

BTI 2016 | Mexico Country Report

Status Index	1-10	6.40	# 41 of 129	
Political Transformation	1-10	6.30	# 54 of 129	↘
Economic Transformation	1-10	6.50	# 33 of 129	→
Management Index	1-10	5.34	# 53 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2016 – Mexico Country Report. Gütersloh: Bertelsmann Stiftung, 2016.

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Key Indicators

Population	M	125.4	HDI	0.756	GDP p.c., PPP \$	16949.7
Pop. growth ¹	% p.a.	1.3	HDI rank of 187	71	Gini Index	48.1
Life expectancy	years	77.4	UN Education Index	0.638	Poverty ³	% 10.3
Urban population	%	79.0	Gender inequality ²	0.376	Aid per capita	\$ 4.5

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

The period under review coincided with the first two years of the Peña Nieto administration, which took office in December 2012. Enrique Peña Nieto became the first Institutional Revolutionary Party (Partido Revolucionario Institucional, PRI) president in 12 years. In contrast to the previous Calderón administration's very public "war against organized crime," the Peña Nieto government completely ceased publicly discussing organized crime and media coverage of violence had become minimal (it is unclear if this reduction in media reporting was voluntary or induced). The focus of the president and media coverage were concentrated on the economic and infrastructure projects of the new government and on its structural reform initiatives.

At the beginning of Peña Nieto's presidency, the new government signed a pact, the "Pact for Mexico," with the two other main parties in Congress. This pact enabled the passage of reforms (some of them constitutional) that had been blocked for the past 18 years. Among these were reforms of the education system, fiscal policy, and, most importantly, the energy sector. For this policy achievement, Peña Nieto was hailed both domestically and, especially, internationally as a great political leader. At the time, the general impression was that the PRI was succeeding where the National Action Party (Partido Acción Nacional, PAN) had failed: both in controlling violence and advancing major liberalizing reforms.

The administration's second year, however, resulted in a collapse of this image and (possibly) the government's projects. Since the end of 2013, armed self-defense organizations have emerged in the Mexican state of Michoacán to fight against the criminal gangs that controlled their towns and villages. These criminal gangs exerted violence that made normal life impossible for many Michoacanos. In the summer of 2014, the magazine *Esquire* revealed a massacre in Tlatlaya in which the army had killed 22 people who had surrendered. National and international public opinion completely turned with the abduction and assassination of 43 students from a primary teacher's school in Ayotzinapa in the Mexican state of Guerrero, one of the poorest, most violent,

drug infested and gang-controlled regions. The fact that there was a sweeping collaboration between local politicians, municipal police and a drug gang profoundly shocked the public.

This terrible event has marked the presidency of Peña Nieto and, more generally, Mexico itself. News of the abduction was followed by three massive public marches demanding that the government locate the students. These marches represented an impressive mobilization of media, university students, non-governmental organizations and the general public. The fact that the Mexican government's reactions were sluggish, clumsy, and generally insensitive, led to increased delegitimation of the Peña administration. By November 2014, the events had forced the government and media to resume a discourse on the persistence of violence and lack of justice in Mexico. Public perception degraded further when two corruption scandals were revealed that directly implicated the president's wife and one of his closest associates (the finance minister). The end of 2014 also added economic problems to the country's woes. The economy began to suffer from a plunge in the price of oil. Though oil represents only a small percentage of the country's total exports, it is an important revenue stream in the government's budget. Nonetheless, positive prognoses for the U.S. economy also predict economic growth for Mexico.

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 emerged from 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 the Mexican Miracle (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 – through 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.

The end of the 1960s showed not only the first signs of the exhaustion of the economic basis for the miracle years, 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. 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. 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, Felipe Calderón, won the 2006 elections on the basis of a very small margin (0.56%) 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, with violence escalating to unprecedented levels.

With the election of Enrique Peña Nieto, in 2012 the PRI returned to power after 12 years in opposition. After a first year of political success, however, political and economic developments – above all the Tlatlaya and Ayotzinapa massacres, corruption scandals, and the plunging price of oil – almost paralyzed the government's reform policies.

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

Transformation Status

I. Political Transformation

1 | Stateness

Felipe Calderón's "war on drugs" delivered the government of Peña Nieto a country that had suffered more than 80,000 killings and nearly 30,000 disappearances. The crime rate had doubled: though it had been declining and was around 9 deaths per 100,000 inhabitants, by the end of 2012 the rate had increased to 22 deaths per 100,000 inhabitants. The Peña Nieto administration gave the impression that the strategy to fight the drug cartels had changed and that the situation was starting to come under control.

Recent events in Michoacán, where "autodefensas" appeared to substitute the formal police, and the events of Tlatlaya and Ayotzinapa have exposed the widespread corruption and impunity that prevails in many regions and localities of Mexico. They also have laid bare the infiltration of police forces by drug organizations, who also have control of the local judicial system and economic hold over parts of the population. This has shown the weakness of the state in some regions and that there is a situation of ungovernability in certain regions of Mexico.

Patterns of state identity changed little during the period under review. Since the Zapatista movement of the mid-1990s heightened popular consciousness about the fact that some of the country's indigenous peoples face discrimination, and are economically, socially and politically marginalized, things have not changed dramatically. This movement, with which many other indigenous movements identified, defined the desire to preserve an independent identity in the face of a majoritarian national Mexican (mestizo) culture. Contrary to identity movements in Europe, however, they never posed an aggressive stance toward non-indigenous peoples nor challenged the identity of the 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 define the Mexican nation as a multicultural state. In addition, some local groups, especially in Oaxaca, have been granted the possibility to exert political and civic rights under indigenous customary

Question
Score

Monopoly on the
use of force

5

State identity

8

laws. In fact, none of these groups have demanded economic, social or political autonomy, much less territorial independence. There is, nonetheless, a de facto autonomy in a number of regions of Chiapas controlled by the Zapatista movement.

The church and state have been officially separated since the mid-19th century, particularly following the Mexican Revolution of the second decade of the 20th century. There has been no official religion, no religion taught in public schools. The state has been strictly secular, to the extent that until the early 1990s, the Mexican government did not have formal relations with and did not officially recognize any church; when it had to negotiate with the church, it did so in relative secret. Though 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.

No interference of religious dogmas

9

In 1992, the Salinas government modified the constitution in order to give recognition to the various religions that exist in Mexico. Following PAN's assumption of the presidency and rise to power in some of the more devoutly Catholic regions, the Catholic Church has increasingly intervened 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. The only state to have passed general, comparatively liberal laws on abortion and gay marriage is Mexico City. The Catholic Church openly criticized these laws and the local government, and called on its members to vote against the leftist PRD. Although this has in effect been an open and to a certain respect illegal intervention by the church in public affairs, the Mexican national government through the Ministry of the Interior did not react. Nonetheless, with the return of the more secular PRI, the increasing involvement of the church in political issues will likely be restrained.

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 intervene 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 those home to the indigenous population, were often excluded. As a result, although 85% of the population today has access to sanitation, 15% still lack this basic service. In addition, more than 50% of the population is below the poverty line.

Basic administration

8

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 and used in a clientelistic manner to get approval from the population (especially during elections).

With the last decade's expansion of the Progresa (formerly Oportunidades) assistance program and creation of the Seguro Popular, the mid-1980s to mid-1990s trend toward a reduction in coverage has been partially reversed. With the return of the PRI, a more corporatist/clientelistic party, efforts to extend administration through social policies and investments will probably be expanded. Nevertheless, the plunging price of oil over the last few months is putting a strain on government finances that strongly depend on oil exports.

2 | Political Participation

Although there are independent institutions – the Instituto Federal Electoral, IFE, since 2014 named Instituto Nacional Electoral (INE), and the Tribunal Electoral del Poder Judicial de la Federación (TEPJF) – that organize elections, count votes and have the capacity to penalize parties and declare elections invalid, their oversight is limited to the official campaigns and elections. As such, what happens in between campaigns and elections and outside of the polling booths is not controlled. For example, access to the media is largely uncontrolled except when the parties are campaigning. It is clear that the two principal television networks were promoting President Peña Nieto (he had been governor of the State of Mexico) and that this coverage contributed substantially to his election win. While some political actors are never mentioned or are mentioned negatively for years, others are mentioned continuously in a very positive light. Another fundamental anti-democratic factor, again proven during the 2012 elections, is the persistence of clientelistic practices by all parties: they publicize official public programs as their own as well as distribute food, household appliances, construction material, money and other gifts in order to gather people for their meetings or for elections.

Since the “war on drugs” of the Calderón presidency, many candidates and elected officials have been assassinated. This has made it increasingly difficult and dangerous to exert individual political rights, such as running for office or campaigning. Drug interests in some regions have effectively infiltrated politics. We have witnessed how in some state and municipal governments elected officials have been involved in crimes; the latest example being Iguala in Guerrero, but other cases have been mentioned in Michoacán, Tamaulipas, Veracruz, Sinaloa, and Chihuahua.

The Mexican state has been considered as “captured” even by the World Bank. The state's autonomy has been limited by the interests of the monopolies or semi-monopolies that in Mexico control some sectors such as: telecommunications, the media, banking and cement. The regulatory institutions charged with monitoring them are weak or directly controlled by them. Certain corporatist (social)

Free and fair elections

7

Effective power to govern

6

organizations wield strong veto power, such as the primary education and petroleum workers' unions. Although most trade unions have lost significant political strength at the national level, they are still influential at the local level. The latest reforms of the Peña Nieto government in telecommunications and education will probably have the effect of increasing the state's capacity to control.

Although the Mexican army has been under the control of the civilian government since the 1920s, the fact that it has been called upon to perform internal security tasks and is receiving large amounts of resources in the context of the fight against drug trafficking does imply some change in the situation. The army has come to criticize some of the measures taken by the civilian government. This situation may worsen under the criticism and clear-cut accusations of human rights violations that the army is enduring, as in the case of the Tlatlaya affair and accusations by parents of the 43 students abducted in Ayotzinapa that the army was in some manner involved.

There are no formal limits on social organization. Formally, 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 independent unions or forcing them to organize under specific unions, some of which are under the control of the employers ("phantom" trade unions). Although this is most visible in the labor movement, other types of organizations are also prevented from forming or operating. In the past, the PRI served as an almost exclusive organizer of popular interests. Since it is the government that gives organizations official recognition, there are many ways in which local, state and even national governments can restrict unions, peasant organizations or other groups from organizing. While this practice was instituted and implemented by the PRI, other parties have adopted these practices as well. In addition, such organizations have also been controlled through clientelism.

More grimly, social activists have been murdered in the maelstrom of violence that exists in many regions of the country. As most crimes in Mexico go unpunished, no one ever finds out who ordered the hit or killed them. Thus, in the midst of this confusion, political enemies or local governments may command the assassination of some of their opponents with relative impunity, something that has surely made political, social and journalistic activity more risky.

Mexico's mass media is basically free; de jure and mostly de facto, citizens and journalists may speak and write freely. However, electronic media ownership is very concentrated. On the national level, there are two main TV channels, while radio is largely controlled by the same two companies along with a few other big radio companies throughout the country. These two primary media enterprises are thus the most influential and have the ability to mold public opinion. The two companies obviously decide who works in their newsroom and control news content as well as the opinions and editorials that are aired. There have been notable cases in which

Association /
assembly rights

7

Freedom of
expression

6

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 present President Peña Nieto.

There are many ways in which media can be influenced or pressured. Government gives out radio and television frequencies, allocates publicity, controls the unions of the workers of these companies, can invent or decide to sanction infringements on tax, commercial or labor laws (as it has a strong control over the judiciary). All of these are manners in which the government exerts pressures on the most influential and critical media. As the PRI has always excelled in these measures, we should expect harsher conditions for independent media in the near future. The recent ousting of one of the most influential and serious critics of the Peña Nieto administration, Carmen Aristegui, from a private radio station (most certainly due to pressures from the government), does not bode well for freedom of expression; especially in a situation where there are very few (if any other) critical journalists that have access to as large an audience as she had.

It is also true that the public has become more demanding and that NGO’s are better organized to protect them. In addition, the Internet and, more specifically, Twitter have become important means of communication in Mexico, as in other parts of the world. Internet access is, nonetheless, restricted to an urban, young and educated segment of society; the majority of the population only has access to the two television channels.

In the last years, many journalists have been assassinated, and there have been armed attacks on radio and TV stations that report on the drug cartels. This is probably the most serious threat to freedom of expression in Mexico. Mexico is one of the most dangerous countries for journalists, along with Iraq, among other countries.

3 | Rule of Law

Since the PRI lost its majority in the Chamber of Deputies in 1997, there has been an ever-clearer separation between the executive and Congress. This separation of powers has been reinforced since the PAN won the presidency and resulted in a continuous blocking of governmental initiatives during both Fox’s and Calderón’s presidencies. From 2000 to 2012, there was also an increasing separation of powers between the central (federal) government and the state governors. Nevertheless, the states continued to depend on the federal government for resources as their capacity to collect taxes is very low.

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 were proven to be corrupt or inefficient, but

Separation of
powers

7

the federal government was unable to dismiss them because the Senate, the only institution allowed to dismiss an elected official, refused to do so. Congress has the legal right to oversee the executive's execution of the budget, but no capacity to impose any sanction unless it can prove misconduct.

Congress has lost some of its autonomy to act for a number of reasons. First, the PRI almost has a majority in Congress and can count on its ally, the Green Party, to achieve it. In addition, the "Pacto por Mexico," an alliance between the three main parties, had enabled Congress to approve all the initiatives of the government (sometimes with small modifications). Now that this alliance is over, the PAN supports most of the initiatives of President Peña Nieto because it agrees with his economic views. The PRD, which lost its critical capacity because it had been weakened and its power contested on its left by the party of Lopez Obrador, has decided to present itself as a more "responsible" party. The fact that the PRI holds most of the governorships has also reduced the federal division of powers. Finally, the abduction and assassination of students in Ayotzinapa has led the president to present an initiative to centralize police forces at the state level.

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 nomination. This changed with the judicial reform of 1995, which created the Judicature, a body that appoints judges and decides on their promotion. This reform also increased the power of the Supreme Court, giving it the status of a constitutional court. Its members are now appointed by the Senate, who chose from among three nominees nominated by the president for each post. Since this reform, the Supreme Court has ruled against the president on several occasions. Even so, we have recently seen that the president is able to secure a Supreme Court appointment for a person close to him. Though this nominee was strongly questioned, this appointment is a sign of the decreased autonomy of Congress during the present administration.

There is no independent judicial authority effectively able to check Congress, the governors or the federal executive. The general prosecutor is still beholden to the presidency, although a law was passed (that will come into effect shortly) by which this position would become independent. The autonomy of the judiciary with respect to pressure groups or criminal groups is another troublesome issue. Criminal groups have taken advantage of widespread corruption among judges, a critical problem at the local level. Strong economic interests have also proven able to manipulate judges for their advantage. On the whole, the judiciary at the state level is significantly less independent than its national counterpart.

Independent
judiciary
5

The prosecution of office abuse is almost totally deficient in Mexico. Even so, increased levels of political democratization and transparency have contributed to the mass media's autonomy and to an increasing number of civic organizations that scrutinize politicians. This has resulted in a rise in the number of denunciations against corrupt or inefficient politicians. Nonetheless, there has been little capacity to prosecute offenders. There have been numerous cases of corruption and/or inefficiency where there were no prosecutions or only lower-ranking functionaries were prosecuted. The most significant examples are: a fire at a kindergarten that cost the lives of 52 infants during Calderón's presidency, the killing of 72 migrants in Tamaulipas, the massacre in Tlatlaya, the problems of metro line 12 in Mexico City, the corruption scandals involving the president's wife and his finance minister, and the many governors that have been proven to have heavily embezzled resources from their governments. All, but Tlatlaya, have never seen a prosecution.

Prosecution of
office abuse

4

There are no independent institutions with the power to impeach or prosecute governors, the executive cabinet or the president himself. In summary, the public today has more information about the manner in which functionaries behave and exert power, but very limited capacity to hold offenders fully accountable for their actions.

Formally, civil rights are guaranteed in Mexico, but they are continuously being violated by police, the army and even the judiciary. In these cases, citizens have little or no ability to obtain compensation or defend themselves. This situation has worsened dramatically in those places where the "war" against drugs is intense. In most cases involving a violation of human rights, the police and army are involved; something that is clear in the case of Ayotzinapa.

Civil rights

4

As a result, jails are filled with innocent people who lack sufficient resources to defend themselves; trials can take years for the poor. People who are the victim of a 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 (e.g., rape, excessive use of violence, arbitrary detention, keeping the arrested person incommunicado, shooting civilians after mistaking them for drug traffickers and executing assumed criminals).

The federal and state Commissions of Human Rights are either totally controlled by the governors or when they are independent, as is the case on the federal and Mexico City levels, their recommendations are almost never complied with.

Mexico is a very "machista" society, where women are discriminated against and mistreated. There is a very strong racism against indigenous persons and other minorities, such as sexual minorities. Discrimination based on sexual orientation is less pronounced in places such as Mexico City, where same-sex marriages are legal.

4 | Stability of Democratic Institutions

Mexico's political institutions are relatively stable with respect to the periodicity of elections, their organization election day, the counting of votes and the decision by the electoral commission regarding who has won. Nonetheless, the last two presidential elections (particularly the 2006 election) have been considered fraudulent by the left-wing candidate. The IFE (now the Instituto Nacional Electoral, INE) regulates the formal campaign, but has no jurisdiction to control what happens between campaigns or elections. Nor can it prevent government functionaries (especially at the local level) from backing their own candidates with public resources (including social programs). INE is also powerless to prevent inequitable promotion of some candidates by media.

The general public has a very poor impression of the political parties. There is a widespread feeling that the political system is a "partitocracy" and that the dominant political parties and other political institutions are not addressing the country's most important issues. Initiatives proposed by the executive or promoted by a group of legislators take a long time to be discussed and passed; the resulting impression is that Congress is ineffective. This perception changed during the first year of Peña Nieto's presidency with the "Pact for Mexico," though then the impression was that the president's initiatives were passed without debate and without a functioning opposition.

Certain structural characteristics of Congress are ineffective. The ban on reelection, which existed until the most recent political reforms (which allow for reelections within some posts), has meant that most legislators have little experience, adding to the body's low efficacy.

At the local level, democracy is even less complete. The governors have had control over the local institutions that organize elections (though the recent political reforms have given the federal INE control over elections at all levels). They control the local congresses and judicial offices, thus invalidating most elements of a division of power. There is also much less accountability at this level.

The main political and social actors are formally committed to the country's democratic institutions. To date, the army has remained under civilian control, though it is on the front lines of the "war on drugs" and has begun expressing criticism of political actors and Mexico's current state of affairs. The political parties are committed to democracy and there is no anti-systemic party, though the parties do continue to function in a clientelistic manner. Although the majority of Mexico's population still supports democracy, inefficacies in both the executive and legislature have affected the public's views of the political parties, a trend that risks affecting the prevailing opinion on democracy itself. The public's opinion of the parties has

Performance of
democratic
institutions

6

Commitment to
democratic
institutions

7

been gravely damaged by recent events in which politicians were involved with drug cartels and, especially, with the killing of the Ayotzinapa students. In fact, the parents of the massacred students and the groups which support them, such as the teachers' union of the state of Guerrero, have called for next year's local elections to be cancelled.

It is clear that one of the biggest threats to democracy in Mexico comes from outside the system, from the infiltration of drug gangs into politics and the violence that deters participation.

5 | Political and Social Integration

The party system in Mexico is quite stable. Three large parties receive most of the votes. Voter volatility is moderate. In the 2003 elections, the PRI received 30.6% of the parliamentary votes, followed by 29% in 2006 (in coalition with another party), 44% in 2009 (again in a coalition) and 38% in 2012. The PAN received 33.4% in 2003, 23.1% in 2006, 28% in 2009 and 25% in 2012. The PRD received 17.6% in 2003, 29.0% in 2006 (in a coalition), 18% in 2009 and 32% in 2012. The spikes in votes received by the PRD in 2006 and 2012 were the presidential elections where the party ran the charismatic candidate López Obrador.

Party system

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The political configuration may change in the next election. The PAN is in crisis as it lost the presidency and fell to third place in 2012. The PRD, however, are in a much worse state. Its popular presidential candidate López Obrador, who had given the party much impulse in the presidential elections, left the party to launch his own, called Morena. In addition, Cárdenas, the founder of the party and its moral guide, also left the party. This will surely split the votes on the left between the two parties and may eventually annihilate the PRD.

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 partitocracy. This was reinforced by the electoral reforms of 2007 and 2012, which strengthened the main parties over smaller ones, and increased the total resources available to parties (by limiting the amount of money they could spend on political advertising in the media).

The party system's stability does not come from having deep roots in society; in fact, it is quite detached and rooted primarily in very weakly representative organizations. Instead, the party system is basically controlled through clientelistic means.

In the past, the PRI-led regime managed to concentrate most social interests within the party itself, thus assuring the stability of the regime. Under this schema, the main interest groups were trade unions, peasant organizations and other popular-sector organizations. All were highly organized, and their leaders negotiated within 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 their opinions 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 served as its foundations became decreasingly representative; this process weakened the PRI itself and led to the gradual transformation of the political regime.

Interest groups
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This old PRI system has been replaced by an interest group configuration in which the big economic actors have, in many ways, “captured” the state. Among these figure most notably the two television companies that helped campaign for Peña Nieto, especially Televisa. The present Attorney General is the sister of one of the highest executives at Televisa. The ally of the PRI, the green party, is linked to this same enterprise.

President Peña Nieto and his finance minister both received houses from an important contractor to the federal and (some) state governments, most notably the State of Mexico, where Peña Nieto was governor. Today, it is the large economic oligopolies, along with foreign investors, that are capable of pressuring the government to implement economic policies that favor them. With the reforms it undertook during its first year back in government, the PRI seemed to try to assert the autonomy of the state, but these reforms do not seem to have gone far enough to considerably increase its autonomy.

Until the presidential elections in 2006, one could have said that the commitment to democracy was rapidly gaining ground in Mexico. However, the main opposition candidate never accepted the results, and managed to convince around 30% of the electorate of the justice of this position. In the 2012 election, with the same candidate, the elections were not as polarized. Nonetheless, there were many irregularities, which explains why, according to Latinobarómetro, Mexican respondents’ support for democracy declined to a historical low in 2013 (now 12 percentage points below the average between 1995 and 2013). In 2000, the level of approval was 44%, in 2002, after the PRI was ousted from the presidency, it reached its maximum of 63% and continued high in 2005 at 59%. Calderón’s presidency began in 2006 with support for democracy at 54% and went on to reach a minimum of 40% in 2011. With the return of the PRI, it reached a further low of 37%. Mexico has one of the region’s lowest percentages of respondents approving of democracy. In addition, confidence in the government (Latinobarómetro 2011) is also very low, 31%; the average for the

Approval of
democracy
5

continent is 40%. Finally, and most worrisome, when asked if they would never accept a military government, respondents in Mexico were among the lowest in Latin America, 53% (where the regional average is 66%); Mexico is at the bottom with Paraguay and Guatemala.

In terms of interpersonal confidence, the 2011 Latinobarometro reports that Mexico, with 23%, is on average with Latin America as a whole (22%). The perception that citizens comply with the law is very low (19%), the average for Latin America is 31%. The perception that citizens are conscious of their obligations (28%) is also below the Latin American average (38%). The summary of civic culture according to Latinobarometro situates Mexico, together with Peru, at the bottom of all the countries on the continent. Participation in political and social organizations is also weak in Mexico is also weak, though recent data are not yet available. Interest in politics is average in Mexico (30%), the Latin American average is 28%. Participation in social organizations and the number of NGO's is very low in Mexico, compared with what can be seen in Brazil, Argentina, and smaller countries such as the Dominican Republic and Bolivia. Mexico still has the old corporatist organizations that structured the PRI, which, though they still exist and formally organize the population (workers, peasants, popular sectors), have been "hollowed out" by liberal economic measures and are at present totally unrepresentative.

Social capital
5

II. Economic Transformation

6 | Level of Socioeconomic Development

In the 2010 Human Development Index (HDI), Mexico was ranked ahead of Brazil, but behind Chile, Argentina, Uruguay and Costa Rica. In the 2014 HDI, Mexico's position in relation to these regional neighbors has not changed. However, if one compares Mexico to Turkey, it has lagged behind. While Turkey went from ranking 82nd to 69th, Mexico receded 2 places since 2005. Compared to other Latin American countries, Mexico has a relatively low percentage of people living on less than \$2 a day (i.e., living in extreme poverty), but the percentage is still higher than in Argentina, Chile, Uruguay and Costa Rica. Government assistance programs active since the nineties have reduced the extreme poverty rate from 8% to 4.2%. Even so, much must still be done to address poverty and inequality. According to CONEVAL (Mexico's National Council for the Evaluation of Social Development Policy), though the percentage of the population living in poverty was reduced from 46.1% to 45.5% between 2010 and 2012, the absolute number of poor has actually increased due to population growth, from 52.8 million to 53.3 million. In addition, the country's Gini index is one of the highest in the world, though it decreased from 51.6 in 2008

Question
Score

Socioeconomic
barriers
6

to 48.1 in 2012. Other countries in Latin America that were worse off than Mexico have reduced poverty and inequality faster (some, nonetheless, remain more unequal, such as Brazil). The resilience of poverty and inequality in Mexico, after 30 years of increasing exports and expanding assistance policies, forces us to conclude that poverty and inequality are structurally entrenched, and that an economic model based solely on exports appears incapable of solving the country's poverty and inequality problems.

Gender inequality is high when compared to developed countries but also when compared to some Latin American countries such as Uruguay, Costa Rica and Chile. In contrast to poverty and inequality, however, this type of inequality has been reduced, from 0.429 to 0.376. Nonetheless, the percentage of women in the labor force is one of the lowest in Latin America, 38.5%. This may have to do with the role of women in the traditional family structure.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	866346.5	1051128.6	1262248.8	1282720.0
GDP growth	%	3.0	5.1	1.4	2.1
Inflation (CPI)	%	4.0	4.2	3.8	4.0
Unemployment	%	3.5	5.2	4.9	-
Foreign direct investment	% of GDP	2.9	2.5	3.5	1.8
Export growth	%	5.7	20.5	2.2	7.3
Import growth	%	7.7	20.5	2.5	5.7
Current account balance	\$ M	-8955.9	-5022.7	-30445.6	-26452.8
Public debt	% of GDP	39.0	42.2	46.4	49.8
External debt	\$ M	175917.8	262022.5	443012.5	-
Total debt service	\$ M	36458.6	33640.3	42398.1	-

Economic indicators		2005	2010	2013	2014
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	10.7	11.7	12.2	12.3
Public expnd. on education	% of GDP	4.9	5.2	-	-
Public expnd. on health	% of GDP	2.6	3.1	3.2	-
R&D expenditure	% of GDP	0.40	0.46	-	-
Military expenditure	% of GDP	0.4	0.6	0.6	0.7

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

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 helped reinforce Mexico's open economy and market orientation. The reforms of the Peña Nieto government went still further in the direction of an open economy: opening the energy sector to private capital and introducing reforms that will make the telecommunications sector more competitive.

The government does not control prices nor the entry or exit of foreign currency, both are defined by the market. Nonetheless, there are still oligopolies in many sectors, including telecommunications, cement, electronic media and retail sales (e.g., Walmart), that inhibit competition and increase the prices of products for small and medium-sized companies. Substantial market concentration around one or a few companies also exists in other sectors, such as tortilla production (Maseca) and the distribution of medicines. One other factor that limits competition is that between 40% and 50% of the economy is informal. These informal actors do not pay taxes and thus compete unjustly with the formal sector.

Small and medium-sized companies in Mexico encounter many administrative difficulties in opening and functioning because of administrative procedures, corruption and, increasingly, violence. In addition, these kinds of enterprises have no access to financial support as the government does not lend directly to enterprises and the private banks, which are in the hands of foreign investors, do not lend to enterprises, but rather to consumers.

Market-based
competition
6

The Peña Nieto administration ended the state's monopoly in the energy sector and reformed the telecommunications sector to allow for more competition. Nonetheless, the regulatory agencies have not been sufficiently reinforced. Although the Federal Competition Commission is tasked with regulating monopolies and trusts, this agency has little power compared to its counterparts in other countries, such as the United States. Regulatory actions take too long and the sanctions are too weak to be dissuasive. As a result, the agencies are generally unable to induce behavior changes in the very large companies they are supposed to regulate. Moreover, the regulatory agencies do not have the capacity to force monopolies to split apart, transform or sell divisions. The latter was, however, imposed by the new telecommunications law, which is forcing the main telephone company, Telmex, to sell part of its business. Nonetheless, according to the new law, the company will still be able to preserve 50% market share. In addition to the federal office, 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 ineffective as they are controlled by the enterprises they are supposed to regulate, something that has not changed radically.

Anti-monopoly
policy
6

Mexico is rightly considered to be one of the most open economies in the world. The country 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). 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, in fact, NAFTA rules prohibit any such restrictions.

Liberalization of
foreign trade
10

Since a few years after it entered GATT in 1987, Mexico has not had non-tariff import and export barriers. It strongly criticized the decision of Brazil to impose limits on its car imports to this country a few years ago. Nonetheless, it has imposed some higher tariffs on certain products being imported from China, such as toys and textiles, but always in accordance with the rules of the WTO.

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 owned by Spanish (BBVA-Bancomer and Santander-Serfin), U.S. (Citibank-Banamex), Canadian (Scotia-Bank) or English corporate parents. These banks represent nearly 90% of the private banking system. There is only one significant Mexican-owned bank (Banorte), which merged with IXE to become the third-largest bank in Mexico; at present, it controls 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

Banking system
8

other Latin American currencies, as foreign companies and foreign-owned banks repatriated capital in order to boost the liquidity of their parent banks back home.

Most Mexican banks do not lend to enterprises, as the requisites for lending to Mexican small and medium-sized enterprises are so strict and interest rates so high that the companies cannot afford them. Large companies, which have access to the foreign capital market, get loans with much lower interest rates from foreign banks. The Mexican banks concentrate on lending to consumers through credit card, home and automobile loans. They charge very high interests rates and commissions to individuals, which makes banking a good business in Mexico. Government officials have sporadically accused banks of charging too much, but the National Banking and Securities Commission has proven incapable of changing the situation.

Notwithstanding this general picture, the Mexican banking system seems to be quite stable. As mentioned above, most banks are foreign and thus follow international standards. The Mexican central bank is one of the most efficient economic institutions, although one could criticize its exclusive interest on inflation and little interest on growth. Mexico's regulations today generally conform to international standards and are often even more demanding in terms of risk management, internal controls and capital adequacy. Stability can also be measured by the low level of non-performing loans: 2.9% in 2014.

8 | Currency and Price Stability

Inflation has been kept under control for the last decade, with annual rates of between 3.5% and 5.3%. In 2013, inflation was 3.8% and in 2014 it was 4.5%, comparing favorably with other developing countries. The Mexican central bank gained independence at the beginning of the 1990s and controlling inflation has been its main goal. Unlike the Federal Reserve Bank of the United States, it does not have job creation as one of its goals. For its part, the government has been very careful not to overspend, keeping a very tight control on deficits. A federal law prohibits the government from deficit spending. For most of the last decade, it has even showed a positive fiscal balance. Even in the crisis of 2008 and 2009, the government's budgetary deficit did not increase. This inaction in the face of the crisis was considered folly by some structural economists, who demanded that the government intervene in order to protect and create jobs, as the governments in other countries (such as Brazil, Argentina and even very liberal Chile) had. In fact, the public spending law and the actions of the Bank of Mexico result in pro-cyclical activity. When the economy is growing, it spends more and when the economy is shrinking, government spending decreases accordingly – a pattern that has been strongly criticized by many economists in Mexico.

Anti-inflation /
forex policy

10

Although World Bank data does not show the Mexican peso to be overvalued – figures have hinted at depreciation since the second half of 2014 due to the plummeting of global oil prices – Mexican economists argue that the peso has been overvalued because of the input of foreign capital. This has hurt Mexican industry as it increases the tendency to import.

During the global financial crisis, the government was very careful not to increase its deficit and its debt. Nevertheless, 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 equilibrium was maintained even though Mexico was one of the countries that suffered the most from the crisis, seeing GDP fall by 4.9%. Large segments of the economy suffered an increase in unemployment.

Mexico has a structural commercial deficit that is not balanced by the entry of remittances and tourism; it has had continuous current account deficits over the last ten years. It thus needs capital flows (both FDI and portfolio) to balance this deficit. As such, Mexico depends heavily on these unstable resources to prevent a current account crisis. Evidently, the inflow of capital has been insufficient and the country has had to increase its debt. While Mexico has one of the highest debt levels in the developing world, the share of GDP this debt represents is very low compared to, for example, the European countries that are currently in a debt crisis. Nevertheless, the speed in which the debt and the debt service have increased in the last six years is something to follow closely as they may become real problems in the near future. This situation may become more worrisome if the price of oil continues falling as it has done these last 6 months. This is because although government consumption is rather low compared to other countries (11%), around 40% of government resources come from oil exports; the government collects a very small amount from taxes, around 10% of GDP. If production and prices continue falling, the government will have to increase its debt. Reserves are high, but nothing compared to those of China or Brazil. Current reserves amount to double what the country pays in debt service, which is not very large; the country's reserves stand at \$175,000 million, while the debt service is \$70,000 million and has been growing faster than the reserves.

Macrostability

7

9 | Private Property

Property rights are, in general, well defined for multinational companies as well as for large and medium-sized Mexican companies. No serious political force proposes any form of nationalization. Nonetheless, entrepreneurs often complain of bureaucratic obstacles to open and register a company, something that encourages corruption. In fact, it takes longer in Mexico to register a company than in most other Latin American countries: 64 days.

Property rights
6

The situation of small businesses is different. 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. Many very small and micro businesses function informally, do not register, do not pay taxes, do not register their workers and are thus vulnerable to functionaries of all sorts (e.g., trade unions, tax collectors and police) – a situation that induces corruption.

A more recent evolution which is becoming a serious problem in some northern cities and regions, but also in states like Guerrero, Michoacán, Veracruz and Tamaulipas, are criminal organizations demanding a ransom in exchange for protection. These criminal organizations are stopping trucks and stealing merchandise as well as hijacking workers, technicians in mines, agricultural concerns and oil fields. More generally, property rights are being threatened by insecurity and violence that has increased so dramatically over the last years.

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 last sectors that remained in the hands of the state, oil and electricity, have since last year been allowed access to private capital. Although it takes little time to start a business, 6 days, it takes much longer to register it and comply with all of the regulations. That is the reason why many small businesses function informally. In addition, the presence of private oligopolies and monopolies inhibit investments in certain sectors, including telecommunications, cement, radio and TV, tortilla production, and consumer and pharmaceutical products distribution. It is also true that the informal sector constitutes an unfair competition to established enterprises that do pay taxes, somewhat better salaries and give social security benefits to their workers. Many formal enterprises are pushed toward informality due to this unfair competition.

Private enterprise
8

10 | Welfare Regime

The pension system in Mexico has never covered more than 30% of the population, as it includes 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 formerly pay-as-you-go system. This led the government to reform the private-sector pension program (the IMSS) in 1995 and the public-sector program in 2007, transforming the whole into a system based on individual capitalization. This system will surely face even more serious problems than that after which it was modeled in Chile, given that Mexico's economy has not grown as steadily and many workers do not contribute enough during their active working life.

The public 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, itself a very deficient system. Since 1995, health services have been decentralized to the state level. In 2005, the government launched the Seguro Popular, which was designed to formally incorporate all of the population not covered by the formal health services sector. This program includes (a) at no charge, all those Mexicans that received assistance from the government and (b) all remaining Mexicans who are neither included in assistance programs nor covered by the formal health services sector; for the latter, the Seguro Popular is voluntary and fees incurred are based on income. It does not cover all illnesses, but rather a list of some of the most important illnesses affecting the Mexican population (it excludes some important illnesses). According to official data, more than 40 million people are at present in the program. Nevertheless, 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 level of development – a mere 3.2% of GDP.

The most important social program is the Progresa (renamed in the Peña Nieto administration) conditional cash transfer program. This anti-poverty program has existed since 1988, under various names. Today, around 6 million families benefit from it, although the budget is quite low: equivalent to 1.3% of GDP. It has contributed to reducing extreme poverty, although it has been criticized for its inability to reach the “working poor.” It has also been accused of being used politically for clientelistic purposes in some states.

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 around \$50 a month to people over 70 years of age. All this means that the family is still a fundamental, if informal, source of social security.

Social safety nets

6

Mexico has not achieved equal opportunity for all. The indigenous population, around 6% of the total population (around 7 million people), is still totally marginalized. While the country's overall literacy rate is 94%, within the indigenous population this figure is only 67%; a full 26% of the indigenous population has no schooling, and 27% have only attended a few years of primary school. 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 by government officials as to why health coverage is deficient for this population.

Equal opportunity
5

Women have almost the same literacy and school attendance rates at all levels as men. Thus, in this respect, at least, they seem to have access to equal opportunities. The Progres 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. This has seemingly worked well as female/male enrollment at the primary level is 100% and at the secondary level is 108%. At the tertiary level, where Progres has no influence, the ratio becomes slightly negative toward women, 95%.

Nevertheless, within the job market, most studies show that women on average earn lower salaries than men. Within OECD countries, Mexico occupies the second-to-last place with respect to women's employment rates: 38.5 % of women are employed (Turkey is last with 25%). This is considerably 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. Finally, there is the tragedy of the thousands of unresolved crimes of violence against women in many regions, especially, but not exclusively, in Ciudad Juárez and the State of Mexico.

11 | Economic Performance

Mexico was badly hit by the global economic crisis in 2009, when its GDP decreased by 4.7% – one of the strongest recessions in the world. The next three years GDP grew considerably, 5.1% in 2010 and 4% in both 2011 and 2012. In 2013 GDP grew a mere 1.4% and in 2014 2.1%. These numbers are characteristic of Mexican growth since the 1990s, where acceptable growth levels are followed either by crisis or by very slow growth. The country has been unable to grow steadily since the 1980s. This is due to continued population growth, which has resulted in low growth per capita, and the incapacity of the Mexican economy to produce sufficient jobs for all those entering the labor market. As a result, the informal market and criminal activities have grown.

Output strength
6

Since Mexico signed the NAFTA treaty, we have seen a synchronization of Mexican economic growth with that of the United States. When the latter grows moderately

(around 2% per year), so does Mexico. This synchronization is a drawback for Mexico as it needs a higher growth rate to catch up and because more people are entering the labor market each year than in the United States. Worse still, Mexico usually exhibits lower growth rates than the United States and is more deeply affected by crises.

Mexican growth is basically driven by exports, but there is a weak connection between the export economy, as many export industries have to import most of their equipment (especially in the large “maquiladora” industry), and the domestic economy. Export growth has been exceptional, but the Mexican economy is highly dependent on imports and domestically adds very little added value, thus its impact on the internal economic structure is very weak. This explains why, compared to high-growth countries such as India and China, gross capital formation is low in Mexico (at around 23% of GDP), while in India and China it is respectively over 30% and 40%.

While macroeconomic performance appears good thanks to the low levels of inflation, the country has a structural current account deficit, which has totaled more than \$10 billion per year in the last years. This deficit must be balanced by FDI and portfolio investments, both of which are very unstable. We have seen growth of the country’s total external debt, which will probably increase over the next few years as the price of oil continues to decline and the Mexican government depends on oil for 40% of its income.

12 | Sustainability

Not much has changed in the last two years in Mexico regarding environmental policy, which is clearly not a priority in the Peña Nieto government. None of the important reforms undertaken by his administration in the year and a half of the “Pact for Mexico” dealt with the subject, the government’s main focus being economic growth. In fact, the government’s main reform, of the energy sector, allows for fracking, which is highly contaminating. None of the major infrastructure projects of the present administration, such as the high-speed train to Queretaro and the new airport in Mexico City, have undergone an environmental impact assessment.

It is nonetheless true that over the last decades consciousness of environmental problems has been growing on the part of the government, within civil society and among the general population, although tangible solutions are not in sight. There are an increasing number of environmental NGOs that exert pressure on governments, both at the federal and local level.

The current government of Mexico City, in the hands of the leftist PRD, has not substantially expanded the public transportation network. Instead, it continues to

Environmental
policy
5

favor the use of individual cars. Although new cars have, on average, become cleaner, there has been an immense expansion of automobiles in most Mexican cities, making it impossible to effectively fight against pollution.

Nationally, 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. Deforestation is a serious problem in large parts of the country.

Companies that pollute are rarely sanctioned. Those that are sanctioned because the problem they created is so huge typically pay a ludicrously small amount in fines. One example was a mine in Sonora, run by the country's largest mining company Minera Mexico, which contaminated a very large extension of a river and tried to conceal the damage. As a result, people in the area suffered physical damage and a number of cattle died. Yet, the company was let off with a \$3 million fine, even though the damage will take years to be remedied and the costs are much higher (possibly incalculable).

As a share of GDP (5.2%), Mexico's public expenditure on education is equivalent to that of other developing countries such as Brazil, China and India. Nevertheless, this investment has shown very poor results in the past. In evaluations such as the Program for International Student Assessment (PISA), Mexico shows very 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 strikingly different from those in other countries at a similar level of development. Education problems seem instead to have political roots. The primary school system is captured by the teachers' union, the largest union in Mexico and a remnant of the previous political regime, to which all Mexican governments have been complicit. Educating students was a secondary goal of the education system for the PRI (and PAN) governments and the teachers' union. Instead, the union was a fundamental instrument for electoral control during the PRI regime and an essential electoral ally under the PAN.

The government of Peña Nieto passed a reform that focuses on the selection of teachers being hired and on the need for teachers to pass regular competency exams. These exams are designed to oblige teachers to retrain; if they fail an exam three times, they lose their post. In some of the poorer states, where teaching is one of the sole formal occupations, there is strong opposition to this reform from some teachers' organizations. In some of these states, governors have agreed that the reform will not be applied. It is also not clear who will train the teachers, how they will be trained and with what real results.

Spending only 0.43% of GDP on R&D, Mexico definitely lags behind countries such as Brazil and China, which respectively spend 1.2% and 2% of GDP. This is the lowest level of R&D investment among the OECD countries, below Turkey, Poland and Slovakia, and is lower than many other countries of similar or even lower levels of development.

Transformation Management

I. Level of Difficulty

Mexico has a privileged position, neighboring the United States, the world's largest market. This proximity, however, may also be considered a disadvantage. Mexican governments require a strong political will to preserve the country's autonomy from the United States. Most recent governments have not shown such will, particularly since NAFTA subordinated the Mexican economy to that of the United States.

Structural
constraints

6

Poverty, lack of education and inequality have been, and continue to be, the most serious structural constraints on Mexico's growth and investment. Add to this the violence and ungovernability seen in many regions, such as parts of Michoacán, Guerrero, Tamaulipas, Veracruz, Chihuahua, where local police and politicians have been infiltrated by organized crime.

Although extreme poverty has been reduced to between 8% and 14% through government assistance programs, around 45.5% of the population is still considered poor by CONEVAL. Inequality is another crucial challenge in Mexico. The country is one of the most unequal countries in the world. These two issues are the primary constraints on the domestic market, pushing activity into an informal economy based on low-priced imports, either legal or illegal.

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 skilled 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.

Finally, Mexico is vulnerable to natural disasters. In 1985, an earthquake hit Mexico City, destroying thousands of buildings and killing thousands. Beyond earthquakes, Mexico is also vulnerable to hurricanes. These have become more and more destructive due to global warming and hit vital tourist sites such as Cancun, Acapulco, Veracruz, upon which local economies depend.

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 consistently grown. First, after the earthquake of 1985, it was the inhabitants of downtown Mexico City that organized, followed by organizations that pushed for more transparency in the electoral process. In the 1990s and 2000s, many NGOs, including 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 resolve the ongoing violence, kidnappings and other serious crimes. 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 low.

Civil society
traditions

6

The situation for civil society and the press has worsened in the last years because of violence exerted against social activists and journalists. In the confusion created by violence and the impunity that has characterized it, social activists and journalists have been killed without the public knowing if its motives were political or merely criminal. Analysts have the impression (though no proof) that many murders of social activists and journalists were ordered by local governments or politicians in very violent regions.

Most traditional organizations are still led by old-guard figures, and even those groups that have seen a change of leadership have maintained an authoritarian organizational culture. Clientelism is deeply imbedded in the political culture of citizens and organizations. Many Mexicans are formal members of organizations (e.g., unions and peasant associations), that date from the PRI regime, in which they do not actually participate.

Mexico's present crisis of violence is unrelated to political cleavages; the intensity of conflict in Mexico comes from the activity of criminal gangs. Since mid-2014, communities in some of the regions more affected by this violence have organized popular defense groups to fight against the criminal gangs. The government intended to legalize and control these groups, but some of them have been infiltrated by criminal gangs and others have started fighting each other for control. Clashes between different organized gangs and between these gangs and the police or army occur almost every day.

Conflict intensity

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The disappearance of the 43 students in Ayotzinapa led the families of these students, other students and teachers to radicalize, both in Guerrero and in Oaxaca. The situation in Guerrero is practically insurrectional. The groups demanding the return of the abducted students have blocked roads and torched government buildings, gravely damaging the local economy. Although this situation has not gone so far as to strengthen the guerrilla movement that exists in these regions, the situation is very tense in three of the poorest states in Mexico.

The events of Ayotzinapa stimulated three massive protests in Mexico City, where thousands of people demanded the students' return. Many also demanded that the president step down. Six months later, the activities of civil society in Mexico City have receded, although it could reignite if another such event occurs.

II. Management Performance

14 | Steering Capability

While the two preceding PAN governments were blocked by the PRI opposition, who used this strategy to return to the presidency, the government of Peña Nieto began by setting very clear strategic priorities envisaging structural reforms. He managed to convince the most important parties in Congress to sign the "Pacto por México" in order to pass his reforms. It seemed, in effect, that the Peña Nieto government would succeed where the two previous PAN governments had failed. In the last few months, however, the terrible crime of Ayotzinapa shook the public and forced the government to give more attention to something it had wanted to ignore: the continued violence that affects the country. In addition, the conflict of interest scandal involving the president's wife and his finance minister showed that corruption continued to be a major problem. These two issues have caused the Peña Nieto government to divert from its previous reform goals and have had detrimental effects concerning the prioritizing and organizing of policy measures.

The government began 2015 attempting to move beyond these two challenges to refocus its policy priorities back to the economic reforms. It is not clear whether this policy shift will succeed, particularly if other massacres occur or other corruption scandals surface (neither is a far-fetched possibility). This holds especially true in the economically uncertain condition Mexico has been in since 2014, when the plunging price of oil squeezed the government's finances. In 2015, elections will take place in many states, including the conflict-torn Guerrero and Michoacán. This adds uncertainty to the political situation as there is a possibility that some of the most problematic states will be unable to hold elections out of a concern for voters' safety.

The reforms that Peña Nieto was able to pass through Congress may be difficult to implement. The main reform that allows for private investment in the oil sector will probably encounter great obstacles due to the plunging price of oil. The education system reform has critical opposition in those states where it is most necessary, the same states where the opposition has been the most radical after the abduction of the 43 students; this will make it much harder for the government to implement the new policies. Similarly, the government's telecommunications reform will encounter

Question
Score

Prioritization
7

Implementation
6

difficulty since the three main actors in the arena are large oligopolies that have sufficient resources (financial, legal, political) to block parts of the reform or its outright implementation. Finally, the government's infrastructure projects depend on its financial resources, which are threatened by the low price of oil. For 2015, the government has some financial stability as its oil income has been guaranteed through an insurance on the price of oil. Even so, the problem will rear itself next year if things continue as they are at present.

Mexico has always lacked a comprehensive, professional civil service. Although a civil service law was created during the administration of Vicente Fox (2000-2006), during the last two presidencies it was more or less rendered ineffective. As such, a professional civil service exists only in the ministries of Economy, Health and Foreign Affairs, and in some state institutions and public companies such as the Bank of Mexico and Pemex. This professionalism applies almost exclusively to mid-ranking functionaries. For example, most of the high and mid-level functionaries of the Peña Nieto government come from the State of Mexico, where he was governor. They are part of his government because of cronyism, not because they are experts in the positions they are now administering.

Most politicians taking 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 primarily worried about their careers, and thus seek to minimize risk. As most also hold posts for relatively short durations, they do not have time to learn. As a result, there is little flexibility and little capacity for learning. Most functionaries are still more committed to their parties than to their office. The fact that in most posts politics matters more than knowledge and technical capacity means that there is little learning from past experience and from best practices at the local or international levels.

One thing that has changed is that there are more and more young Mexicans that have studied at foreign universities come back to Mexico to serve for some years as direct consultants to public functionaries or in consulting agencies that have been expanding over the last years. This trend, however, happens exclusively at the federal level and within some state administrations such as Nuevo León and Mexico City.

15 | Resource Efficiency

Mexico's administrative apparatus has certainly been modernized, although it still does not have an extensive civil service (see also 14.3). Democratization has imposed on the government growing transparency requirements. This has somewhat increased efficiency and transparency at the federal level. Even so, though there is more information on corruption and conflicts of interest affairs, the consequences have been minimal, as most corruption on the federal, state and municipal levels continues with impunity. Only a couple of governors accused of corruption are in jail, most are free. Most of the income that the government collected over the previous 10 to 12 years from the exceptionally high price of oil went to current expenditure rather than to investment projects. Most infrastructure projects – such as the cancelled high-speed train from Mexico City to Queretaro or the new airport in Mexico City – were decided and launched without being subjected to viability or ecological impact studies.

Efficient use of assets

5

At the state and local (municipal) levels, things are much worse. Transparency laws (if they exist at all) are much less strict at the state level than at the federal level. The use of public resources in states is totally non-transparent and in many cases totally corrupt and inefficient. They are mostly used for current expenditures rather than for forward-looking infrastructure projects. This issue is much worse in the southern, poorer states than in the northern and richer ones. The debt of states exploded during the administration of Calderón, tripling or quadrupling in some states, as the states have autonomy to take on debt. At the beginning of the present administration, a law was passed to limit the capacity of states to take on debt.

There are serious problems of policy coordination both between and within the various ministries. Concurrent with democratization 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. There is little coordination between different state secretaries, states, municipalities or even districts in Mexico City.

Policy coordination

6

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 in the fight against crime. Indeed, there is no trust between the police forces, as municipal and state police have been infiltrated by the drug lords and are, therefore, rarely informed of operations led by federal police or the army.

The Peña Nieto government sent a law to Congress that eliminated the municipal police forces and replaced them with a unique force at the state level. It created a Gendarmerie, an army force under civil command. It is not clear, however, if this will

be the solution, as the previous military under civilian control, the federal police, has also suffered from corruption.

At the level of the different government offices, the Peña Nieto administration has been more efficient than the previous two PAN governments. This is, however, a specific condition of this government and not the result of a structural change.

Given the top-down nature of most of the government's policies, they are subject to resistance and inefficiencies in implementation. A very illustrative example is the much-needed education reform that was imposed by the government without educators' consensus and is likely to result in a fiasco in many states. The teachers' union has rejected the reform and mobilized protests such that several governors will probably be forced to cancel it at the state level.

In addition to violence, although they are surely interrelated, Mexico's biggest problems are corruption and conflicts of interest. Transparency institutions and the activity of independent and not-so-independent media and non-governmental organizations have done much to increase public awareness, though this has not solved the problem. Corrupt governors and functionaries never land in prison and very few are forced to resign. The scandal involving the president's wife and the finance minister was covered up after both of them "explained" how they acquired the houses. The public has no access to the patrimonial declarations of functionaries; in fact, all of them are incomplete.

Although the Federal Institute for Access to Public Information (IFAI) has increased transparency and permitted Mexicans to learn how some federal resources are used, in most cases of abuse there is no capacity (or will) to punish the offenders. In addition, many institutions are not subject to the oversight of the IFAI: 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 attributions than their federal counterpart due to the fact that state laws are weaker.

The fight against criminal gangs has exposed their infiltration in the police and political and judicial apparatus.

Anti-corruption
policy
3

16 | Consensus-Building

All of the most significant political and societal actors consider democracy important on principle and no relevant actor is fundamentally against the democratic state. Even so, there is a growing feeling among the public that democracy is faring badly and that the political system is blocked, does not recognize the interests of the people and is incapable of solving their crucial security and economic problems. This means that if political parties, Congress, or elections continue to be ineffective regarding the concrete challenges faced by regular Mexicans with regard to jobs, salaries and security, actors who contest democracy may arise. Although there is a growing public sentiment that democracy is ineffectual, there is no organized group that has shown itself capable of uniting to topple the political order. There is fundamental agreement on the need to solve the rampant corruption and violence that exists in Mexico, but no consensus on how to proceed.

Consensus on goals
8

As the Mexican economy has shown very clear limits to its capacity to grow, create jobs and better the lives of most Mexicans, there has been rising criticism regarding the limits of the market economy. Parallel to what is happening in public opinion on democracy, there is growing disappointment with the economic policies that have been pursued over the last 30 years. The idea that the market alone cannot benefit all has resonated strongly among a significant number of Mexicans. If the present liberal market economic model (inspired by economic ideas from the United States) does not deliver a better life to Mexicans, some actors might contest the market economy. However, there is no explicit alternative nor any organized group that has shown itself capable of uniting to change the economic system. One exception is Morena of López Obrador, which is a significant electoral force but has been marginal in the definition of public policy.

If the drug cartels and organized crime are included, Mexican reformers only have partial control over powerful anti-democratic actors. Guerrilla groups exist in Mexico but are still marginal. Recent events in Guerrero and Michoacán, where armed self-defense groups have been established to challenge the drug cartels, and the movement of families, friends and other supporters that mobilized in response to the abduction of the Ayotzinapa students, have introduced new uncertainties. In Guerrero, popular movements are demanding that the elections be cancelled. In addition, from the massive demonstrations on 1 December 2012, when Peña Nieto took office, to the most recent ones in Mexico City demanding the return of the Ayotzinapa students, groups of young anarchists have appeared. Although these movements have created complex situations in some localities and at some specific moments, they have not spread to the general population. Nonetheless, they point to a potential danger if violence, impunity and corruption cannot be checked in the next years. Though very critical of the existing system, López Obrador and his movement have never called for violence or for a toppling of the existing institutions.

Anti-democratic
actors
5

The main danger to democracy, however, comes from the drug cartels and other criminal organizations. They are using their financial resources to infiltrate political spheres, police forces and maybe even the armed forces. They are thus a double danger for democracy: directly, as they infiltrate party politics, and indirectly, because the violence and presence of the army in the streets dampens collective action and is even endangering the elections in a few states and localities.

Although in Mexico the indigenous population has been and still is mostly marginalized and discriminated against, excepting the Chiapas Zapatista rebellion of 2005, there has not been a violent conflict along these lines, nor along religious ones. Nonetheless, there is a clear-cut class cleavage between those that have benefited from the new economy model and those that have not. Many, particularly the poor, have seen their condition become more insecure in both socioeconomic and security terms. Up until now, the political system has been capable of channeling this latent conflict.

Cleavage /
conflict
management
5

Lopez Obrador represented these sectors of society, but now the left is divided between the PRD and Morena, a fact that bodes badly for the next elections and for the capacity of the party system to represent the “losers” of the current economic model. With the increasing delegitimation of the political system, some of these dissatisfied segments of the population may rise up. Protagonists are the anarchist movements, the students and teachers’ movements in Ayotzinapa and the citizens that arm themselves in order to protect their towns from the drug cartels.

The Mexican leadership only sporadically involves civil society and only takes into account the interests of a few civil society actors. 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, as well as 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 and, although they still exist, they are, in many cases, “empty shells.” Although a large number of autonomous civil society organizations (CSOs) have emerged over the same period, the total number are still very small compared to other countries of Mexico’s size. As a result, civil society in Mexico is weak. The country’s CSOs are either part of the political establishment or disconnected from politics, in both cases they do not have the power to influence politics or policies. Political parties are inimical to social organizations they cannot co-opt and the parties that have emerged through social organizations have not gathered enough votes to survive their first election and have disappeared.

Civil society
participation
5

Finally, in the face of increasing violence, insecurity and the impunity that characterizes Mexico, participation in social organizations and journalism have become very dangerous, a fact that discourages people from organizing, denouncing or being active.

The question of reconciliation was only posed during the first non-PRI government, when there was a discussion on whether a “truth commission” should be created to investigate the government’s crimes against students in 1968 and 1971 as well as the “dirty war” against the guerrillas in the 1970s. The government named a special prosecutor to study these cases, but the results were nominal and did not satisfy the groups demanding reparation. During both the Calderón presidency and the present Peña Nieto administration this issue has been completely forgotten. At the end of the Calderón presidency and the beginning of the present administration, the movement of victims of violence (MPJD) led by the poet Javier Sicilia demanded and successfully persuaded Congress to pass a Law of Victims, intended to compensate and protect the victims of violence during the “war on drugs” and their families. However, the results have been far from satisfactory.

Reconciliation
5

17 | International Cooperation

In key areas, a coherent development strategy is not readily evident, apart from a general commitment to the established economic model and to democracy. The structural reforms envisaged by the present government have increasingly become impaired by the violent security issues it had wished to subordinate to these goals. 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. According to OECD statistics, Mexico was the recipient of official development assistance (ODA) amounting to a net total of \$561 million in 2013. This included German technical cooperation focusing on ecology, sustainability and resource efficiency. Some state governments have gained access to very specific aid, such as to fight pollution, preserve nature, and protect plant and animal species. However, corruption and the lack of an effective bureaucracy cast some doubts on the governments’ capability to use the little access it has to foreign aid effectively. The government of Calderón received support and financial aid for its “war” against the drug cartels in the context of the “Merida Plan,” which has been “frozen” by the present government. The Peña Nieto administration has, however, put greater emphasis on attracting foreign investment.

Effective use of
support
7

During its first year in government, the Peña Nieto administration achieved the highest international credibility of a Mexican government since the Fox administration (the first government of the transition) and the Salinas government (for its reforms and NAFTA). The Peña Nieto government signed a pact with the two other significant parties in Congress and passed a series of important reforms in energy, education and fiscal policy. For this reason, he was hailed by many journalists and governments as a great statesman. This image of Peña Nieto and of Mexico totally collapsed with the disappearance and killing of the 43 students in Ayotzinapa,

Credibility
7

the corruption scandals of Peña Nieto, and the cancelling of the high-speed train to Queretaro.

Nevertheless, in general terms, Mexico is considered to be a reliable partner internationally, as it cooperates with most significant international organizations. It is a member many international organizations, including the WTO, IMF and World Bank. Mexico has numerous free trade agreements with diverse markets, 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 concern for these international actors.

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 developed. In recent years, there have been frictions with some of the governments in this region (Guatemala and El Salvador) as many of the migrants that cross Mexico to go to the United States suffer serious abuse at the hands of the Mexican police, migration authorities and criminal gangs. Rampant violence in some parts of the country questions whether the government is able to control the situation. There is covert and overt cooperation with the United States in the “war on drugs.” Mexico gets information from the United States on drug cartels and extradites gang lords. The United States has imposed its vision of how to deal with the drug problem, as a criminal one, since the 1960s.

Regional
cooperation
8

Strategic Outlook

Mexico's most crucial challenges include corruption, violence, rampant inequality and a weak economy that does not create enough jobs for the young Mexicans entering the labor market. Endemic corruption combined with a police force which is badly paid, and thus more easily corrupted, have contributed to almost total impunity for criminals. As a consequence, crime and violence have become endemic in some parts of the country. The explosion of violence since 2007, however, is mainly due to failed policies launched in the previous Calderón administration (2006 to 2012) against the drug cartels. The government's strategy to attack the drug cartels when the state could not count on its own police, judicial apparatus nor control its prisons proved to be suicidal.

To be successful, the fight against the drug lords would require the professionalization and reorganization of the police forces, a strengthening of the government's intelligence capacity, and a change of focus from stopping drug trafficking to weakening the cartels' financial and arms capacities. In addition, such a policy should be accompanied by programs to prevent drug addiction as well as create social safety nets and economic opportunities that counter the cartels' capacity to root themselves in society. Such a holistic strategy would make it possible to withdraw the army from the fight against drugs. This is a critical component, as the military's deployment entails its own dangers, including human rights violations and increased interference by the army in civilian political matters.

The fact that the Mexican economy plunged almost 5% over the course of the global economic crisis demonstrated the fragility of the country's economy, which is largely due to its dependence on the U.S. market. The structural current account deficit and the rapid increase of Mexico's total foreign debt proved that an economic model mainly oriented toward exports is inadequate for a country of its size. Based on maintaining low wages, this model accounts in part for an anemic domestic market with poor capacity to integrate new technologies that might improve productivity and stimulate endogenous scientific and economic change. Instead, the government should focus on developing the domestic market and stimulate small and medium-sized businesses through aggressive and well-structured programs and financial resources.

The majority of Mexicans have not profited from the current economic model, provoking deep dissatisfaction with democracy itself. This should push the Mexican government to profoundly reform and massively invest in the country's education and health care systems. A more sustainable economic model will also require aggressive R&D investments. In order to have the resources to invest in human capital, the government should modernize its state apparatus and carry out a more profound fiscal reform than the one undertaken by the current Peña Nieto government.