

# MEXICO IN PERSPECTIVE: AN ESSAY ON MEXICO'S ECONOMIC REFORM AND THE POLITICAL CONSEQUENCES

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Over the last several years, Mexico's economy, political system, and society have dramatically transformed. In 1985 the government launched an extensive economic reform program that continues to alter not only the country's economy, but also the nation's political and social fabric. In a decade, Mexico probably will be fundamentally different. Speculating on Mexico's future is not difficult; what is difficult is actually predicting what will happen during this process of change—the process by which Mexico will reach a new plateau.

## A. INTRODUCTION

For over forty years, Mexico had a closed economy and a closed political system; each nurtured the other. The government sought to industrialize by substituting Mexican products for imports. This process created a large domestic industrial sector, but unfortunately, few manufactured goods were exported. For a few decades this model of development helped to raise levels of employment and to enlarge the middle class, but it led to an increased balance of payments deficit and to a more restive society that demanded a say in political decisions.

From 1970 to 1982, the Mexican oil boom and foreign credit effectively enabled the government to postpone confronting difficult economic and political issues. The cost for this delay was extremely high. The country's foreign debt grew beyond the nation's ability to repay. When oil prices collapsed and when foreign credit ceased to be available, Mexico entered into the worst recession in its modern history. The minimum wage was reduced by more than fifty percent and per capita income declined steadily from 1982 through 1988. Compounding Mexico's problems, Mexico's population grew 2.5 percent per year.<sup>1</sup> By the time President Salinas took office, Mexico's politics bore the scars of seven

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1. NAFINSA, *LA ECONOMÍA MEXICANA EN CIFRAS* (10th ed. 1988).

years of recession.<sup>2</sup>

President Salinas was elected in 1988. At the beginning of his administration, he announced two goals. First, economic recovery had to be pursued through an economic reform program. Second, the country, society, and the political debate had to be modernized.<sup>3</sup> The President moved quickly to initiate his reforms.

Despite his ambitious goals, the policies the President launched, particularly economic liberalization and deregulation, have had growing political consequences. These policies are rapidly undermining the old political machinery. This machinery was highly dependent on political patronage and the bureaucracy's discretionary decision making power—traditional strongholds of both the PRI and presidential power. The old political system is rapidly being eroded by the events and political requirements of economic reform, and the new political structures are still in the formative stages.

## B. SOURCES OF CHANGE IN TODAY'S MEXICO

### 1) *The Government Influence*

Two developments are taking place in Mexico: The government's efforts to implement economic reform and the political consequences of that economic reform. Both developments are at work in the Mexican economic and political environment.

President Salinas has played a key role in implementing economic reform. He has introduced significant policy changes aimed at modernizing the economy. These policies include loosening import restrictions and regulations; restructuring government spending, including subsidies; and privatizing costly government entities. To begin with, import restrictions have been fully liberalized. In the past, many imports have been subject to extremely high tariffs (often above 200 percent). Many imports required import permits, which were never issued. With Salinas' 1988 reforms, the maximum tariff is now twenty percent, with the average tariff about eleven percent; and permit requirements have been eliminated entirely. Although reforms have been profound, four sectors of the economy, representing approximately fifteen percent of imports, remain firmly protected. These sectors include agriculture, automobiles,

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2. This was particularly noticeable on the political front, as evidenced in the presidential elections of 1988 when a former PRI member, Cuauhtémoc Cárdenas, managed to win 30% of the vote, turning the PRI's triumph into the smallest in history.

3. See generally PLAN NACIONAL DE DESARROLLO 1989-1994.

pharmaceuticals, and micro-computers. But, if current policies are implemented as is expected, only agriculture will remain rigorously protected after 1990.

The President has also initiated fundamental changes in government regulations. The government has eliminated regulations that allowed for government-sanctioned monopolies, such as in the cargo and packaging industries, and has eliminated regulations restricting foreign investment.<sup>4</sup> In addition, the government has increased investment in infrastructure and reduced overall current spending and debt service expenditures. Government subsidies are being retargeted to benefit the most impoverished people. Salinas is in the process of privatizing even its most productive entities, especially those that consume enormous amounts of direct and indirect subsidies.<sup>5</sup>

The government's policy aims to remove regulatory obstacles to economic recovery and growth, and to reduce the bureaucracy's influence. The ideological thrust is not fundamental in the sense of redefining the concept of the state, but the idea is to turn the government into a leaner entity capable of promoting private sector growth, employment, and development.<sup>6</sup>

In addition to the aforementioned economic reforms, the government has attacked vested interests in the political realm by jailing corrupt labor leaders, pursuing tax evaders, prosecuting drug traffickers, and removing corrupt police officers. These aggressive actions have greatly helped the government launch the economic reform and reduce entrenched opposition. Vested interests, corruption, and monopoly practices are all formidable adversaries to economic reform. By undermining

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4. The 1972 law on foreign investment prohibited foreign ownership of more than 49% in any Mexican company, and totally restricted foreign ownership in many industries, which were reserved exclusively for Mexican nationals or the government. Moreover, this law conferred discretionary powers to government authorities, and was subject to contradictory actions and interpretations. In 1989 regulations on the interpretation of this law were issued for the first time. These new regulations opened up the possibility of 100% foreign ownership in those areas not specifically restricted in the Constitution or in the Secondary Law. Above all, the new regulations drastically reduce the discretionary powers of the foreign investment commission. See, *Ley para Promover la Inversión Mexicana y Regular la Inversión Extranjera*, D.O., Mar. 9, 1973.

5. The privatization of government-owned entities started in the de la Madrid administration (1982-1988). In a six-year period, more than one half of the public enterprises transferred to the private sector were eliminated or merged (from 1,155 to 427). During the first few months of the present administration (from January to July), twenty-three public entities have been sold to private entities. R. Carrasco and F. Hernandez, *Balace Económico*, La Jornada, Sept. 4, 1989, at 37. See also J. Gasca, *Fuentes para el Estudio de las Empresas Parastatales de México y su Privatización, 1983-1988*, 39 COMERCIO EXTERIOR no. 2, Feb. 1989, at 151-175.

6. Although this objective was first presented in Mr. Salinas' inaugural address, it was fully developed in his first address to the nation. Address by President C. Salinas de Gortari, *Primer Informe de Gobierno*, Nov. 1, 1989.

the power base of political strongholds and forcing accountability from the top, the Salinas administration is reshaping not only the economy, but also the country's politics.

The government's motivation for these actions is essentially political. President Salinas was elected with the smallest majority in Mexico's recent history. The election was marred by complaints of electoral fraud.<sup>7</sup> The new president required a credible platform from which to govern, and he needed a political foundation which would aid his government and his party in the future. The new Salinas administration sought the legitimacy it did not gain in the 1988 elections by attacking corrupt vested interests and by launching a pervasive program of economic reform. President Salinas needs the political strength to attain key objectives in the political arena; he needs the ability to win elections cleanly, or at least to concede elections to opposition candidates without uncontrollable internal opposition. President Salinas is attempting to democratize unions and other political organizations so that democratic legitimacy, rather than coercion, would become the source of political control. The government is promoting growth of representative organizations to replace powerful vested interests, and removing obsolete, often powerful, entities that cease to have a constructive economic or social function in society. In short, the government is changing the political debate about the future of Mexico.

## 2) *The Political Consequences of Economic Change*

Political changes began in 1985 as a result of economic reform. There are two manifestations of this change. First, following government announcements of import liberalization and economic deregulation, discontent set in among bureaucrats, displaced politicians, fearful workers, and businessmen. A well organized, powerful opposition developed, threatening the constituency for reform.

The other political manifestation of economic reform is in rapidly changing economic relationships. As imports have become available for industrial and domestic consumers, new relationships among businessmen, unions, and the government are emerging. The economic reform is dismantling the bureaucracy's traditional stronghold on the economy by eliminating discretionary powers of politicians, bureaucrats, and unions. Political power is diversifying, becoming more grass-root oriented, and breaking off from traditional power structures. Industrial consumers are

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7. Much of the complaints are summarized in the following: *See generally* J. BARBERÁN, CÁRDENAS, CUAHTÉMOC, MONJARDÍN, ADRIANA LÓPEZ, AND J. ZAVALA, *RADIOGRAFÍA DEL FRAUDE* (1988); *see also* C. LUGO, *NEO-CARDENISMO: DE LA RENOVACIÓN POLÍTICA A LA RUPTURA PARTIDISTA* 66-84, 104-107 (1989).

now insisting on better quality and terms from their suppliers. Demands for quality and productivity in industry are reducing the power of unions vis-à-vis management; these demands are creating closer working relationships between managers, supervisors and workers.

As firms face new conditions in a more open market, local unions are now negotiating directly with their firms rather than through the traditional labor federations: local union leaders are increasingly held accountable by their constituents. The availability of choice between domestic and imported consumer goods even has political implications: Consumers, who are also voters, may learn that their purchasing power is tied not only to their pocketbook, but also to their ballot. Little by little, economic reform is triggering grassroot changes that are transforming the Mexican political environment.

The government could theoretically stop the process of change by freezing the reform. However, once the process of change was initiated, it acquired its own dynamic. Halting the process now would have a disastrous effect: in the current atmosphere of high expectations, calamitous political forces could be unleashed, without the slightest possibility of economic growth with political stability. The only possible way for Salinas and for the PRI to stem the growth of opposition from the left's members and the PRI's former members is by attaining economic recovery through pursuit of economic reform.

### C. WHAT IS THE NATURE OF CHANGE?

If one word can summarize what is happening to Mexico's political system today, it is "change." However, some groups, notably the Party of the Democratic Revolution (PRD), are strongly opposed to the reforms. Perhaps more importantly, the change that the administration is pushing is fundamentally flawed: While the economic reform initiated by Salinas is altering the very core of the old political system, the administration has not yet proposed a new political structure to replace the old. The contradiction is simple, but its implications are fundamental: Without a new political structure in place, the process of reform could prove to be unsustainable. The government will have to foster further *political* liberalization to cope with the new economic reform changes and demands.

The need for and lack of a new political structure is becoming evident. For example, one of the first political moves that the Salinas administration made was to jail the corrupt leader of the oil worker's union, Joaquin Hernandez Galicia, "La Quina." However, rather than institute a new democratic process to replace La Quina, the government simply helped install a new individual. The organization that led to the growth

of La Quina's power has not been changed. Mexico's pundits were quick to pronounce the replacement "La Bi-Quina." For the new administration, this was a missed opportunity. The political structure allows individuals to stay in key positions more or less permanently in order to maintain control. The so-called "leaders," try to destroy all possible challenges to their position. When this becomes impossible, there are no experienced persons qualified to assume leadership. Examples abound in all facets of society.

The three main political parties are adjusting to the new circumstances in different ways. PRI is attempting to regain its traditional constituencies by being responsive to the people and by organizing primary elections to select its candidates. PRI is composed of three different divisions: labor, peasantry, and populists. Each division maintains control of its own constituency. Recognizing that it does not have more than forty-five percent of the electorate, PRI is trying to revitalize. But control, rather than representation, still characterizes PRI's attitude toward those sectors.

PAN moved into the natural spotlight with the election of 1988.<sup>8</sup> PAN secured a governorship, the first such position held by an opposition party in Mexico's history. Nevertheless, PAN is unable to alter the course of the economic reform and is ill-equipped to meet the political changes stemming from the reform.

In contrast, the PRD does not want to adjust to the new political reality. PRD seeks political power via confrontation. The Party uses electoral mechanisms, but actually never respects the results. If the PRD wins, it claims that the election was fair; if any other party wins, including PAN, the PRD claims the election was fixed. The PRD is comprised of both an old respected left, and former discontented members of the PRI. A year after its inception, the PRD leadership split, mostly along the lines of these two constituencies. Nevertheless, the PRD is a moving force in Mexican politics, largely as a result of its strong intellectual base. PRD claims the legacy of Mexico's Revolution, which carries enormous symbolic weight.<sup>9</sup>

A new political system is not yet emerging. The question is: Why is there no political reform as profound as that taking place in the economy? There are two possible explanations. One is that Salinas is betting on the political rehabilitation of the PRI, and the decline of its main opposition, the PRD. The other explanation involves a matter of timing.

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8. For more information about PAN evolution. See generally S. LOAEZA AND R. SEGOLIA, *EL PARTIDO ACCIÓN NACIONAL, LA VIDA POLÍTICA MEXICANA EN LA CRISIS 77-105* (1988).

9. C. LUGO, *supra* note 7, at 33-36.

Salinas may expect to carry out political reform once his economic reform is successful; thus, he would be able to negotiate the terms of a new political structure from a stronger and more credible position. This latter theory began to gain credibility when Salinas called for the virtual demise of the old PRI, and asked for a new PRI Constitution early in 1990. In the meantime, however, a void is developing as a result of economic, but not political, reform. The old political structures remain ill-equipped to handle the economic change.

#### D. THE LONG TERM IMPLICATIONS OF THE ECONOMIC REFORM

Inevitably, the process of economic change that Mexico is undergoing will transform Mexico's political system. The new political system will doubtlessly have increased levels of accountability; diversified, less concentrated, sources of power; increased political participation; and a highly competitive electoral system. The question is not what the system will look like, but what will happen on the way; in other words, what will occur during the transition? Will the political process derail? What is needed for the process to be successful?

Mexico's political future is dependent upon the success or failure of the current economic reforms. Both Salinas and his opposition are inexorably tied to the economic reform. To the extent that the reform is successful, Salinas will be in a much stronger political position. But at the same time, the process of economic reform results in strengthening the PRI's competition. The traditional PRI power bases are being eroded. For the reform to be truly successful, Salinas will have to continue dismantling the old political structures which sustain vested interests. Even a successful economic reform will result in difficult political challenges for Salinas.

To the extent that the reform fails or appears to be failing, the PRD may pose a threatening challenge to the PRI. Failure of the economic reform is the only potential source of support for the left since the left's policy proposals are exactly opposite those that Salinas is implementing.<sup>10</sup>

Barring unforeseen events, the economic reform will most likely be successful enough to avoid a successful challenge to the PRI's leadership. Notably, however, PAN is rapidly emerging as a fulcrum in the PRI-PRD balance of power, as was recently demonstrated when PAN allied with the PRI to approve seven constitutional amendments. Although the PRI is still too strong to be challenged at the national level, if the

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10. This was evident in the Cuauhtémoc Cárdenas presidential campaign. See generally C. CÁRDENAS, *NUESTRA LUCHA APENAS COMIENZA* (1988).

PRI loses its majority-party status, PAN could conceivably become the governing party through an alliance.

The most distressing scenario is one in which the reform is successful in generating enough popular support to avoid a revival of the left, but not successful in generating the strength that Salinas needs to maintain PRI dominance. In such a scenario, every item of legislation would require a coalition. The possibility that PRI would need to ally itself with other parties could be interpreted as weakness. But increased political competition could also be seen as a sign of Mexico's political maturity. Coalition politics are, after all, prevalent in most stable democratic countries.

The economic reform is the result of Mexican politics. It was initiated because it was the only way the government believed it could recover its political strength. Salinas will try to do everything necessary to make the economic reform successful: One should expect further dismantling of regulations, economic monopolies, political bureaucracies, and other hindrances to economic recovery. As deregulation proceeds, economic decisions will be increasingly depoliticized. Political considerations are still important in many economic quarters, but they are declining.

Mexico is immersed in a process of change that is transforming its economic structures and that is challenging its political institutions. As a constituency for change develops, the political foundation for permanent change strengthens. As the political foundation strengthens, the economic reforms become more deeply embedded in Mexico's economy. This process of change that leads from Mexico's present state to her future is truly momentous.