

# BTI 2012 | Mexico Country Report

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scale: 1 (lowest) to 10 (highest)    score    rank    trend

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### Key Indicators

Population	mn.	113.4	HDI	0.770	GDP p.c.	\$	14498
Pop. growth <sup>1</sup>	% p.a.	1.2	HDI rank of 187	57	Gini Index		51.7
Life expectancy	years	76	UN Education Index	0.726	Poverty <sup>3</sup>	%	8.1
Urban population	%	77.8	Gender inequality <sup>2</sup>	0.448	Aid per capita	\$	1.7

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

The last two years in Mexico have been marked by two main issues: On the one hand, the government continued its “war” against organized crime, although its efficacy has been questionable. On the other hand, although the global economic crisis affected the country’s transformation, the Mexican economy showed some early signs of recovery. The Calderón government decided to embark on a direct “war” against organized crime elements that were acting with total impunity in many regions of the country, and which had diversified their criminal activities into the trafficking of migrants and arms, kidnapping, and other areas. As a result of the government strategy, violence has escalated to levels previously unknown in Mexico, with policemen, soldiers, drug dealers and an increasing number of innocent people being killed every day. This violence has contaminated other criminal activities, such as kidnappings and robbery. Violence has also filtered into the political world: city mayors, candidates and even governors have been killed as a form of retaliation by these illegal groups. This situation has led to several massive social demonstrations against violence, the emergence of a number of civil society organizations, and an increasingly critical stance against the government strategy on the part of academics and social and political leaders.

Separately, the global financial crisis has exacted a harsh toll on the country since the end of 2008. Mexico’s GDP grew by a mere 1.5% in 2008, and fell by a staggering 6.5% in 2009. It recovered in 2010 to grow 5.5%, and is expected to grow around 4.0% in 2011. In contrast with many other developing countries’ anti-crisis policies, the measures taken by Mexico’s government appear to have been merely temporary actions, put in place in expectation of recovery in the United States. Indeed, Mexico reacted timidly and in some cases contradictorily. It announced programs to support growth and employment, but reduced public expenditure, as the decrease in economic activity and lower oil prices led to a concomitant decline in the health of public finances. Most infrastructure projects planned in the wake of the crisis have had enormous implementation difficulties. One of the most important lessons from the crisis has

been to expose Mexico's economic vulnerability and dependence on its neighbor, the United States. As this latter country is itself having difficulties in resuming a sustainable growth path, this high level of dependence is worrisome. More broadly, the Mexican government proved incapable of treating the crisis as an opportunity to modify, reform or even adjust the country's economic model.

## History and Characteristics of Transformation

The main characteristic of the Mexican regime that endured from 1929 until 2000 was the existence of a hegemonic state party, the Institutional Revolutionary Party (Partido Revolucionario Institucional, PRI) which controlled most social organizations. This regime was the result of the Mexican revolution (1910 – 1917). Based on the constitution of 1917, the state used the revolutionary myth as the main source of its legitimacy, using this as a platform for wide-ranging intervention in the Mexican economy. The three decades starting with the beginning of World War II were a golden age for Mexico, often referred to as “el milagro mexicano.” This period was characterized by economic growth, social mobility, the formation of a basic Mexican welfare state and further construction of a Mexican national identity. The head of state, the president, was the primary political agent, controlling all important political actors – parliament, governors, social organizations, the army and the judiciary – though the PRI. Thus emerged a relatively mild and integrative form of authoritarianism (by Latin American standards), which enjoyed broad social and popular support from the 1930s on, as well as a long period of political and economical success. The economic relevance of the United States as trade partner complemented this picture. This relationship meant that economic development in Mexico took place more quickly in the north, while economic hardship predominated in the south.

The end of the 1960s showed not only the first signs of the exhaustion of the economic bases underlying the “milagro mexicano,” but also a growing discontent with the political regime. This was particularly manifested by the student movement, which was violently suppressed in the 1968 – 1971 period. In the 1970s, Mexico's economic prosperity came to an end as the economic import substitution model reached its limits. A combination of factors including the growth of social movements, the existence of guerrilla groups and the leftist tendencies of the Luis Echeverría government led to an increase in capital flight. This situation led to the economic crisis of 1976, which forced a radical devaluation of the peso. The subsequent negotiations between Mexico and the IMF imposed very restrictive guidelines on the activities of the incoming José López Portillo government. The situation was defused for a short time by the discovery of new oil resources, but the need for capital to develop this industry led to a further increase in foreign debt. The decline in oil prices at the beginning of the 1980s, together with the rise in interest rates, led to a financial collapse that culminated in the debt crisis of 1982. One of

Latin America's biggest debtors to international banks, the Mexican government declared default in 1982.

The financial crisis, coupled with pressure from international financial institutions, led the Miguel de la Madrid government (1982 – 1988) to initiate a liberalization of the Mexican economy (in part by entering the General Agreement on Tariffs and Trade (GATT) in 1986). This entailed the opening of the Mexican economy and the reduction or elimination of subsidies to Mexican entrepreneurs, workers and peasants. Market liberalization was marked by a rapid and meaningful reduction in trade restrictions and by the privatization of state companies, with the significant exception of those involved in the production and sale of electric energy and oil. The governments that followed, under Carlos Salinas de Gortari (1988 – 1994) and Ernesto Zedillo (1994 – 2000) continued this liberal economic course. A significant step in this direction was the signing of the North American Free Trade Agreement (NAFTA) and Mexico's admission to the OECD in 1994. The Zapatista uprising of 1994 was a symbol of the rejection of these policies by those parts of the population that were not to see significant tangible benefits from the neoliberal economic strategy.

The transition of the year 2000 occurred without rupture, as steadily increasing discontent with the single-party PRI government fueled a surge in support for the opposition parties: the right-wing National Action Party (Partido Acción Nacional, PAN) and the left-wing Party of the Democratic Revolution (Partido de la Revolución Democrática, PRD). PAN candidate Vicente Fox won the 2000 presidential elections essentially on the basis of an anti-PRI vote. His victory raised very high expectations of change, but Fox's administration managed to disillusion almost all social sectors. It failed to dismantle the old authoritarian institutions, and made little advance in the construction of more democratic ones. He continued to apply the orthodox liberal economic model, but the economy failed to grow substantially. The state's assistance policies did not manage to reduce poverty significantly, or to alleviate the country's enormous income disparities.

This set the stage for polarization between those who had benefited from the new economic model and those who had suffered from it; this divide led to the highly polarized electoral scenario of 2006. The PAN candidate won the 2006 elections on the basis of a very small margin, lower than 1%, after a campaign marred by the intervention of incumbent President Vicente Fox and the business sector. This prompted PRD candidate Andrés Manuel López Obrador to denounce the elections as fraudulent, deny recognition to the new government, launch a movement of resistance against the incoming government and declare himself to be the legitimate president. This situation influenced Calderón's decision to send the army into the streets in order to fight the drug cartels. This resolution was taken in part as a political tactic to gain legitimacy and show the opposition mobilized by López Obrador that the president had the support of the army; but it was also seen as the new president's genuine strategy in fighting the growing power of the drug cartels. Since that time, the war against the drug cartels has become the main issue in the country, as violence has escalated to unseen levels. The violence has contaminated other criminal activities, such as kidnappings and robbery. This situation has

awakened an increasing body of critical voices that consider this direct strategy in the “war” against drugs to be a mistake.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Following Felipe Calderón's assumption of the Mexican presidency in December 2006, he decided to attack the drug cartels directly by making use of the army for this purpose. This situation has enflamed parts of the country, and brought unprecedented levels of violence into other illegal activities. The "war" on drugs has led to more than 30,000 violent deaths in all. In some states (Chihuahua, Michoacán, Guerrero, Tamaulipas) and cities (Ciudad Juárez, Acapulco, Matamoros) the situation seems out of control, seemingly the product of a failed state. However, in most other parts of the country, crimes in the context of this "war" are rare or nonexistent. This situation has raised serious doubts as to whether the government's policy of fighting the drug cartels in such a direct and indiscriminate manner is appropriate, or whether it has on the contrary simply exposed the weakness of the state in some regions, as well as the drug organizations' infiltration of the police forces, their control of the local judicial system, and economic hold over parts of the population. Evidence has shown that this infiltration also exists at the local political level, all the way up to the level of state governors in some cases. This has led to worries that the state has lost control of certain regions of the country, and of the situation's evolution.

Patterns of state identity changed little during the period under review. The Zapatista movement of the mid-1990's heightened popular consciousness of the fact that some of the country's indigenous peoples faced discrimination, and that they were economically, socially and politically marginalized. For much of Mexico's Indian population, this movement clarified the desire to preserve an independent identity in the face of a majoritarian national Mexican (mestizo) culture. This was seen as a way of asserting a human and ethnic dignity despite facing discrimination, and despite constituting the poorest sectors of the country's society, with the worst human-development levels. The exceptional characteristic of the Mexican indigenous population's identity affirmation (and indeed, of most of the analogous

Question  
Score

Monopoly on the  
use of force

5

State identity

9

Latin American movements) is that it neither struck an aggressive pose toward non-Indians, nor challenged the identity of the Mexican state. There was never a question of territorial secession or even of any profound level of autonomy. In the wake of this movement's activity, the constitution was changed to acknowledge the Mexican nation as a multicultural state. Some localities, especially in Oaxaca, have been granted special permissions to exert political and civic rights under Indian customary law. In some cases, these special legal conditions have led to separate problems such as discrimination against women. Nevertheless, indigenous peoples as a whole remain the poorest societal group, and continue to face discrimination.

The church and state have been officially separated since mid-nineteenth century, and particularly following the Mexican Revolution of the second decade of the 20th century. There has been no official religion, no religion taught in public educational settings, and the church was given no right to intervene in public matters, even to the extent of appearing in religious dress. The state has been strictly secular, to the extent that until the early 1990s, the Mexican government had neither formal relations with nor officially recognized any church; when it had to negotiate something, it did so behind the scenes. Although this situation is unusual even among democratic countries, one cannot separate it from the country's history. The Catholic Church supported a war and the installation of a foreign emperor in the 19th century, as well as a bloody war against the revolutionary government in the second decade of the 20th century.

In 1992, the Salinas government modified the constitution in order to recognize the various religions that exist in Mexico, in particular Catholicism, which is still the religion of around 90% of the population. Following PAN's assumption of the presidency and rise to power in some of the more devoutly Catholic regions, the Catholic Church has increasingly started to intervene in issues such as abortion and gay marriage. As a result, states such as Guanajuato and Querétaro have restricted what was already a very limited right to abortion (when there is a rape). The only state to have passed general, comparatively liberal laws on abortion and gay marriage is Mexico City. The Catholic Church has openly criticized these laws and the local government, and has called on its members to vote against the leftist PRD. Although this has in effect been open and illegal intervention by the church in public affairs, the Mexican national government through the Ministry of the Interior did not react.

The Mexican state has been able to extend its influence by way of social services such as education and health since the 1940s, when it committed to intervening actively in the country's economic and social development. As a result, the education and health systems were extended to most parts of the country, although the most isolated regions, typically the home of the indigenous population, were

No interference of  
religious dogmas  
10

Basic  
administration  
8

often left out. This is reflected by the fact that although 85% of the population today has access to sanitation, 15% still lacks this service.

In addition, because the PRI that ruled the country for more than 70 years needed to control the vast Mexican territory both as a hegemonic political strategy and as a means of consolidating the nation-state, it made sure that administrative structures were extended to most of the country. Although the state has abandoned its intervention in the economy since the mid-eighties, and the hold of the PRI has weakened considerably, the Mexican state still provides most basic services throughout the country, even if its services are deficient in many respects. In fact with the last decade's expansion of the Oportunidades assistance program and creation of the Seguro Popular program, the mid-1980s to mid-1990s trend toward a reduction in coverage has been reversed.

## 2 | Political Participation

Although the 2006 elections raised questions as to how fair and free elections in Mexico truly are, subsequent elections at the local, state and federal level have been much less controversial, and have produced legitimately elected governments. Access to the media is unequal, however. While direct mass media time is strictly allocated to each party and candidate, news coverage is subject to less control, and focuses on particular personages.

Free and fair  
elections

8

Thus, some political actors are never mentioned or are mentioned negatively for years, while others are mentioned continuously in a very positive light. This surely affects the elections, and will probably affect the next presidential election, as the PRI candidate has the support of the country's main television channel.

Since the federal government began directly fighting the drug gangs, candidates and elected officials have been assassinated as retaliation and as a way of exerting pressure on the government through public opinion to end its offensive. This has made it increasingly difficult and dangerous to exert individual political rights, such as running for office or politicians' ability to campaign autonomously. It has also raised the question of how far politics has been infiltrated by drug cartels.

Another fundamental anti-democratic factor is the persistence of clientelistic practices inherited from the PRI regime and subsequently adopted by the PAN and the PRD.

The main question in Mexico is how far drug interests have infiltrated political circles. In all probability, this infiltration has progressed quite far in regions where drug trafficking has traditionally been strong, though primarily at the local level. Although this has not yet emerged as a serious problem on the national level, aside from one proven case involving a Chamber of Deputies legislator, there has been

Effective power to  
govern

7

unofficial information indicating that some senators and deputies have received money from the cartels for their campaigns.

On the other hand, the Mexican state has been considered as a “captured state,” even by the World Bank in one publication. That means that the state expresses the interests of the big oligopolies, which in Mexico control the telephone, banking and cement industries, among others; this is particularly true of the communications industry, considering that the two TV stations have enormous influence on politics in general and specifically on policies that affect them directly. The regulatory institutions tasked with controlling these companies are very weak or directly controlled by them. Indeed, rather than watchdogs, the government bodies have become lapdogs.

Certain corporatist organizations also wield some veto power. Although most trade unions have lost significant political weight at the national level, they are still influential at the local level. The teachers union, the biggest union organization in Mexico, remains a dominant actor throughout the educational arena, where it has succeeded in blocking a much-needed educational reform.

Although the army in Mexico has been institutionalized and under the control of the civilian government since the 1920s, the fact that it has been called upon to perform internal security tasks in the context of the fight against drug trafficking and local violence is a factor that may imply future changes. The army is receiving large amounts of new resources, is making contacts with other armed forces including that of the United States, and is under considerable pressure from the government, political parties and human rights organizations. This has led the army to start expressing its opinion on aspects of the country’s civilian governance, something that has not been common in the past.

Since the time of the PRI, no formal limits on organization have existed. Formally, then, ample rights of association and assembly are in place. Nevertheless, there are informal and even illegal means by which free association can be undermined, such as preventing workers from organizing in trade unions or forcing them to organize under certain unions. Today, union rights are occasionally restricted through the use of “phantom” trade unions, a practice in which the enterprise organizes a union and registers it with a business lawyer, and the workers don’t even know they are unionized. This is done in order to prevent another union from entering the enterprise. Although this is most visible for labor, other types of organization are also prevented from forming or operating.

In the past, the PRI served as an almost exclusive organizer of popular interests. However, once it lost the presidency and control over many local governments, groups align themselves with different parties and different times, particular leftist parties such as the PRD or the Labor Party (Partido del Trabajo, PT). However, it

Association /  
assembly rights

8

appears that the methods their leaders employ to control their membership is very similar to that of the PRI. Leadership is not elected regularly, and their relationship with their members is based on the exchange of favors in a clientelistic manner.

The political system contains an additional restriction, insofar as independent candidates drawn from civil society cannot stand for election. Only parties have this ability. This is a core element of Mexico's party-centered political system, though it is not clear that independent candidates supported by the mass media or by powerful groups, as have arisen in other countries, would present better alternatives.

Mexico's mass media is basically free; de jure and mostly de facto, citizens and journalists may speak and write freely. However, the media is very concentrated. There are two national TV channels, while radio is largely controlled by the same two companies, as well as a few other big radio companies throughout the country. These two media enterprises are thus the most influential, and have the ability to mould public opinion; the others are much less central. The two companies obviously control the news, opinions and editorials produced, and decide who works in their companies. There have been notable cases in which commentators who did not hold strictly to the company line were fired. There are also notable cases of "hidden" state publicity, as in the case of the governor of the state of Mexico, a likely presidential candidate, having appeared on a near-daily basis since 2007 in the principal news program.

Separately, more than 50 journalists have been assassinated in recent years, and there have been armed attacks on radio and TV stations that report on the drug cartels. As this is one of the most dominant themes in the country, the fact that journalists and journals may be risking their lives when researching the theme means that in certain regions and for certain themes, the press may not be as free in reality as it is formally. The Internet has become a growing democratizing factor in Mexico, although it has yet to play a role as crucial as that seen in the election of Barack Obama in the United States or the Arab revolts.

### 3 | Rule of Law

Since the PRI lost its effective monopoly on legislative power in 1997, there has been an ever-clearer separation between the presidency and the National Congress. This separation of powers has been reinforced since the PAN won the presidency. On the other hand, there has also been an increased separation of powers between the central (federal) government and the increasingly autonomous state governors, most of which today come from the PRI and the PRD.

Congress has effectively used this renewed power to negotiate amendments to or even block certain of the president's legislative initiatives. States have their own

Freedom of  
expression

6

Separation of  
powers

8

legislatures and constitutions and are quite autonomous, but nevertheless depend on the federal government for resources. In 2000, they created an organization called the National Conference of Governors (Conferencia Nacional de Gobernadores, CONAGO), seeking to exert a collective pressure on the federal government for more resources. This has proven successful.

Nevertheless, in part because of this mutual autonomy, the various branches and levels of government have little effective capacity to check each other's actions. There have been cases in which certain governors have been proven to be corrupt, but the federal government was unable to dismiss them, because the Senate, the only institution allowed to dismiss an elected official, did not do so. On the other hand, Congress has the legal right to oversee the executive's budgetary sanctions, but has no capacity to impose any sanction.

At the state level, the separation between branches is generally much weaker or even nonexistent. This is particularly true in those states where the PRI has ruled without interruption for more than 80 years, such as the states of Mexico, Veracruz, Tabasco, Puebla and Oaxaca.

Under the PRI regime, the judiciary was tightly controlled by the presidency. The president was the only institution allowed to nominate senior judges, especially (but not only) those of the Supreme Court. Only judges that belonged to the PRI were eligible for nominations. This situation has changed since the reform of 1995. This created the Judicature, a body that today appoints the judges and decides on their promotion. The reform also increased the power of the Supreme Court, giving it the status of a constitutional court. Its members are now nominated by the Senate, following the presidency's presentation of three names for each open post. The Supreme Court has since this reform ruled against the president on several occasions.

Independent  
judiciary  
5

That said, there is no independent judicial authority effectively able to check Congress, the governors and the federal executive. In addition, the increased level of judicial autonomy did not prevent the presidency from using the judiciary for political reasons, as President Fox did in 2004 – 2005 to prosecute the head of Mexico City's government. Similarly, the current administration sought to prosecute a large number of local officials in the state of Michoacán in 2009. The autonomy of the judiciary with respect to pressure groups or illegal groups is another troublesome issue. The illegal groups have taken advantage of widespread corruption among judges, a critical problem at the local level. Strong economic interests have proven able to manipulate judges for their advantage. On the whole, the judiciary at the state level is significantly less independent than is its national counterpart.

Prosecution of office abuse is rather deficient in Mexico. On the one hand, the increased levels of political democratization and transparency have contributed to the mass media's autonomy, and the increasing number of civic organizations has more freedom and interest in scrutinizing the conduct of politicians. The result has been a rise in the number of accusations brought against corrupt or inefficient politicians. On the other hand, there has been little capacity to prosecute these figures. One tragic example was a fire at a kindergarten that cost the lives of 52 infants; the school turned out to have been operating without enforcing standards set by the government, but no state functionaries were dismissed as a result. Another recent example was the killing of 72 migrants, and a general rise in the violence exerted against this population by Mexican authorities, with no consequences for the officials in charge. Elsewhere, the governors of both Oaxaca and Puebla left office at the end of their terms without any sanctions applied, although each had been accused of corruption and criminal behavior. There are no independent institutions with the power to impeach or prosecute governors. In sum, there is more information about the manner in which functionaries behave and exert their function today, but very limited capacity to make them fully accountable for their actions.

Prosecution of  
office abuse  
4

This problem is exacerbated at the state level, where there is almost no transparency. If anti-corruption institutions exist, they tend to be controlled by the local powers.

Formally, civil rights are guaranteed in Mexico, but they are very often violated by police, the army, and even the judiciary. In these cases, the citizens have little or no ability to obtain compensation or be defended by the police and judicial system. This situation has worsened dramatically in those places where the "war" against drugs is intense. The police and the army are increasingly involved in violations of human rights.

Civil rights  
6

While jails are filled with innocent people that lack sufficient resources to defend themselves, trials can take years, or even longer for the poor. People who are victims of crime rarely report it to the police, either because they are afraid that the police may be involved or because they feel it is useless, as 97% of crimes go unsolved or unpunished. The police and army have been accused of terrible violations of rights (rape, excessive use of violence, arbitrary detention, keeping the arrested incommunicado, shooting civilians after mistaking them for drug traffickers). The demands made by the Federal Commission of Human Rights are rarely taken into consideration by these forces. In addition, although the federal commission and its Mexico City counterpart are independent of their executives, similar commissions in many other states are controlled by the political authorities.

Severe violations of women's rights also take place. The national scandal of the hundreds of unsolved women's murders in the northern city of Ciudad Juarez is

emblematic of this problem; moreover, the problem seems to be recurring in other states, most recently the state of Mexico.

#### 4 | Stability of Democratic Institutions

Mexico's political institutions seem to be relatively stable. Elections have been held on time, and there is typically no controversy as to whether election results are valid. Decisions by the Federal Electoral Tribunal (TRIFE), which rules on the validity of elections, are accepted as final. The Supreme Court and the Congress function in formal terms. There is nonetheless a widespread feeling on the part of the population that the political system is a "partidocracia" or partocracy, and that the dominant political parties and other political institutions are not addressing the country's most important issues. Congressional legislative take a long time to be passed, and once complete, the long negotiating process often seems to have made them unable to function effectively. On the other hand, many executive initiatives are simply blocked, and Congress is not as active in proposing significant reforms. This is due to the fact that Congress is profoundly divided into three main parties, which are internally divided in turn, a fact which largely impedes the ability to look beyond the short term. The ban on reelection also means that most legislators have little experience, adding to the body's low efficacy. There is little cooperation not only between the different branches of government, but even within the Congress itself. For example, the body was recently obliged to fill three Federal Electoral Institute (IFE) vacancies, but as of the time of writing had been unable to do so.

Performance of  
democratic  
institutions

7

The main political and social actors are formally committed to the country's democratic institutions. To date, the army has remained under civilian control, although it is in the first line of the war against drugs and has begun expressing criticism of certain political actors and offering independent opinions on the conduct of the war. The political parties are committed to democracy; there is no anti-systemic party, although they continue to function in a clientelistic manner. Although the majority of Mexico's population still supports democracy, both the executive's and legislature's inefficacy has affected the public's views on the political parties, something that risks affecting the prevailing opinion on democracy itself. In fact, support for democracy has declined somewhat. However, the biggest threat to democracy comes from outside the system, from the fact that the war on drug lords and their retaliation has become a factor that deters political participation in some locations and regions. Moreover, the threat of drug organizations' infiltration of politics, through their financial capability or simply violence against politicians, has become very real.

Commitment to  
democratic  
institutions

8

## 5 | Political and Social Integration

The party system in Mexico is quite stable. Three large parties concentrate most of the votes; the youngest party, the PRD, is already 18 years old. Voting volatility is moderate: In the 2003 elections, the PRI got 30.6% of the parliamentary votes, followed by 29% in 2006 (in coalition with another small party), and 44% in 2009 (again in coalition); the PAN got 33.4% in 2003, 23.1% in 2006, and 28% in 2009; and the PRD got 17.6% in 2003, 29.0% (in coalition) in 2006 and 18% in 2009.

The three parties control most of the seats in the Chamber of Deputies as well as in the Senate. Thus, the problem in Mexico is not, as in other Latin American countries, the extreme volatility of the party system, but rather the fact that it increasingly resembles a participatory system. This was reinforced by the electoral reform of 2007, which strengthened the main parties against smaller ones, and increased available party resources (by limiting the amount of money they could dedicate to purchasing political advertising in the media).

The party system's stability does not come from roots in society; in fact, it is quite detached, or rooted primarily in very weakly representative organizations. Its stability comes from the rules of the electoral and the political system, which the parties have reinforced. The recent alliances between the PRI and the PAN during the last elections in Puebla and Oaxaca, and of a PRD candidate that won with PAN support in Baja California Sur, may confuse the electorate and induce more volatility in the future, unless voters really understand that the rationale behind these agreements is purely instrumental.

In the past, the PRI-led regime managed to concentrate most social interests within the party itself, thus assuring the stability of the regime. In this schema, the main interest groups were trade unions, peasant organizations and other popular-sector organizations. All were highly organized, and their leaders negotiated inside the PRI for advantages for their membership and for political posts for themselves. Although business interests were not directly included in the PRI, they were also organized and usually taken into consideration when decisions affecting them were made. During the 1980s and 1990s these various organizations lost power and importance due to the retreat of the state from the economy, the deregulation of the labor market, the end of the agrarian reform and the democratization process. The PRI hollowed itself out, and the organizations that had been its foundations became decreasingly representative; this process weakened the PRI itself and led to the gradual transformation of the political regime.

The PRI system has been replaced by an interest group configuration in which the big economic groups have in many ways "captured" the state. And in fact, it is the

Party system  
7

Interest groups  
7

big economic oligopolies, along with foreign capital, that are today capable of pushing the government to follow economic policies that favor them.

Although the unions have been significantly weakened by 25 years of neoliberal economic policy, some (notably the teachers' union, and to a lesser degree the petroleum workers' union, which has considerably reduced its power) remain quite powerful and exert significant pressure on the government.

Until the last presidential elections in 2006, one could have said that the commitment to democracy was rapidly gaining ground in Mexico. However, the main opposition candidate in that round of polling never accepted the results, and managed to convince around 30% of the electorate of the justice of this position. The main democratic institutions suffered gravely from this situation; some, such as the Federal Electoral Institute (IFE), which organizes elections, and the Federal Electoral Tribunal (TRIFE), which hears election-related disputes, have never recovered. Popular opinion of political institutions has been further undermined by the fact that during the Fox administration, Congress has blocked most of the presidency's legislative initiatives of the presidency while proposing few itself, and by the fact that the parties were able to pass a law that reinforces the big parties that already dominate the country's political life. Although according to *Latinobarómetro*, the Mexican population's support for democracy has not gone down dramatically, Mexico has the region's lowest percentage of people approving of democracy, 49% in 2010 compared to a Latin American average of 61%. Mexico's results on this poll have declined from a high point in 2002 when 63% of respondents said they approved of democracy, falling to 42% in 2008, and recovering slightly to 49% in 2010.

Approval of  
democracy  
6

Mexico is in quite a contradictory situation. Interpersonal trust levels are among the highest in the region, with 25% of people having confidence in the majority of other people, as compared to 20% in Latin America as a whole. On the other hand, Mexicans' trust in political parties (28%), Congress (19%), the judiciary (28%) and the government (34%) is very low (but 55% trust the army). Elsewhere in Latin America, these percentages are much higher; it is striking that with respect to confidence in institutions, Mexico ranks with the poorest and least developed countries of the continent, such as Paraguay, Bolivia, El Salvador, Ecuador, Nicaragua and Guatemala.

Social capital  
5

There are many civil society organizations in Mexico, but these are mostly clientelistic and nonrepresentative. Moreover, participation in social organizations is quite low by Latin American standards. According to a 2005 report by Redinter 2005, 17% of Mexicans participate in social organizations (regionally bracketed on the low side by Ecuador at 10%, and Panama with 14%, and above by Costa Rica with 32% and Brazil with 24%). In Mexico, 42% of the population has never participated in a social or political organization (a figure comparable to Ecuador at

52% and Chile at 45%, but very distant from Bolivia's 27% and the Dominican Republic's 8%).

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Question  
Score

Socioeconomic  
barriers

6

Mexico was ranked at 56th place in the 2010 Human Development Index (HDI), behind Chile, Argentina and Uruguay, but above Costa Rica and Brazil. Compared to other Latin American countries, it has a relatively low percentage of people living on incomes of less than \$2 a day, but if one thinks of the country as one of the most advanced developing countries, 8% of people in this category is quite high. The country's Gini index score is one of the highest in the world at 51.6. The level of human development is deemed "medium," and while extreme poverty rates are low, this category still exists, helping to characterize Mexico as a very unequal society. If one takes the exceptional growth of the export sectors in Mexico in the last 15 years into account, one can conclude that poverty and inequality seem to be structurally entrenched, and that an economic model based solely on the external market appears incapable of solving the problem of poverty and inequality alone.

In addition, although extensive poverty-alleviating programs have existed since the beginning of the 1990s, the fact that 8% of people still live in extreme poverty means that these programs alone cannot solve this problem either. Remittances coming from migrants working in the United States also seem to have little effect on this sector, which may be explained by the fact found in many studies that migration and thus remittances come from comparatively better-off sectors of society rather than from the absolute poorest. In addition, the economic crisis has had a big impact on poverty. On the one hand, GDP fell by nearly 7% in 2009, unemployment went up to 5% and remittances from the migrants in the United States declined in volume. According to the Economic Commission for Latin America and the Caribbean (CEPAL), the poverty rate was 31.7% in 2006, but rose to 34.8%, with the category encompassing 37 million people. This situation is aggravated by the fact that the United States is today guarding the border more strictly, and has a high unemployment rate of its own. This situation contrasts with that of the rest of Latin America, where poverty was reduced during the period under review.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	1035929.5	1094480.3	879703.4	<b>1034804.5</b>
GDP growth	%	3.3	1.2	-6.1	<b>5.4</b>
Inflation (CPI)	%	4.0	5.1	5.3	<b>4.2</b>
Unemployment	%	3.4	3.5	5.2	-
Foreign direct investment	% of GDP	2.9	2.4	1.7	<b>1.8</b>
Export growth	%	5.7	0.5	-13.7	<b>25.6</b>
Import growth	%	7.1	2.8	-18.6	<b>23.5</b>
Current account balance	\$ mn.	-8850.5	-16339.4	-6353.8	<b>-5665.3</b>
Public debt	% of GDP	37.8	43.0	44.6	<b>42.7</b>
External debt	\$ mn.	178610.8	187137.0	171485.0	<b>200080.5</b>
Total debt service	\$ mn.	36518.7	33025.9	30751.5	<b>31216.1</b>
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	10.4	10.7	12.0	<b>11.7</b>
Public expnd. on edu.	% of GDP	4.8	-	-	-
Public expnd. on health	% of GDP	5.8	5.9	6.5	-
R&D expenditure	% of GDP	0.37	-	-	-
Military expenditure	% of GDP	0.5	0.5	0.5	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

## 7 | Organization of the Market and Competition

Market competition has been solidly established in Mexico since the government opened the economy, privatized state enterprises and deregulated the economy in the 1980s. The signing of NAFTA in 1994 meant that Mexico's open economy and market orientation had been anchored in an international treaty. However, two issues constrain this openness somewhat. First, small and medium-sized companies in Mexico encounter many administrative difficulties in opening and functioning. In addition, there is a structural need for financial support for these companies, and the

Market-based  
competition

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government does not do enough to ease this situation. Second, the Mexican economy is dominated by a handful of private and public oligopolies that not only impede other companies' entry into the sectors they dominate, but are responsible for passing on higher costs to Mexican entrepreneurs in comparison with competitors in countries with stronger competition. Competition is also limited by unfair practices enabled by a corrupt judicial system. This signals structural limitations within the Mexican economy that have as their consequence the existence of a growing informal sector, today calculated to be between 40% and 50% of the economy.

One of the biggest problems for Mexico's economy is the existence of oligopolies or practical monopolies that prevent new market entries in certain sectors, and which charge high prices to national companies that make international competition more difficult. There are several state monopolies (petroleum, electricity), but the concern is focused on private monopolies or oligopolies in sectors such as telecommunications, cement, the electronic media and retail sales (Wal-Mart). Substantial market concentration around one or a few companies also exists in other sectors, such as tortilla production (Maseca) and the distribution of medicine. Although the Federal Competition Commission is tasked with regulating monopolies and trusts, this agency has little power compared to the agencies that exist in the United States, for example. Its fines are too small and take too long to be applied, and are thus incapable of inducing changes in the behavior of the very large companies it is supposed to regulate. Moreover, it lacks the capacity to force monopolies to split apart, transform, sell divisions, etc. In addition to this federal agency, individual bureaus oversee specific sectors such as telecommunications or banking; however, various studies, most notably one by the World Bank, have found that these bodies are effectively controlled by the enterprises they are supposed to regulate. Institutions intended to be watchdogs have in this case become lapdogs.

Mexico is rightly considered to be of the most open countries in the world. Mexico began opening its economy with its accession to the General Agreement on Tariffs and Trade (GATT) in 1986. It subsequently signed the NAFTA with the United States and Canada, further liberalizing foreign trade. The country also has trade agreements with more than 48 countries around the world (including the European Union, Chile and Japan). As of the time of writing, it was negotiating a free trade agreement with Brazil. Most trade is done without tariffs; in 2008, the last few restrictions on trade were eliminated when the import of maize and beans was liberalized. There are no restrictions on capital inflows or exit.

After the 1994 financial crisis that led to the collapse of the Mexican banking system, banks changed hands and were mainly bought by foreign institutions. Today, the main banks are Spanish-owned (BBVA-Bancomer and Santander-Serfin), U.S.-owned (Citibank-Banamex), Canadian (Scotia-Bank) or English

Anti-monopoly  
policy  
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Liberalization of  
foreign trade  
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Banking system  
7

(HSBC). These banks represent nearly 90% of the private banking system. There is only one significant Mexican-owned bank (Banorte), which fused with IXE to become the third-largest bank in Mexico, allowing it to control around 14% of the market. The fact that the banks are mainly controlled by foreign capital led to a more significant devaluation of the Mexican peso during the global financial crisis than was seen by other Latin American currencies, as foreign companies and foreign-owned banks began repatriating capital in order to boost the liquidity of their parent banks back home.

Most Mexican banks are not investor banks; that is, their activity is mainly focused on consumer lending, home and automobile loans, credit cards loans, and ordinary deposit transactions. These businesses are very profitable, as the banks charge very high commissions and interest rates by international standards. Government officials have sporadically accused banks of charging too much, but the Banking Commission has proven incapable of changing the situation. Large Mexican companies that engage with international markets typically secure their loans in those markets, at lower interest rates. Small and medium-sized enterprises that cannot provide collateral for their loans have little access to the financial market.

## 8 | Currency and Price Stability

Inflation has been kept under control at annual rates of between 3.5% and 5% in the last 10 years, comparing favorably with other developing countries. The Mexican central bank gained independence at the beginning of the 1990s, preventing the government from “printing money” in order to pay for expenditures. In this same reform, inflation control was made the bank’s primary statutory goal. For its part, the government has been very careful not to overspend, keeping a very tight control on deficits. For most of the last decade, it has even showed a positive fiscal balance. Even in the crisis of 2008 – 2009, the government’s budgetary deficit did not increase; this was considered to be inaction in the face of the crisis by some structuralist economists, who demanded that the government should intervene in order to protect and create jobs. At the beginning of 2011, prices started rising faster than in the previous period, primarily due to the increase in commodity prices worldwide. Since the 1995 crisis, the foreign exchange rate has been allowed to float. The value of the peso declined by about 40% relative to the dollar in 2008, from around 10 pesos to 14 pesos to the dollar. As flows of foreign investment, remittances (and drug money) are now recovering, the peso has recovered somewhat, with the rate reaching about 12 pesos to the dollar at the time of writing.

In view of the global financial crisis, the government was very careful during the period under review not to increase its deficit and its debt, though the latter is among the highest in the developing world. It did not use much of its reserves; indeed, reserve levels even increased over the period. However, macroeconomic

Anti-inflation /  
forex policy

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Macrostability

8

equilibrium was maintained by sacrificing microeconomic health. In fact, Mexico was one of the countries most deeply damaged by the crisis, seeing GNP fall by 6.5%. Large parts of the economy have seen an increase in unemployment. Since 2010, the economy has been growing strongly, and the government has declared that 800,000 jobs have been created; however, this was not enough to compensate for the decline of the previous two years.

Structural problems also exist at the macroeconomic level. Levels of public and guaranteed private debt are among the highest in the developing world; however, debt service is not excessive, totaling around 9% of gross national income (GNI), and government consumption is at a medium level in comparison to other developing countries. In addition, oil represents 40% of government's income. The government is the sole producer of oil, but has not been investing in the industry. Production is falling, which to date has been compensated for by the increase in oil prices. The government has not been able to increase its tax collections, collecting a mere 12% of GDP. Combined with revenues from services and products (especially oil exports), total government resources reach about 19% of GDP. Although the current account is balanced by capital inflows in the form of direct foreign investment and remittances by Mexican migrants, the current account deficit has been structural and growing. Although in relative terms this deficit has represented 1% or less of the GNP since 2004, it is considerable in absolute terms (reaching \$16.84 billion in 2008).

## 9 | Private Property

Property is basically well defined at the level of the multinational companies, as well as for big and most medium-sized Mexican companies. No serious political force proposes their nationalization. Entrepreneurs complain persistently that they encounter numerous bureaucratic problems. According to *Expansion*, an economics weekly, it takes 29 days in Mexico to open a company, while in the rest of Latin America it takes an average of six days more. The situation facing small businesses is somewhat different, however. There are significant problems in defining the property of individuals and small businesses at the micro level, linked to the inefficiency and corruption of the administrative and the judicial system. Land property conflicts are common. Much of the property of the lower middle class and the poorer population has not been legally recognized, and thus cannot serve as an economic asset serving as the foundation for loans, or business start-up. This is also a source of conflict. Many very small or micro businesses that function informally lack property rights, and do not register their workers. This puts them in a rather precarious condition, and renders them vulnerable to corruption. A more recent evolution, which is still of marginal importance at the national level but is becoming

Property rights

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a serious problem in some northern cities, has seen illegal gangs demand money from businesses in exchange for protection.

In Mexico, private enterprise is largely given a free hand; there are few regulations limiting or guiding sectoral investments. Privatization was almost totally completed in the 1990s. The only (although important) areas in which purely private property is disallowed are the oil and electricity sectors; in this latter sector, however, private investment is permitted in the form of public-private partnerships. The presence of private oligopolies or monopolies inhibits investments in certain sectors, including telecommunications, media, maize, consumer products distribution and pharmaceutical distribution.

Private enterprise  
8

## 10 | Welfare Regime

Pensions in Mexico have never covered more than 30% of the population, as they include only workers in the formal sector of the economy. The aging of the population and the relative stagnation of the formal sector over time imposed heavy burdens on the pay-as-you-go system. This led the government to reform the private-sector pension program (the IMSS) in 1995, and subsequently the public sector in 2007, transforming it into a system based on individual capitalization. This system, copied from Chile, will surely face even more serious problems than in Chile, given that the economy has not grown as steadily and that many workers do not contribute enough during their active working life.

Social safety nets  
6

The health care insurance system has never covered more than 50% of the population, even at its peak in the 1970s. The remainder of the population was covered by the noncontributory public system operated by the Ministry of Health. Nevertheless this system never clearly defined who had rights to coverage, and for what kinds of treatment and diseases. Since 1995, health services have been decentralized at the state level. In 2005, the government launched the Seguro Popular program, which was destined to incorporate the population formally into a health program that would be partly contributory, depending on income, and partly free for those in the lowest four income deciles. The idea was to give individuals rights to health care and to clearly define the health services covered. According to official data, more than 40 million people are in the program today, and it covers most of the diseases that affect Mexicans, although it still excludes some important ones. However, the health institutions that are supposed to incorporate these people have not received resources commensurate to their new obligations, nor has the already deficient public health system been substantially expanded. Health expenditure in Mexico is very low compared to other countries at similar or lower levels of development – a mere 2.7% of GDP.

One of the most important social safety net programs is the Oportunidades conditional cash transfer program. This anti-poverty program has existed since 1988, under various names. Today, more than five million families take part, and the program as a whole has a budget equivalent to 1.3% of GDP. It is very successful, in that it (along with remittances from migrants) has contributed to reducing extreme poverty, although it has been criticized for an inability to reach the “working poor.” It has also been accused of being manipulated for clientelistic purposes in some states. This is possible, as people have to be registered with the program.

There is practically no effective unemployment insurance; even where such programs have been implemented, such as in Mexico City (which is governed by the leftist PRD), they cover a very minor percentage of the unemployed. In addition, the government of Mexico City allocates \$60 a month to people over 70 years old. All this means that family is still a fundamental if informal source of social security.

Mexico has not achieved equal opportunity for all. Women and the indigenous population are particular concerns in this regard. While the country’s overall literacy rate is 93%, within the indigenous population this figure is only 67%; a full 26% of the indigenous population has no schooling, and 27% have only attended some primary school, without completing this level. A common explanation of this situation is that indigenous populations live in such remote areas and in such small communities that reaching them is too costly. This is also the reason given as to why health coverage is deficient for this population. Although the government says this problem cannot be solved, it in fact could be done so by means such as those existing in Cuba or China, using doctors that move from one place to the other.

Women have almost the same literacy rate and school attendance history at all levels as men. Thus, in this respect, at least, they seem to have access to equal opportunities. The Oportunidades program has been instrumental in this respect, as it has provided scholarships for women in the poorest homes, mainly in the countryside, in order to facilitate their continuing education. Nevertheless, at the level of the job market, most studies show that women earn lower salaries than men on average. Within OECD countries, Mexico occupies the second-to-last place with respect to women’s employment rates: 41% of women are employed (similar to Italy (47%), and just before Turkey (25%); this is much below the OECD average of around 58%). Domestic abuse is a widely acknowledged problem; Mexican women are often mistreated by their spouses or by male members of their family. The catastrophe of the thousands of unresolved crimes of violence against women, particularly the murders of women in Ciudad Juarez and other parts of the country (including the state of Mexico), have even led to a sentence against the Mexican state by the Inter-American Court of Human Rights in November 2009; this is one tragic indicator that women do not enjoy the same rights as men.

Equal opportunity

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## 11 | Economic Performance

Mexico was badly hit by the global economic crisis in 2009, when its GDP decreased by 6.5%, one of the most substantial such declines in the world. The unemployment rate has increased considerably, from 3.5% to 5.5%. Although the economy grew by a respectable 4.5% in 2010, creating around 800,000 jobs, unemployment is still high.

This has been explained as a consequence of the country's dependence on the U.S. economy, as well as the weak connection between the export economy and the internal market economy, especially in the large "maquiladora" industry. Export growth has been exceptional, but the Mexican economy is highly dependent on imports, and adds comparatively little value domestically. In the maquiladora sector, the share of value added to exports is only around 3%; in only a few sectors, such as the automotive industry, is the share of added value significantly larger.

The orientation of the economy toward exports, and the concomitant abandonment of the internal market is a major problem. This explains in part why, according to *The Economist*, GDP in Brazil increased by an average of 3.3% per year from 2000 to 2009, Argentina's by 3.3% in spite of the terrible crisis it went through in 2001 – 2002, and Chile's by 3.7%, while in Mexico GDP increased by an average of a mere 1.8% during the decade. In addition, compared to other high-growth countries such as India and China, gross capital formation is low in Mexico at around 20% of GNP, while in India and China it is respectively over 30% and 40%.

While the macroeconomic performance appears good thanks to the low levels of inflation, a structural and substantial current account deficit, which totaled more than \$15 billion in 2009, reflects the limits of the export model. FDI, though high by world standards, is much lower than the level seen in Asia's fastest-growing economies. Together, these facts pose a risk to Mexico's future economic sustainability. Along with tax revenues that are among the lowest in the developing world (around 10% of GDP), and declining oil production, which still contributes 40% of the state's resources, these are some of the basic weaknesses of the Mexican economy.

## 12 | Sustainability

Consciousness of environmental problems is growing on the part of the government, within civil society and among the general public. Nevertheless, tangible solutions have been slow to emerge. On the one hand, the current government's focus has been elsewhere, particular in the areas of economic growth, job creation and dealing with the rising violence. In Mexico City, where most of the

Output strength  
7

Environmental  
policy  
6

population is concentrated and where most of the country's complex environmental problems are present in some fashion, the government has substantially expanded the public transportation network. It nevertheless continues to favor the use of individual cars: It is at present constructing an extension of the second level of the main highway that goes through the city, as well as a tunnel from one part of city to the other. It has also sought to promote a more sensible use of water by increasing its cost, but failed to induce more rational use.

River and water use has not improved. Most rivers and water sources are contaminated, and water is used in a very inefficient manner both for human consumption and irrigation (around 40% is wasted). In addition, water is hardly ever treated or recycled by the companies or city administrations that use it. Deforestation is a serious problem in large parts of the country. Although the cars used have on average become cleaner, there has been an immense expansion of automobiles in most cities, which makes it impossible to fight effectively against pollution. As it seeks to develop the tourist sector, the Ministry of the Environment continues to allow the construction of big hotels that are destroying the mangroves in protected areas such as south of the Mayan Riviera area in Quintana Roo.

Neither the federal nor the local Mexico City government show a coherent vision on this topic. Other states, where jobs and investment are more important than environment policy, show even work records. The car industry is so important for both investment and job creation that no government has dared to risk its presence through stronger environmental rules affecting its activities. There are nevertheless an increasing number of environmental NGO's that are exerting pressure on governments, at both the federal and local level.

Accounting for 4.8% of GDP, Mexico's expenditure in education is equivalent to that of other developing countries such as Brazil, China and India. Nevertheless, various evaluations such as the Program for International Student Assessment (PISA) show poor results, indicating that resources are not well used. Neither resources nor salaries seem to be the core problem, as teachers' salaries in Mexico are not very different from those in other countries at a similar level of development. Education problems seem instead to have political roots. The school system is captured by the teachers' union, the largest union in Mexico and a remnant of the former regime, which had been based on giving unions privileges (including turning a blind eye to corruption) in exchange for political fidelity. The federal government has tried to launch a program of education reform, but this has been systematically blocked by the union. Parents have little information or knowledge on how their children are being educated, and are badly organized, making it difficult for them to exert influence on the schools. The solution among middle- and higher-class families has been to abandon the public schooling system

Education policy /  
R&D  
5

altogether and pay instead for private schooling, which increases the educational gap further.

Spending only 0.37% of GDP on R&D, Mexico definitely lags behind countries such as Brazil and China, which respectively spend 1.1% and 1.4% of GDP. This level of R&D investment is the lowest among the OECD countries, below Turkey, Portugal, Poland and Slovakia, and is lower than many other countries of similar or even lower levels of development.

## Transformation Management

### I. Level of Difficulty

Poverty, lack of education and inequality are the most serious structural constraints on Mexico's growth and investment. About 40% of the population can be considered poor, although extreme poverty has been reduced to between 8% and 14%, depending on the source consulted. Nevertheless, inequality is an even more important factor than poverty. These two issues are the main constraints on the internal market, pushing activity into an informal economy based on low-priced imports, smuggling and illegal merchandise, the reproduction of movies and music, etc. While long a problem, the economic model based on exports that are in turn predicated on cheap labor has perpetuated the situation. An economy based on cheap labor means that wages have to be kept low, and this in turn implies low productivity.

Structural  
constraints  
6

Other structural constraints include the lack of infrastructure, especially in the south of the country where the poorest sectors of the population live. The labor force's average educational level and competitiveness are quite high, although at the middle level of engineering and administration functions, there is a lack of highly qualified personnel. Along with the lack of investment in R&D and the absence of a close working relationship between industry, research centers and universities, this helps explain the lack of new technological developments and the low number of registered patents.

The former regime was based on state control of social organizations through its political party, the PRI. From the 1980s on, the number of autonomous organizations has grown consistently. First, after the earthquake of 1985, it was the inhabitants of downtown Mexico that organized, followed by organizations that pushed for more transparency in the electoral process. In the 1990s and 2000s, many NGOs, and ecological and minority groups emerged. Since 2000, driven by the increasing levels of violence and insecurity, groups of citizens have organized to demand that the government solve problems of ongoing violence, kidnappings and other serious crime. However, these groups act in an atomized fashion, and have little influence on political society at large. Compared to countries such as Brazil, the density of civil society in Mexico is quite weak.

Civil society  
traditions  
5

Most traditional organizations are still led by old-guard figures, and even those groups that have changed leadership have maintained an authoritarian culture. The state once took care of popular demands in order to channel and control them in an essentially top-down manner. This attitude is still deeply imbedded in the political culture of citizens and organizations. People usually enter organizations that have something to offer to them. Many leaders of civil organizations have been co-opted into government (federal as well as local), and are currently developing social programs from the top. Even leftist leaders (for example in the city of Mexico, where the left has governed for more than 10 years) have never tried to organize in ways that might empower civil society, such as the Brazilian participatory budget program that has subsequently been adopted in many Latin American countries aside from Mexico.

Mexico's present crisis of violence is unrelated either to social or political cleavages. Existing guerrilla groups are essentially marginal. Nevertheless numerous local conflicts devolve into violence, especially in the poorest regions of the country such as Oaxaca, Puebla and Guerrero. Social and political violence exists but is local and limited in scope. At the local level, conflicts derived from religious cleavages between Catholics and Protestants do occasionally flare up, especially in the south of the country in Chiapas and Oaxaca. Disputes related to land delimitation or resource use sometimes devolve into violent disputes. Socio-economic conflicts are the most common type of dispute, but hardly ever become violent or massive. There is nevertheless an obvious connection between the lack of opportunities for the young, associated with weak job creation over the last 20 – 30 years, and the recruitment capacity of the drug cartels.

Conflict intensity  
5

## II. Management Performance

### 14 | Steering Capability

The Calderón government sets strategic priorities, but short-term practical concerns have often taken precedence over following a long-term agenda. Economic transformation has remained focused on the type of economic policies implemented since the 1980s – above all the maintenance of the macroeconomic stability – while political transformation is dominated by security issues. Apart from these goals, there is consensus that the country needs to improve its performance in the areas of education, environment and infrastructure, and that it is urgent to implement certain critical reforms – fiscal, energy, judicial and others. However, priorities are less clear. Indeed, setting priorities has become increasingly complex because of the power acquired by Congress and the governors, and the fact that these branches and

Question  
Score

Prioritization  
7

levels of government do not collaborate closely. This is mainly due to the confrontational relationship between Congress and the presidency. As the political parties in Congress care most about their short-term interests, it has been very difficult to pass and implement important laws.

Mexico's government reacted very timidly to the global economic crisis compared to other Latin American countries. It seemed as though it was simply waiting for the economy of the United States to recover, indicating the lack of a long-term strategy. Finally, seeking to address the violence and drug cartel problems, the presidency and the Congress passed a judicial reform that may in fact represent improvement, but has not yet been in place long enough to evaluate fully.

Although Calderón has been able to pass some laws, none have been significant enough to change structures in either way. The energy reform was subject to too many compromises in the course of negotiation, and includes too many points of view to be effective. The new electoral law has served only to reinforce the main political parties, and has not made elections cheaper. A fiscal reform was passed, but has changed the amount collected by the government in only marginal terms. Apart from the general policy of support for basic market economic principles, more specific policies are not implemented effectively. This is due to a lack of capacity among government officials, as well as to resistance by societal and economic actors that defend the status quo. Congress' confrontational stance has made it difficult to focus the government's priorities, while actors embedded elsewhere in the political system have delayed or even blocked policy implementation. For example, although the government has wanted to reform education, it has been blocked by the teachers' union, an important political ally of the PRI governments as well as of the present Calderón administration.

Implementation

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The oligopolies and practical monopolies that dominate certain economic sectors represent one of the government's main challenges. These sectors have very substantial economic power and have essentially captured the relevant state regulatory bodies; thus, the government has no power (and little will) to impose reform. All this is aggravated by an ineffective bureaucracy. While the PRI had an ample reserve of functionaries, the PAN has had to invite less capable individuals into government. For example, two years ago the Calderón government decided it would construct a new refinery; however, as of the time of writing, the project had not yet broken ground. Many infrastructure projects face a long decision-making process that raises costs and delays some plans indefinitely.

Mexico has long lacked a comprehensive, professional civil service staff, although a law on the issue was passed by the last administration. A professional civil service exists only in the ministries of Economy, Health and Foreign Affairs, and in some state institutions and companies such as the Bank of Mexico and Pemex. Even this applies primarily to middle-ranking functionaries. Most politicians taking

Policy learning

6

government positions lack the preparation to understand the policies they have to implement, and have little time to learn and innovate. As changes for political reasons are still very frequent, most high-ranking politicians are worried about their survival, and thus seek to minimize risk. As most hold posts for relatively short durations, they do not have time to learn. As a result, there is little flexibility and little capacity to learn. Most functionaries are still more committed to their parties than to their office.

The lack of reelection opportunities for congressional legislators and municipal officeholders (whose terms are both limited to three years) aggravates this situation, because functionaries have to leave their posts only shortly after learning their job.

## 15 | Resource Efficiency

Mexico's administrative apparatus has been modernized and submitted to a growing body of transparency requirements during the last 20 years. However, both for administrative and political reasons (democratization; strengthening of federalism), it has also been decentralized. These two evolutions have not always advanced in parallel: While at the federal level, a better use of resources is evident, at the state level this is not always the case. Transparency laws (if they exist at all) are much less strict at the state than at the federal level, and states' use of public resources is usually not transparent.

Civil service employment exists in some ministries, but not all. At the state level, increasingly the locus of decisions involving substantial amounts of money, there is practically no professional civil service, and many posts involved in the Mexican decision-making process are still highly political. At the local level, administrative capacity decreases as one passes from the federal to the state to the municipal level, as well as from the rich parts of the country in the north, center and west to the south. The government faces serious challenges represented by the very low tax collection rate, at about 10% of GDP, and the reliance on (steadily declining) oil resources. Recent decades have seen far less investment in infrastructure than what has been needed, and most of resources are devoted to current expenditure such as salaries.

There are serious problems of policy coordination both between and within the various ministries. Concurrent with democratization there was a weakening of the presidency and empowerment of the governors, leading to a feudalization of political power and decision-making; this in turn led to a lower level of coordination. This is especially true in the crucial area of security. There are various police forces in the country, at the federal, state and municipal levels, and little coordination between them with respect to fighting crime. Indeed, there is no trust between them, as municipal and state police are thought to be infiltrated by the drug

Efficient use of  
assets

6

Policy  
coordination

6

lords and are rarely informed of operations led by federal police or the army. Even though the Federal Police is staffed with army personnel, the army does not always keep it abreast of planned actions, and even the various federal police corps fail to coordinate activity.

This has sometimes resulted in serious conflicts between these various forces, even to the point of open fighting. There have also been uncoordinated actions inside the army, according to the American ambassador (as leaked by WikiLeaks). This disarray led the president to propose a new reform on the issue, recently passed by Congress. According to this new law, there should be a unique command of all police forces; however, this poses other problems, and is still awaiting implementation.

This broad situation is repeated in a variety of sectors. A lack of coordination hampers the activities of the ministries of Finance and the Economy; the policies of the latter are in many occasions contradicted by the general policies of the former. The Ministry of the Economy has dozens of programs for micro- and medium-sized enterprises, but these are uncoordinated, repeat themselves, overlap and so on. A few institutions, including the Ministry of Finance, the Bank of Mexico, Pemex and CFE (the electrical company), do work in a more coordinated manner.

The present “war” against the drug cartels has exposed a high level of corruption, particularly among the police and judicial apparatus. In many cases, police and judicial forces support the drug cartels. Institutions created under the first non-PRI presidency – the Federal Institute for Access to Public Information (IFAI) and the civil service – have partly succeeded in establishing a more transparent and less corrupt administration at the higher level, though this has not been the case among lower echelons. In truth, transparency at the higher level is also quite limited. Though Mexicans have become increasingly aware of the way in which resources are administered and the public is capable of finding out if there has been abuse of public funds, in many cases the state has no capacity (or will) to punish those committing the abuses. On the other hand, many institutions are not subject to the oversight of the federal instances such as the IFAI; this group includes trade unions and most other social organizations, state governments, private companies, the judiciary, political parties and Congress itself. In many states, IFAI structures are controlled by the governor or have fewer powers than do their federal counterpart due to the fact that state laws are weaker.

Anti-corruption  
policy

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## 16 | Consensus-Building

There is a basic consensus on the importance of democracy and market economic principles. No relevant actor is radically against either of these two goals. López Obrador and other anti-NAFTA forces are not anti-capitalist per se, but rather

Consensus on goals

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against an economic model that is basically oriented outward and neglects the internal market. They believe the state should work to strengthen small and medium-sized enterprises, and should pass social, labor and salary policies designed to increase the size of the domestic market. The economic reforms of the 1980s and the signing of NAFTA has not improved – or indeed, has even worsened – the economic situation of a large proportion of Mexicans; this has led to disappointment with the economic model and with democracy itself. That is why López Obrador’s argument that the market alone cannot benefit all Mexicans has resonated strongly with a significant number of Mexicans. On the other hand, democratic decision-making is centered in the political parties and in a political system that seems to be very distant from the worries and needs of average citizens. Finally, the increase of violence linked to the war on drugs has led many people to criticize the current system, even if they are not opposed either to the market economy or democracy.

Guerrilla groups in Mexico exist but are marginal. Though very critical of the existing system, López Obrador and his movement never called for violence or for the toppling of existing institutions. Indeed, his actions have been much less radical than his “To hell with institutions” discourse, and he will probably run again under the same electoral institutions. Although the main political parties are not broadly democratic in their internal affairs, they accept the democratic rules of the game.

Anti-democratic  
actors

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The main danger to democracy comes from the drug and other cartels. They have recently killed important local politicians, including a state governor candidate in the border state of Tamaulipas. They are using their financial resources to infiltrate political spheres, and have outright bought some local government candidates. They are thus a double danger for democracy: directly, as they are infiltrating party politics, and indirectly because the violence and presence of the army in the streets dampens collective action.

Despite some difficulty, the political leadership has prevented cleavage-based conflicts from escalating. The most profound cleavage in Mexico is defined by those who are formally integrated in the economy and those who are marginalized or in the illegal economy. In the case of the marginalized, the cleavage includes an ethnic component, as the majority of the indigenous population is in this situation. In the 2006 elections, the PRD and López Obrador effectively represented the social sectors that have lost out or have not benefited from economic liberalization, while the PAN represented the status quo in economic terms, including the lower middle class that has gained through the implementation of liberal economic policies. This represented an effective channeling of societal divides through the political system. However, López Obrador’s movement has lost momentum; the parties are divided internally and their reputation has declined, as have those of elections and the political system in general. The “war” between the security forces and the drug cartels is somewhat exterior to politics per se, but is nonetheless

Cleavage /  
conflict  
management

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severely endangering normal political activities, and is starting to undermine the economy.

The 1990s brought transparent elections, the end of the interventionist state and deregulation. With this turn, corporatist organizations lost most of their power within the PRI, and with it their capacity to negotiate with the government and the private sector (in the case of unions). As a result, they lost legitimacy in the eyes of their members. Some of these organizations have left the PRI and joined the leftist PRD. Nevertheless, in most of these organizations, the corporatist, top-down relationship still prevails; they are not independent in their decisions, and function as an “instrument” of whatever party they are associated with, be it the PRI, the PRD or Alianza, the new teachers’ union party.

Civil society  
participation  
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However, a great number of autonomous civil society organizations (CSOs) have emerged over the same period. When the PRD captured the government of Mexico City, and when Fox won the presidency, both integrated some CSOs into the government’s decision-making process. This had contradictory consequences. On the one hand, these organizations started to participate directly in certain public policies, largely in assisting the poor and other needy sectors of society. On the other hand, the initiative was deriving increasingly from “above,” from the government, and less and less from below. Government also co-opted many of the most important leaders as functionaries, reducing the leadership capacity of the CSOs. Although this situation continues in Mexico City’s PRD government, it has diminished in the Calderón administration.

In face of increasing violence, insecurity and inefficiency on the part of the police and judicial authorities, a movement against violence and impunity has arisen. Organizations addressing this issue effectively respond to social problems and needs, but in general have little connection to the political system, and therefore little impact within the broader Mexican society. Political parties continue to resist the growth of civil society, as they want to preserve their control of the political environment.

During the Fox administration, government crimes against students in 1968 and 1971, as well as the “dirty war” against the guerrillas in the 1970’s, became an issue of public focus. The government named a special prosecutor to study these cases, but results were minimal, and did not satisfy the groups demanding reparation. Nevertheless, former President Luis Echeverría was put under house arrest for several years. As the Calderón administration depends on the PRI to pass legislation, and is generally distracted by its fight against the drug cartels, this issue has fallen off the government’s agenda. Moreover, the rising number of people who have disappeared and the apparent abuses committed by the army have made the question of reconciliation an absolute taboo in this administration.

Reconciliation  
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## 17 | International Cooperation

Although it shares many of the problems of poorer countries, Mexico receives practically no foreign aid, as it is a full-fledged partner of NAFTA and a member of the OECD. It has nevertheless gained access to other types of aid to fight pollution, preserve nature, and protect plant and animal species. At the local level, there is some aid provided for specific problems. Mexico City has been able to get international aid to fight pollution. Cities including Oaxaca, Guadalajara and Zacatecas have gained access to resources as a result of having been declared UNESCO world heritage sites.

Effective use of  
support

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Mexico does receive substantial U.S. aid for its “war” against the drug cartels. The government has negotiated the so-called Merida Plan, in which the United States provides financial support for the purchase of new arms, offers training, and shares intelligence in the fight against the drug cartels. Mexico has received helicopters from its northern neighbor, and U.S. army and police forces are counseling and training Mexican police and army divisions at the national and at some state levels. The United States is also sharing an increasing amount of information on criminal activity. Nevertheless, it is the Mexican government that is setting the priorities within the plan. Overall, a coherent development strategy for the whole country in key areas is not readily evident.

In general terms, Mexico is considered to be a reliable partner by most other countries. It cooperates with most significant international organizations. It is a member of the OECD, the WTO, the IMF, the World Bank, etc. It has hosted numerous important international conferences for these institutions, most recently the late-2010 conference on climate change, where the Mexican Ministry of Foreign Affairs was able to persuade participating countries to reach an agreement at the last moment. Mexico has numerous free trade agreements with many different countries and areas, including Europe and Japan. It is considered to be a serious partner for foreign capital as it respects the market, private property and democracy. Nevertheless, the persistence of corruption and the increased levels of violence are becoming an increasing worry for these international actors.

Credibility

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Certain events have been the cause of friction between the Mexican government and other governments. For example, the French government protested the imprisonment of a French citizen under dubious conditions, the United States has been concerned by the killing of U.S. citizens, and Central American governments have criticized the rising levels of mistreatment and even killings of Central American migrants passing through Mexican territory on their way to the United States. The situation of Mexican migrants and citizens living illegally in the United States, many of whom have suffered repression and mistreatment or have even been

killed by American citizens or U.S. functionaries, has been an additional source of tension between the two countries.

There has been increasing speculation by unofficial actors (and recently even by official sources) that Mexico might devolve into failed-state status.

Mexico has had a free trade agreement with the United States and Canada since 1994, and is considered a reliable partner. In contrast, although the country has friendly relations with its Central American neighbors, no integration efforts have been mounted. In recent years there have been frictions with some of the governments in this region, as many of the migrants that cross through Mexico to the United States suffer grave abuses at the hands of the Mexican police, migration authorities or criminal bands. The violence rampant in some parts of the country has raised the question of whether the government is able to control the situation.

Regional  
cooperation  
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## Strategic Outlook

Mexico's current strategy against organized crime must be profoundly modified. Though it has probably reduced the power of some of the drug cartels, it has not reduced their disintegrative effect on the Mexican society; indeed, the opposite is true, as violence has become endemic in some parts of the country. To be successful, the strategy would have to include a rapid professionalization and reorganization of the police forces, a strengthening of the government's intelligence capacity, and a change of focus from drug trafficking in general to the weakening of the cartels' financial and arms capacity, as well as the arrest of the principal leaders. Ideally, this should take place through discrete police operations rather than through army mobilization. Policies of addiction prevention and the creation of social nets and economic opportunities where these do not exist would counter the cartels' capacity to root themselves in society. This global strategy would make it possible to withdraw the army from this fight against drugs; this is a critical goal, as the military deployment entails dangers including human rights violations and increased army interference in civilian political matters.

The fact that the Mexican economy plunged by 6.5% in the course of the global economic crisis showed the fragility of the country's economy, largely due to its dependence on the U.S. market. The structural current account deficit makes it evident that an economic model mainly oriented towards exports is not adequate for a country the size of Mexico. The government should regard development of the internal market as an absolute priority. It should stimulate the small and medium-sized businesses through aggressive and well-structured programs and additional financial resources. The export-oriented model has been predicated on keeping salaries low; the government should review this policy, as it leads to an anemic internal market and poor capacity to integrate new technology that might improve productivity and stimulate endogenous scientific and economic change.

There are two basic structural reforms needed. First, the country's fiscal structure must be reevaluated. A country as modernized and as large as Mexico cannot afford to collect a mere 9% – 10% of GDP in taxes, while depending on Pemex for 40% of state resources. Second, reform of the energy sector is of critical importance. Pemex and CFE are two of the most inefficient companies in the world, and must be reformed in order to make them more independent of the government and able to establish alliances with other companies.

Finally, there are masses of people within the country who have not profited from the current economic model, provoking deep dissatisfaction with democracy itself. This should push the Mexican government both to invest massively in and profoundly reform the educational and health systems, to implement R&D programs, and supplement the assistance policy that it has so successfully implemented over the past two decades. In order to have the resources to invest in human capital, the government should carry out a fiscal reform, modernize its state apparatus,

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and invest in, modernize and increase the flexibility of its electric and petroleum companies, in order to make them more efficient.