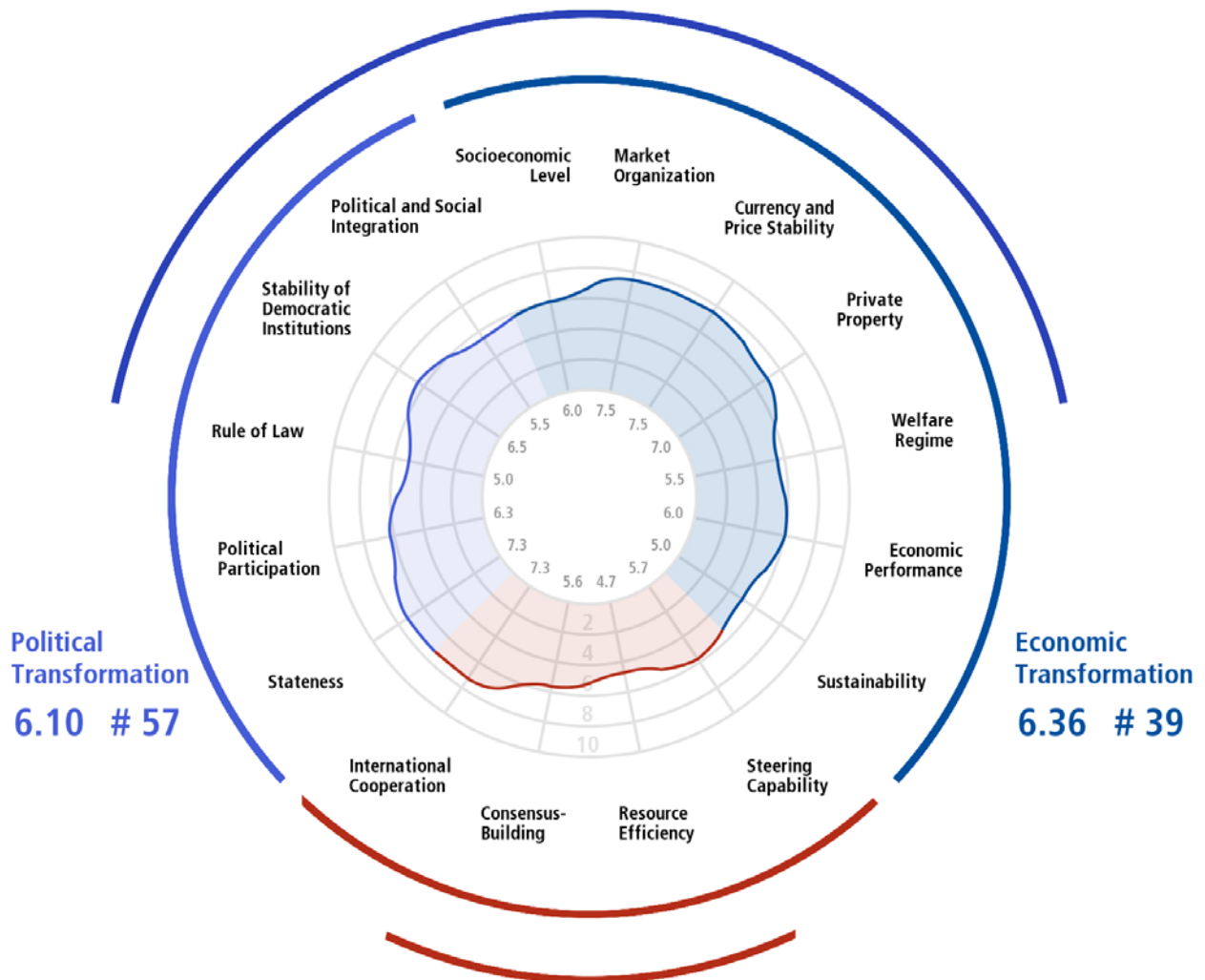


Mexico

Status Index

6.23 # 48

on 1-10 scale out of 129



Political Transformation
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5.17 # 57

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. 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>.

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Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Robert Schwarz

Phone +49 5241 81 81402
robert.schwarz@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	127.5	HDI	0.762	GDP p.c., PPP \$	17862
Pop. growth ¹	% p.a.	1.3	HDI rank of 188	77	Gini Index	48.2
Life expectancy	years	76.9	UN Education Index	0.681	Poverty ³	% 11.8
Urban population	%	79.5	Gender inequality ²	0.345	Aid per capita \$	2.5

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

The first two years of the Enrique Peña Nieto presidency were marked by proactive reforms (fiscal, energy and education) in line with promises to accelerate economic growth and end the “war on drugs” launched by the previous National Action Party (Partido Acción Nacional, PAN) government. This reform momentum abruptly halted with the Ayotzinapa massacre of 43 students in 2014. The following two years would see the government’s version of the tragic event totally discredited through investigations by two independent commissions. The government was forced to shift focus away from its reform agenda to fight against criminal gangs. The flight from prison and subsequent recapture of Mexico’s most wanted drug lord, Joaquín Guzmán (“El Chapo”), further thwarted the government’s efforts to shift the narrative back from law and order.

The review period was also marked by an increase in job creation. However, the economic model remains fundamentally unchanged and continues to depend on the external market and foreign investment. The perspective of increased protectionism from the United States poses a critical challenge to the current model. The plummeting price of oil over the past two years has led to significant cuts in the government’s budget and devalued the Mexican peso. The declining price of oil has also impacted the state-owned oil company, Pemex, and obstructed the implementation of energy sector reforms. Along with the peso’s devaluation, a spike in the price of imported gasoline further strained government finances. Gasoline subsidies were eliminated, triggering riots and looting and now threatens to increase inflation. The recent social unrest adds to ongoing public discord since the implementation of education reforms (widely resisted by teachers) and the Ayotzinapa massacre.

The last two years were marked by a plunge in public approval of the government to 12% and the political debacle of the 2016 elections. The governing Institutional Revolutionary Party (Partido Revolucionario Institucional, PRI) saw historic losses in some of their most important states, most notably Veracruz, Tamaulipas, Quintana Roo (where the PRI had never lost before) and Chihuahua. This demise was partly due to general dissatisfaction with the federal government, but

also to the corruption scandals involving the departing governors of these states, most of whom are being criminally prosecuted. With corruption permeating all levels of the political system, public disapproval has advanced the leftwing MORENA and its leader Andrés Manuel López Obrador. The election of Donald Trump as president of the United States, who declared his intention to withdraw his country from or force Mexico to renegotiate the North American Free Trade Agreement (NAFTA), impose tariffs on products coming from Mexico, deport illegal immigrants, and build a wall along the Mexican border, has exacerbated uncertainties that have accumulated these last years.

History and Characteristics of Transformation

The enduring characteristic of the Mexican state from 1929 to 2000 was the existence of a hegemonic political party, the Institutional Revolutionary Party (Partido Revolucionario Institucional, PRI) that controlled most social organizations. The PRI regime emerged from the Mexican Revolution (1910 – 1917), and based on the constitution of 1917 it used the symbolic power of the revolution as the source of the regime's legitimacy and as a justification for its wide-ranging intervention in the Mexican economy. The three decades following the beginning of World War II were a golden age for Mexico, often referred to as the Mexican Miracle (El Milagro Mexicano).

The end of the 1960s showed not only the first signs that the economic basis of the miracle years had been exhausted, but also growing discontent with the political regime. This was particularly demonstrated by the student movement, which was violently suppressed between 1968 and 1971. In the 1970s, Mexico's economic prosperity came to an end as the import substitution model reached its limits, culminating in the debt crisis of 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. The governments that followed, under Carlos Salinas de Gortari (1988 – 1994) and Ernesto Zedillo (1994 – 2000) continued this liberal economic course. Significant steps on this trajectory were the signing of the North American Free Trade Agreement (NAFTA) and Mexico's admission to the OECD in 1994. The Zapatista uprising of 1994 symbolized the rejection of these policies by those parts of the population that were to lose out from the neoliberal economic strategy.

Steadily increasing discontent with the single-party PRI government fueled a surge in support for the opposition parties in 2000: the rightwing National Action Party (Partido Acción Nacional, PAN) and the leftwing Party of the Democratic Revolution (Partido de la Revolución Democrática, PRD). The PAN candidate Vicente Fox won the 2000 presidential elections essentially on an anti-PRI vote. His victory raised high expectations of change, but Fox failed to construct more democratic institutions and continued to apply the orthodox liberal economic model. His government's social assistance policies did not manage to significantly reduce poverty and inequality.

This set the stage for polarization between those who had benefited from the Mexico's economic model and those who had suffered because of it. In the highly polarized 2006 elections, the PAN candidate, Felipe Calderón, won by a minute margin (0.56%) after a campaign marred by the intervention of President Fox and the business sector. PRD candidate Andrés Manuel López Obrador denounced the elections as fraudulent, declared himself the legitimate president and launched a movement of resistance against the incoming government. This political crisis influenced President Calderón's decision to send the army into the streets to fight the drug cartels. In part a political tactic to gain legitimacy by showing López Obrador's opposition that the president had the support of the army, it was also seen as a genuine strategy to fight the growing power of the drug cartels. Since that time, the war against the drug cartels has become Mexico's main challenge, with violence escalating to unprecedented levels.

With the 2012 election of Enrique Peña Nieto, the PRI returned to power after 12 years in the opposition. After an initial year of political successes, political and economic developments – above all the Tlatlaya and Ayotzinapa massacres, corruption scandals and the plunging price of oil – have 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

The Tlatlaya, Ayotzinapa, and Apatzingan massacres, appearance of the “autodefensas” as a substitute to formal police, and increase of violence in 2016, have shown that the general trend established during the Calderón presidency continues practically unchanged under the Peña Nieto government. Although some places, such as Ciudad Juárez, have seen a pause in the killings, some areas that were almost free of violence have seen it increase enormously: Mexico City and the states of Colima, Jalisco, and Mexico.

Most recently worrisome, the army has protested the fact that some soldiers have been sentenced by civil courts for human rights violations or assassinations. The army is threatening to return soldiers to their barracks if they do not receive a more favorable legal framework.

Atrocities, such as the Ayotzinapa killings, exposed the widespread corruption and impunity that prevails in many regions and localities of Mexico. They have also laid bare the drug organizations’ infiltration of police forces. The drug organizations also have control of local judicial systems and an economic hold over segments of the population. This has shown the weakness of the state in some regions. States such as Michoacán, Guerrero, Veracruz, Tamaulipas, and Morelos, lack governance and a monopoly on the use of force.

The corruption of most of the police forces, especially at the municipal and state levels, but also at the federal level, is a very serious problem. Sending the army to fight the criminal bands may also corrupt this institution, as presumably was the case in Guerrero with the Ayotzinapa massacre. There has not been an effective reform of municipal police forces and the centralization of police forces has not shown any results. Nor has the dissolution of the Federal Police and the creation of the Gendarmerie shown any results.

The Zapatista Army of National Liberation (EZLN) has control of five municipalities in Chiapas, which govern themselves and where there is very little violence and the

Question
Score

Monopoly on the
use of force

5

'06 '18 10



1

drug cartels are totally absent. They are not involved in any political or social efforts outside these municipalities, although they will present a candidate for the 2018 election, an indigenous woman.

There is no significant ethnic, religious, economic, or political group that demands economic, social or political autonomy, much less territorial independence. Nonetheless, since the Zapatista movement began in the mid-1990s, there has been a heightened popular consciousness about the fact that some of the country's indigenous peoples face discrimination, and are economically, socially, and politically marginalized. This has led a number of indigenous movements to call for the preservation of an autonomous identity in the face of the majoritarian national Mexican (mestizo) culture. Nonetheless, they have never posed an aggressive stance toward non-indigenous peoples nor challenged the identity of the state. 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 laws.

Although these actions have reduced the unrest of indigenous peoples, these groups and some religious minorities, such as the protestants in Chiapas, are strongly discriminated against. Although they are citizens, they are marginalized, something that instigates violent outbursts from time to time.

The church and state separation of the mid-19th century was reinforced following the Mexican Revolution of the second decade of the 20th century. There has been no official religion and 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. In 1992, the Salinas government modified the constitution in order to give recognition to the various religions that exist in Mexico. Following PAN's accession to the presidency and its rise to power in some of the more devoutly Catholic regions, the Catholic Church has increasingly intervened in issues such as abortion and same-sex 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 liberal laws on abortion and same-sex marriage is Mexico City. The Catholic Church has openly criticized these laws and called its members to vote against the leftist PRD.

In the present administration of Peña Nieto, the Catholic Church (or sympathetic NGOs) organized marches against a presidential legislative project to legalize same-sex marriage at the federal level in 2016. According to the law regulating religious organizations, church officials are not allowed to give political opinions, much less organize marches. Some media (BBC and La Jornada) considered these marches unprecedented since the 1930s. The legislative effort was eventually rejected by Congress, in part due to this opposition from the Catholic Church.

State identity

8



1

No interference of religious dogmas

9



1

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 itself to intervene actively in the country's economic and social development. As a result, the education and health systems have been 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. According to World Bank data, 96% of the Mexican population has access to a water source. However, this figure appears exaggerated as it is well known that around 10% of the population (mainly indigenous) does not have access to water and in large cities, most notably in Mexico City, more than two million people must buy water from tankers.

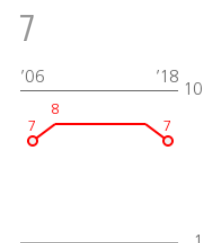
Decentralization in the 1990s of some of the most important public services, most notably education and health, added to the disparity in regional economic growth. While richer states provide acceptable services to their populations, poorer states do not. In addition, decentralization has enormously increased the resources that governors administer, with the result that corruption has become rampant in these last 15 years. There have been numerous cases of municipal presidents and governors diverting resources that should have been dedicated to health, education, and infrastructure. This has resulted in deficient services in many municipalities and states as well as greatly contributed to the explosion of state debt (some states are practically bankrupt).

2 | Political Participation

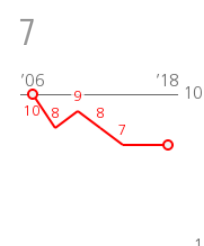
Although there are independent institutions – the National Electoral Institute (Instituto Nacional Electoral, INE), until 2014 named the Federal Electoral Institute (Instituto Federal Electoral, IFE), and the Electoral Tribunal of the Federal Judicial Branch (Tribunal Electoral del Poder Judicial de la Federación, TEPJF) – that organize elections and count votes as well as have the capacity to penalize candidates/parties and declare elections invalid, their oversight is limited to official campaigns and elections. As such, what happens in between campaigns and elections and outside of the polling booths is not controlled. In addition, although the INE is supposed to control parties' financial resources, there are no effective means to punish infractions.

Another fundamental anti-democratic factor is the persistence of clientelistic practices, carried out by all parties: they publicize official public programs as their own and distribute food, household appliances, construction materials, money, and other gifts to gather people for their meetings or for elections. In the most recent elections, 2015 and 2016, there were accusations of improprieties among all parties. In addition, even when there is proof that a party has committed an infraction or that the party has not obtained the necessary percentage of votes to maintain its registry

Basic administration



Free and fair elections



(e.g., the Green Party in the former and the Worker's Party in the latter), they have not been sanctioned.

As both INE and TEPJF officials are elected through a negotiation between the parties, mainly the three large parties, they often protect the interests of these parties instead of the public interest.

The main forces that hold veto power in Mexico are the criminal groups that control some localities, regions and even states. The manner of exerting pressure or control on politics is through cooptation and threats, directly to elected officials, specific sectors, or the general population. In the last 10 years, 82 municipal presidents have been assassinated in Mexico, mainly in four states: Oaxaca, Michoacán, Veracruz and Guerrero. In some state and municipal governments, elected officials have been involved in crimes; the latest example being Iguala in Guerrero, but cases have also been mentioned in Michoacán, Tamaulipas, Veracruz, Sinaloa, Chihuahua, and Quintana Roo.

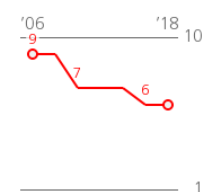
The autonomy of the state has been limited by the interests of the monopolies or oligopolies that control sectors such as telecommunications, the media, banking, and cement. Although the 2013 reforms in the telecommunications sector have strengthened the regulatory capacity of the state, the regulatory institutions charged with monitoring are weak. There are also strong economic interests close to the presidency that have been granted very important infrastructure contracts. These interests are already embroiled in conflict of interest cases involving the president and other members of his government. At the state and local level this situation is even more scandalous. Although most trade unions have lost significant political strength at the national level, some of them remain influential at the local level where they can exert veto power. One example has been teachers' union opposition to reforms launched by the Peña Nieto government.

Finally, 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 war against drug trafficking implies a change in this situation. This situation has led the army to criticize some of the measures taken by the civilian government. Recently, in response to civil court proceeding against some soldiers, the army demanded that the government establish a legal framework for its internal security actions and threatened to withdraw soldiers back to their barracks, in a veiled challenge to the Peña Nieto government.

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 (i.e., "protection" trade unions that have proliferated since the nineties).

Effective power to govern

6



Association / assembly rights

7

Although this is most visible in the labor movement, other types of organizations are also prevented from forming or operating.

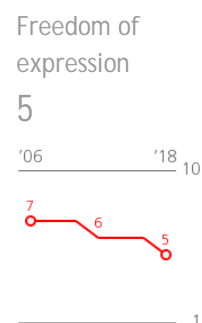
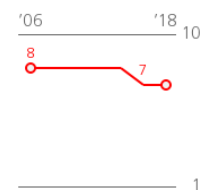
Since it is the government that gives organizations official recognition, there are many ways in which local, state and even national governments can restrict unions, peasant organizations or other groups from organizing. Some well-known cases – denounced by the International Trade Union Confederation and National Union of Workers (UNT) in a December 2016 report to the IACHR – are those of the peasants of San Quintin in Baja California, the workers of Honda in Jalisco, workers of the Finnish company PKC in Coahuila, and workers of Teksid, Gunderson, and PYTCO in Coahuila. While this practice was instituted and implemented by the PRI, other parties have adopted these practices as well.

The fact that clientelism is strong in Mexico means that local and state governments can use their financial resources to favor some groups over others and use the police to prohibit, for example, informal vendors' organizations from installing themselves in a certain place. 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 these murders. 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. In the last 16 years, 88 journalists have been assassinated and 30 others have disappeared (according to FELAP); accordingly, Mexico ranks 147th out of 180 countries in the 2017 Press Freedom Index of Reporters Without Borders. Reporting on certain topics is very risky if not impossible (e.g., crime, drugs, and the relation between politics and drug trafficking). If a journalist writes about a politician, she/he may be threatened or killed. Most such cases go unpunished.

There are other, more traditional, ways to control media that have been used by Mexican governments (irrespective of party). There are two main television channels and 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 the most influential and have shown their capacity to mold public opinion. They are obviously free to decide who works in their newsrooms and control news content as well as the opinions and editorials that are aired. There have been notable cases in which reporters who criticized the government were fired.

Due to this media concentration, there are many ways in which media can be influenced or pressured. Government adjudicates radio and television frequencies, allocates publicity, controls the unions of the workers of these companies, and can invent or decide to sanction infringements on tax, commercial, or labor laws as it has



strong control over the judiciary. The ousting of one of the most influential and serious critics of the Peña Nieto administration, Carmen Aristegui, and the fact that she has been unable to secure a job at another radio station, shows the effectiveness of this control.

Though there is a National Institute for Transparency (INAI) that is supposed to guarantee that citizens have access to government information and there is more information than in the past, there are still many ways in which the government can restrain information (e.g., about the military).

3 | Rule of Law

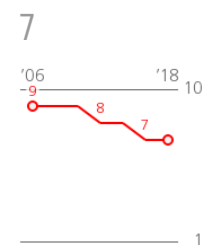
Since the PRI lost its majority in the Chamber of Deputies in 1997, there has been a clearer separation between the executive and Congress, where no party has had a majority and thus had to negotiate with other parties. In this respect, Congress has had the power to modify the initiatives of the president (e.g., the budget) and has presented its own legislative initiatives.

Nonetheless, in many respects Congress has not functioned as an effective check on the executive. Nor have other institutions within the executive or judicial branches served as a check. The Secretariat of the Civil Service (Secretaria de Funcion Publica, SFP) and judiciary were totally ineffective in the conflict of interest case that arose when a construction company entrepreneur gifted houses to the president and one of his secretaries. The president has changed the members of his cabinet several times, but Congress does not oversee most nominations.

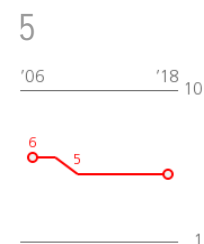
The same situation, although aggravated, has occurred at the state level. Almost all the governors that recently ended their terms (in the states of Veracruz, Chihuahua, Sonora, Coahuila, and Quintana Roo) have left their post with accusations of corruption and their states with high debt (some states, most notably Veracruz, are technically bankrupt). There has been no institution that was able to dismiss these governors from their posts and none have been incarcerated, although they have pending charges. This is a sharp contrast to Brazil.

Neither the federal nor the state judiciary are independent of the executive in Mexico. The judicial reform of 1995 created the Federal Judiciary Council, a body that appoints judges and decides on their promotion, and established that the Senate elects each Supreme Court judge out of three presidential nominees. This reform also gave the Supreme Court the status of a Constitutional Court. Since this reform, the Supreme Court has ruled against the president and Congress on several occasions. There have also been occasions, however, where the president has been able to secure a Supreme Court appointment for a person close to him. In addition, the judiciary has never launched an independent investigation on politicians as, for example, is happening in Brazil. In addition, the general prosecutor remains totally beholden to the presidency.

Separation of powers



Independent judiciary



At the state level, the judiciary is totally bound to the executive. All the governors that have been accused of fraud and corruption have been able to escape trial. Furthermore, there have been very few cases where corruption by a party, union, congress leader or functionary is brought to justice, despite rampant corruption. More worrisome, the judiciary has partly been bought or infiltrated by criminal groups.

The general population has no confidence in the courts; they try to avoid them as well as the police. This is the reason most misdemeanors and crimes are not reported.

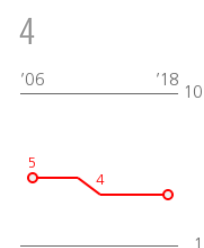
In contrast to what is happening in Brazil, Mexican corruption cases (involving businessmen and politicians) have gone unpunished. Of the numerous cases of corruption by governors, members of Congress, judges, lawyers, functionaries, and corporate executives, only a handful have gone to trial. Although increased levels of political democratization and transparency have contributed to the mass media's autonomy and an increasing number of civic organizations that scrutinize politicians – resulting in increasing numbers of denunciations against corrupt or inefficient politicians – the fact that most go unpunished, merely increases public frustration, demeaning both democracy and the rule of law.

The most significant examples have been the 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 and remain either uncharged or have fled. In the case of Ayotzinapa, the abduction of the students became an international scandal and the Mexican government had to accept that two independent international commissions investigate. Although they did not have the same effects as the International Commission against Impunity in Guatemala (CICIG), the Mexican attorney general had to resign, as they arrived at vastly different conclusions from those of the government. Their work stopped the government's attempt to close the case, though the government finally forced these two commissions to leave the country before they concluded their investigations.

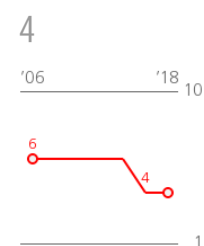
Though civil rights are constitutionally guaranteed, they are continuously violated by police, the army and even the judiciary; even more since the Calderón government called upon the army to fight the drug cartels. In most cases, citizens have little or no ability to obtain compensation or defend themselves from army or police abuses. This is even more true for the indigenous populations, the poor and sexual minorities. The situation has worsened dramatically in those places where the “war” against drugs is intense. In most cases of human rights violations, the police and army are involved. In many cases of kidnapping, police officers are involved.

In addition, the dysfunctions of the judiciary result in jails full of innocent people who lack sufficient resources to defend themselves, especially the indigenous and

Prosecution of office abuse



Civil rights



poor. Any trial can take years, while the victims wait in jail. As a consequence, 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 and that they will be victimized again or because they feel it is useless, as 97% of crimes go unsolved and even more go unpunished.

The police and army have been accused of terrible violations of rights (e.g., rape, excessive use of force, torture, arbitrary detention, shooting civilians after mistaking them for drug traffickers and executing assumed criminals).

At the federal level, the National Human Rights Commission (Comisión Nacional de los Derechos Humanos, CNDH) manages to defend some cases where the evidence is blatantly clear. State human rights commissions are either totally controlled by the governors or, when they are independent (e.g., Mexico City), their recommendations are almost never complied with.

4 | Stability of Democratic Institutions

Mexico's democratic institutions in principle perform their functions, but limitations to the rule of law and stateness reduces their ability to operate effectively and unhindered. This is much more acute at the local level, where governors control local institutions.

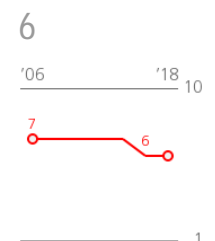
Though elections are regularly held and election procedures are endorsed by the National Electoral Institute (INE), there are countless irregularities, as most of the parties buy votes and put clientelistic pressure on citizens. In every election, there are many allegations of irregularities in campaigning and the elections.

Certain structural characteristics of Congress and the executive are ineffective. The ban on reelection, which existed until the most recent political reforms (which now allow for reelections for some posts), has meant that most legislators have little experience, adding to the body's low efficacy. At the state level, governors control the local parliaments and judiciary, invalidating most elements of the division of power.

A major handicap of the Mexican democratic system is that the parties are totally disconnected from society and the needs of the population, representing what many analysts consider a "particracy." In addition, the political system is increasingly infiltrated by criminal interests, currently mainly at the local and state 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 the fact that since Calderón's presidency they have been given the task of fighting against organized crime, has empowered them to express criticism of political actors and Mexico's state of affairs. The political parties are all committed to democracy,

Performance of democratic institutions



Commitment to democratic institutions

7

though the parties continue to function in a clientelistic manner. There are guerilla groups in the country, but they are small and very localized.

The public's opinion of the parties has been gravely damaged by recent events in which politicians were involved with drug cartels (e.g., Ayotzinapa) as well as the corruption scandals involving governors who ended their term and fled the country before losing political impunity; most did not even attend the inauguration of their successor, concerned they would be detained once they lost political immunity.

5 | Political and Social Integration

In contrast to most political systems in Latin America, the Mexican party system works with little fragmentation, a low level of polarization and relatively low degree of voter volatility. Three parties – PRI, PAN and PRD – each concentrate almost one-third of the votes, though this varies a bit across elections and, on average, PRI leads PAN which leads PRD. In the 2015 intermediary congressional elections, the results were PRI 30%, PAN 21% and PRD 11%, with the rest going to seven other parties. The electoral reforms of 2007 and 2012 strengthened the main parties over smaller ones, although it allowed for independent candidatures. This enabled the success of a number of independent candidates in some municipalities and the governorship of Nuevo León in 2015. In contrast, the PRI was the great loser in 2015, losing some states it had always governed.

While Mexico's party system is quite stable, it is only very loosely linked to civil society, mainly by clientelism, which all parties practice. The roots that the PRI had established in civil society have eroded since the eighties. The same holds for PRD, while the PAN has always been an elite, rather than a mass party. Public opinion concerning parties is very low, ever more due to the corruption scandals of the last years and present economic situation. Being described as a "particracy," a system that may hide its fragility behind its appearance. The Mexican party system may eventually collapse as occurred in the nineties and early 2000s in other countries with seemingly stable party systems such as Venezuela, Ecuador, and Bolivia. MORENA – the new party of former PRD candidate Andrés Manuel López Obrador, which depends partly on elections and partly on social mobilization, may become an anti-system party, although its leader has never called for a rebellion against the system. It may have a good chance of winning in the 2018 elections if U.S. President Trump's nationalist agenda continues to assert itself.

Although traditional sectoral organizations (e.g., of workers and peasants) of the political regime have been greatly weakened due to economic liberalization, the opening of the Mexican market, and democratization, they remain in place. Though pale in comparison to what they once were, they continue to play a role in Mexican society, with the consequence that they prevent the emergence of new, more democratic organizations. The relative dearth of democratically oriented interest



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Party system

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Interest groups

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groups can in part be attributed to the fact that while the PRI governments continue to support the traditionally sanctioned interest groups (i.e., union and peasant organizations), the governments of opposition parties (PAN and PRD) at both the national and state levels have, over the years, found ways of working with them rather than dismantling them.

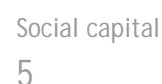
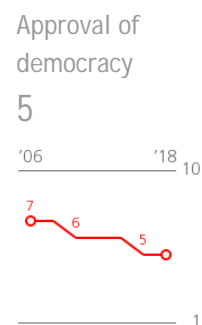
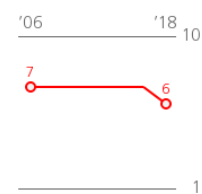
Thus, there is a void of popular interest organizations. This void explains why there increasingly are “anomic” actions by small unorganized groups. For example, the more recent protests against a gas price hike; a situation similar to what has occurred in other less organized societies in Latin America such as Venezuela and Guatemala. Employers’ interests have also seen their influence reduced and replaced by an interest group configuration in which the big economic actors (Mexican and foreign multinationals) are dominant, while small- and medium-sized employers are less and less heard by government.

Until the presidential elections of 2006, the commitment to democracy was rapidly gaining ground in Mexico. Beginning with this very contested election, commitment to democracy has diminished, in part because the democratically elected governments have done little to reduce corruption, violence, and impunity and implement economic policies that increase salaries and create jobs.

According to Latinobarómetro, support for democracy declined to a historical low in 2013 (37%, 12 percentage points below the average between 1995 and 2013), though recent data indicate some recovery (48% in 2015 and 2016). In regional comparison, Mexico is in the lower half, behind countries such as Uruguay, Argentina, Ecuador, Bolivia and Chile, which are all over 50%, though ahead of Brazil which is going through a grave crisis. Mexico is slightly below the Latin American average concerning the acceptance of an authoritarian government that solves problems (46% vs. 47%) or a hardline government (44% vs. 61%). In this respect, one could say that almost half of Mexicans still support democracy.

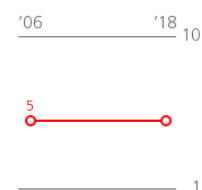
However, inefficacies in both the executive and legislative powers have affected the public’s views of the political parties, a trend that risks reducing the prevailing opinion of democracy. Confidence in the government is extremely low (25%) and 56% of Mexican respondents’ report that politicians have lost credibility (only in Chile is this higher, 63%, the average for Latin America is 46%). In the most recent survey, President Peña Nieto had an approval rate of only 12%, the lowest in Mexican history. This situation can lead to the emergence of a populist leader that could weaken the existing democratic institutions, as has occurred in some countries in Latin America, Eastern Europe and in the United States.

According to Latinobarómetro 2015, interpersonal confidence is rather low in Latin America (only 17% of respondents trust each other) and even lower in Mexico (15%), a significant decrease since 2011 (23%). According to Latinobarómetro 2011 (the last survey presenting data on these questions), the perception that citizens comply with



the law is very low (19% vs. a Latin American average of 31%). The perception that citizens are conscious of their obligations (28%) was also below the Latin American average (38%). The summary of civic culture situated Mexico together with Peru, at the bottom of all Latin American countries.

Available data reveal a certain paradox in the case of participation in political and social organizations. Qualitative comparative studies across the continent on precisely these questions found that in countries such as Brazil and Argentina there are large numbers of very active social organizations, while in Mexico these organizations are much weaker. Nonetheless, survey data show that Mexicans affirm that they participate as much or more than in these other countries. According to LAPOP, in Mexico 20.4% of respondents affirm they participate in an organization, while in Brazil it is 18.7% and in Argentina 12.5%. What presumably makes the difference is that in Mexico the old corporatist organizations, above all unions, still exist and formally organize the population “from above,” although they have lost their significance and are only weakly representative.



II. Economic Transformation

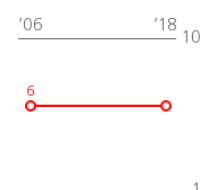
6 | Level of Socioeconomic Development

Mexico continues to face considerable challenges reducing poverty and inequality. The country was ranked 77th, with a score of 0.762, in the 2015 Human Development Index, two places ahead of Brazil (0.754) – both countries with “high human development” – but substantially behind Chile (0.847), Argentina (0.827) and Uruguay (0.795). Mexico has receded 11 places since 2006. Although many studies have indicated that most Latin American countries had been significantly reducing inequality, in Mexico this reduction has been much less noteworthy. With a Gini coefficient of 0.482 (2014), inequality in Mexico is rather pronounced in global comparison, though lower than in Chile and Brazil.

Question
Score

Socioeconomic
barriers

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Compared to other Latin American countries, Mexico has a significantly higher percentage of people living on less than \$3 a day (11%) than Brazil (7.6%), Argentina (4.3%) and Chile (2.1%). The resilience of poverty and inequality in Mexico, after 30 years of increasing exports and expanding assistance policies, forces to conclude that poverty and inequality are structurally entrenched, and that an economic model based solely on exports is incapable of solving the country’s poverty and inequality challenges.

In terms of gender equality, Mexico fares better than similar countries in Latin America. The 2015 Gender Inequality Index score for Mexico (0.345) is above the

BTI-sample average (0.510), but lower than in countries such as Uruguay (0.284) and Chile (0.322). With regards to the inclusion of women in the labor force (37.2%), Mexico ranks among the lowest worldwide, excluding Islamic countries. Nonetheless, this may be a result of how employment is measured in Mexico, where there is a gray zone of sub-employment that not only affects this index, but all employment metrics.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	1261981.7	1298398.7	1151037.1	1045998.1
GDP growth	%	1.4	2.3	2.6	2.3
Inflation (CPI)	%	3.8	4.0	2.7	2.8
Unemployment	%	4.9	4.8	4.3	4.0
Foreign direct investment	% of GDP	3.8	2.1	2.9	2.6
Export growth	%	2.4	7.0	10.3	1.2
Import growth	%	2.6	6.0	8.6	1.1
Current account balance	\$ M	-30973.4	-26202.9	-33346.8	-27858.1
Public debt	% of GDP	46.4	49.5	53.7	58.4
External debt	\$ M	406420.4	442271.7	426435.0	422656.8
Total debt service	\$ M	41606.6	49367.4	54277.3	79076.1
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	12.2	12.2	12.5	12.2
Public education spending	% of GDP	4.7	5.3	-	-
Public health spending	% of GDP	3.3	3.3	-	-
R&D expenditure	% of GDP	0.5	0.5	0.6	-
Military expenditure	% of GDP	0.6	0.7	0.7	0.6

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

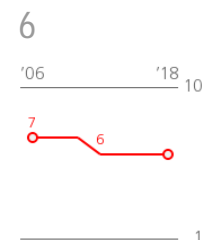
Market competition has been formally established in Mexico since the government opened the economy, privatized state enterprises and deregulated the economy in the 1980s. The signing of NAFTA in 1994 helped reinforce Mexico's open economy and market orientation. The Peña Nieto government's first year of reforms, which opened the energy sector to private capital and reformed the telecommunications sector, goes in the same direction. The government does not control prices nor the entry or exit of foreign currency, both are defined by the market.

Nonetheless, Mexico's economy is strongly oligopolistic. For example, two years after the reforms, the situation of the energy and telecommunications sectors has barely changed. In many sectors, including telecommunications, cement, electronic media, and retail (e.g., Walmart), there is little or no competition. 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 development bank, NAFINSA, stopped lending directly to enterprises (it only guarantees private bank loans) and private banks, which are 90% foreign-owned, do not lend to enterprises, but to consumers. Finally, the informal sector is very large, comprising between 50% and 60% of the economy, depending on the calculation.

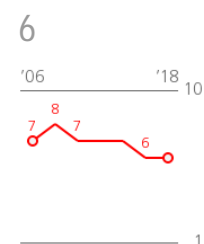
Like in most issues dealing with the rule of law, although the legal framework exists, application of legislation is highly deficient. The Mexican government has made significant strides in improving the legal framework concerning competition, but it is still deficient compared to other developed and developing countries.

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. This was demonstrated by the last reform of the telecommunications sector. Although the prices of cellular communication are lower than in the past and other consumer issues were improved, the main cellular phone company, TELCEL, still controls almost 70% of the market, though competitors have been growing their market share.

Market-based competition



Anti-monopoly policy



Mexico is rightly considered to be one of the most open economies in the world. The country began opening its economy with its entry to the General Agreement on Tariffs and Trade (GATT) in 1986. It subsequently signed NAFTA with the United States and Canada, further liberalizing foreign trade. The country 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.

Since a few years it entered GATT in 1986, Mexico has not had non-tariff import and export barriers. 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.

Mexico liberalized mainly due to pressure from the United States and the many government officials with a U.S. education. The protectionist tendencies of the present U.S. president may push Mexico back to protectionism and even lead the rise of a protectionist party in Mexico. Nonetheless, for the moment, things remain as usual from the perspective of the Mexican government.

After the financial crisis of 1994, that led to the collapse of the Mexican banking system, banks changed hands and were bought by foreign institutions. Today, the main banks are foreign owned and represent nearly 90% of the private banking system. According to the IMF, the banking sector is relatively small compared to other emerging markets. The IMF also affirms that the commercial banking sector is highly concentrated and that although it is foreign owned, its activities are mainly local.

Most banks do not lend to enterprises, but concentrate on lending to consumers through credit card, home, and automobile loans and by investing in government bonds. They charge very high interests rates and commissions to individuals, which makes banking a good business in Mexico compared to the banks' home countries.

According to the IMF, the Mexican banking system appears to be quite stable and mostly follows international standards. The Mexican central bank is one of the country's most efficient economic institutions, although one could criticize its exclusive concentration on inflation rather than 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. According to the IMF, the Mexican banking system is resilient and has performed adequately to solvency tests. Stability can be measured by the assets-to-capital ratio, which was 10.4% in 2015, and the low level of non-performing loans, 2.9% in 2014 and 2.5% in 2015.

Liberalization of foreign trade

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Banking system

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8 | Currency and Price Stability

Efficient inflation control and stability of the exchange rate are two aspects of the Mexican economy that have been most threatened in the last few months, mainly due to the plunging price of oil, but also to potential changes in U.S. economic policy resulting from the election of President Trump.

Overall, inflation has been kept under control for the last decade, with annual rates between 3.5% and 5.3%; in 2013, inflation was 3.8% and in 2014 it was 4.5%, comparing very favorably with other developing countries. The main question facing the country is whether this situation can be preserved given the strong devaluation of the Mexican peso of the last year (and even more significant devaluation since President Trump's election). The Mexican government has responded by cutting its expenses, with the central bank hiking interest rates and selling part of its reserves. As nonresidents hold large shares of local currency sovereign debt (as the IMF mentions in its 2015 report on Mexico), a major devaluation may evolve into a vicious circle if these foreign investors leave the country more rapidly. However, though the peso lost almost 20% against the U.S. dollar between President Trump's election and inauguration, it recovered since then to mid-2016 levels.

The central bank, independent since the reforms of President Salinas (1988 – 1994), has been very important for controlling inflation. Critics objected that it did not care enough about job creation, but it is constitutionally obliged to only deal with exchange rate stability and inflation, contrary to central banks in the United States and Europe.

Although Mexican governments have maintained very coherent economic policies that have guaranteed macroeconomic stability for the last 20 years, the situation turned fragile during the review period, in both economic and social terms. The situation has been further aggravated by the election of U.S. President Trump due to his aggressive stand toward the country. Mexico is now confronted with strong external shocks that may imperil its continued stability: the low price of oil, devaluation of the peso and protectionist stance of the United States.

Mexico has suffered from the decrease of the oil price, one of the main sources of foreign currency for the country and income for the government. This has already led to an increase in foreign debt, especially public debt. Mexico's foreign debt is among the highest in the developing world; although it still does not represent a very high share of GDP (54% in 2015), it has been rising very rapidly. The total debt service has also incremented considerably over time, reaching a maximum of \$70.8 billion in 2012 before decreasing to \$54.3 billion in 2015. Although Mexico has considerable reserves (\$173.5 billion in 2015), they have been reduced by about \$17.5 billion since 2014.

Anti-inflation /
forex policy

9



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Macro stability

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The paradox of the last year is that oil prices are now going up again, but that does not arrange things for the Mexican company Pemex, nor for the Mexican government. Production has been decreasing while both the price of gasoline and gasoline imports have been increasing; more than 50% of gasoline used in Mexico is imported. The government has had to considerably increase the gasoline prices (which are subsidized) since the beginning of this year (due to the devaluation of the peso), creating significant unrest in the population and exerting inflationary pressure.

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 to register a company in Mexico than in most other Latin American countries (64 days).

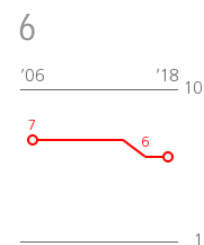
The situation of small businesses is even worse. There are significant problems in defining the property of individuals and small businesses at the micro level, linked to the inefficiency and corruption of the administrative and the judicial system. Many very small and micro businesses function informally – do not register the firm, pay taxes or register their workers – and are thus vulnerable (e.g., to trade unions, tax collectors and police), inducing insecurity and corruption.

A serious problem in some northern cities and regions, but also in states such as Guerrero, Michoacán, Veracruz, and Colima, are criminal organizations demanding ransom in exchange for “protection.” In addition, 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, which have increased dramatically over the last 10 years.

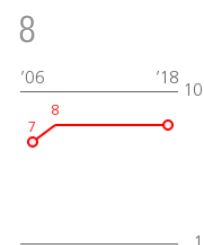
In Mexico, private enterprises are largely given a free hand; there are few regulations limiting or guiding sectoral investments, though there are numerous bureaucratic obstacles to start and run an enterprise. Although it takes little time to start a business, six days, it takes much longer to register it and comply with all of the regulations. That is the reason why many small businesses function informally.

Privatization was largely completed in the 1990s. The last major sectors that remain in state hands, oil and electricity, have been allowed access to private capital (national and foreign) since 2012. The fact that Mexico’s economy is strongly dominated by oligopolies is another obstacle to the functioning of enterprises, especially those that are small- and medium-sized, who must pay high prices for services such as telephone, internet, and credits (when they are available). It is also true that the

Property rights



Private enterprise



informal sector constitutes unfair competition for established enterprises, again especially small- and medium-sized companies that pay taxes, somewhat better salaries, and give social security benefits to their workers.

10 | Welfare Regime

The Mexican pension system has never covered more than 30% of the population, as it includes only workers in the formal sector of the economy. The government reformed the private-sector pension program (the IMSS) in 1995 and the public-sector program in 2007, transforming both into a system based on individual capitalization. This reform does not appear to have improved the system as more individuals will be left with a lower pension when they retire. Noncontributory pensions schemes are far less extensive and less generous (about \$30 a month for people over 65) than in countries in the southern cone of Latin America.

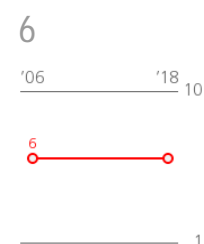
The public health care insurance system has never covered more than 50% of the population, even at its peak in the 1970s. The remainder of the population was covered by the rather deficient noncontributory public system operated by the Ministry of Health. The Seguro Popular program, launched in 2005 and designed to incorporate the population not included in the formal health services sector, has not been injected with the necessary financial resources. In addition, it does not cover all illnesses, but rather a list of some of the most important illnesses affecting the Mexican population (it excludes some significant illnesses). Public health expenditure (3.2% of GDP) is very low compared to other countries at a similar level of development. Out-of-pocket expenses are rather high (about 50%) compared to countries such as Brazil and Argentina (30%).

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 six 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.

In Mexico, there is practically no unemployment insurance.

Mexico has not achieved equal opportunity for all. The indigenous population, between 6% and 10% of the total population, remains marginalized. While the country’s overall literacy rate is 94%, among the indigenous population it is only 67%; 26% of the indigenous population has no schooling and 27% have only attended a few years of primary school.

Social safety nets



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 Progresá 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 Progresá has no influence, the ratio becomes slightly negative toward women, 95%.

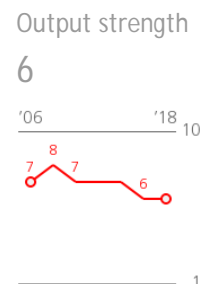
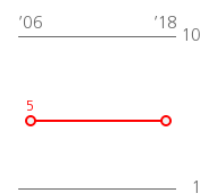
Nevertheless, within the job market, most studies show that women on average earn lower salaries than men. Within OECD countries, Mexico occupies the second-to-last place with respect to women's employment rates: 37.2% of women are employed (Turkey is last with 30.5%). This is considerably below the 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, such as in Ciudad Juárez and the State of Mexico.

11 | Economic Performance

Mexico's economic performance has become weaker since the 2008 global financial crisis, though the last two years (2015 and 2016) have seen an important increase in job creation. According to data from the IMSS, the economy created 644,000 formal jobs in 2015 and 732,000 in 2016, among the highest job creation since the end of the 1990s. The main goal of the government has been macroeconomic stability, though more recently macroeconomic stability has shown its limits. The current account balance has had a significant deficit for the last 20 years. Thus, Mexico greatly depends on inflow from foreign capital. Nonetheless, foreign direct investment is relatively low (2.6% of GDP), almost half that of Brazil and only a third that of Chile. It therefore depends on portfolio investments that are very volatile (as demonstrated in January 2017) and remittances. This situation will likely worsen in the next few months, depending on the policies of the new U.S. government.

As the Mexican government exerts very low fiscal pressure – tax revenue is about 17% of GDP – it depends on oil exports (30%). With the diminution of the oil price and now the increase of the price of imported gasoline, the government budget is under great stress. As a result, public debt has greatly increased; though it is not high enough to pose a risk, it has grown rapidly in the last years.

Export growth has been the main motor of the Mexican economy for the last 20 years, but exports depend heavily on imports; domestic inputs add very little value, as such 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 (about 23% of GDP), while in India and China it is over 30% and 40%, respectively.



12 | Sustainability

Environmental concerns are clearly not a priority for the Peña Nieto government. At the COP22 conference in Paris, Mexico committed to reducing its carbon emissions by half by 2050, taking as its base year 2000. This is a serious commitment if it is truly implemented. However, given the government's domestic behavior on environmental issues one has to be quite skeptical. None of the important reforms undertaken by the Peña Nieto administration in the first two years (when all the reforms were implemented) dealt with this 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 polluting. None of the major infrastructure projects of the present administration (e.g., the new Mexico City airport in the former Lake Texcoco and the highspeed rail line to Toluca) have undergone an environmental impact assessment.

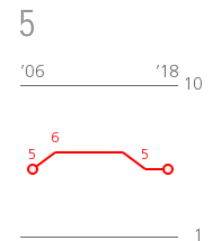
Nationally, river and water use has not improved. Most rivers and water sources are contaminated, and water is used in a very inefficient manner both for human consumption and irrigation (around 40% is wasted). In addition, water is hardly ever treated or recycled by the companies or city administrations. Deforestation is a serious problem in large parts of the country. The destruction of mangroves on the coasts (especially in Quintana Roo) in order to expand tourist areas is at its highest ever, all with the complicity of the Ministry of the Environment and against the resistance of a few ecological NGOs.

Companies that pollute are rarely sanctioned. Those that are sanctioned because the problem they created is so huge and social protests so strong, typically pay a ludicrously small amount in fines. One example was the country's largest mining company Minera Mexico, which contaminated a very large extension of a river in Sonora and tried to conceal the damage. As a result, people in the area suffered physical damage and a large 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).

The current government of Mexico City, under the leftist PRD, is not substantially better, it has barely expanded the public transportation network. Instead, it continues to favor the use of individual cars. This, though, Mexico City suffered one of its most grave pollution crisis in 2015.

However, over the last decades social consciousness of environmental problems has been growing, especially due to the action of environmental NGOs that exert pressure on governments, both at the federal and local level. This may in the future force the government to do more for the environment.

Environmental
policy



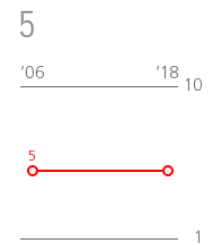
In education evaluations, Mexico has had very poor results, indicating that resources are not well used. According to the PISA report on Mexico, the performance of Mexican students in mathematics is at the level of Albania and Georgia, far lower than Spain and Portugal (80 points lower), 10 to 15 points lower than Chile and Uruguay, but higher than Brazil, Colombia, and Peru. More worrisome is the fact that the general performance of Mexican students has not improved since 2006.

This situation appears not to be related to the amount invested in education, but rather to the way this investment is used. 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, but only a third of what the more developed OECD countries spend. Notwithstanding, neither resources nor salaries appear to be the core problem, as teachers' salaries in Mexico are not strikingly different from those in countries with a similar level of development. Educational problems instead appear to have political and social roots. The primary school system is captured by the teachers' union, the largest union in Mexico and a remnant of the previous political regime, which all Mexican governments have enhanced rather than weakened. The teachers' union was a fundamental instrument for electoral control during the PRI regime and an essential electoral ally under the two PAN presidencies. Thus, educating students has always been a secondary goal of the education system for the PRI (and PAN) governments.

The government of President Peña Nieto passed a reform that was not discussed with the rank and file nor with the dissident elements of the unions that are now at the center of opposition to the reform. This is a crucial reason why the reform will probably fail, as it is seen as threatening teachers, rather than assuring their cooperation. It focuses on the selection of teachers being hired and on the need for teachers to pass regular competency examinations. These examinations are designed to oblige teachers to retrain and if they fail an examination three times, they lose their post. Although it is evident that Mexico needs better trained teachers, the fact that the government could not convince them of the benefits of this reform does not bode well. It is understandable that teachers are worried of losing their jobs and accustomed to inheriting their posts from family members in some of the poorer states, where teaching is one of the sole formal occupations and no other jobs are available. There is, thus, strong opposition to this reform from some teachers' organizations. 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.

Education policy /
R&D



Governance

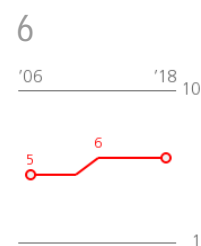
I. Level of Difficulty

Poverty, lack of human capital (i.e., education and health) and inequality have been, and continue to be, the most serious structural constraints on Mexico's growth and productive investment. Although extreme poverty has been reduced (to 9.5% in 2014), 46.2% of the population is still poor and Mexico remains one of the most unequal countries in the world. These two issues are the primary constraints on the domestic market, pushing labor activity toward 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. Though the labor force's average educational level and competitiveness are quite high, at the middle level of engineering and administration functions, there is a lack of highly skilled personnel.

For the last 30 years, Mexico has based its model of development on its privileged location, neighboring the United States, the world's largest market besides the European Union. This proximity, however, can also be considered a disadvantage as NAFTA subordinated the Mexican economy to that of the United States. With the recent election of a U.S. president who has vowed to protect domestic industries by obliging American (and other nations') enterprises to produce in the United States (e.g., by relocating manufacturing plants that had been established in Mexico due to NAFTA), this proximity may further become a handicap.

Domestically, violence and ungovernability have affected many regions, such as parts of Michoacán, Guerrero, Tamaulipas, Veracruz, and Chihuahua, where local police and politicians have been infiltrated by organized crime. Mexico is also vulnerable to natural disasters, above all earthquakes and hurricanes. The latter have become more and more destructive due to global warming and hit vital tourist sites such as Cancun, Acapulco, and Veracruz, upon which local economies depend.

Structural
constraints



The former PRI regime was based on state control of social organizations. 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 to the PRI regime, but they do not actually participate.

Since the 1980s, 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. Nevertheless, compared to countries such as Brazil and Argentina, the density and capacity for action of civil society in Mexico is relatively low. In addition, the existing groups act in an atomized fashion and have little influence on political society at large, as they have no relation with any political party.

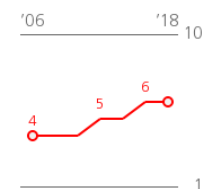
Finally, with the increased violence in Mexico, beginning with the presidency of Calderón, the situation for civil society activists and journalists has drastically worsened. In the maelstrom created by the “war on drugs” and the impunity that has characterized it, social activists and journalists have 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.

There is an ongoing crisis of violence unrelated to political or social cleavages, but rather the result of the activities of criminal gangs that deal in drugs, traffic human beings, and extort “protection” money from enterprises. Nonetheless, due in great part to a lack of political representation and the insufficient capacity of civil society organizations to channel discontent and social demands, the expression of social discontent increasingly erupts into violence. This was present since Peña Nieto took over the presidency, but also exploded in several other situations such as the demonstrations against the murder of the students of Ayotzinapa, especially in Guerrero (home of the students), and the denunciation by certain teachers’ unions, again in Guerrero, Oaxaca, and Chiapas, of educational reforms.

In January 2017, the 20% increase of the price of gasoline led to demonstrations, highway blockages, and the looting of stores in many parts of the country, especially in the poorer suburbs of Mexico City and the State of Mexico. This type of violence is social rather than political, and although the media and government have been saying it was the result of organized bands, they are probably the result of a profound

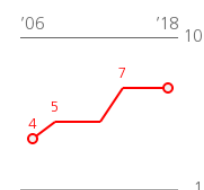
Civil society traditions

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Conflict intensity

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dissatisfaction with the government, its policies, the economic model as well as a result of the lack of social and political channels to express discontent.

The fact that since mid-2014, communities in some of the regions most affected by violence have organized popular defense groups to fight against the criminal gangs is also due to the lack of response by the government and its inability to assure personal security. In the “war on drugs,” clashes between different organized gangs and between these gangs and the police or army occur daily.

II. Governance Performance

14 | Steering Capability

The government of Peña Nieto began by setting very clear strategic priorities envisaging structural reforms. President Peña Nieto 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. Nonetheless, the conflict of interest scandals of the second year of his administration and the corruption scandals of numerous governors (from all parties) who ended their terms in 2016 as well as the terrible crime of Ayotzinapa (among other violence), have forced the government to give more attention to the continued violence that afflicts the country and the rampant corruption.

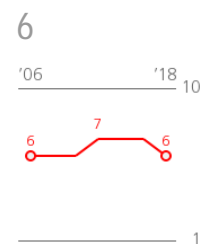
Since then, the government appears to have lost its long-term perspectives. Its actions seem to be focused on reacting to situations. One example is the totally uncertain and hesitant position of the government toward U.S. President Trump. There is no elaboration of an alternative strategy in the event that the new U.S. president questions all the previous rules of the game. For example, there is no strategy of what to do if there are mass deportations of Mexicans from the United States beyond legalizing school certificates of the young or investing a nominal \$50 million to hire lawyers to defend the almost six million Mexican illegals living in that country.

The government waited until January 2017 to considerably increase the price of gasoline and other public services such as electricity and gas, though the problem of these prices was evident since the devaluation at least one year ago.

The main objective of the Peña Nieto government, reducing the level of insecurity in the country, has not been achieved. The government has not established a police force that could permit sending soldiers back to their barracks, the creation of the Gendarmerie has not given the expected results.

Question
Score

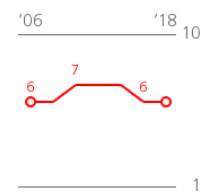
Prioritization



Implementation

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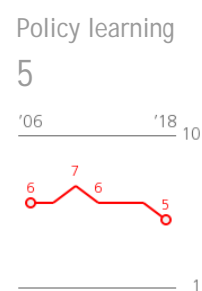
The reforms that President Peña Nieto was able to pass through Congress in his first year in office offer more mixed results in terms of implementation. Although the first three adjudication rounds of the oil fields were a fiasco, the fourth round appears to have been a success. Nonetheless, due to the situation of the oil market, it is unclear if the expected investments will soon follow. Mexico is suffering the economic and social effects of a lack of investment in Pemex over the past 30 years. Pemex is practically bankrupt. Mexico exports less and less crude oil and imports more and more gasoline; paradoxically, a country which is rich in oil reserves is suffering from the increase of the oil price. This is due to a combination of the devaluation of the peso and the fact that more than half of the gasoline consumed in Mexico is imported.



The second most important reform was to the education system. It was passed through Congress without the support of rank and file teachers and against the demand of segments within the teachers' unions. The reform has motivated a strong and powerful opposition in those states where it is most necessary, the poorest and most underperforming. The government wrongly believed that it was enough to reach agreement with the corporatist leaders of the unions; in reality, reforming this public service requires the cooperation of teachers. In these past four years, little has been achieved, though it may be too soon to evaluate.

The third reform, that of telecommunications has been partly successful. The reform has reduced the price of certain services such as long-distance calls and internet connectivity. However, radio, television, cellular communication, and internet service remain concentrated in one or very few companies.

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 dismantled or rendered ineffective.



Most politicians taking government positions lack the training 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 limited capacity for learning. Most functionaries are still more committed to their parties than to their office. The fact that in most official posts political connections matter more than knowledge and technical capacity means that there is little learning from past experience and from best practices at the international level. One of the examples of the latter was the fact that the Peña Nieto government showed itself incapable of following and having good relations with the commissions that came to investigate the case of Ayotzinapa; in fact, it ended up expelling them, instead of profiting from their experience to improve its police and investigative capacities.

The government launched the educational reform in 2016, with the same handicaps of previous reforms in that sector: only negotiating with the leadership without trying to build a consensus with the rank and file.

Since the election of U.S. President Trump, the Mexican government has been incapable of presenting a more dignified and sturdier position such as that expressed, for example, by Canada, which began negotiations with China to counterbalance the aggressive position of the new president of the United States. The Peña Nieto government has not attempted to establish closer relations with other countries in Latin America or with Europe. It appears to be waiting to see how serious President Trump's menaces are in reality. The ruling party has not even attempted to build a strong internal bloc with other parties. Instead, the administration has promised another increase in the price of gasoline, a move that will likely spark renewed protests and weaken the internal political front against the United States.

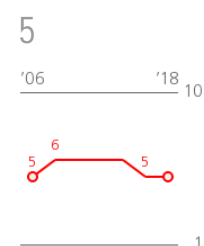
15 | Resource Efficiency

Mexico's administrative apparatus has certainly been modernized, although it still does not have an extensive civil service (see "Policy learning" section). Democratization has imposed on the government growing transparency requirements. Nonetheless, appointments are very often politically motivated, putting people in posts they are not prepared for. Transparency has increased the capacity of the press and civil society to watch over public functionaries, but the capacity (and will) of the government and judiciary to punish abuses has not considerably increased.

While the government has been efficient in keeping its deficit under control, the way it has used its resources has been very inefficient. The government has had considerable financial resources since 2000, due first to the very high price of oil and, since the end of the decade, due to debt, which has increased enormously. The results of this expenditure are very meager. Infrastructure has not been considerably improved. Also, the government squeezed out the public oil company, Pemex, and did not invest in it; Pemex is now practically bankrupt. The state governments also indebted themselves enormously, wasting it on useless expenses and corruption. Some of the state governments (i.e., Coahuila, Veracruz and Chihuahua), not only contracted an impressive amount of debt, but are practically bankrupt.

The Peña Nieto government's attempt to professionalize the police by creating the Gendarmerie has not resulted in less corruption nor less complicity of the police with crime, so one can say it also has failed.

Efficient use of assets



Serious problems of policy coordination both between and within the various ministries have continued as before. For example, Luis Videgaray Caso, the secretary of the treasury invited Donald Trump, at the time a U.S. presidential candidate, to come to Mexico, while the secretary of foreign affairs was not even informed.

Coordination between the central government and states as well as with local governments is very bad, especially when dealing with security. There is no trust between the different police forces, as municipal and state police have been infiltrated by the drug cartels and are, therefore, rarely informed of operations led by federal police or the army. There is also no communication between the different federal police forces nor between them and the army; within the army, there is also distrust.

Concurrent with democratization, the presidency was weakened and governors empowered, leading to a feudalization of political power and decision-making. This, in turn, has led to less coordination than when the PRI held power at all levels of government. Nowadays, President Peña Nieto has trouble coordinating his own ministries and with the states. The relationship between the states and local/municipal governments are at the mercy of the state governments.

Given the top-down nature of most government policies, they are subject to resistance and inefficiencies in their implementation. A very illustrative example is the much-needed education reform that was imposed by the government without the support of rank and file teachers nor the governors in the states where opposition was most obvious. The reform was negotiated among the political parties and passed as a law, far removed from the real education challenges faced especially in some of the poorest states.

In addition to violence, 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 nor have they ever been forced to resign.

The Peña Nieto administration has been forced by civil society organizations and public opinion to adopt an anti-corruption law, which was passed in 2016 and looks good on paper. Nonetheless, due to the scandal involving the president's wife and finance minister at the beginning of the present term and the fact that all the governors of the states where there was an election have left office under enormous corruption charges (most have fled the country), the credibility of the current government is very low and casts serious doubts upon the practical effects of this law. The law may serve its purpose in another government, where the will of the executive, legislative and judiciary coincide to implement it.

An important change has been that information on cases of corruption and conflict of interest are more available nowadays. Nonetheless, although the press and social

Policy coordination

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Anti-corruption policy

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organizations have used transparency institutions such as the Federal Institute for Access to Public Information (IFAI) 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, such as trade unions and most other social organizations, state governments, private companies, the judiciary, political parties, and Congress itself. In many states, transparency structures are controlled by the governor or have fewer attributes than their federal counterpart.

In May 2015, the government passed a law creating the National Anti-Corruption System (SNA). This system, as many other formal institutions and laws created in Mexico, is supposed to contain corruption, but until the present has not produced any net results. It was only in April 2017 (two years after the passing of the law) that the SNA Coordinating Committee was installed.

16 | Consensus-Building

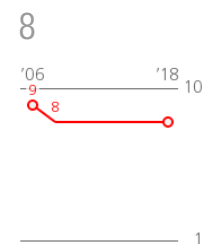
The most significant political and societal actors consider democracy important on principle and no relevant actor is fundamentally against the democratic regime. Nonetheless, there is a growing feeling among the public that democracy is faring badly and that the actors of the political system do not represent the interests of the people and are incapable of solving their crucial security and economic problems.

This is why parties, Congress and the president perform poorly in public opinion surveys. President Peña Nieto reached a low of 12% approval, the lowest in recent Mexican history. This also has to do with the corruption scandals that have hit the president and the governors of many of the Mexican states. If the political parties, Congress or elections continue to be ineffective regarding the challenges faced by regular Mexicans with regard to jobs, salaries, security, and corruption, actors who contest democracy may ascend.

Although there is a growing public sentiment that democracy is ineffective, there is no organized group that has shown itself capable of uniting to topple the political order. The main opponent party, MORENA and its leader Andrés Manuel López Obrador, have never called for solutions outside of the institutional framework. The minority guerilla groups that exist in Guerrero and Oaxaca have not expanded.

As the Mexican economy has shown meager success in its capacity to grow, create jobs and improve the lives of most Mexicans, there has been rising criticism regarding the limits of the market economy. The idea that the market alone cannot benefit all has resonated strongly among a significant number of Mexicans. If the prevailing liberal market model 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

Consensus on goals



system. One exception is López Obrador's MORENA, which is a significant electoral force but has been marginal in the definition of public policy. Nevertheless, even this party has not declared itself against the market economy. The situation may change, however, if the Trump administration continues to be aggressive and protectionist toward Mexico. This may radicalize those movements that are at present moderately critical of the liberal economic model or inspire a populist movement or party with more radical ideas.

The major non-democratic actors are the drug cartels and organized crime, though they may prefer Mexico's weak democracy to a hardline autocracy. The Mexican state has only partial control over these actors. They have killed dozens of elected officials at the local level in many regions in Mexico and have either killed or enabled other actors to kill social leaders and journalists. In some cases, they have even impeded elections.

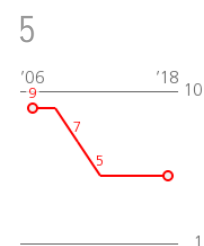
Guerrilla groups exist in Mexico, but they are marginal. The groups of young anarchists that appeared in recent protests and the looters at the riots against the gasoline price increase in many localities in Mexico in January, are not organized and not (yet) an anti-democratic force, although they do not act democratically. Thus, the main danger to democracy comes from the drug cartels and other criminal organizations that 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 has endangered or even impeded elections in some localities.

Finally, Andrés Manuel López Obrador (leader of the MORENA opposition party) has never gone against the institutions, is not heading an anti-system party nor called for violence. When he was at the head of the Mexico City government, he governed responsibly. If he continues to be popular and is able to assume greater power, he will prevent more radical leaders from rising. In that respect, he is more of a guarantee than a menace to democratic stability.

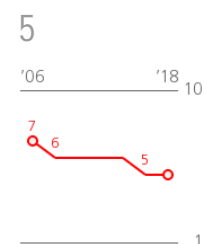
Although in Mexico the indigenous population remains mostly marginalized and discriminated upon, excluding the Chiapas Zapatista rebellion of 2005, there has been no violent conflict along these lines, nor along religious ones. Nonetheless, there is a clear-cut class cleavage between those that have benefited from the prevailing economic model and those that have not. Many, particularly the poor, have seen their lives become more insecure in both socioeconomic and security terms.

The political system has been able to channel this latent conflict, though proactive conflict management is almost absent and the government largely neglects these conflicts. Andrés Manuel López Obrador represented – and partially still represents – these neglected sectors of society. As the left is now divided between the PRD and

Anti-democratic actors



Cleavage / conflict management



MORENA, the capacity of the party system to represent the “losers” and channel dissatisfaction with the political system and economic model has diminished.

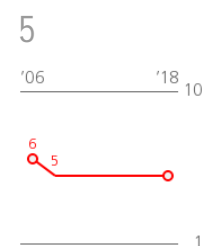
More and more often – with Ayotzinapa, the anarchist presence in protests, the protests of teachers against the educational reform, recent riots against the increase of the price of gasoline and increasing delegitimation of the political parties and functionaries – there are signs of anti-system, anti-democratic impetuses providing fertile ground for populist solutions.

Civil society in Mexico is very weak. The Mexican leadership only sporadically involves civil society, and only takes into account the interests of a few civil society actors. The corporatist organizations that were the center of power of the PRI are now mostly “empty shells.” Civil society organizations emerged in the 1980s and 1990s, but they are weak in comparison to countries such as Brazil and Argentina. Nonetheless, those that exist are very effective and, together with journalists, have publicized many corruption scandals, injustices, and human rights violations. They are, nonetheless, not strong enough to oblige the government, political parties or judiciary to redress their accusations. Such power would require a stronger, better organized civil society with links to political parties, which does not exist in Mexico.

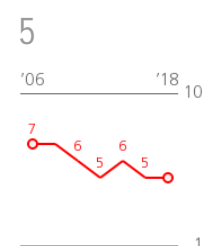
The issue of reconciliation was only posed during the first PAN government (2000 – 2006), with reference to the “dirty war” against the guerrillas in the 1960s and the 1970s and the repression of students in 1968 and 1971. No commission comparable to that created in South Africa, Argentina and Chile was created. The Fox government (2000 – 2006) only named a special prosecutor to study these cases, but the results were nominal and did not satisfy the groups demanding reparation.

During the Calderón presidency, 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 investigate the cases of disappearances and deaths during the “war on drugs.” This law is also intended to financially compensate as well as protect the victims of violence and their families, but it has never been utilized to investigate possible crimes committed during the Calderón presidency. Nevertheless, a group of Mexican lawyers filed a complaint at the International Criminal Court at The Hague for crimes against humanity against Calderón. In the current government, there has been absolutely no public discussion about these questions on the part of the government and there has been no demand regarding this issue from civil society organizations.

Civil society participation



Reconciliation



17 | International Cooperation

Mexico's development strategy emphasizes setting the best conditions for foreign investment through low salaries, low social protections, low taxes, and open borders for capital. This model now appears to be threatened by its principal market, the United States. The Mexican government does not have an alternative plan.

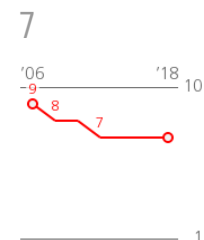
Although Mexico shares many of the problems of poorer countries, it receives practically no foreign aid, as it is a full-fledged partner of NAFTA and a member of the OECD. According to OECD statistics, Mexico was the recipient of official development assistance (ODA) amounting to a net total of a mere \$561 million in 2013. This includes German technical cooperation focusing on ecology, sustainability and resource efficiency. Some state governments have gained access to very targeted aid, such as to fight pollution, preserve nature, and protect plant and animal species. The Calderón government 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.

Reports from sources such as Open Society Foundations (OSF), the United Nations and Inter-American Commission of Human Rights (IACHR) have concluded that human rights in Mexico are in crisis due to the military "war on drugs" launched by President Calderón. OSF concluded that Mexico needs international help to restore human rights, which has been totally rejected by the Peña Nieto presidency. Instead of seeking international cooperation concerning these principal challenges, the Peña Nieto government openly conflicted with the IACHR and with the rapporteur on torture of the United Nations Human Rights Council (UNHRC). The first commission clashed with the government on the investigation of Ayotzinapa. In 2015, the second commission issued a report concluding that the torture of detainees was generalized in Mexico. The government rejected the conclusions of both commissions, something that damaged the prestige of the Peña Nieto government and relations with these international actors.

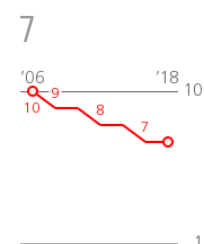
In economic terms, Mexico is considered to be a reliable partner internationally. It has signed not only NAFTA, but many free trade agreements with other economic powerhouses, including the European Union and Japan. It is a reliable member of the WTO and OECD, cooperating actively with these intergovernmental organizations. This has led many companies from these countries to invest in Mexico. It is at present probable that the United States, the country with which Mexico has signed the most significant economic agreement, will begin not respecting its trade agreements.

Nevertheless, in other aspects, such as human rights, labor rights and indigenous population rights, collaboration is much less coherent. This has been especially critical since President Calderón launched the "war on drugs" in 2007. In the present

Effective use of support



Credibility



administration, the government has clashed with the most important human rights commissions, those of the United Nations and Organization of American States.

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 (i.e., Guatemala and El Salvador), due to the fact that 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 receives information from the United States on drug cartels and extradites gang lords, the most recent being “El Chapo,” the kingpin of the Sinaloa Cartel. Since the 1960s, the United States has imposed its vision of dealing with the drug problem in criminal terms. The Peña Nieto government has clashed with several international human rights organizations.

In the face of the threat by U.S. President Trump to end or renegotiate NAFTA, the Peña Nieto government has not pursued alternatives, instead adopting to wait and see if Trump will really contest the treaty and expel illegal Mexicans from the United States. Until now, Mexico has not looked south (the president canceled his participation in the CELAC in January) or east (Asia) and it has not been more active in promoting the Pacific Alliance.

Regional
cooperation

8



1

Strategic Outlook

The fifth year of the Peña Nieto government has many uncertainties. It remains unclear how U.S. President Trump will proceed with respect to Mexico, although the first pronouncements have been ominous: the building of a border wall and menace of expelling millions of illegal immigrants, terminating or renegotiating NAFTA, and taxing Mexican exports to the United States. Each of these measures would radically impact Mexican society and the economy, potentially inducing political earthquakes.

It remains unclear whether the price of oil, which is critical for the Mexican government, will persist at the current low level or increase. When the price of oil goes up, however, the price of gasoline does as well – problematic as imports account for more than half of gasoline consumed in Mexico. Uncertainty also prevails concerning the effects of the devaluation of the peso on inflation and the resulting outcomes on the 2018 elections and social stability. The most probable scenario is an economic deceleration due to this uncertainty. Such a deceleration would become far graver if Trump delivers on his rhetorical promises. In either scenario, the situation will not drastically deteriorate very fast as existing foreign investments in Mexico cannot be relocated so rapidly. The greatest effect may be on future investments and originate a slowing down of the economy.

The pesos' devaluation and heightened U.S. protectionism may provide an opportunity for Mexican small- and medium-sized companies to begin substituting production and seeking alternatives to the U.S. market, maybe in cooperation with Central and South American countries. This also offers the opportunity for closer relations with Europe and Asia (e.g., China). Investments may come more readily as these new trading partners compete to fill the void left as the United States withdraws.

Nonetheless, these possible “benefits” of U.S. protectionism would require a very clear strategy on the part of Peña Nieto government. Now in its final two years, the current administration has not demonstrated the capacity to be proactive and innovative under pressure. Neither his government nor the opposition have articulated a clear alternative to the current liberal model of dependence on foreign capital and exports. Therefore, Mexico's vulnerability has grown vis-a-vis the protectionist turn seen in the United States and the aggressive stance of its president toward Mexico and its population.