The Diffusion of Power

By mid-1993, the Salinas government seemed to have achieved the impossible—turned Mexico around—for good, it appeared. Public finances were fundamentally sound for the first time in decades, and a real political opening seemed to be under way, with the center-right National Action Party (PAN) in power in some states in the industrial heartland of the north. In a major achievement, Salinas negotiated the North American Free Trade Agreement (NAFTA) with the United States. The acceptance of free trade represented a turning in side out of Mexico's once desperately inward-looking economy. It also carried profound psychological weight, setting Mexico, at least in the minds of some, on an equal footing with its northern neighbor.

Yet extraordinary events were to call the entire process into question. On New Year's Day 1994, masked rebels took over the town center of San Cristobal de las Casas in the impoverished Southern state of Chiapas, which was remote, heavily populated by Indians, and had little to show for the reform process. There they "declared war" on the Mexican state. It was a dramatic reminder of the distance to be traveled and the range of interests to be considered in reform. It was also a reversion to the debilitating peasant wars that had festered in previous decades all over Central America. Although localized, the Chiapas conflict was to flare up and down, and to be placated by uneasy compromises over land rights and improved infrastructure and services. Then, in March 1994, in Tijuana in Baja California, former budget minister Luis Donaldo Colosio, Salinas's designated successor, was assassinated as he addressed an electoral rally. It was Mexico's most shocking political murder in 60 years. Although a suspect was identified and rapidly tried, most Mexicans felt there was more, much more, to the story. In due course the investigation would become enmeshed with other inquiries in a complex weaving of political and financial scandals that appeared to involve Salinas allies and relatives and corruption and drugs. (Later, Salinas would prudently remove himself to Ireland, with which Mexico had no extradition pact.)

To replace the murdered Colosio, Salinas selected yet another unlikely dark horse, Ernesto Zedillo Ponce de Leon, who assumed office after an apparently clear election victory, although he became known in the process as the accidental president. He was born to a modest family in Mexico City but grew up primarily in Mexicali, on the United States border, a rough town at the crossroads of industry, immigration, and shady dealings. A gifted student, he studied economics and went on to become another of Mexico's new generation of technocrats, in the process earning the reputation of being dull and gloomy. He wrote his Ph.D. thesis at Yale in 1981, presciently arguing that Mexico's debt predicament should be blamed on the government and not on the banks that had provided the loans. That earned him a job, after the debt crisis began, at the central bank, whose head shared his views. It also set out an economic stance that he pursued unwaveringly, if quietly, in various technocratic positions under de la Madrid and Salinas.

As Mexican presidents often did, Salinas left his successor with a financial crisis on his hands. The peso had been overvalued for some time, but Salinas had refused to adjust it for reasons of politics and prestige, preferring instead to defend the currency by dipping into the country's foreign reserves. By the time Zedillo was sworn in on December 1, 1994, Mexico's economy was teetering on the verge of a default. Zedillo's government announced a devaluation.

Unfortunately, it turned out that it had miscalculated the effect on the unsuspecting financial markets. Mexico's stock exchange fell dramatically, setting off the domino reaction around Latin America that was dubbed the "tequila effect." It was another unfortunate sullying of Mexico's financial reputation. It proved much less grave, however, than the debt crisis. The United States mounted a $20 billion bailout in short order, which served to stabilize confidence, helping to prevent what might otherwise turned into a major emerging-market contagion.

But by the end of Zedillo's term six years later, Mexico was, in some fundamental ways, quite a different country. Thanks to NAFTA, the economy was booming. Dramatic changes had taken place in the political realm as well. Zedillo's determination to push forward the investigations of Colosio's death, despite the possible political entanglements, earned him respect as a champion of the norms of justice. Most strikingly, he had allowed the political arena to open up substantially, ending the PRI's effective monopoly of political power. In January 1995, amid the peso crisis, Zedillo called for all political parties to negotiate electoral reform. His efforts were rewarded in mid-1996, when new electoral legislation was signed into law. He entrusted elections to an independent commission, effectively distancing the operations from the PRI old guard. In the midterm elections of 1997, the results—remarkably—confirmed the opinion polls: PRI lost its absolute majority in the National Assembly, as well as in several states. The more market-oriented, center-right Partido Accion Nacional (PAN) emerged as a strong opponent to PRI in the 2000 presidential election. Its candidate was the governor of Guanajuanto, Vicente Fox.

"We Must Change Things"

By all measures, the 2000 presidential election was extraordinary. In voting for Fox, Mexicans brought to an end 71 years of PRI rule, in effect ending the tradition of a one-party state—and did so in a free and democratic election, unmarred by the instability that traditionally accompanied Mexico's transitions of power. "It really was the first time in Mexican history that power passed from one group to another through the ballot box," said Jorge Castaneda, a leftist intellectual who was drawn to Fox because of the way he incarnated the possibility of change and became foreign minister in Fox's cabinet. Adding to the extraordinary nature of the election was the president-elect himself. Standing six feet five and proudly wearing rancher's boots embossed with "Vicente Fox Quesada" and a belt decorated with a cowboy buckle, Fox projected a rough-hewn, rugged image that projected charm and charisma. His background was business, not politics, and he addressed political issues in the straightforward, down-to-earth style of someone accustomed to dealing with business problems. He was a self-made man, born and raised on a farm in a family of immigrant descent (his father was the son of an Irish-American immigrant; his mother came from the Basque country in Spain). At age 22, Fox joined Coca-Cola's Mexican operation. "I started as a salesman, right from the bottom," he would recall later. "And I learned that discipline, hard work, and talent is the way to succeed." There was an additional benefit to the job: "It was a job that didn't require a suit and tie; I've always had an aversion to them."...

In many ways, the Mexico that Fox inherited was already undergoing rapid change. Six years after its introduction, NAFTA was proving to be a bigger success than its creators had ever imagined. The export boom it generated was unprecedented, leading to the tripling of Mexico's exports between 1994 and 2000. Significantly, the share of petroleum exports, which contributed more than 60 percent of Mexico's export revenues in 1980, fell to less than 10 percent by 2000, displaced by manufacturing exports. By far the biggest effect was on

Mexico's trade with the United States. Exports to the United States grew to account for 25 percent of Mexico's economy—up from 13 percent in 1993—and to make up 80 percent of Mexico's export revenues. By 2000, 70 percent of Mexico's foreign investment and 80 percent of tourism was coming from the United States *Maquiladoras* (the export-oriented assembly factories largely concentrated on the border with the United States), which contribute half of Mexico's exports and which were NAFTA's most immediate beneficiaries, were employing 1.3 million people, compared with 546,000 in 1993. The legal framework provided by NAFTA had led to a resurgence of the investment community's confidence in Mexico, bringing in billions of dollars in foreign investment. Wages had risen as well. It was a new era in Mexico—the era of expanded trade and increased participation in the global economy—and in voting for Fox, Mexicans had elected a leader for that era.

The complexity of the changes that the country is undergoing cannot be overestimated. With the first truly democratic transition of power, Mexico is learning for the first time about the complexities of running a pluralistic society, in which the government is accountable to its citizens and where each decision made by the government is subject to public scrutiny and vigorous discussion. "It's not just that you are having a rotation in power between different parties or groups," said Castaneda. "It's that it's taking place this way for the first time." Mexico's economic challenges are enormous. The NAFTA-generated growth remains unevenly spread—geographically as well as across the various sections of the population—and reduction of poverty is the central issue for the country. "Inequality is the foremost challenge that this administration has," said Castaneda. "The first thing to do is to acknowledge that this is an ancestral problem in Mexico. This is not a problem that emerged with Salinas or with NAFTA or with PRI. It's been around for centuries. This was a tremendously unequal society since the Conquest at least." Close economic cooperation with the United States also means that Mexico is extremely sensitive to the performance of the U.S. economy, as was demonstrated by the U.S. economic downturn in 2001. Border crime, illegal immigration, and drug trafficking remain contentious issues between the two countries. In what might be very surprising to the critics of NAFTA, the increase in wages and incomes means that Mexico is facing tough competition from lower-wage countries. Entrepreneurship is hampered by bureaucracy. "We have to deregulate," said Fox. "We have to end with red tape, and we have to give all the facilities and the flexibility to entrepreneurial efforts, and this is part of things that we are trying to accomplish."

Today's Mexico is a much more outward-looking country, poised to become a full-fledged participant in globalization. One afternoon, Fox sat down in a small room in the Los Pinos, the presidential palace in Mexico City, to talk about how his thinking had evolved. He was wearing his signature cowboy boots and no jacket, and the long sleeves of his shirt were rolled back almost to his elbows. "I have always seen globalization as an opportunity," he said. "Mexico is the only country in the world that has a trade agreement with United States and Canada and at the same time has one with Europe. These are the two largest markets in the world." He continued after a pause: "Mexico has been one of the losers of the 20th century. We tried many different alternatives, and unfortunately we have 40 percent of the population poor, we have a per capita income that is extremely low. So we must change things.

"Now we want to go further," he said, commenting on the extraordinary effects of the increased trade between Mexico and the United States. "I'm talking about a NAFTA plus, a NAFTA that takes us to a further integration. In the long term, what we are looking for is convergence of our two economies: convergence on the basic fundamental variables of the economy, convergence on the income of people, convergence on salaries. Of course this is a 10-, 20-year program. But when we reach that level, then we can just erase the border, open up that border for free flow of products, merchandise, capital, as well as people."

Mexico has learned from its own experience that economic reform can truly flower only in a democratic environment. "If you don't have political stability and you don't have democracy," said Fox, "it's very difficult to develop economically or push human development. Today we have democracies in Latin America; we have new leaderships. I dream of putting together these four machines of Chile, Argentina, Brazil, and Mexico, working for a purpose of growth in Latin America. Those four machines will move the rest of Latin America."