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The Two Politics of NAFTA in Mexico

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The Two "Politics of NAFTA" in Mexico

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THE North American Free Trade Agreement shapes and is shaped by politics in Mexico. The NAFTA brand is used by Mexican politicians to make political points while Mexican politics has prevented the treaty from having a greater positive impact on economic growth and development in the country. Neither of these statements is startling, especially given the central role of "NAFTA" in U.S. trade policy and a large and still growing body of literature–both academic and popular–pointing to political obstacles to needed structural reforms as the source of a Mexican per capita economic growth rate of less than one percent over the past twenty-five years. Yet each point contains an interesting and not commonly identified internal story-line. Surprisingly, the NATFA brand is far less damaged in Mexico than in the United States, and is thus much less potent as a political and rhetorical tool in Mexican politics than north of the border. The inability of Mexican governments to implement needed reforms of tax, competition, labor, energy, and education policies, meanwhile, is not a pure reflection of its most commonly identified culprit: divided government. Instead it is due to the actors, among whom government has been divided, and how they have dealt with Mexico's transition to democracy. Put simply, the perpetuation of the economic policy status quo reflects an unstated and often unacknowledged agreement evident in the Mexican political and economic elite during the past quarter century to ensure the "survival of the Institutional Revolutionary Party (PRI)"–the political party at the heart of Mexico's long-standing twentieth century authoritarian regime–regardless of the economic costs.

I. THE NAFTA BRAND IN MEXICAN POLITICS

Mexican politicians rail against NAFTA at moments of political convenience, namely when giving speeches in peasant communities in southern Mexico or when the United States fails to meet its treaty obligations such as opening the U.S. transportation market to Mexican trucks. Yet their

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use of NAFTA as a trade or broader economic policy whipping boy is less common than one might imagine given the powerful utility of this rhetorical tool in U.S. politics. This is a direct reflection of Mexico's particular experience with the agreement and the population's resulting attitudes toward it. Mexicans are disappointed with the outcome of the treaty, believe that the United States has benefited more than Mexico, and feel a visceral discomfort with a treaty that has dramatically increased their country's reliance on the United States. Yet a large majority of Mexicans continue to believe that NAFTA was the right decision for Mexico, that Mexico has benefitted from the treaty, and that free trade is a generally good thing. A quick look at poll numbers demonstrates this reality.

In a 2001 survey, fifty-six percent of Mexicans agreed that entering NAFTA was the right decision for Mexico, forty-four percent agreed that the treaty has been good for Mexico, and sixty-one percent supported free trade.[1] A 2006 survey showed that fifty-nine percent of Mexicans still saw free trade as a good thing for the Mexican economy while fifty-four percent of the U.S. public believed that free trade had been good for the U.S. economy.[2] More tellingly, this survey noted that just twenty-seven percent of Mexicans saw free trade as bad for Mexico while forty-two percent of Americans selected this option.[3] A late 2008 Gallup survey, taken in the midst of the "Great Recession," unsurprisingly shows a drop in positive sentiments toward NAFTA in both countries, but it also shows that U.S. attitudes are both more strongly negative and more intensely felt than in Mexico.[4] It also shows that in the midst of the deepest recession in memory in Mexico–one that was imported from the United States due in large measure to NAFTA–Mexicans who saw NAFTA negatively remained a strikingly low twenty-three percent.[5] Negative impressions of NAFTA in the United States, meanwhile, had jumped to fifty-three percent.[6] The number of Mexicans who saw NAFTA in a mainly positive light did indeed fall sharply, down to twenty percent, but this translated into a sharp jump in those who were undecided about the treaty's impact.[7] Such public attitudes in Mexico obviously put a damper on the ability of politicians to use NAFTA as shorthand for bad policy decisions. What then is the source of this much less negative view of NAFTA in Mexico than in the United States?

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1. Alejandro Moreno, *Mexican Public Opinion toward NAFTA and FTAA, in* NAFTA IN THE NEW MILLENNIUM, 167-184 (Edward Chambers & Peter Smith eds., 2002).
2. CIDE AND COMEXI, MEXICO AND THE WORLD 2006 (2006).
3. *Id.*
4. Cynthia English, *Opinion Briefing: North American Free Trade Agreement*, Gallup, Dec. 12, 2008, http://www.gallup.com/poll/113200/Opinion-Briefing-North-American-Free-Trade-Agreement.aspx?utm_source=email%2Ba%2Bfriend&utm_medium=email&utm_campaign=sharing&utm_term=Ooinion-Briefing-North-American-Free-Trade-Agreement&utm_content=morelink (accessed Sept. 1, 2010).
5. *Id.*
6. *Id.*
7. *Id.*

The backlash against NAFTA was much less profound in Mexico than many expected, especially given its difficult early years and the persistent opposition of the Mexican left well into the 21st century, for at least four reasons–the performance of the Mexican economy, the rise of democracy, an effective anti-poverty program, and migration. In the United States, the implementation of NAFTA was correlated with two particularly wrenching economic changes–declining employment in the manufacturing sector and a growing trade deficit. There was a consequently natural tendency to equate correlation with causality, in spite of the existence of more important developments affecting these changes including rising manufacturing productivity and the entry of China into the world trading system. Mexico's experience was quite different.

The Mexican economy did not undergo equally difficult economic adjustments in conjunction with NAFTA. Mexico's painful adjustment to increased international competition came in the years preceding NAFTA (marked by the 1986 decision to join the GATT), its adjustment to increased productivity in manufacturing occurred just as manufacturing investment and job opportunities grew due to NAFTA, and its adjustment to the flood of low-cost Chinese goods entering global markets happened in conjunction with a NAFTA-induced trade surplus. Further, during the NAFTA debate and the first year of its operation the Mexican economy grew strongly and, even when faced with an economic collapse due to the 1994-1995 peso crisis, NAFTA came out looking like a savior rather than the villain. The collapse of the Mexican peso produced the worst economic crisis in twentieth century Mexico–the economy shrank almost seven percent, unemployment jumped, and real wages plummeted. Blame for the crisis, however, fell squarely on the shoulders of former-President Carlos Salinas and his administration's manipulation of macroeconomic policy. While Salinas' decision to maintain an overvalued exchange rate policy was partly motivated by the extended debate on NAFTA in the United States, its additional objective of pulling middle class voters into the PRI electoral coalition in advance of the 1994 presidential election received the lion's share of the blame in the media. Sweetheart deals for bankers arranged by the Salinas administration in exchange for political support were blamed for the crisis-related collapse of the banking system. The willingness of the United States to provide a huge assistance package in the midst of this crisis, meanwhile, was widely attributed to NAFTA, as was the rapid post-crisis recovery of the Mexican economy. This does not mean that the image of NAFTA did not suffer in the eyes of the Mexican population in the wake of the crisis. But the negative impact on NAFTA's image was smaller and less lasting than one would have expected.

The NAFTA-era in Mexico is also correlated with the rise of democracy, with the political opposition gaining control of the national legislature in 1997 and of the presidency in 2000. The causal relationship between NAFTA and democratization in Mexico is the topic of continuing debate among academics and Mexican pundits. For the average Mexican, however, the relationship is much more simple and basic–some very good things happened in the NAFTA-era, which helped inoculate NAFTA from a viscerally negative public reaction.

This is not to say that the Mexican economy did not experience difficult adjustments that were correlated with the signing of NAFTA. The most profound adjustment, however, happened in a politically weak sector with an economic escape valve–small and medium-scale agriculture. As the theory of modern political economy states, it is not enough to have a powerful incentive to lobby the government for policy change.[8] The capacity to bring sufficient resources to bear on the issues matters even more and the poverty of small farmers in Mexico ensures they will never have the financial resources on their own to lobby the government effectively. Their only recourse is to rely on their numbers through organization and protest. But Mexican peasant farmers have long been co-opted and controlled by PRI-era institutions and dependencies that still operate in much of rural Mexico. In addition, as the logic of collective action teaches, individuals who are not geographically concentrated (or in the internet-era, virtually concentrated) find it difficult to overcome the free-rider obstacle to effective organization.[9] While organizations of small and medium-sized farmers did pop up during the early years of NAFTA, (the most notable being the Zapatistas and the Barzón) their ability to change government economic policy or seriously tarnish the NAFTA brand was quite limited.

Two additional factors, The Progresa/Opportunidades anti-poverty program and migration, reduced the incentive for Mexico's small and medium-sized farmers to invest in organizing to protest their plight. Initiated during the Zedillo administration and reinforced and expanded by ensuing administrations, Progresa/Opportunidades is Mexico's first highly effective anti-poverty program. It provides economic assistance to Mexico's poorest families without consideration of political affiliation, a first in Mexico, and thereby created an economic backstop for Mexico's rural poor. Perhaps more importantly, Mexican farming families with slightly greater resources had another alternative that lessened their incentive to protest–migration to Northern Mexico and the United States and reliance on the resulting flow of remittance income. Although it is difficult to determine the precise causal forces driving different migration episodes, there is little doubt that the growing difficulties faced by small-scale farming (peasant and capitalist) in Mexico created an incentive to migrate during the 1990s and 2000s. It is also clear that Mexican migration to the United States in this period evidenced a sudden surge of migrants from "new sending regions" which tended to be concentrated in

8. *See* Jeffrey Frieden, *Method of Analysis: Modern Political Economy*, *in* MODERN POLITICAL ECONOMY AND LATIN AMERICA: THEORY AND POLICY 35-43 (Jeffry Frieden, Manuel Pastor Jr. & Michael Tomz eds., 2000).

9. *See generally* MANCUR OLSON, THE LOGIC OF COLLECTIVE ACTION: PUBLIC GOODS AND THE THEORY OF GROUPS (1965).

regions characterized by small and medium-scale agriculture;[10] anecdotal accounts point to migration as an explicit economic escape valve for rural families.[11] As a consequence, the largest sector of the Mexican economy to suffer serious economic costs that were correlated with NAFTA was also a sector that lacked both the capacity and ultimately the incentive to pressure the government for policy change and in the process to brand NAFTA a bad thing.

NAFTA is therefore not a powerful symbol of something gone awry in Mexico, but neither is it something that Mexican society warmly embraces. This is due in part to the previously mentioned sense of disappointment with a treaty that was massively oversold to the Mexican public. NAFTA was supposed to be the key to sustained and rapid growth and development in Mexico–the country's entry visa into the first world. It has instead been associated with little significant change in the living conditions for most Mexicans–for better or for worse. Perhaps more important are the nature of Mexican nationalism and the persistent power differential between Mexico and its main NAFTA partner, the United States.

Post-Revolutionary Mexican nationalism was constructed on a foundation of anti-Americanism created by the need of a weak state to loudly assert its national sovereignty and independence from the great power sitting on its northern border whose willingness to intervene in Mexican affairs was a proven fact, reinforced by the demands of Mexican domestic politics, and enabled by an economy and society with few links to the outside world. This anti-Americanism was characterized by a principled opposition to U.S. intervention throughout the world (even as Mexico assiduously reassured the United States in private of its loyalty in the Cold War), an effort to maintain as much public distance as possible between itself and the United States, an extraordinary level of sensitivity to any appearance of U.S. involvement in Mexican domestic affairs, a tendency to blame the United States for Mexico's domestic problems, and a consequently powerful political motivation for each government to prove its "revolutionary" credentials by lashing out against the United States and "imperialism." Yet during the final decades of the twentieth century, each of the factors motivating Mexico's post-revolutionary form of anti-Americanism began to fade.[12] Without taking this into account it is hard to explain the limited amount of public opposition to NAFTA, even given the economic setting, the authoritarian structure of Mexican politics, and the heavy influence of government over the media.

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10. *See* Elena Zúñiga Herrera & Paula Leite, *Los procesos contemporánios de la migración México-Estados Unidos: Una perspectiva regional*, *in* MIGRACIÓN MÉXICO-ESTADOS UNIDOS: IMPLICACIONS Y RETOS PARA AMBOS PAÍSES 49-82 (Elena Zúñiga Herrera et al., eds., 2006).
11. *See generally* LA ECONOMIA POLITICA DE LA MIGRACION INTERNACIONAL EN PUEBLA Y VERACRUZ: SIETE CASOS DE ESTUDIO (Leigh Binford ed. 2004).
12. *See* Soledad Loaeza, *The Changing Face of Mexican Nationalism*, *in* THE NAFTA DEBATE: GRAPPLING WITH UNCONVENTIONAL ISSUES 145-57 (M. Delal Baer & Sidney Weintraub eds., 1994).

As early as the 1970s, globalization began to affect Mexico as foreign direct investment increased, migration and other sources of citizen contact with the world beyond Mexico grew, and Mexican foreign policy for the first time embraced the world. This increased exposure to the world helped a society that was educated by a shared history in which contact with foreigners was rarely benign to gradually see the world with less trepidation and fear.[13] With regard to the United States, this was reinforced by several factors. First, Mexican migration north underwent significant growth beginning in the 1970s leading to a marked increase in the number of Mexicans with personal knowledge of the United States and its citizens.[14] This experience helped undermine many Mexican myths about "gringos" and thereby soften Mexico's historic fear and mistrust of its northern neighbor. Second, advances in communication technology further expanded Mexico's exposure to U.S. culture and increased contact between Mexican and American societies with a similar effect.[15] Third, U.S. intervention in Mexican domestic affairs from the 1930s forward was a shadow of its former self, fading into a policy of "benign neglect" throughout the 1950s and 1960s. Although U.S. meddling in Mexican affairs revived a bit in the mid-1980s, this was temporary and minor compared to the past and faded completely with the 1986 Reykjavik summit marking the beginning of the end of the Cold War. By the early 1990s, U.S. policy toward Mexico evidenced a clear bias against actions that might create the impression that the United States was trying to influence Mexican domestic affairs. As a result, Mexican fears of a hostile world and a threatening neighbor began to subside somewhat.[16] These same factors have also undermined the utility of anti-American rhetoric in Mexican domestic politics, especially when combined with the economy's considerable reliance on U.S. investment, tourism, and migrant employment and the resulting need to ensure that Americans see Mexico as a friendly partner.

To say that Mexico's post-revolutionary anti-Americanism has faded, however, does not mean that Mexican mistrust of the United States and its motives has disappeared. Quite to the contrary, the power asymmetry between the two countries, the weight of history, and cultural differences ensure that mistrust and misunderstanding will continue to characterize the bilateral relationship. As such, it is hardly surprising that Mexicans find it difficult to like a trade treaty that has deepened Mexican dependence on the United States and whose very name symbolizes the "surrender" of Mexican autonomy under the weight of geographic determinism.

13. *See id.*
14. *See* Frank Bean & Gillian Stevens, *America's Newcomers and the Dynamics of Diversity*, *in* MEXICO AND UNAUTHORIZED MIGRATION 42-65 (Russell Sage ed. 2003).
15. *See* Pamela K. Starr, *Pax Americana in Latin America: The Hegemony behind Free Trade*, *in* BETWEEN COMPLIANCE AND CONFLICT: EAST ASIA, LATIN AMERICA, AND THE "NEW" PAX AMERICANA 77-109 (Jorge I. Dominguez & Kim Byung-Kook eds., 2005).
16. *See* Loaeza, *supra* note 12.

Mexicans strongly dislike the idea of being reliant on the United States, yet they see few alternatives in the current global setting. The majority of Mexicans thus dislikes NAFTA and the loss of sovereignty it embodies, but they have no wish to overturn it in an effort to return to the pre-NAFTA past.

The use of NAFTA in Mexican politics affirms these mixed popular sentiments toward the treaty. While politicians with a strong base of support in regions dominated by peasant agriculture continue to rail against NAFTA (for example, Andres Manuel Lopez Obrador and his faction of the left-leaning Democratic Revolutionary Party (PRD), and a small but vocal segment of the former ruling Institutional Revolutionary Party), most other politicians rarely mention the treaty. There is a notable exception to this rule: when the United States refuses to honor its commitments under the treaty thereby hitting the highly sensitive nerve of a weak country that feels mistreated and disrespected by a strong neighbor, and whose weakness and dependence leaves it virtually no recourse beyond rhetoric. Yet even in these cases, the villain is not NAFTA but the United States. NAFTA simply does not resonate strongly in Mexican politics.

II. THE POLITICS OF MAKING NAFTA WORK

The other "politics of NAFTA" revolves around the persistent inability of the Mexican government to implement a series of structural reforms deemed essential to maximizing NAFTA's ability, and that of Mexico's other free trade treaties, to encourage export-led growth and development throughout the country. This difficulty clearly owes much to the divided government that has accompanied the rise of Mexican democracy and the obstacle it poses to building the legislative majorities needed to approve controversial reforms of tax, competition, labor, energy, and education policies. Yet this explanation is insufficient since the political impediments to economic restructuring in these five key areas predate Mexico's experience with divided government. Miguel de la Madrid (1983-1988), Carlos Salinas (1989-1994), and Ernesto Zedillo (1995-2000) found it equally difficult to gain legislative approval for this set of economic reforms and thus bequeathed to democratic Mexico this long agenda of pending policy reform.

The core obstacle to effective economic policy-making in Mexico is not simply divided government but the actors among whom government came to be divided and how they dealt with both the declining legitimacy of the PRI-led authoritarian regime and Mexico's ensuing transition to democracy. For a quarter century, the power of the Institutional Revolutionary Party to guarantee governance has limited the scope of the economic reform Mexican presidents–whether from the PRI or the opposition National Action Party (PAN)–could undertake. Without support from the PRI, the party that dominated the national legislature and Mexican state houses, populated and directed the national bureaucracy, and strongly influenced key national unions, there would be no restructuring of the Mexican economy of any sort. Yet with the PRI's support, this restructuring would inevitably be truncated by the demands of the party and its allies. This political reality not only drove President Miguel de la Madrid (1983-1988) to abandon his early experiment with democratic reform when party members rebelled against the lost access to office and the economic opportunities that implied. It ended De la Madrid's effort to increase efficiency in Pemex, the national petroleum company (the union would have lost important sources of revenue), informed his decision to undertake privatization slowly and limit it mostly to small, non-strategic firms (to protect unionized jobs), and ensured that cutbacks to the state bureaucracy would be restricted. Deficit reduction under De la Madrid thus relied on cuts to investment spending, subsidies and price supports, and worker wages. While de la Madrid's policies did reduce the reach of the state, they were designed to do so without dramatically diminishing its size by eliminating jobs.

His parallel effort to stabilize the economy by cutting the country's twin deficits and reducing the state's role in the economy was equally influenced by politics. This strategy was explicitly implemented with an eye to regaining the support of a historically indispensable ally of the PRI–big business. Reducing the budget deficit, for example, did not involve significant tax increases on business, despite the government's desperate need for resources in 1983 and again following the 1985-1986 collapse in international oil prices. De la Madrid's governing logic was clear: without business support there would be no investment and growth, and without growth the PRI system could falter and potentially even lose power in the near future, and without PRI control there would be no economic reform.[17] Proponents of reform thus had to walk a fine line. They had to regain business support, but do so without damaging the interests of the core PRI constituencies in the unions and the government bureaucracy so much that party unity and support for De la Madrid's economic policies would be threatened (the defection of the PRI's so-called Democrat Current in 1987 and the PRI's near loss in the 1988 presidential election indicates that this policy was less successful than De la Madrid hoped).

The "survival of the PRI syndrome" was even more evident during the presidency of Carlos Salinas, the core phase of Mexico's economic restructuring. To win over a private sector that remained unconvinced by De la Madrid's efforts to stabilize and restructure the economy, President Salinas profoundly deepened the privatization process and included banking and telecommunications, sectors central to the operation of a modern economy. In the process, he provided the new owners a protected domestic market with only limited regulation that allowed them to

17. *See generally* Miguel De la Madrid Hurtado (with collaboration of Alejandra Lajous), Cambio de rumbo. Testimonio de una Presidencia, 1982-1988 (2004).

profit handsomely at the expense of Mexican consumers and taxpayers. Following a similar logic, Salinas broke the television monopoly but permitted only one additional national network to be run by a close ally who quickly adapted to operating as part of a duopoly. And, of course, Salinas negotiated and oversaw the approval of the North American Free Trade Agreement to lock-in Mexico's shift from a state-directed to a market-led development model and thus lock-in the confidence of Mexican and international investors. The central objective of these reforms was not economic efficiency (although this remained a long-term goal of the administration), but instead the building of the investor confidence needed to produce the economic growth required for the PRI's political victories.

This political bottom-line is even more evident in the long list of reforms that were blocked, watered down, or never even attempted during the Salinas years because of their negative impact on the PRI. Restructuring and reforming the energy sector, education policy, labor law, and the state bureaucracy were deemed too damaging to the interests of key PRI constituencies and apt to undermine party unity and its support for the Salinas reform project.[18] In the energy sector, Salinas privatized some secondary petrochemicals, transportation, and storage and forced through a restructuring of Pemex, supposedly in preparation for the privatization of some of its subsidiaries. That privatization, however, never took place nor were general prohibitions on foreign investment in exploration and production eliminated. The equally inefficient electricity sector, meanwhile, passed through the Salinas years untouched by reform. In part this reflected real popular opposition to a reversal of nationalizations, especially in the petroleum sector, that had come to represent the highest expression of Mexican sovereignty relative to the United States and its corporations. But these decisions were also shaped by the strong opposition to reform from the powerful Pemex workers union (a key component of the PRI union structure) and other power centers in the party. It seems likely Salinas concluded that forcing through a far-reaching reform in the energy sector could have produced a rebellion in the PRI, an exorbitant and unacceptable political cost to pay. This was especially true as rising private sector confidence and the rapidly advancing NAFTA negotiations undercut the likely net gain in confidence that could have resulted from a Pemex privatization. Despite the profound economic advantages of opening Pemex to increased private participation, the short-term political costs of doing so outweighed the likely political and economic benefits. Real energy reform would have to wait.

A similar dilemma transformed the much-ballyhooed Salinas education reform into a "reformita" with almost no impact on the quality of secondary education in Mexico. The reform focused on decentralization in the

18. *See* Pamela K. Starr, *Monetary Mismanagement and Inadvertent Democratization in Technocratic Mexico*, 33:4 STUD. IN COMP. INT'L DEV. 35-65 (1999).

belief that transferring the responsibility for education policy from the federal to state and local control would bring it closer to the end user. This should make education policy more responsive to parental demands and improve its quality. The potentially positive impact of this strategy was undermined by teachers union demands that it retain complete control over the assignments of all teachers and principals and that promotions continue to be based on tenure rather than performance. As a result, it was virtually impossible for parents or principals to force out or penalize poorly performing teachers. Ultimately, the only real change was that the union now had a second opportunity to negotiate for wage increases at the state as well as the federal level. The reason for this pathetic result is the political power of the teachers union, both as the largest union within the PRI and as a union facing strong internal opposition from a left-leaning faction allied with Salinas's arch political enemy, Cuauhtemoc Cardenas and his Democratic Revolutionary Party (PRD). Salinas needed to create the impression that education reform—a key tool for signaling the rosy future of the Mexican economy for outside investors—was under way, and that decentralization is indeed considered to be an important element of a truly accountable educational system. But Salinas also needed to reinforce the position of the new leader of the teachers union, his personal selection for the post after replacing a less cooperative personality. He thus signed on to a policy that looked nice on paper but would have little real positive impact on the quality of education in Mexico.

Salinas never even attempted to modernize the labor code nor did he seriously consider eliminating any government ministries. He also abandoned what began as a serious effort to restructure the PRI away from its corporatist/union foundation toward an individual/territorial structure that should have been more amenable to the broad "Salinista" policy agenda. Like his predecessor, Salinas quickly faced the strong opposition of the party's traditional power centers, which posed a greater threat to party unity than most of his proposed policy reforms. Cornered by his internal opponents and having made his political point—support me or I will hit you where it really hurts—Salinas surrendered to the reality that he needed a strong, unified PRI to govern. The survival of the PRI, including its internal structure and traditional mode of operation, thus defined the reach of Salinas's drive for structural reform.

Unlike Salinas—who had hoped to lead an eventually-restructured PRI that would retain power well into the future and gradually complete the restructuring of the Mexican economy—Ernesto Zedillo disliked politics, mistrusted the PRI, and wanted to have as little to do with the party as possible. President Zedillo quickly learned that he needed the PRI's support to govern the country as much as his predecessor did. He could not obtain legislative approval for a post-peso crisis package of measures needed to reestablish macroeconomic stability and growth, and thereby ensure the survival of Mexico's market-based economy, without the support of the PRI. Following this early lesson, Zedillo continued to rely on the legislative support of the PRI for the remainder of his presidency, albeit often in alliance with the PAN, especially after the PRI's 1997 loss of majority control of the national legislature. But there were clear limits on what Zedillo could ask of the PRI. The party's traditional constituencies were incensed by Zedillo's demand that they support his unpopular post-crisis economic package and his ensuing unwillingness to repay the favor by helping the PRI avoid paying the political cost for its loyalty in the 1997 midterm elections. Zedillo's poor relationship with the PRI made it completely impossible for him to gain party support for any policy change that might negatively affect the party's interests such as labor, energy, and education reform. Given the president's absolute refusal to invest his political capital in the party, the PRI became completely unwilling to risk its political survival by sticking its neck out again for the president.[19]

With regard to taxation and competition policy, Zedillo, along with the entire political system, was increasingly boxed in by the unintended consequences of President Salinas's supposed privatization success story. By creating a series of private monopolies and oligopolies with the aim of winning private sector allies for the PRI while reviving investment in key economic sectors, Salinas reinforced the traditionally concentrated structure of the Mexican economy in a big way. Rather than rebuilding the traditional PRI-business alliance designed to strengthen the PRI, the result was the construction of a business elite with enormous independent economic and political resources. This new elite could be a formidable ally, but would also prove to be a daunting impediment to fiscal reform and competition policy. This new elite also faced a weakened PRI system. The party was divided between supporters and opponents of the market reform, alienated from the president who was the traditional leader of the party and the system, and soon would be without a legislative majority for the first time in its history. This circumstance prevented Zedillo from raising taxes, reducing tax evasion, or significantly strengthening competition policy, especially in the all-important telecommunications sector. Economic policy change of the past and present that was designed first and foremost to promote the PRI's political survival once again blocked progress on Mexico's long list of needed economic reforms.

The 2000 election of Vicente Fox—Mexico's first non-PRI president in seventy-one years—made matters worse, but not simply because his National Action Party lacked majorities in both houses of Congress. The opposition president would take the reins of a political order still dominated by the PRI and the institutions it created to perpetuate authoritarian rule rather than promote democratic governance.[20] Fox faced an early, existential decision about how to govern in this political circum-

19. *See id.*
20. *See* Pamela K. Starr, *Neither Populism nor the Rule of Law: The Future of Market Reform in Mexico*, 15 L. & BUS. REV. AM. 127-151 (2009).

stance. He could "kill the PRI," as one of his closest advisers put it, by throwing a sequence of PRI leaders into jail on corruption charges, making it known who was next in line, and daring them to defy the president. Alternatively, he could attempt to accommodate the former ruling party by bringing it into a grand governing alliance that would implement a series of democratic and market-reinforcing policies. Although the first option was tempting (and Fox would return to its tactics at several points early in his presidency seemingly to coerce the PRI to cooperate), the second was much more in tune with Fox's personality and his sense that Mexico's first opposition president ought to be a conciliator and a unifier, and thus he chose this course of action. Fox made a similar decision about his relations with the private sector: conciliate in the belief that all Mexicans of good faith would join together to help make Mexico's transition to democracy a great success.

Once Fox decided to govern with the PRI, he was placed in a very similar position as his three presidential predecessors: he needed to ensure the survival of the PRI to guarantee effective governance. In other words, once the PRI found its bearings following the traumatic experience of losing the presidency for the first time in its history, the PRI found its bearings, (and it was helped along the way by several key political missteps by the new administration and its supposed allies in the PAN, Fox faced a powerful political rival capable of protecting its interests in exchange for any legislative cooperation it might offer.[21] The PAN's drubbing by the PRI in the 2003 midterm elections made a bad situation worse, but it was not the root of the problem. On the business side, Fox allowed the private sector to capture key regulatory bodies, placed a former employee of the nation's largest television network in charge of the ministry of communication and transport, never addressed competition policy, and promoted a fiscal reform that called for increasing consumption taxes while reducing the highest income tax rates. This performance reflects Fox's personal predilections as well as a growing competition between the PRI and the PAN for the electoral support of the business elite. Neither party was willing to risk alienating a potentially powerful ally by promoting policies to increase competition or raise business taxes. Although the precise details of each of failed policy reform tell a slightly different tale (fiscal, labor, energy, and education) they all share a common theme: the PRI (and business) opposition to reforms that would harm its parochial interests regardless of the benefit to the nation.

Fox gambled that preserving the PRI and conciliating the business elite would promote governance and real legislative progress toward implementing key reforms, but the bet did not pay off. It instead perpetuated the power of key institutions inherited from the authoritarian past, often tied to the PRI, and strongly opposed to further structural reform including: a corrupt union movement that exists to enrich itself and the PRI at the expense of workers and broader economic efficiency; political parties

21. *See id.*

whose members live off the government dole (a PRI characteristic that has infected all political parties in Mexico); and a coddled private sector lacking incentives to expand its global competiveness. To compensate for the lack of reform in the fiscal sector, the Fox government took advantage of high international oil prices and ordered Pemex to maximize production at the expense of both exploration and long-term productivity in the affected fields. Fox thus passed on to his successor the political/economic status quo he had inherited from Mexico's authoritarian past, albeit now with oil production in decline.

Felipe Calderon entered office in December 2006 without a legislative majority and with the legitimacy of his presidency in question and his capacity to govern in doubt.[22] Facing the concerted and unrelenting opposition of the left-leaning PRD and its losing presidential candidate Andres Manuel Lopez Obrador, Felipe Calderon had little option other than to double down on Fox's bet. Since the PRD refused to recognize Calderon's victory in the contested July 2006 presidential election, there was very little likelihood that the party's legislators would be willing to work with his government at all, much less to strengthen a market-based economic model the PRD still hesitated to embrace. Calderon's only hope for building a governing coalition in the legislature was to form an alliance with the PRI.[23] But working with the PRI meant, once again, placing that party in the legislative driver's seat from which it could protect its interests and those of its union allies.

This strategy actually bore some fruit during Calderon's first year in office: a revision of the government workers' pension system, a limited but still significant fiscal reform, and a noteworthy package of changes in judicial and security policy. The PRI's asking price for this included dropping proposals to cut government spending by eliminating entire ministries and reducing the size of automatic transfers to state governments (dominated by the PRI), guaranteeing an increased flow of investment funds to an unreformed and still massively inefficient Pemex (and thus to the union), increased party influence over the previously independent election oversight board (the Federal Electoral Commission), and the ability to argue that the PRI was the responsible opposition working to improve the president's proposals and thereby "governing from the legislature." Following this semi-productive first year, however, the Calderon–PRI alliance of convenience stalled over a proposal to revise energy legislation to allow private investment in petroleum exploration and production.[24] Over a year of negotiation and compromise resulted in another "reformita" that is likely to have little positive impact on Pemex's bottom line. Although the tale of this legislative initiative is long and complicated, the basic story line is a familiar one: the PRI ultimately refused to risk supporting legislation that risked dividing its ranks, under-

22. *See id.*
23. *See id.*
24. *See id.*

mining popular support, and harming its chances of recovering the presidency in 2012. The education reform followed the Salinas-era script: it looked great on paper but by placing the union and its allies at the education ministry in charge of implementation the result has been a marginal improvement at best.

President Calderon initially enjoyed an important degree of flexibility relative to the private sector because of the threat to business interests posed by the near victory of the PRD's Lopez Obrador in the 2006 presidential election. This was magnified by his promise to use his party's power in the legislature (the PRD and its allies controlled nearly a third of the legislature) and on the streets to prevent Calderon from governing. The threat of a Lopez Obrador victory united the business community behind Calderon's presidential campaign, and his continuing threat to political stability made the business elite hesitant to confront the government directly, even when this translated into a new tax law that eliminated corporate tax loopholes and thus significantly increased their tax bill. The business elite's support for Calderon always had its limits, however (progress toward increasing competition in the telecommunications sector has been truncated at best), and it weakened markedly as the threat from Lopez Obrador and the left receded.

The outcome of the 2009 midterm elections further weakened President Calderon—his party lost badly while the PRI won a majority in the lower house of Congress—and placed the PRI in nearly complete control of the legislative agenda, although it still lack a majority in the Senate. In conjunction with the political jockeying associated with a series of key gubernatorial elections in 2010, this new correlation of political forces terminated the PRI–PAN legislative alliance of convenience. With the PRI focused on 2012 and the private sector holding the electoral purse strings, there is very little hope for additional forward movement on economic reforms during the remainder of the Calderon presidency.

The pivotal position of the PRI in Mexico's political system—whether under an authoritarian or a democratic guise—made its unity and survival essential to effective governance throughout the past quarter century. There likely would not have been economic stabilization and structural reform without the support of the PRI and its union allies. The PRI's internal structure and mode of operation, however, inevitably made it a formidable obstacle to effective economic restructuring and the construction of an efficient market economy in Mexico. This dynamic forced five presidents, both authoritarian and democratic, to truncate reform in order to ensure the survival of the PRI and thereby have at least the hope of implementing some policy advances. One unintended consequence of this was to reinforce the concentration of economic power in Mexico, but now in the hands of a business elite that operates independent of the government or any political party, that is as powerful as, or more powerful than, the government, and that forms another potent barrier to market-enhancing reforms. A final unintended consequence of a political/

economic strategy based on preserving the PRI was the construction of a market economy unevenly competitive on global markets and thus unable to take full advantage of the opportunities offered by NAFTA and other trade treaties signed by the Mexican government since the mid-1990s.