La Jornada*, September 25, 2000.

14. On the history of the indigenous movement, see Jorge Hernández Díaz, *Etnicidad, poder y nación* (Oaxaca: Universidad Autónoma Benito Juárez de Oaxaca, 1993). On the articulation of the movement since 1994, see the debate among indigenous leaders in Luis Hernández Navarro and Ramón Vera Herrera, *Acuerdos de San Andrés* (Mexico City: Era, 1998); and also the magazine *Ce-Acatl* (various issues).

Introduction

15. Lustig, *Mexico, the Remaking of an Economy*, 1998, pp. 201–212.

16. CEPAL, *Estudio Económico de América Latina y el Caribe, 1999-2000* (Santiago: U.N. Economic Commission for Latin America and the Caribbean, 2000), p. 251.

17. According to respected economist Julio Boltvinik, poverty increased by 10% during this period, largely as a result of the 1995 economic crisis. “Crece pobreza 10% en sexenio zedillista,” *Reforma*, October 4, 2000; and Julio Boltvinik, “Economía moral; ingresos y trabajo en el censo de 2000,” *La Jornada*, November 24, 2001. Also see John Ward Anderson, “Mexicans Predict Crisis as Outcome of Election,” *Washington Post*, June 7, 2000.

18. Peter Andreas, *Border Games: Policing the U.S.-Mexico Divide*. (Ithaca: Cornell University Press, 200), p. 60; Peter Smith, “Semiorganized International Crime,” in Tom Farer, *Transnational Crime in the Americas* (New York: Routledge, 1999), p. 196.

MEXICO'S ECONOMIC TRANSITION

PART I

Economic Reform and Development: What Have We Learned?

GUSTAV RANIS

This presentation briefly reviews what I believe we have learned about reform and development over the past few decades and subsequently relates that review to the changes I see in Mexico since I last spent a year there some three decades years ago. It concludes with what I believe are that country's current opportunities and problems.

WHAT HAVE WE LEARNED?

What have we learned? Perhaps the most important lesson of the past several decades is that we have learned to qualify and amplify our development objectives, moving from growth to a broader view of development which encompasses not only the elimination of both private and public income poverty but also extends to an analysis of how growth relates to human development, the basic quality of life. This is not to say that earlier generations didn't worry about development in contrast to pure growth in the third world, but we have managed to substantially advance this discourse in terms of defining the relationships among the various objectives and in terms of reaching the basic understanding that income is really a means to an end rather than an end in itself.

We do not, of course, claim that we have "the" answer to what particular countries like Mexico ought to include in any further reform package in order to move towards the achievement of this broader view of the fundamental societal objectives. There currently exists a general agreement that at least some portions of the old "Washington Consensus" should be preserved, notably at the macro level. This is

especially true of fiscal and monetary stability, even if we do not accept the mechanical notion that there is some minimal acceptable inflation rate that needs to be tolerated. More importantly, when it comes to the micro level, focusing on structural changes and their sequencing, there exists a great diversity of opinion, with country differences dominating; no one, certainly not outsiders, should claim to “have the truth by the beard.” Reform packages clearly have to be very country-specific, depending on the initial conditions, the inevitably heavy hand of history; they need to be nuanced; and, most importantly, they need to be reached via a true domestic consensus and in a decentralized fashion.

This also implies that old-fashioned conditionality is out the window even if this is not yet fully recognized in Washington. Conditionality will only work if it is really “self-conditionality”. This means that we need to abandon the ritual dance engaged in by the IFI’s with the countries in the past. Development was and continues to be a domestic affair; foreigners can only be helpful at the margin and only if they are fully respectful of local priorities and willing to be more passive and responsive rather than eagerly pushing on a string in order to move money.

Success also requires that the role of the state, which has been put on the back burner of late, be brought back. This is not in terms of returning to a closed economy or an import substitution type of regime or even of an industrial policy of trying to pick winners, but as still the main instrument for building the institutions necessary to help markets function better. This goes beyond the market-friendly intervention terminology, and extends to land reform, regulatory changes, financial reforms, the creation of research and development institutions useful for directly productive activities, and, most importantly, the government’s contribution to the improved health and education of the population. Clearly, it is now understood that systems have to move from getting prices right to getting institutions right. We need to understand much better the complementarity between markets and institutions, including the importance of the rule of law and of an independent judiciary, how regulatory functions are performed, how social safety nets are constructed, and how important it is to harness civil society to the overall development effort.

This also means that the state itself needs to be analyzed and disaggregated. We need to know whether, in a particular case, it is an honest traffic cop or whether it has its own, independent, sometimes nefarious, agenda. Moreover, is the system sufficiently decentralized? We know, of course, that decentralization may take two forms, vertical or horizontal. The vertical variety has been much discussed in terms of fiscal and administrative devolution or lack thereof. The horizontal version deals more with whether or not power has devolved from the executive branch to the legislature and to an independent judiciary at various levels of government. Both dimensions need careful and, in many ways, complementary attention.

We also have learned something about the complicated relationship between development and democracy. We are reasonably certain that continued development ultimately requires a lot of decentralized decision-making which, as in the cases of Taiwan and Korea and most probably in the future case of China, will ultimately promote political democracy to go along with the sequential strengthening of economic democracy via participation. But we are still less sure whether democracy promotes development unless we accept that narrower version, that is, participatory or economic democracy, as opposed to insisting on the broader Westminster version focusing on multi-party systems, voting behavior and abiding by poll results.

I believe we have also learned that natural resource abundance, along with foreign capital “for the asking,” represents a two-edged sword. It may cause “Dutch Disease,” not only in the narrow sense of affecting the exchange rate adversely and thus making it difficult for a country like Mexico to export its labor-intensive products while simultaneously leading to the neglect of agriculture, but also in terms of affecting the overall decision-making process. This extended version of the “Dutch Disease”—or, as some people would put it, the case of an income effect overcoming a substitution effect—argues that the flow of additional resources tends to take the pressure off decision makers and politicians and permits them to avoid making policy changes, especially painful ones. It raises a moral hazard problem similar to that accompanying implicit or explicit loan guarantees that we have recently seen at work in the context of the Asian financial crisis.

I think we have also learned that cross-country regressions a la Barro and Sala-i-Martin to explain growth, adding more and more variables, including ethnic diversity, temperature and the kitchen sink, are not really likely to advance our understanding of what makes for development. In these regressions, as has been pointed out by others, indeed only the investment rate seems to be robust as we add and subtract variables. Nor is the assumption of convergence likely to hold except among “neighbors,” such as the members of the European Union or states of the United States.

Perhaps the biggest payoff, in my opinion, continues to emerge from comparative longitudinal country study research that stays within

I believe that domestic balanced growth, in tandem with an increasing outward orientation, remains critical for developmental success.

a particular typology, for example a labor surplus Latin American country like Mexico or a small Central American country like Costa Rica or a human resource deficient African country like Chad or a labor deficient land surplus country like Kazakhstan. The so-called “new growth theory,” all the rave but a few years ago, has not, in my view, panned out. To its credit, it has appropriately refocused our attention on externalities, especially on education and research and development, in an effort to try to endogenize technology change and thus help explain the absence of diminishing returns to investment. But to date it has shown little empirical content and recorded even less policy impact to be weighed in its favor.

We have also learned that in countries with substantial-sized agricultural sectors we simply must permit that sector to play its critical historical role. If we do not, its contribution to the development process will be nullified in its savings, technology, and labor supply aspects. The complementary role of agricultural and non-agricultural activities is likely to be necessary for developmental success from both a growth and a distributional perspective. In other words, balanced growth in the rural areas remains a large part of the answer;

too exclusive a fascination with the more exciting and visible international and trade dimensions of development can be dangerously misleading. Indeed, anything that is overdone can become grotesque and counter-productive. This is emphatically not to say that trade does not represent an important hand-maiden of development, only that it is not a leading sector or an engine of the process. Even if Jeffrey Sachs might disagree I believe that domestic balanced growth, in tandem with an increasing outward orientation, remains critical for developmental success.

The old-fashioned discussion concerning the role of government versus markets should be put aside. We need government interventions which accommodate rather than obstruct markets. Using Kuznets' terminology, if the colonial past has left a system with inadequate "organic nationalism" or cohesive cement, the newly independent government has to provide its synthetic equivalent without, however, overstretching its usually limited, organizational, fiscal and technical capacities. What we are clear about is that the worst outcome is one of alternating private and public sector-friendly policies, yielding the equivalent of the well-known stop/go phenomenon in terms of interventionist and more market oriented policy mixes alternating with each other as exogenous shocks occur or finance ministers change.

With respect to exchange rate policies, we have also learned, largely as a consequence of recent financial crises, that two extremes seem to work best, that is, either an exchange rate policy that comes close to dollarization (or at least a currency board) or moving towards a floating exchange rate system with minimal interventions. In that sense we have come to realize that Robert Mundell is right and that it is quite impossible to achieve all three objectives: capital mobility, a fixed exchange rate, and being in charge of one's independent national monetary policy. More and more countries have consequently been driven to the extremes: giving up any independent monetary policy, as in Argentina, or pursuing a floating rate with free capital movements while retaining an independent monetary policy, as in recent vintage Mexico.

Moving on to what we have learned about negotiations on trade, regional or global, the whole process, of course, suffers from the origi-

nal sin of the reciprocity concept, that countries should be willing to open themselves to increased imports without reciprocity from the point of view of rational economic analysis. However, from the point of view of political economy we know that this position has long ago been sacrificed. In terms of the global versus regional approaches to trade liberalization, two-thirds of world trade is now governed by EEC and NAFTA-type arrangements which, on paper, seem quite acceptable as long as the external tariffs of such groupings are not raised and they are open to new members.

From the point of view of developing countries, however, the WTO or global liberalization approach is much to be preferred, especially in the case of relatively small nations which are likely to be trampled when the large elephants fight. But in either case trade liberalization can provide an important advantage, especially to labor surplus developing countries, although, of course, the key may well be whether or not textiles are part of any deal or are deleted from the liberalization package. Even under the Uruguay Round of negotiations, when the commitment was made to end the Multi-Fiber Agreement, giving way to tariffs which would then ultimately be brought down, this agreement is so back-loaded that developing countries have the right to be skeptical about what will actually happen by the year 2005. CGE models, in any case, show very large potential gains, in the hundreds of billions of dollars, for developing countries, including Latin America, especially if we assume current levels of unemployment and underemployment can be mopped up in the course of trade liberalization. A particular advantage for developing countries, not previously realized, is in the services arena, especially in construction and some of the knowledge industries, which are now not only recognized as constituting important traded goods but growing faster than trade in commodities.

One dimension of trade negotiations, which we have come to understand better in recent years, is whether the “special and differential” treatment enjoyed by developing countries is really good for them. Once considered a great advantage, as part of the import substitution syndrome, the current view is that, while it may be necessary for a very short period of time at an early stage of development, it should not be extended too long. In other words, developing countries like

Mexico can do better by participating in multi-lateral liberalization on a generalized WTO basis than by utilizing “special and differential” treatment options in its various manifestations.

I think it is generally agreed by now that the effort by developed countries to include environment and labor conditions as side agreements to trade negotiations in an effort to harmonize domestic policies in these areas across-the-board makes very little economic sense across different stages of development and endowment levels. When dealing with environment as a global good, side payments from rich to poor countries make sense; but the effort to view low wages or otherwise differential conditions of labor markets as unfair competition, threatening a “race to the bottom,” very quickly becomes a subterfuge for protectionist interests. The movement of labor by incorporation into traded commodities and services is really the main way to relieve the pressures of illegal immigration which are building up in Western Europe, Japan, and the United States.

RELEVANCE TO THE MEXICAN ECONOMY

Although I do not claim to have been a close observer of the Mexican economy over the past three decades, let me take the plunge and make some assertions on which items from the above listing of things we have learned may be especially relevant for the Mexican economy. I do this with the benefit of some historical perspective since I spent a year at the Colegio de Mexico in 1970-71 and subsequently wrote a piece in *Demografía y Economía* entitled “Is the Mexican Miracle Turning Sour?” The article questioned the validity of the then-current euphoria reflecting more than thirty years of sustained growth at nearly 6%, coupled with relative political stability, the absence of inflation and a fixed exchange rate. Today, thirty years later, I am tempted to raise the question, is the Mexican economy finally “turning sweet?”

With respect to changing societal objectives, I suggested then that Mexico needed not to dethrone the GNP but to pay much more attention to the distributional aspects which have resulted from the nature of the particular growth path it had chosen. Realistically, little can be done fiscally about an unfavorable income distribution but much by changing the structure of the economy. Until recently,

Mexico had been a kind of enclave economy, with natural resource exports financing a relatively narrow, capital intensive and inefficient industrial sector. Land reforms initially gave Mexico an advantage over other countries in Latin America. However, these reforms were not sufficiently well thought-through and created a series of incentive problems on the *ejido* land which, together with the bad distribution of irrigation, led to the relative neglect of a large part of the heavily populated southern states.

Moreover, Mexico historically followed the typical political economy pattern of development over time. During the initial 1960's to 1973 upturn, given favorable terms of trade, this ushered in the so-called "growth with stability" era, with levels of protection probably increasing, deficits kept in check, the exchange rate fixed, and capital inflows largely related to traditional exports. However, once the post-1973 downturn occurred, in order to maintain growth in the face of deteriorating terms of trade, domestic spending was increased in an effort to replace foreign exchange earnings by the creation of additional domestic purchasing power. This, coupled with the realization of larger than expected oil reserves, meant a breakdown of all fiscal and monetary restraint, with foreign investors competing to come in on what looked like excellent investment opportunities. The money supply increased from 25 percent in 1974 to 60 percent in 1982; the budget deficit reached as high as 14 percent of GDP and, with velocity increasing, inflation reached 90 percent in the 1980's. Foreign debt rose five-fold between 1973 and 1976 and when the oil price reversal came in the early 1980's, the debt burden became quite intolerable and Mexico felt it had to defend its exchange rate with import controls.

After 1986, in the presence of an external upturn, caused largely by oil prices recovering, spending was initially kept under control. However, by the early 1990's, Mexico experienced a major crisis. Foreign capital, which had come in large volumes with the expectation of major oil exports, now turned around precipitously and moved out. Once again the domestic expansion of monetary and fiscal policy was used to make up for the shortcomings in export earnings and foreign capital inflows. This time, however, because Mexico had joined the GATT in 1986 and NAFTA in 1994, it did not return to syndrome of

import controls plus delayed large-scale devaluation, but instead adjusted prices earlier—if admittedly not very adroitly. Consequently, Mexico did not repeat the 1979–1982 experience, which represents a fundamental change for the better. I believe the old political economy cycle has been broken in a fundamental way. Even though a crisis did occur, the response permitted a softer landing than had historically been the case.

The *maquiladora* factories along the border with the United States have remained an increasingly important escape valve for Mexico's labor surplus throughout the period, with foreign investment roughly doubling every decade and employment rising by 50 percent. It should also be noted that Mexico has come to rely more on direct investment and is less dependent on portfolio capital, which helped avoid the massive flight of capital experienced in Asia. Meanwhile the trade/GDP ratio went from 0.2 in 1983 to 0.6 in 1998. Moreover, in spite of the relatively high price of oil today, manufactured goods currently amount to 90% of total exports. Thus, Mexico has a much lower dependence on natural resource exports and, therefore, a decreased vulnerability to Dutch Disease problems.

There has been, moreover, much institutional construction and various other reforms put in place to support trade liberalization in pursuit of a more generalized export expansion. In 1985 tariffs were reduced to a maximum of 20 percent, while items covered by license were reduced from 90 percent to 20 percent. In 1993 more favorable regulations governing foreign direct investment were promulgated. With respect to agriculture, reforms of the *ejido* system, though incomplete, were promulgated. Conasupo, which had provided unequal sales access to large and small farmers, was dismantled in 1999. Tortilla and other subsidies were eliminated. While levels of investments in research and development and in education remain inadequate, the trade/growth nexus of mutual reinforcement is increasingly in evidence.

However, the medium and small-scale industrial sector still remains largely out of the loop, partly because it is starved for credit. The most recent financial crisis made most observers realize that capital market liberalization should not move too far ahead of banking reform, which continues to be a problem. However, while the economy is by no

means immune from future crises, I believe there is a good chance that the historical stop/go pattern has been broken for good, along with the dominance of a one party system virtually merged with the state.

Domestic savings rates have risen from 14 percent to 20 percent and direct productive sector investment has been increasing steadily since

A major remaining weakness, related also to the non-participation of medium and small-scale, especially rural, industry, is the still highly unequal distribution of income, and the associated lack of satisfactory progress on poverty alleviation and human development.

1996, averaging 18 percent, this time of the private, not the public sector variety. However, in spite of *Progresa*, a government program to increase education, health, and nutrition expenditures, public sector human development-oriented outlay remains deficient. As was strongly emphasized in the recent electoral campaign, adequate educational investments at the secondary and especially the vocational level are still inadequate.

In fact, a major remaining weakness, related also to the non-participation of medium and small-scale, especially rural, industry, is the still highly unequal distribution of income, and the associated lack of satisfactory progress on poverty alleviation and human development. Mexico's Gini Coefficient at 0.54 is one of the highest in the world and remains a real challenge. Given respectable income growth, this clearly reflects a relatively poor performance in poverty alleviation and human development. Poverty rates, however measured, are somewhere in the 20 percent range, although incomes among the self-employed and farm workers are probably not fully recorded. It is probably no exaggeration to state that fully one-third of Mexico's workers are either unemployed or under-employed even at this point, even after a relatively successful five percent annual growth performance during much of this past decade. Labor market reforms, that move towards plant level negotiations and thus promise greater labor market flexibility, are in the works but have not yet yielded results. Decentralization

of the public sector, either of the vertical or horizontal variety, has been much talked about but not yet implemented; this also remains a serious problem. Fifty percent of federal tax revenues now go to local bodies on a relatively unrestricted basis. The possibility of actually transferring tax powers to local bodies, which would provide a real boon to rural industry, has not yet been explored. It has only recently been recognized that poverty alleviation cannot be an afterthought but needs to be part of Mexico's overall development strategy.

The relationship between growth and human development, of course, runs in both directions. For a given level of *per capita* income we know that the lower the poverty level, or the better the distribution of income, the more resources are bound to be allocated by households to human development-oriented goods (e.g. education, health, nutrition). It should also be noted that the higher the level of female education and the higher the proportion of the wife's contribution to total family income, the larger the allocation of expenditures to human development-related goods at the same level of family income.

In summary, much remains to be done, especially with respect to the distribution of income and the human development dimensions of development. However, the prospects for continued progress are much improved because the stop/go policies of the past have become constrained by Mexico's membership in WTO and NAFTA, as well as by the more competitive domestic political system which has been so amply demonstrated in the recent Presidential election. A closer interaction between economic and political development is very much in evidence already and can be counted on to give Mexico a better chance to enter the virtuous cycle between sustained growth and the achievement of equally sustained progress in human development.

THE NEED FOR FISCAL REFORM

Carlos Elizondo

Centro de Investigación y Docencia Económicas

According to statistical regressions that were made by the Inter-American Development Bank, our capacity to levy taxes is eight points less than what would be expected due to our level of per capita income, demography, geography, and other variables. And even within Latin America, Mexico compares poorly to other countries. The government implemented numerous initiatives to enhance its capacity to raise revenue in the last twenty years, yet the total revenues of the government have remained virtually constant. Each time that oil prices go down, there is some capacity to compensate through taxes, but the net revenue from both sources has remained more or less unchanged for twenty years.

I would argue that more unequal societies are often not very democratic, because those who are worse off see the idea of rights being equally distributed among people as just rhetoric, while those that have more resources find the risks of democracy a little bit unsettling. Therefore, I think that if our political system is not capable of raising revenues and thereby creating public goods—not only the sort of social transfers that have been done lately but also investment in education, infrastructure, and healthcare—it will become very difficult to generate a level playing field or really profit effectively from the growth that Mexico has been having lately.

Reorienting Mexico's Social Policy

SANTIAGO LEVY

Mexican Institute for Social Security

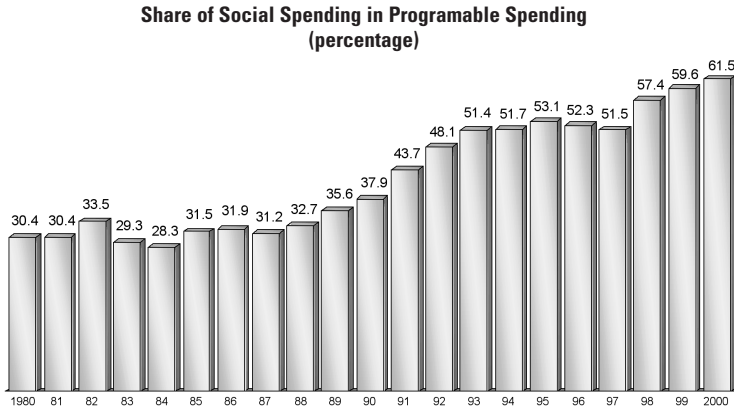
During the administration of President Ernesto Zedillo there was a major budgetary effort to channel more resources into social spending. Equally important, we took critical measures to strengthen the redistributive impact of spending, and resources were channeled into programs that specifically target poverty alleviation and investments in human capital. Moreover, we have made a concerted effort to transfer resources from the federal government to state and municipal governments and to make social spending less discretionary and more transparent and accountable.

INCREASED SOCIAL SPENDING

Since 1994, social spending has increased dramatically in relation to overall federal programmable spending. Total programmable spending, which consists of total government spending, less those resources devoted to debt service and revenue sharing for the states, is actually less today, on a *per capita* basis, than it was in 1994. It has been reduced by about five percent, which is a very clear sign of the extreme austerity under which the government has been working over the last five years. Despite this, social spending per capita is 19 percent higher today than it was in 1994. So there has been a clear reallocation of resources and priorities in favor of social spending (Figure 1).

Another way of looking at this is to note that total programmable income has increased by around 45 billion overall in the last six years, while social spending has actually increased by more than double that amount. Essentially what this means is that not only have we put every

FIGURE 1: SOCIAL SPENDING 1994–2000



Social Spending, by any measure, reached a historical maximum in 2000; its share in total spending is the highest in, at least, 20 years.

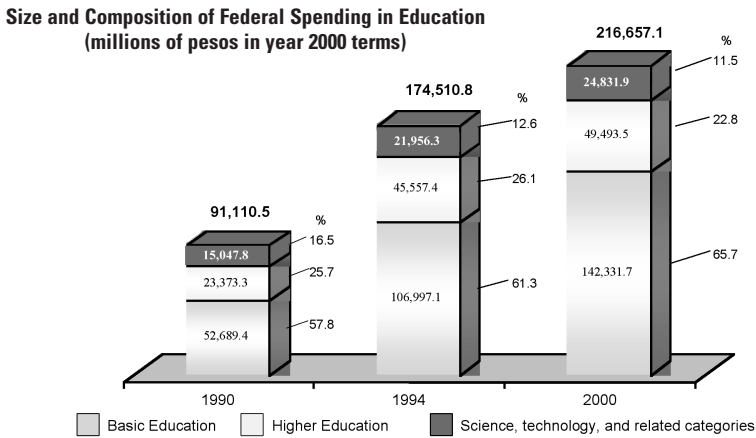
additional *peso* that we have had available in the last six years into social spending, but we have actually reduced an equal amount of expenditures in other categories and transferred that money into social spending.

TARGETING THE POOR

It is not enough to increase social spending, however; it is equally important to ensure that within each category of social spending the resources are channeled to the people with the lowest incomes. For example, social security currently receives approximately one and a half percent of GDP. The resources allocated to social security are now 30 percent higher than they were previous to the Social Security Reform Law in 1997, but the contributions made by workers to social security are lower than before in both absolute and relative terms. Contributions now constitute 9 percent of social security resources versus 20 percent before 1997. Benefits have increased while workers' contributions have decreased.

Expenditures on education have increased substantially. Even more importantly, the greatest increase has been for basic education, which

FIGURE 2: EDUCATION AND HEALTH SPENDING



In the period 1994–2000 emphasis has been given to spending in basic education: it has grown by 33%, while overall spending in education has grown by 24%.

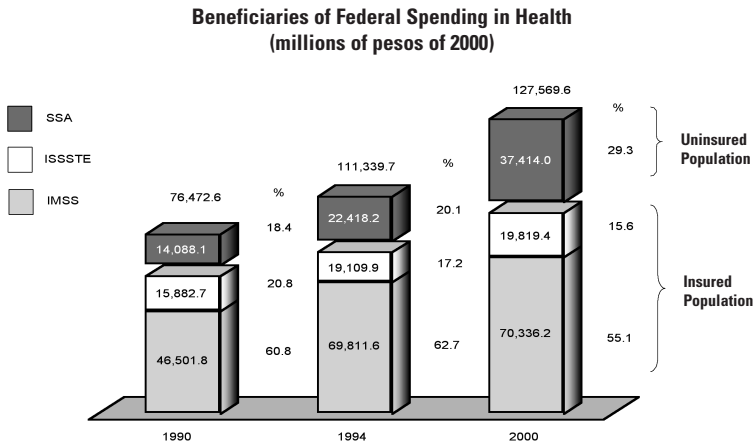
now receives a greater share of the education budget than it did six or ten years ago (Figure 2).

Health spending has undergone a similar phenomenon. Health spending *per capita* is at the highest level ever in the history of Mexico. It increased by around 17 percent between 1994 and 2000, and the bulk of that increase has targeted those people who do not have access to social security. In 1990, about 94 percent of the population had access to first-level health coverage. While this number dropped to 90 percent in 1994, it had risen to 99 percent by 2000. What was done over the last six years was to ensure that every Mexican has access to a basic package of health coverage. By now more than half the states in Mexico have been certified by the welfare administration as having full health coverage at the first level (Figure 3).

POVERTY ALLEVIATION

In addition to creating social spending and to making it more distributive, special emphasis has been placed on programs that are specifically targeted at poverty alleviation, and we have drastically changed the

FIGURE 3: GOVERNMENT SPENDING ON HEALTHCARE

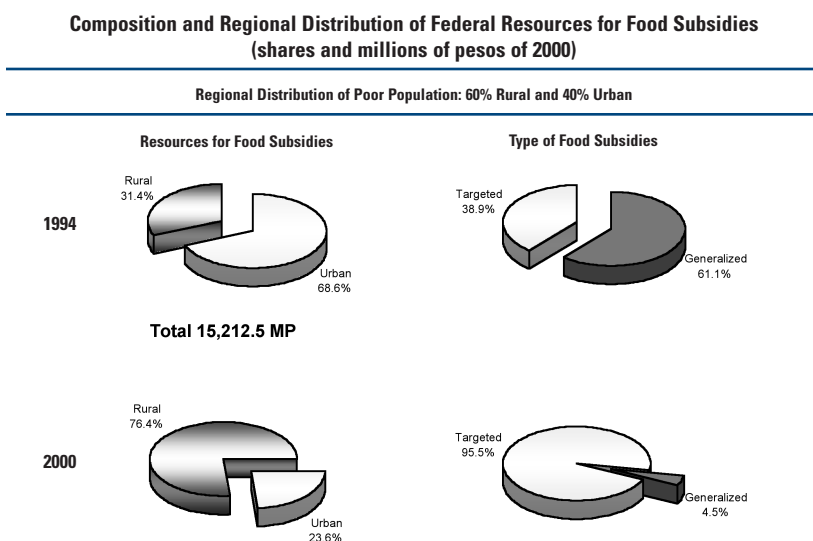


Between 1994 and 2000, federal spending in health increased by 14.6%. However, spending for the uninsured population (those with the lowest incomes) increased by 67%, while spending for the insured population increased by 1.4%.

nature of the subsidies available. For the first time in the history of Mexico, we are spending over one percent of GDP in programs specifically targeted at poverty alleviation, especially providing income contingencies for people in poor areas, investing in human capital, and investing in fiscal infrastructure. While overall spending over the last six years has grown by less than five percent in real terms, spending for programs for those in extreme poverty has actually increased by almost 20 percent in real terms over the last six years.

Although 60 percent of the population in extreme poverty lives in rural areas and 40 percent in urban areas, in 1994 the balance of the budget was actually weighted in the opposite direction: around 66 percent of poverty alleviation resources were channeled to urban areas and around 34 percent to rural areas. Moreover, less than 50 percent of the resources were targeted to those in extreme poverty. By the year 2000 we have managed to reverse these figures. Now 75 percent of the resources for food subsidies are channeled to the rural areas and 25 percent to the urban areas. Moreover, almost 95 percent of all resources for food subsidies are targeted directly to the population in extreme

FIGURE 4: TARGETING OF FEDERAL FOOD SUBSIDIES

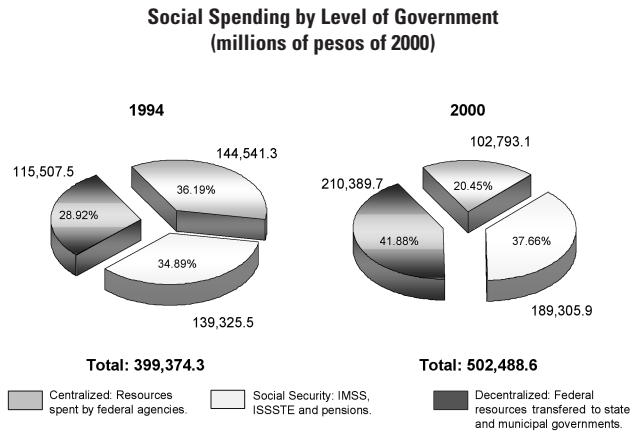


poverty. This amount has increased in real terms, but the much more important shift is that the money is going to the rural areas and to the people who most need it (Figure 4).

Furthermore, new programs have been introduced to try to change the nature of the subsidies, moving away from pure income transfers to a system in which subsidies facilitate investments in human capital. With regard to income transfers to improve nutrition, cash income transfers have been made conditional on children going to school and mothers taking their children to health clinics so that they get nutritional and first level health attention.

*Progres*a is part of a comprehensive program to reduce rural poverty, and it now covers 2.6 million families in rural areas. We think it reaches around four out of five families in rural areas that live in extreme poverty. It increases the average cash income of these families by around 22 percent, but it is more than a pure income transfer because it is conditional on families actually attending health clinics and sending their children to school.

FIGURE 5: SOCIAL SPENDING BY LEVEL OF GOVERNMENT



Between 1994 and 2000 federal resources spent on social programs by state and municipal governments almost doubled, while resources spent by federal agencies fell by 27%.

DECENTRALIZATION

In addition to this, there has been a rather drastic change in the composition of social spending between the federal, state, and municipal governments in the context of a broad federalization and the decentralization of resources to states and municipalities. These transfers of responsibilities are determined by formulas written into law so that they cannot be changed by the executive or any level of government alone. Since 1994, the share of the budget of federal resources that are transferred to state and municipalities has almost doubled in real terms in the last six years. Today most educational and health services and the provision of basic social infrastructure have been decentralized to the states and the municipalities (Figure 5).

TRANSPARENCY AND ACCOUNTABILITY

The last point that I want to make is that important steps have been taken to reduce the discretionary power of agencies in charge of social programs and to increase a transparency and accountability. And this

has a lot to do with the democratic transition that has been taking place in Mexico over the last six years.

For the first time in 1999 and again in 2000, the budget law has established the obligation of federal agencies to publish their rules of operation and their criteria for identifying their target population in the federal register. They also have to publish how many families benefit from each program by locality, municipality, and state, and the exact amounts given to each family. In addition, all beneficiaries of social programs now receive a printed leaflet that outlines their right to participate in the program regardless of their political affiliation, voting preference, or attendance at political meetings. Moreover, the agencies must publish evaluations of their programs and publish these in the federal register as well. This has drastically reduced the discretionary power of federal agencies to change budgets or condition the delivery of social programs on political behavior. Thus it has substantially increased accountability.

I want to conclude by pointing out that social policy in Mexico is now being carried out in the context of a much more complex, plural, and democratic society. State and municipal governments play a substantially much more important role in the execution of social policies than they did in the past. They now have more than double the resources they had in 1994.

At the federal level, we have sought to construct a new type of relationship between the state and the citizens. We have sought to build a more responsible, modern relationship by involving beneficiaries and making them co-responsible for the outcomes of the programs, and by allowing mothers the freedom to decide how to allocate their income transfers.

We have tried to change the conception of social policy toward an emphasis on investing in human capital. Equally important, we have tried to change a pattern of paternalistic and sometimes corporatist state behavior, in which the relationship between the state and the citizens was often contingent on political criteria. In its place we have constructed a modern, institutional relationship in which resources are transferred from the federal government to the states, without regard to their political affiliation, and from the states to the municipalities,

without regard to their political affiliation. This is done through clear formulas, which are published as law, and resources given to families are not conditioned on any political behavior.

We have made a major budgetary effort to increase resources available for social spending, and the qualitative nature of social policy has been transformed in accordance with the democratic transition that is taking place in Mexico. This does not mean that we have finished this task, by any means. There are unacceptable levels of poverty and inequality that still need to be addressed. But I do believe that these kinds of policies in the context of economic growth are the right policies to enhance the quality of life for people in Mexico.

EXPROPRIATION OF THE COMMONS

Adolfo Gilly

I will start by defining what people mean by neoliberalism...I will call it “deregulation”—deregulation of trade, capital flows, and labor relations...It’s a new wave of expropriation of the commons [like] that in the 17th century and 18th century, and we are in a new wave of expropriation of the commons. Rights are also commons. Common properties are being expropriated everywhere...

I will mention some of the social consequences of the deregulatory reforms.

First, they have written away the welfare components of the state, including social security, health care, housing, pension systems, job security, and labor rights. It does not disappear, just withers away.

Second, we have high unemployment masked by informal labor and concealed poverty.

Third, Poverty is increasing in Mexico. Eight out of ten persons in Mexico live with less than three dollars a day. And 40 percent, according to Julio Boltvinik, are indigent.

Fourth, there is the rise of the new Mexican financial elite, which is a change from the political and military elite [of before].

Fifth, there is growing inequality. Mexico, along with Brazil, Guatemala, Chile, and Panama, is in the front line of inequality in Latin America. These are the only Latin American countries where up to 20 percent of the population gets 60 percent of the national income. The next 40 percent gets 30 percent, and the last two quintiles receive only ten percent.

Sixth, there is persistent public corruption, from the deregulation and the banking crisis, now also from narco-trafficking and the almost non-existent independent justice system. So, we can do all the economics and give all the economic figures that we want, but we are not going to have a normal situation inside NAFTA with the judicial system that we have in Mexico.

POLITICAL AND SOCIAL CHANGE

PART II

Indigenous Communities and the Peace Process in Chiapas

RODOLFO STAVENHAGEN
El Colegio de México

I believe that Chiapas is Mexico's biggest and most important unfinished business. It expresses the deep social contradictions that national development policies have generated over the last four decades or so, which has been aggravated enormously by the market-oriented opening up of the national economy.

Indians, who constitute 15 percent of the Mexican population, have been historically shortchanged. Economic development has passed them by, despite official rhetoric to the contrary. Indians' interests are internally excluded in social and economic terms in the process of national development. Democratization has hardly touched them.

Now what are the main points on the agenda? Indigenous legislation is a major issue. This is what was agreed upon in the San Andrés Accords in 1996, but which has not been implemented because there are certain issues that the government and the Zapatistas, despite both signing the agreement, have not been able to agree on. The main disagreement, surprisingly enough, is around the use of the term "people." Are they indigenous people or not? Do they have rights or not? Then there are issues about territory, the control of natural resources, the issue of customary law in the legal system, access to the media, and the process of political representation, among others.

There are several issues for the peace negotiations that the two parties have agreed to talk about: democratization and justice, economic development, and so forth, which the Zapatistas want to negotiate, but which the government argues that they should not have to negotiate since the Zapatistas are not representative of the indigenous population. And there

are other instances in the political system such as, of course, the political party system and the Congress where national issues should be discussed.

But underlying this, I think there are some deeper problems which cannot be addressed only by laws or electoral politics. These problems have to do with human dignity, the politics of recognition as it is sometimes called in the United States and Canada; the question of inequality; and the question of human rights. This is something that the Zapatistas insist on very clearly and want to negotiate with the government, but the government, up till now, has been unwilling to negotiate this with them.

The government insists that the underlying cause of the conflict is poverty alone. They contend that deprivation in income terms and monetary terms is at the root of the uprising, and, therefore, in the last few years we have seen a lot of money being thrown at Chiapas. I just read a few days ago in the paper that during president Zedillo's administration 76 billion pesos have been spent on social development in Chiapas. However, I have not seen any independent evaluation on how this money has actually been spent or what effects it may have had on the social, cultural, political, and economic situation of the majority of the indigenous population, which is the basis of the rebellion we are talking about. Where does this money end up? Will it really improve the situation of the people who most need it or will it instead contribute to greater inequality and the further concentration of wealth among certain sectors at the expense of others.

The government denies that the Zapatistas have any political legitimacy or a national role. The government denies them any role outside of the institutionalized parties and electoral mechanisms. While the Zapatistas argue that they represent a national force, the government seeks to reduce their significance to the local level. Moreover, the government has tried to reduce regional violence to intra-community rivalries and indigenous demands to something that can be processed through traditional clientelistic channels. This is precisely the way that social spending has been used in Chiapas.

At the same time the government increases pressures on Zapatista communities, it also increases its military presence. In addition, since 1995-1996 paramilitary groups have emerged which strengthen the

local authoritarian power structures. There is also selective harassment of international observers and Zapatista sympathizers, which many analysts consider part of a strategy of low intensity warfare.

We can continue to live as we have for so long by ignoring indigenous demands, but we cannot claim to be a truly democratic society until we include the indigenous peoples in our political and social agenda for the 21st century.

This low intensity warfare led, among other things, to the massacre at Acteal in December 1997 in which 47 men, women, and children—all unarmed—were killed while attending a religious meeting. And this was followed by other lesser, but no less important massacres in El Bosque and elsewhere. Several national and international non-governmental organizations and a number of multilateral organizations, such as like the Inter-American Commission on Human Rights and the United Nations observers, have documented extensive human rights violations; the existence of paramilitary groups, which the government calls armed civilian groups; illegal military activities; and the internal displacement of 12 to 15 thousand people. This is all added to the persistence of poverty, social disintegration, and economic marginalization.

Now, twice within the last two years, in 1998 and 1999, the government announced new peace initiatives which the Zapatistas ignored. I do not think that the Zapatistas have a current political strategy that would find much echo in civil society. Rather they seem to be carving out a niche for themselves with some difficulty and preparing for a long march in political terms.

I believe that Mexico's process of democratization is incomplete without the participation of the Zapatistas and even more so without the participation of the country's indigenous peoples. We can continue to live as we have for so long by ignoring indigenous demands, but we cannot claim to be a truly democratic society until we include the indigenous peoples in our political and social agenda for the 21st century. And this means, first of all, making peace in Chiapas.

THE URGENT NEED FOR REFORM IN SECURITY POLICY

Raul Benítez

Universidad Nacional Autónoma de México

In terms of security and governance, there is a hypertrophy of the federal branch in relation to the state and municipal levels, leading to extremely centralized decision-making and institution-building and conferring a great deal of authority in areas of domestic security and governance on both the Ministry of the Interior and the Office of the Attorney General. At the same time, the armed forces are subject to a strange mutation: they are professionalized and autonomous from systems of civilian control, but they retain a leading role in ensuring rural domestic order with expanded authority to engage in areas of institutional action that the Constitution formally assigns to other sectors of the federal government and to state and municipal governments.

Of these three institutions—the Ministry of the Interior, the Office of the Attorney General and the armed forces—only the armed forces are based on a civil service system, while the other two are staffed by non-professionals, in order to ensure personal loyalty to top officials. None of the three institutions displays any real democratic control in terms of organizational design, definition of goals, *modus operandi* of those within the organization, budget oversight or selection of officials. This is due to the fact that the institutional structure of the Mexican political system is based primarily on a process of legal initiatives presented by the president, which are not subject to legislative scrutiny. Thus, laws regulating the institutions involved in security and governance were designed to coincide with the interests of the executive branch (Ministry of the Interior and Office of the Attorney General) and corporate interests, in the case of the armed forces.

Thus, until mid-1980s, when the first signs of democratizing the political system were visible, national institutions concerned with domestic security, public security and defense were, from a functional point of view, adapted to the authoritarian nature of the Mexican state, and were designed to enhance presidential authority and keep the PRI in power.

The Role of Women in the New Mexico

MARTA LAMAS

Debate Feminista

The lives of Mexican women must be understood within the context of a history that has been influenced by two cultures, Indigenous and Spanish, and by the impact of the Mexican Revolution. Gender inequality permeates all of Mexican society, and the concept of womanhood is structured around extremely patriarchal notions, strongly influenced by Catholicism and by the most blatant machismo. In most parts of the country women's sexuality is directly tied to procreation; virginity continues to be highly valued; double standards are rampant; and far from being a matter of choice, childbirth is considered to be a woman's destiny. Women face high levels of violence which is both physical (rape and battery) and symbolic, as they are typified either as saints or whores.¹

In spite of this context, Mexico's political and industrial development, modernization, and advances in technology have meant great changes and new opportunities for women. The number of women who have entered the work force has increased dramatically, and today women comprise 32% of the labor force.² Years ago mostly young, single women worked, but at the present time, older women as well as married women and those with small children are also part of the work force. More and more women are the heads of households. Migration from rural areas to the city continues and is now diversified. Most women take the traditional path to domestic work in the cities, but increasingly others establish themselves in the most developed and productive rural areas, both in Mexico and across the border.

The effect of paid work on the values and habits of thousands of women from poor and peasant backgrounds is striking. Economic independence and social contact makes them able to escape the narrowness and oppressive situations of domestic life. Women's appreciation of this limited freedom explains in part the paradox of their apparent satisfaction with jobs that have poor working conditions, serious health risks, and no opportunity for organizing unions.

Working conditions reflect gender inequality. Women's representation in public and private management and leadership positions is minimal. Traditional wage discrimination spans the job spectrum, and the engrained attitudes which overvalue women's traditional role continue to cast blame on women in need of salaries. The scarcity of child care centers, the incompatibility of school and job schedules, and the high cultural value placed on motherhood all have a negative effect on working women. Traditional views of women's roles do not value women as workers, and women tend to leave their jobs when they marry and have children if they can afford it. The inequality of Mexico's social structure makes it possible for a broad sector of Mexican women to hire domestic help, with all the problems that this represents. For this reason, there has been no organized demand for childcare.

In comparison with the advances achieved in other areas, Mexican women's participation in positions of political power is minimal. It is still exceptional for a woman to be named to a top level political position, as head of a government department, or as a state governor.³ Women are found in greater numbers in middle-level positions in public administration, but these tend to be overwhelmingly in the cultural and social areas, and much less in the purely political areas.

However, things are changing. Women now are questioning the generally accepted concepts of power and politics, and this transformation is perhaps the most noted cultural transformation in Mexico. Women see themselves as experiencing various forms of cultural and social oppression, and they are beginning to participate more actively in the political sphere. Formulating their desires and needs from a political perspective, women have become more insistent on being part of the debate concerning national development. Also, women are expanding

the idea of democracy beyond the concept of a representational political system, asking for “democracy in the country and at home”.⁴

Women’s underrepresentation in the political system is also linked to the lack of mass pressure from women, which makes it difficult to confront the unequal labor opportunities, the risks associated with the penalization of abortion, and sexual violence. In Ciudad Juárez, at least 187 women, mostly *maquiladora* workers, have been tortured, raped, and murdered in recent months. Nonetheless, this has generated little interest on the part of the *Panista* government, and the lack of serious investigation is a sign of the minimal importance given to women’s lives.

The role of women in public life has changed some cultural patterns, generating new forms of family life, neighborhood sociability, workers’ consciousness and political identity.

The state has not felt a need to respond to women’s political demands and initiatives and political parties have not paid much attention to women’s claims. For the most part, the parties’ interest in women is limited to electoral promises and gender issues are not included in their political platforms. Nevertheless, women within the parties are making gender-related demands, and new issues are added to the parties’ internal debates, such as women’s role in the state, sexual and reproductive rights and quotas for women in government and within party structures.

In contrast to the political arena, there has been significant progress for women in the educational sphere. Although the main educational deficiency continues to be found among young peasant and Indigenous women, as well as among older women, the entry of more women into higher education has been a determining factor in the changes occurring in birth rates, family life, and opportunities for paid employment. Under conditions of modernity and economic development, educational processes tend to promote equity between the sexes. This is now happening particularly with Mexico’s urban youth. The existence of a number of feminist and gender-oriented academic cen-

ters has been especially important in helping give permanence to educational programs for women, stimulating the publication of research on women.

So, at the beginning of the new millennium, the role of women in public life has changed some cultural patterns, generating new forms of family life, neighborhood sociability, workers' consciousness and political identity. More women have higher self-esteem, a greater capacity for self-expression, a better ability to manage political resources and a clearer commitment to support other organized groups. This has fueled the creation of multiple support networks and the promotion of relations with other women fighting for social justice, including academics and government and party officials. Since the struggle to find a niche and recognition in politics has been exhausting, women have developed grassroots organizations which are an alternative for political participation for many women. Also, many feminist groups are approaching a model of interest groups, which places emphasis on equal rights in the legal arena and function politically as pressure groups, with an emphasis on lobbying and advocacy.

Three new political dimensions form the core of the new role of women at the beginning of the new millennium. First and foremost is that to fight gender inequality women are integrating themselves into the political dynamics of the country. Although women still do carry great weight in the world of politics, the ideas of Mexican feminism have provided emotional, political, and intellectual training that enables women to stop being victims and to take active steps toward political power.

Secondly, Mexican women are participating in the international political arena. Although the Mexican government has adopted international conventions on the elimination of discrimination against women, it has not implemented actions to carry out this commitment. Women have influenced the government by using international conferences, like the two held by the United Nations in Cairo (1994) and Beijing (1995), to raise issues like abortion that are otherwise not discussed in Mexico, and to force the government to take a position on them.

The third dimension is the "mixed" reorientation of feminist activism, which has moved away from the politics of identity toward a

wider, more citizen-oriented focus. An interesting example of this has been the creation of DIVERSA, a new feminist political association that seeks to build a political constituency of feminists among both women and men alike.

Perhaps the principal lesson learned is that there is not a natural unity among women; unity must be built politically. This knowledge has forced new political configurations. Now there are more women activists working within society, establishing alliances and struggling to gain public spaces. While also attempting to influence electoral issues, feminists throughout Mexico have a special interest in building a common agenda.

In a sense, fully accepting the idea of diversity and understanding the fact that in a *machista* society a gender perspective is radical by nature, the women's movement will have to mobilize to ensure that sexual difference is not translated into inequality. Seen in this light, in a country where to be independent is considered totally unfeminine, and in some cases immoral, the role of feminism is both critical and imperative.

NOTES

1. It is impossible to speak of Mexican women as a homogenous entity. Regional heterogeneity, economic differences, rural or urban residence, age, and ethnic identity shape the various ways in which women have access to education and paid employment, and how they engage in politics. However, for our purposes here, I will have to generalize

2. The figures vary depending on the source. This figure is taken from the government's 1995 census survey and published in *Mujeres y Hombres en México 1995* (INEGI).

3. An accurate portrait of Mexican women's political participation can be found in several essays published in the volume edited by Victoria Rodríguez, *Women's Participation in Mexican Political Life* (Boulder: Westview Press, 1998).

4. This slogan was first used by Chilean feminists.

ARE WE MISSING THE BIG PICTURE?

David Brooks

La Jornada

Over the last 20 years, media culture has undergone an unprecedented change in Mexico. The media have evolved from being a largely “official media,” that were part of a method of government control, to becoming one of the key agents for change in the regime. However, it has been a 20-year struggle and has required an enormous effort to open up this space. The independent media are now engaged in a new struggle to figure out both our new relationship to power as well as how to compete in a new, open marketplace...

Political reform has meant a tremendous amount of talk about political parties, institutional reform, and electoral structures. The importance of these reforms in the political structure are undeniable. However, what gets registered by the United Nations, the official statistics of Mexico, or the World Bank is only a small part of a much bigger picture. I think that perhaps we in the media are missing the big story in Mexico, which is the everyday reality of the great majority of Mexicans. What are people doing every day? How are they participating? What are their triumphs? What are their defeats? How do they celebrate? How do they curse? What are they cursing? How do they participate beyond that economic definition of being human capital? How do they actually participate in the exercise of democracy. How this participation takes place is what measures, describes, and defines democracy, and this is the big story.

And so I raise the question: Is the media all too caught up in the debates of democracy—democracy as defined by those in power, those who study power, and those who aspire to be one or the other—and, as a result, are we continuing to miss the big story? This is a question, of course, for the United States as well.

U.S.-MEXICO RELATIONS IN TRANSITION

PART III

Cooperation and Conflict in U.S.-Mexico Relations

RAFAEL FERNANDEZ DE CASTRO

Instituto Tecnológico Autónomo de México

Every 12 years, since the times of Presidents Dwight Eisenhower and Adolfo Ruíz Cortines in the 1950s, the inaugurations of the Mexican and U.S. Presidents coincide. This synchronization gives us an opportunity to reflect, evaluate, and assess the relations between the two countries during the last 12 years and to outline the future priorities of this important relationship.

What have the Mexicans and Americans accomplished during the last 12 years, during the period of the Salinas and Zedillo administrations in Mexico and the Bush and Clinton administrations in the United States? The answer is quite clear: we have become economic partners instead of distant neighbors. During the last 12 years, we have recognized our economic interdependence. Finally the two governments are fostering integration instead of repressing it. That is a very big change. Thanks to NAFTA, which has become the driving force of this relationship, Mexico—not Germany or Japan—has become the United States' second largest trading partner, and that is a very important accomplishment.

The U.S.-Mexico relationship can be characterized by three adjectives: intense, complex, and asymmetrical. NAFTA has certainly increased the intensity of the relationship as well as its complexity. However, I would argue that NAFTA has somewhat attenuated the asymmetry between Mexico and the United States. Even though Mexico relies more heavily on the U.S. market now than before, the U.S. market has come to have an even greater reliance on the Mexican market. In fact, Mexico has become the second destination of U.S.

exports. So this means that Mexico has more leverage in Washington now than it did prior to NAFTA. That is why Colombia can be decertified and Mexico cannot, because if Mexico were decertified, there would be negative spillovers in the United States

So where should we go from here and what should be the goal for the next 12 years? I would say that the goal for the next 12 years is to transform this economic partnership into a mature relationship such as the one that the U.S. enjoys with Canada or Great Britain. In such mature associations, contentious issues between countries do not cripple the relationship as a whole. In contrast, every year the certification process shakes the whole NAFTA building and every single time there is an incident at the border the whole relationship is affected. So to achieve a mature relationship, we have to build trust beyond economic, diplomatic, and presidential circles. We especially need to build trust among law enforcement, intelligence, and immigration agencies on both sides of the border and among all the actors that participate in this bilateral relationship.

Now let me discuss what I consider to be the six most pressing challenges that Mexico and the United States must address to develop a mature relationship.

THE BORDER

The first challenge is the changing and increasingly chaotic nature of the border. The accelerated economic integration brought on by NAFTA has further complicated this neuralgic region for U.S.-Mexican relations. Three issues illustrate this complexity.

First of all, the traditional contradiction of the border between facilitating the crossing of legal products and persons while also deterring the crossing of illegal substances and persons has become almost unmanageable. It is almost impossible to allow all the NAFTA merchandise to cross rapidly and at the same time stop drugs.

Second, the legal system of the United States out West is at a breaking point. Six years ago, Washington decided to go ahead and pour millions of dollars into expanding federal law enforcement along the U.S.-Mexican border. The goal was to reduce crime, cut drug trafficking, and stem the flow of illegal immigrants. But today, while an army

of new federal agents has sent arrest rates soaring, the legal system that must prosecute, judge, and sentence those taken into custody is on the verge of collapse.

From 1994 to 1999, the number of Immigration and Naturalization Service agents at the border doubled. Meanwhile, the personnel of the Drug Enforcement Agency increased by 150 percent in five years, and the U.S. Border Patrol added 5,000 agents, an increase of 100 percent. As a consequence, the number of arrests grew by 125 percent. In two years, the border courts will hear one-third of all federal criminal cases filed in the U.S. In 1998 the small town of Del Rio, Texas had as many people indicted as in Houston, the fourth largest city in the U.S. The prisons and the judicial system in the U.S. Southwest really resemble those of a Third World country. Some of the prisons in Mexico are even better run!

Third, the interplay in the border of state, federal, and local governments really needs better coordination. There has been talk about creating the figure of a border czar, which may not happen during the next Mexican and U.S. administrations, but something needs to be done to promote the coordination among the agencies of the three levels that interact at the border.

SECURITY

The second challenge is to create a stable and cost-effective security regime. During the late 1990s and the beginning of this new millennium, the U.S.-Mexico bilateral relation offered many more security problems than at any time since the days of the Mexican Revolution. The days when Mexico was able to pursue a cost-effective strategy that promoted its security interests are long past. Instead, Mexico faces major problems regarding drug trafficking, related violent crime, and various persisting, albeit small-scale, insurgencies in its southern border states.

During the first three decades of the Cold War, we had a cost-efficient security strategy, but that ended in the late 1960s because of the increase in drug consumption in the United States and because the U.S. decided to battle drug trafficking outside its own borders. In the 1980s and in the 1990s, Mexico and the U.S. have been making big efforts to gradually

create a security alliance, but the process of convergence over security issues has been complicated and delayed by two factors. In the 1980s the big difference between U.S. and Mexican policies towards Central

Economic integration and globalization have multiplied the number of players involved in bilateral issues.

America and Cuba prevented a closer alliance. More recently, the security relationship in controlling drug trafficking has been repeatedly affected by crises. Every time Mexico and the U.S. advance in their cooperation on drug trafficking, there is a crisis that makes Mexico reconsider if it is possible to sustain a partnership with the U.S. in drug enforcement. There is really very little trust in the U.S. towards Mexico and vice versa, especially at the operational levels of government agencies.

NAFTA

The third challenge is anchoring the North American Free Trade Agreement. NAFTA has certainly achieved spectacular results in terms of the trade flow between the two nations, and because of NAFTA Mexico has gained prominence in the international community, which is why Mexico has six free trade agreements with Latin American countries, six more under negotiation, and additional agreements with the European Union and Israel. So you could say that Mexico is in a very good position to export.

What are the problems then with NAFTA? The first has to do with its institutions, and the other with its ability to share its benefits with the majority of the Mexican population. These have become the bottlenecks of NAFTA.

Of course, the two governments never intended to have strong and independent institutions related to NAFTA. But, still, day by day we have seen that we need stronger institutions to truly manage the fast economic integration the two countries are experiencing. The North American Development Bank, a very important institution in order to develop border infrastructure, has finally started to make some loans in its sixth year, but it took them five years to really start to operate the bank.

As far as sharing benefits, I recently heard two high-level Mexican trade officials, comment that they were very happy because the number of large Mexican enterprises that specialize in exports has risen from 22 to 39 since NAFTA began. Still, 39 is a very small number for an economy the size of Mexico's, which is already the tenth largest exporter in the world.

IMMIGRATION

The fourth challenge is how to break the cycle of bilateral conflict around immigration. The implementation of the 1996 immigration law was attenuated by the U.S. economic boom, and this, in turn, presents a window of opportunity. Very important sectors in the U.S. are changing their perceptions toward migration, and I guess this is the time to evaluate whether there is an opportunity to break the cycle of conflict and decide on long-term strategies to address this issue, instead of waiting for the next downturn of the U.S. economy for conflict to happen all over again.

MANAGING THE RELATIONSHIP

The fifth challenge is learning to manage an increasingly complex, decentralized, and nearly chaotic relationship. Economic integration and globalization have multiplied the number of players involved in bilateral issues, and once again there is very little discipline in the U.S. agencies dealing with Mexico. This is a classic problem in intergovernmental relations. One of the ways to overcome this is to keep Mexico at the forefront of the U.S. agenda. This is an important lesson from the Bush administration, which put Mexico at the top of the U.S. foreign policy agenda and thus got the U.S. agencies to show a lot of discipline towards Mexico. Otherwise, it will be very difficult to discipline all of these agencies, and then we will have incidents like the Casablanca incident that we had in 1997.

DEMOCRACY

Finally, the sixth challenge is Mexico's unfinished democratic transition. In Mexico there is excitement and worry about the prospect of a party other than the PRI in power. It is unclear what will happen

after the election and how all of the different political actors will respond.

Vicente Fox is the only candidate who has really made an effort to say anything about bilateral issues. He has been very precise in terms of NAFTA, which he wants to deepen. Even more than that, he has said that we should think about a customs union and about becoming truly integrated with the U.S.

He also has mentioned a negotiation on immigration. He is not very clear on that subject, and this presents a problem because there is no consensus in Mexico about whether it would be better for Mexico to stop its policy of not having policy. In other words, as long as the U.S. keeps the immigration door half open, many people feel that perhaps the best position for Mexico is just to go with the *status quo*. So it would be hard for him to come to Washington with a consensus proposal. But perhaps the PAN will be able to do that.

I will end by saying that there is a natural tendency in the U.S. to like Fox. He speaks English; he is a great campaigner; he truly embodies the transition to democracy in Mexico. Similarly, in Mexico there is a natural tendency to like Bush. Why? Because of his father, because his brother is married to a Mexican, because the Bush family grew up in Texas and their name is very well recognized in Mexico.

Nonetheless, in the last 12 years both Mexicans and Americans have become very sophisticated about our relationship with each other. So I do not think that the Mexican government will show any sort of preference for one candidate over the other. This was the mistake that was made in 1992 when Mexicans thought that President Bush was going to be re-elected. This time Mexicans will wait until the results of November 7 to announce our favorite candidate for President of the United States, just as you in the U.S. will wait for the results of July 2 to tell us who your favorite is in the contest for the Mexican presidency.

MEXICO'S NEW PRAGMATISM

José Luis Orozco

Universidad Nacional Autónoma de México

Pragmatism is a political method far from unknown to the Mexican ruling class during the last seventy-five years of institutionalizing the revolution. Nonetheless, the new shift to the center of the Mexican political spectrum seems to be, and indeed is, different from the political discourse that the Institutional Revolutionary Party (PRI) retained at least until the 1980s: the ideological left within the Constitution. World conditions have changed in such a way that it is no longer possible to keep that kind of populist pragmatism. The Mexican ruling classes — and their opposition— have developed a new pragmatic style in order to face unexpected economic challenges from abroad. As the country has moved from a state scenario to a market scenario, Mexican ideological and political styles have become not only more complex and versatile, but also increasingly murky and problematic.

Then it was considered that pragmatism was more in accordance with modernity while populists became a matter of political archaeology. The old national meaning of pragmatism as opportunism, lack of principles, lack of scruples, and as an illusion of freedom from historical constriction gave way to its new global meaning associated with the managing of emerging economic conditions beyond the state.

A global economy, it was said, demanded an open mind which was far away from the prevailing patterns of thought of the Mexican state paternalism. Since then an emerging political and economic literature written from all the sides of the Mexican culture and ideological spectrum have been settling accounts with such technocratic or anti-national approach. Seen no more than as a device to subordinate national aspiration to the profit-oriented logic of transnational capitalism, the pragmatic offer of the Mexican rulers has been systematically disqualified and even dismissed among intellectual circles.

Drug Trafficking as a Bilateral Issue

GUADALUPE GONZÁLEZ

Centro de Investigación y Docencia Económicas (CIDE)

I will try to make a small contribution to a more realistic assessment of the drug problem by addressing three broad questions. First, what is the size and the nature of the drug problem for Mexico and the United States? Second, is genuine and sustainable bilateral cooperation on the drug issue feasible? The question here is whether both countries have the necessary domestic conditions for building stable and mutually beneficial mechanisms for antinarcotics cooperation. Third, what can increased bilateral cooperation centered on current law enforcement strategies achieve? What can we expect from these kind of policies? Will both countries be better off by expanding current antinarcotics law enforcement cooperative efforts? Are they going to solve the problem by escalating this kind of policy?

Let's look at the first question. If we look at what has been going on in the economy of illicit drugs at the bilateral level, what we find is that there have been some mixed trends over the last decade. On the one hand, if we look at quantitative indicators on the number of users and metric tons produced and the extension of hectares cultivated, what we see is that the size of the illegal drug economy points towards the stabilization of the market in the 1990s. On the other hand, when we look at more qualitative measures of both health and crime problems related to drug use and drug trafficking in Mexico and in the United States, what we see is that the situation has worsened.

Let me describe this apparent paradox in a more detailed manner. If we examine the evolution of U.S. drug consumption in the U.S. since

1980, overall drug use reached its peak at the early 1980s and it started flattening out at the end of the 1980s. Despite this positive trend, the U.S. is still the largest drug consumption market in the world.

Nowadays, there are roughly 14 million current users of illegal drugs in the United States who annually expend approximately \$50 to \$70 million per year paying for their habits, and this figure refers mainly to hard-core drug users. Despite the fact that the number of users has decreased, we find is that the use of illicit drugs among youth in the last three years is rising. This indicator is a source of concern mainly because it might be indicating the possibility of a future demand boom when these youth continue expanding their illicit use. Moreover, throughout most of the 1980s and 1990s, the number of emergency room visits and deaths related to drug use have shown a steady and dramatic increase, and this is the result of two different changes. One is that the purity of the drugs consumed in the United States has been rising, and there is a tendency for mixed consumption of several drugs at the same time. These trends have translated into higher drug-related mortality in the United States.

One point that I want to stress is the fact that changes in the total number of users in the United States have not had a significant impact on the economic value of the market in terms of the amount of money spent, nor on the severity of health and crime problems associated with it. This minimal impact on the economic value of the market is because only a very small fraction of all users, about one-sixth, account for 70 percent of total consumption. And this very small part of the population that consumes drugs in the United States spent more money in the market and kept it at a high level of dynamism.

If we look at the evolution of drug consumption in Mexico, on the other hand, what we see is that overall prevalence remains relatively low in comparison to the situation in the United States. For example, while in 1998, 78 million Americans, around 35.6 percent of total population above 12 years old, reported having used drugs at some point in their lifetime, in the case of Mexico, in the same year, the figure is 5.2 percent of population, which is around 2.5 million people. The hard-core user population in Mexico is estimated at around 400,000 users. However, drug consumption in Mexico has risen dra-

matically in the last ten years, mainly in border cities and in major urban areas. In the case of Tijuana, for example, the prevalence of drug use is three times higher than the national average.

If we examine the evolution of marijuana and heroin cultivation and production in Mexico, there has been a stabilization since mid-1980s, around 1,200 hectares under cultivation and around 6,000 metric tons of production of marijuana and heroin, according to a U.S. Government estimate. Despite these apparently positive trends in terms of cultivation and production in Mexico, what these figures do not say is that cultivation is less concentrated today than ten years ago. New areas have been opened up for cultivation and production, mainly in the southwestern states of Oaxaca, Guerrero, and Chiapas. So cultivation is spreading out from the traditional growing areas in the northwestern states.

Moreover, there has been a dramatic expansion of drug trafficking in Mexico over the last ten years, mainly because there has been a fundamental change in Mexico's role in the illegal market. From the 1930s to the mid-1980s, Mexico played a straightforward role in the international market as a producer and exporter of heroin and marijuana to the United States. Crops were cultivated in specific regions, mainly in Sinaloa, Durango, and Chihuahua, and were transported by 12 illegal organizations that were usually family-based. From the mid-1980s on, what we have found is that Mexico has become less a production country and more a trafficking country. The success of drug control efforts against cocaine trafficking in Florida and Colombia made the Colombian organizations search for new routes to enter the United States, and a new type of strategic alliance emerged between Mexican organizations and Colombian organizations.

Mexico's escalation efforts against cultivation at the domestic level also had some unintended consequences. In the mid-1970s, the Mexican Government exercised very strong pressure against cultivation in Mexico through the well-known Operation Condor. As a result of this eradication effort, Mexico's share of the U.S. marijuana market plunged from 75 percent in 1976 to 4 percent in 1981. Similarly, the Mexican share of the heroin market dropped from 67 percent in 1976 to 25 percent in 1980. However, there were some

unintended consequences of Operation Condor despite this success. Operation Condor put inefficient traffickers out of business, and this led towards greater levels of concentration in the illegal industry within Mexico. So what used to be a market dominated by 12 family-based organizations became a completely different kind of a market structure dominated by four or five large organizations. The second unintended consequence of this eradication effort was the dispersion of cultivation. Cultivation started spreading out of the traditional growing areas.

Therefore, what has changed since mid-1980s is not the size of the bilateral market for illicit drugs but its organizational structure. The most important trend has been the increasing transnationalization of Mexican drug organizations as a consequence of cocaine trafficking, and the novelty is the emergence of Mexico as the most important transshipment zone for the Colombian cocaine entering into the United States.

Throughout the 1990s, cocaine smuggling through Mexico to the U.S. market has constituted between 50 to 70 percent of total U.S. imports. The dramatic transformation of the role of Mexico in the international market for cocaine has had far-reaching consequences in Mexico. It has meant the emergence of much more powerful drug trafficking organizations in the country. The Mexican illicit industry is larger nowadays in terms of profit levels, degree of organization, transnational links, and potential for corruption and violence. One far-reaching consequence of the cocainization of the Mexican role in the international drug market has been the escalation in the levels of corruption and of violence. In addition, this market is becoming increasingly competitive in the sense that many different groups are competing to increase their share of the market in the United States, and the consequence of this has been an escalation of violence among drug traffickers in Mexico.

What are the prospects of bilateral cooperation? I think that over the last six years there has been some progress at the level of intergovernmental relations. For the first time the governments of both countries decided to launch a joint alliance against drugs, and also they have been building up a network of institutional mechanisms for strengthening dialogue, which has even led to joint operations, something that ten years ago nobody could foresee was possible. Despite these changes, I

think the possibilities for establishing a mutually stable dynamic for greater cooperation against drugs are quite limited. And I could say that there are at least three factors behind my skepticism about the prospects for sustained and mutually beneficial counternarcotics cooperation between Mexico and the United States in the next decade.

There are persistently high, unrealistic, and uninformed public expectations about what current supply-focused drug policies and bilateral drug control efforts can achieve.

The first factor is the increasing institutionalization of the traditional U.S. penchant for unilateralism in current U.S. anti-drug laws and diplomatic practices. We have not only the persistence of the certification process, but also we have to a certain extent its expansion. The recent enactment of Foreign Narcotic Kinship Designation Act will keep the tendency towards a political politicization of the issue very high, so we will see this continuous Mexican bashing in the Mexican Congress because this kind of policy pays politically.

The second reason for pessimism is the limited institutional capacity of Mexico's judicial system to manage the cross-border externalities derived from illicit drug flows and to meet the growing domestic and external demands for effective action. The key credibility problem for Mexico is not the question of political will, but a matter of capabilities for the effective enforcement of its anti-drug commitments. Building the required police and judicial infrastructure in Mexico will take a long time, and in the meantime, this will be a source of bilateral conflict.

The problem of weak state capacity to deliver results is not only a problem for Mexico but also for the United States. Despite the increasing presence of federal agents at the border, the capacity of the U.S. Government to control, to interdict a significant amount of the growth of the drugs that cross the border has been very limited. So there is a very important problem of state capacity in order to deliver results from the continuation and escalation of this law enforcement approach against drugs.

The third factor for my pessimism on the future of bilateral cooperation is that there are persistently high, unrealistic, and uninformed public expectations about what current supply-focused drug policies and bilateral drug control efforts can achieve. And the fact that these highly unrealistic expectations are there creates incentives for new cycles of domestic frustration in the United States, coercive diplomacy, and mutual recrimination in the years ahead. Historical experience and economic theory indicate that even highly effective anti-narcotics actions at national level might have very little impact on the other country's drug problems. For example, Mexico's dramatic reduction in production and cultivation during the mid-1970s had no impact at all in the level of consumption in the United States. Similarly, the recent drop in overall U.S. consumption has not been accompanied by a reduction of the illicit economy in Mexico.

If it is true that escalating current law enforcement-based antinarcotics efforts can deliver very little, I would say that there is a need to find alternative policy options. There is an urgent need to frame this issue in a different way.

Mexico at the Millennium

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TABLE OF CONTENTS

Prologue: The Importance of U.S.-Mexico Relations

Jorge G. Castañeda, Foreign Affairs Ministry of Mexico

Introduction: Mexico at the Millennium

Joseph S. Tulchin and Andrew D. Selee, Woodrow Wilson Center

PART I. THE POLITICS OF CHANGE

Transition or Restructuring of Society: The Case of Mexico

Ilan Bizberg, El Colegio de México

After the Second of July: Challenges and Opportunities of the New Government

Carlos Elizondo, Centro de Investigación y Docencia Económicas

Mexico's Unfinished Symphony: The Zapatista Movement

Rodolfo Stavenhagen, El Colegio de México

The Role of Women in the New Mexico

Marta Lamas, Debate Feminista

Security and Governance: The Urgent Need for State Reform

Raúl Benítez, Universidad Nacional Autónoma de México

PART II. THE ECONOMICS OF CHANGE

Economic Reform and Development: What Have We Learned?

Gustav Ranis, Yale University

New Approaches to Social Policy

Santiago Levy, Mexican Institute for Social Security

The Challenges of Rural Mexico in an Open Economy

Kirsten Appendini, El Colegio de México

Mexican Labor at a Crossroads

Katrina Bourges, University of Syracuse

PART III. THE CHALLENGE OF CREATING COMMUNITY BETWEEN NEIGHBORS

Drug Trafficking as a Threat to Community

Guadalupe González, Centro de Investigación y Docencia Económicas

Campaigning for Change: Reinventing NAFTA to Serve Migrant Communities

Robert Bach, MacArthur Foundation

Building Transnational Ties: Mexicans in the United States

Stephen Pitti, Yale University

Reform from Without versus Reform from Within: NAFTA and the WTO's Role in Transforming Mexico's Economic System

Stephen Clarkson, University of Toronto

La Calidad del Ciudadano: The Nature of Citizenship in Mexico and the United States: 1776-1912

Erika Pani, Mora Institute for Research

CONTRIBUTORS

RAÚL BENÍTEZ is a professor at the Universidad Nacional Autónoma de México (UNAM) and the Instituto Tecnológico Autónomo de México (ITAM) and a visiting scholar at Columbia University.

DAVID BROOKS is the U.S. Bureau Chief of *La Jornada*. He has taught at CIDE in Mexico City, directed the Mexico Project at the North American Congress on Latin America (NACLA) and is the founder of the Mexico-U.S. Dialogos Program.

CARLOS ELIZONDO is the director of the Centro de Investigación y Docencia Económicas (CIDE) and a columnist at Mexico's influential newspaper, *Reforma*.

RAFAEL FERNÁNDEZ DE CASTRO is the chair of the Department of International Studies at the Instituto Tecnológico Autónomo de México. He has been a visiting scholar at Georgetown University and has published extensively on U.S.-Mexican relations.

ADOLFO GILLY is professor at the Universidad Autónoma de México. He has been a visiting professor at Stanford University, the University of Maryland, Colombia University, and the University of Chicago. He is the author of numerous books on Mexican history and contemporary politics.

GUADALUPE GONZÁLEZ is professor at the Centro de Investigación y Docencia Económicas (CIDE) in Mexico City. She has published extensively on drug policy and U.S.-Mexican relations.

MARTA LAMAS is editor of *Debate Feminista* and director of the Grupo de Información en Reproducción Elegida (GIRE).

Contributors

SANTIAGO LEVY is Director General of the Mexican Institute for Social Security and previously served as Deputy Secretary of the Treasury. He holds a Ph.D. in Economics from Boston University.

JOSÉ LUIS OROZCO is professor of political science at the Universidad Nacional Autónoma de México (UNAM) and a former public policy scholar at the Woodrow Wilson Center.

GUSTAV RANIS is the Director of the Center for International and Area Studies and the Frank Altschul Professor of International Economics at Yale University.

ANDREW SELEE is Senior Program Associate of the Latin American Program of the Woodrow Wilson Center and coordinates the Center's Mexico Project.

RODOLFO STAVENHAGEN is a professor at El Colegio de México and vice president of the Inter-American Institute for Human Rights. He is currently the president of the Commission for Monitoring and Follow-up of the San Andrés Accords.