Latin America and the Caribbean

Growing frustration, lagging response

Latin America’s transformation countries are faltering. The dissatisfaction growing among the citizenry is threatening to turn into dissatisfaction with democracy itself. Eight years of underwhelming economic development is a key factor here.

At first glance, little has changed in terms of transformation in Latin America and the Caribbean since the BTI 2016. While Chile, Uruguay and – with a slight downturn – Costa Rica are among the top performers in the BTI overall, the region is still home to some of the worst examples of political transformation (Cuba, Venezuela), economic transformation (Haiti) and governance (Venezuela). This heterogeneity is also reflected in the subregions; the countries of the Cono Sur (Argentina, Brazil, Chile, Uruguay; exception: Paraguay) are significantly more developed than the Andean region (Bolivia, Colombia, Ecuador, Peru and Venezuela), with Central America lagging some distance behind (El Salvador, Guatemala, Honduras, Nicaragua, Panama; positive exception: Costa Rica). Overall, the region remains in second place for all three dimensions, behind East-Central and Southeast Europe.

A second look, however, reveals increasing signs of a crisis syndrome for which the political elites have not yet managed to offer satisfactory solutions. This performance crisis is beginning to erode their own legitimacy, seen in approval ratings for current governments that are, with few exceptions, at historic lows. More than that, it is an increasing threat to the legitimacy of democracy itself, which is continuing to lose support among the population. In Latin America, dissatisfaction with democratic performance is threatening to mutate into dissatisfaction with democracy as such.

While transformation prospects ten years ago were relatively sunny, clouds are increasingly forming on the horizon. The region is weaker across all three BTI dimensions. And so – leaving aside volatile Haiti – we find the first country since the BTI 2006 to slide into autocracy: Nicaragua. In Venezuela, the regime of Nicolás Maduro cracked down further after the opposition won a landslide victory in the 2015 parliamentary elections. The Latin American community’s response to the situation in Venezuela – a “scandalous silence” in the words of Costa Rica’s former president Laura Chinchilla – speaks volumes of the political elite. While a consensus on the democratic model persists in many countries, it is becoming less normative, instead obeying the logic of “business as usual” and the suppression of populist competition.

One key source of frustration among the citizenry lies in economic develop-
ment, which since 2010 has been stagna-
tant if not regressive. While a relatively
stable economic order took hold in most
countries during the neoliberal reforms
of the 1980s and 1990s, the externally
driven boom that has lifted many in Latin
America into the lower middle class since
the dawn of the millennium is a thing of
the past. While there were serious e-
fforts at sociopolitical support for broad
sections of the population, they were insu-
fficient because any success in battling
poverty and inequality was largely dependent on
integration into the labor market and thus,
in turn, on economic growth. Because the
region has long been dependent on the
course of the global economy, stagnation
brought on by the international slump is
also endangering social progress. In Bra-
zil, Mexico, Venezuela and Central Ameri-
ca, these problems are additionally exacer-
bated by homemade difficulties.
Violent drug cartels remain one of the
most pressing problems in Latin America.
It’s not just that the countries of origin,
particularly Peru and Colombia, have fur-
ther expanded cultivation, and that the co-
caine trade has found a new and effective
middleman for export to other parts of the
world in the form of the corrupt Maduro
regime. On top of that, Latin America is
itself now a major consumer of cocaine.
This is particularly evident in Brazil and
Argentina. High murder rates, including
the “femicides” of Mexico and Guatemala,
complete a picture of state failure when it
comes to the task of guaranteeing security
and civil rights. The region contains 21
of the 25 countries and 43 of the 50 cities
with the highest murder rates worldwide
(outside war zones). So far, there have
been no compelling, intraregional solu-
tions to this challenge.
One – if not entirely unalloyed – success
in the struggle against violence is the peace
agreement between the Colombian gov-
ernment and the FARC guerrillas, which
marks a significant advance in pacifying
the country. The agreement has prompted
great internal controversy, and now brings a
whole range of new and difficult challenges
in consensus-building and social policy.
Rousseff in Brazil, which brought the government of Michel Temer to power in May 2016. There were renewed efforts to introduce constitutional reforms allowing the direct re-election of officeholders — a maneuver previously considered taboo across the region. In the Dominican Republic, direct re-election was reintroduced after having only been abolished in 2010, giving President Danilo Medina an additional term in 2016. Honduran President Juan Orlando Hernández, too, won the option of re-election in a controversial procedure. Paraguay’s President Horacio Cartes only abandoned similar plans in April 2017 after fierce public protests. Ecuador introduced unlimited direct re-election through a constitutional amendment in 2015, but it will only come into force in 2021, which meant that President Rafael Correa was excluded from re-election in the spring 2017 elections.

Since 2008, the BTI has recorded a decline in the quality of democracy in Latin America – not dramatic, but continual. There are two trends in particular that offer cause for concern. One is the individual instances of backsliding – intervention in key democratic institutions, such as free and fair elections, freedom of the press, and separation of powers. Since 2010, there has also been a dramatic erosion of human rights protection, particularly in Mexico and Central America, as well as in Haiti and Venezuela. The other trend is a move toward de-consolidation, in other words a weakening of the factors that promote the stability of a democracy, such as a functioning party system or a strong civil society. Particularly striking examples in this review period were the intensification of political conflicts in Venezuela, which further escalated in spring 2017, the descent into autocracy in Nicaragua as well as the dubious impeachment of Dilma Rousseff in Brazil, which brought the government of Michel Temer to power in May 2016.

Another trend is a weakening of left-wing populist projects. Following the end of Correa’s term in Ecuador, the PAIS government has presented a more conciliatory face for the time being, while December 2015 brought the unexpected electoral defeat of “Kirchnerism” in Argentina. This leaves only Bolivia’s Evo Morales in power, whose heterogeneous support base necessitates a stronger emphasis on consensus-building. There are no great long-term prospects for the two variants downgraded to autocracy status – Venezuela and Nicaragua. President Maduro is nearing the collapse of his obdurate Bolivarian regime, while President Daniel Ortega is likely to retire soon for reasons of health and age. His legacy is a personalized regime, which is moving further toward dynastic succession. Nicaragua’s slide into autocracy was demonstrably plain four months before the country’s 2016 elections. The removal of the head of the lead-

### Legitimacy is crumbling

Brazil is not alone in its malaise – almost everywhere in the region, there is a marked decline in approval ratings for democracy. And the commitment of central actors to democratic institutions appears less convincing all the time. Moreover, the party system is eroding further.

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ing opposition party and prospective presidential candidate, mandated by the supreme court, meant that a presidential election was held without genuine competition for the first time since 1990. And so Ortega remained in power while the ruling FSLN party secured a two-thirds majority in the National Assembly.

Even Argentina and Ecuador, two countries with relatively positive democratic development, offer only limited prospects for further consolidation. Under President Mauricio Macri, Argentina has done little more than gain ground lost during Cristina Fernández de Kirchner’s term, particularly with respect to the rule of law, a development that is as of yet neither substantial nor secure enough. And while President Correa brought stability and institutional restructuring to Ecuador with a new constitution, his concentration of power has weakened the rule of law as well as the freedoms of opinion, organization and assembly.

The negative development in Honduras is primarily attributable to President Hernández’s lust for power and authoritarian arrogance as well as to the worsening security situation caused by drug cartels and other organized crime. Brazil, too, has seen a drop in democratic quality. This was ostensibly associated with impeachment proceedings against President Rousseff initiated by corrupt politicians such as President of the Chamber of Deputies Eduardo Cunha and her own vice president, Temer. The impeachment revealed the dubious way that the majority of Brazil’s political class treat democratic institutions. The conservative congressional majority was primarily preoccupied with toppling a despised president and reversing her policies. Rousseff offered them a target with her budgeting sleight of hand – a practice which, it has to be said, was far from unknown among her predecessors. With the support of the media, her opponents managed to further foment existing dissatisfaction with economic conditions, economic policies and numerous corruption cases (in which Rousseff herself was not involved).

The assumption of office by the Temer government further eroded the legitimization base for Brazilian democracy. On the one hand, this affected normative legitimation, as a president who has come into office via an indirect route of questionable proceedings is abruptly abandoning policies for which the majority of the electorate had voted. On the other hand, support for democracy has also dropped considerably. According to Latinobarómetro 2016, 55% of the Brazilian population would not reject an authoritarian regime if it managed to solve the country’s economic problems.

Brazil is not an isolated case in this trend toward de-consolidation. There has been a perceptible drop in approval for democracy among the region’s population since the high point of the BTI 2010. The same applies to political actors and their commitment to democratic institutions. Finally, the already weak communication channels between society and politics have continued to erode. This primarily concerns the party systems, which have lost functionality almost without exception.
Particularly since the resource boom of the previous decade, some Latin American countries have developed a specific type of political economy that is often referred to as “rentier populism.” As recent developments have shown, dependency on exports means these – more or less “socialist” – rentier state models are highly susceptible to sudden disruption. Such situations require pragmatic management, something demonstrated in the review period by Ecuador’s Correa and Bolivia’s Morales in contrast to Argentina’s Kirchner administration, whose economic policy was unmoored from reality.

The situation in Venezuela is more or less a declaration of bankruptcy for the “socialism of the 21st century.” There were few efforts to develop alternatives to oil, making the country an extreme example of the so-called Dutch disease. After nearly two decades of wasteful rentier populism, which presently only benefits the clique of political and military hard-liners known as the “Boliguarqúa,” poverty is back with a vengeance. Much like Cuba, which can still be described as a state socialist model despite selective reform under Raúl Castro, these countries will not be able in the near future to avoid the kind of further reform that President Macri introduced in Argentina after the change in government (even if only with limited success so far).

But liberal economic systems are also showing signs of fatigue. Since the BTI 2010, average scores for the region have dropped slightly, and it was only the institutional solidity of most of the region’s economies that kept this downward momentum in check. This makes international economic experts optimistic that current challenges, such as low commodities prices and declining global demand, can still be managed. But as long as the global economy treads water, the liberal economic model is threatened with lasting stagnation and grave social consequences. This is because the core problems of Latin America remain unsolved – a dependence on commodity exports and associated low productivity and competitiveness as well as persistently high levels of social inequality. These problems are exacerbated by educational disparities, which have a negative effect on human capital and thus represent a further brake on development potential, both systemic and individual. Inequality, in turn, is a breeding ground for a third malady – abrupt, politically motivated shifts in economic policy as well as changes to the framework of economic institutions.

The present consequences of widespread performance weakness are particularly harsh and far-reaching. Poverty
declined dramatically during the boom years 2000 to 2014 – from 42.8% to 23.3%, according to World Bank figures – only for this figure to creep back up to 29.2% in 2015, according to the UN Economic Commission for Latin America and the Caribbean (CEPAL), with a further rise forecast. The fall of income inequality has also slowed since 2010. The region has the kind of social inequality otherwise only seen in a handful of African countries, such as South Africa, Namibia and Botswana. Moreover, figures from the International Labour Organization (ILO) show that almost half of those in work (around 134 million) are employed in the informal sector. Socioeconomic development consequently stagnates at a low level. And while there has been a somewhat positive trend in social security systems since 2006, most do not function as well as they should.

None of these problems is new, nor the proposals advanced for their solution. As far back as the late 1980s, CEPAL launched an alternative program to the neoliberal reform wave then on the ascendant, focusing on the neuralgic points of productivity and equality of opportunity (“equidad”). But looking back on the last few decades of Latin American “development policy,” a simple pattern becomes evident. In times of externally induced boom, political elites are so euphoric that they neglect to set the course needed to increase productivity. In bad times, on the other hand, they are more concerned with crisis management and putting things off until tomorrow.

Paraguay, Peru and Uruguay have been the exceptions since the BTI 2006. While Uruguay was able to successively establish its regulative framework on a broader basis, including social security, and is now almost level with Chile, positive developments in Paraguay and Peru – supported by solid stability policies and a strong Economics and Finance Ministry in Peru – are rooted in their solid performance of the mid-2000s. Along with Venezuela, some of the greatest declines were seen in Brazil and – to a lesser extent – Mexico. In Brazil, this relates primarily to the slump between 2013 and 2015, when the country was already marked by deep recession and the government had no sound monetary or stability policy to offer – factors that contributed to Rousseff’s fall. Mexico, with its greater dependence on developments in the U.S. economy, saw negative trends set in with the global financial crisis, which affected both performance and stabilization policy in particular.

As recently as 2011, Brazil’s GDP eclipsed the United Kingdom’s. The country was drawing considerable attention as a new economic superpower with solid finances, progressive social policies and enormously promising potential. It soon suffered a fall from grace, and still finds itself faltering during the BTI 2018 review period. Posting a negative growth rate, a primary budget deficit of unknown proportions, and the largest unemployment figures in its history, the country’s long list of economic “worst-ever” figures bears worrying consequences. This year’s report points to a repolarization of social conflicts found not only between regions, but also between traditional elites and the “new middle class.” It also points to structural issues (e.g., the deteriorating infrastructure), the state’s overly active interference in economic matters, and pervasive grand corruption (which culminated in the scandal at Petrobras, the parastatal oil company) in accounting for the fact that Brazil was hit so hard by falling commodity prices. Since 2016’s politically divisive impeachment process that removed President Dilma Rousseff from office, several members of the new conservative-liberal government have been implicated in a series of corruption cases. Looking forward, the country report warns of the need for Brazil to get the “right mix of intervention and laissez-faire” so as to not “jeopardize the social achievements of the past one and a half decades.” Noting the large share of social spending that benefits primarily the wealthier in areas such as pensions, the report emphasizes the need for pension reforms – something which the Temer cabinet has not pursued in its first few months in office.
Citizens withdraw their confidence

The list of challenges for transformation management in Latin America is long – and despite some good governance performance, the region’s governments are losing approval. Even popularity ratings for the presidents are at an all-time low.

The quality of transformation management in Latin America has been more or less stable over the last ten years on regional average. When set against a BTI country with similar scores, the average for the region equates to something like the management performance of Indonesia or Ukraine. Are these scores an expression of mediocre governance or consistent solidity? The short answer is: both.

The BTI found good or very good transformation management in 12 out of 21 countries. And the consensus on transformation goals is still considerable in most instances, if in decline. In the present BTI, this applied in particular to Brazil, but even Chile’s erstwhile consensus of “democracia de los acuerdos” (“democracy of agreements”) is no longer quite so robust now that the project of a new constitution and the associated issue of a new social contract are up for debate.

The fact that Chile stands with Uruguay among the top three performers in the BTI Governance Index underscores the fact that the political elite may still be able to leverage governance capital accumulated over years and anchored in institutions. Both countries saw a slight drop in governance capability that was caused by less resolute priority-setting and implementation of further reform policies.

It was Argentina, Ecuador and Peru that instead recorded the most positive management developments during the review period. In Argentina, this upswing must be viewed in the context of the underwhelming achievements of the former Kirchner government, compared to which the government of President Macri has a far more coherent program, more professional steering and management capacities and, above all, greater efficiency. International cooperation was also put on a more solid footing – particularly through agreements with creditors. In Ecuador under President Correa, international cooperation was also improved. The most significant milestone here was the free trade agreement with the EU, which represented nothing less than an about-face in Ecuador’s international strategy, which had been dominated until then by confrontation and criticism of donor conditions as well as “neoliberal agreements” in general. In Peru, the governments of Ollanta Humala and, since July 2016, the technocratic cabinet of Pedro Pablo Kuczynski managed to increase overall resource efficiency, particularly in the area of policy coordination.

Taken together, the BTI governance scores suggest a mixed, slightly positive picture, one that contrasts with the more somber political and social mood felt across Latin America at present. It is a mood fed
by a growing discrepancy between the increased demands of citizens on the one hand and the – actual or perceived – lack of problem-solving ability or responsiveness on the part of political elites, whose reputations have diminished in the wake of corruption scandals in recent years. In the 18 countries represented in the Latino-barómetro (which excludes Cuba, Haiti and Jamaica), an average of 46% of respondents said that politicians had lost their credibility and would most likely never recover it – with a spread from around one-third in Guatemala and Uruguay up to 56% in Mexico and 63% in Chile.

This decline in confidence is also reflected in approval ratings for governments, which dropped off dramatically after 2009. Even presidents, traditionally held in high regard as the embodiment of the nation, were affected; only a few managed approval ratings above 50% in surveys taken in spring 2017. The most dramatic survey results concerned Brazil’s Temer, Colombia’s Nobel Peace Prize laureate Juan Manuel Santos and Mexico’s Enrique Peña Nieto. But things get stranger when we look at the presidents with the highest approval ratings. Ortega in Nicaragua and Hernández in Honduras are in their own way authoritarian, and “comedian” Jimmy Morales in Guatemala is surrounded by corrupt networks. This range of opinions offers a sense of how widely both the problems and (perceived) solutions, as well the demands of citizens, differ from country to country. They are also a sign that simplistic or authoritarian solutions can find fertile ground among populations approaching the end of their patience. This crisis of confidence may become a considerable burden on the political elite in the near future.

The fact that this has the greatest impact on countries that do well in the BTI is possibly related to the paradox by which earlier transformation successes trigger developments whose effects then rebound on their initiators. This includes the demands for education, health or a minimum of social protections that typically accompany social ascent. The greater social differentiation associated with this is an additional challenge to the political elite, in that a broader range of demands is more difficult for political parties to aggregate. It is particularly apparent in the case of anti-corruption efforts and in the mechanisms of horizontal accountability that hold officials responsible for their actions and are aimed at curbing abuses of power. The more these mechanisms expand and the more abuse is revealed, the less acceptable it becomes.

Huge discrepancies: Governance performance and public approval

- Uruguay: 43% (9.12)
- Chile: 28% (8.90)
- Costa Rica: 30% (8.31)
- Honduras: 47% (5.47)
- Guatemala: 56% (4.95)
- Nicaragua: 69% (4.70)
Authoritarian regression in Nicaragua, hardening autocracy in Venezuela, turbulence in Brazil – these three facts are examples of the growing dangers facing Latin America’s democracies. As the very late response of most Latin American countries to the crisis in Venezuela showed, the political elite are either unaware of the gravity of the situation or too preoccupied with their own problems, or simply and solely interested in shoring up their own power.

On the other hand, one should not underestimate the resilience of these democracies. Most countries in the region have found a certain balance, even if it is sub-optimal, in which setbacks are corrected through positive impetus. The persistence of democracies alone, as weak as they may be, allows learning processes that at least help prevent them from sliding into autocracy.

Brazil is faced with particular challenges, as multiple negative tendencies have converged within a short time and have encountered a lack of both representation and responsiveness – coupled with systemic corruption and efforts to combat it, which in turn are seen as politicized. The country is standing at a crossroads, but the structure of democratic institutions is still relatively robust. More difficult is the situation in Central America and Mexico, where organized crime has undermined institutions and represents an enormous threat to statelessness. As surveys make clear, authoritarian – even autocratic – solutions for pressing problems are an increasingly popular option in these countries.

Further democratic development will depend not least on economic and social development. The latest data from CEPAL indicates that economic development has recovered somewhat overall. However, ILO experts regard growth rates as too low to result in more jobs. The immense informal economy (which encompasses up to 70% of the workforce in some Central American countries) and high youth unemployment (of around 20%) provide further cause for concern. Finally, as recent studies indicate, high levels of income inequality are structurally linked to the consistently high level of wealth inequality, which cements social difficulties.

The experience of the last quarter-century shows that these problems cannot be solved without comprehensive structural transformation. The goal must be greater quality of jobs in a labor market that offers sociopolitical safeguards, accompanied by higher productivity and better wages. To avoid the middle-income trap – that is, no longer being able to compete with low-wage countries or keep pace with technologically intensive economies – mid- to long-term structural policies are required, especially in the areas of education, technology, infrastructure and promotion of industry. And this, in turn, requires solid transformation management. The hurdles here are certainly considerable, not just because of the weaknesses of the political parties and consequent absence of well-developed political programs, but also due to the time horizons dictated by electoral cycles.

Indeed, structural transformation takes time and patience, which many citizens no longer have to spare. The compromised ability of the parties and the party system to take up their challenges may make political opinion- and policy-forming processes even more difficult in the future. By the next reporting date for the BTI 2020, in January 2019, at least 13 countries will have held presidential elections. Here, it cannot be discounted that the political landscape will undergo further major change amid the day-to-day political business of Latin America, especially considering the anti-establishment mood taking hold in some countries. This especially applies to the two heavyweights Brazil and Mexico, which are both holding presidential elections in 2018. The next two years will be a hard test for the democracies of Latin America, especially as the unpredictable policies of their northern neighbor have decreased the stability of international framework conditions.
Fabiola Díaz Prado is Partner at Anaya Abogados Asociados, Mexico City. Her practice is focused on tax matters and business planning. Before joining the practice, she was an associate attorney at the law firm Haynes & Boone. She obtained her law degree from the Universidad Panamericana, as well as a degree in Philosophy from the Universidad Nacional Autónoma de México (UNAM). She has an MA in Government and Public Politics from the Universidad Panamericana. In addition, she obtained her LL.M in International Tax Law at the Vienna University of Economics and Business. She has been a member of the Transformation Thinkers network since 2008.

Interview

“The challenge now is to reconcile social activism with politics”
Fabiola Díaz Prado on public frustrations with the Mexican political system, the importance of the rule of law, and the need for civic education

Discontent with politics is widespread in Latin America, but hardly any democratically elected government in the region is as unpopular as the Peña Nieto administration. What’s driving this disaffection?

This administration’s unpopularity and the disappointment it has evoked is a result of decades of resentment. From 1929 to 2000, the same political party (PRI) governed with various failures and successes. However, the lack of transparency and openness to democracy was a constant. The population was fed up with poverty levels, financial and economic crises, education-system failures and low governmental responsiveness.

After two disappointing PAN administrations, the PRI regained power when its candidate, Peña Nieto, won the 2012 elections with the votes of only 23% of the electorate. His administration prioritized economic and financial issues at the expense of social needs. During his administration, 43 students were killed by local government forces, drug cartels continued their attacks, and corruption scandals involving various governors and the president himself came to light. These events underscored the administration’s lack of responsiveness and its disconnect with regard to social demands, both of which exacerbated its legitimacy crisis.

The energy amendment achieved at the beginning of Nieto’s administration did not yield the expected success as a result of falling oil and gas prices. The U.S. election exposed how dependent Mexico’s economy is on the U.S. economy, and the election of Donald Trump brought additional concerns regarding NAFTA renegotiations and migration policy. Social media networks have fueled public frustrations, as corrupt practices and administration failings are exposed on a daily basis.

As state elections demonstrated in mid-2017, public trust in political parties and the system as a whole is rapidly dissipating. More than 40,000 complaints were issued regarding manipulation or vote-buying. What measures do you think are necessary in order to regain trust?

Antidemocratic practices continue affecting elections in Mexico, but at least parties and citizens now have the means to contest such practices. The electoral tribunals have an important responsibility since their decisions and the capacity to punish those engaged in antidemocratic practices are essential to regaining public trust and legitimating governments.

We should increase the participation of social observers during elections while enhancing the power to monitor party spending, budgets and publicity. Furthermore, the system should act more resolutely in punishing those carrying out antidemocratic practices.

Civic education to prevent clientelism and promote political participation is essential to regaining trust. Currently, a low percentage of Mexicans are effectively involved in politics or civic participation.

If the state of affairs today is so discouraging, what drives young reformists to be vocal and involved in politics?

Specific social issues, such as femicide, human trafficking, environmental problems and natural disasters, are motivating social activism, as could be seen by the huge wave of solidarity after the devastating earthquake in September 2017. However, political parties in Mexico are perceived as being so corrupt that most reformists prefer to not be engaged in politics and instead work in society. The challenge now is to reconcile social activism with politics and cultivate politicians whose credibility derives from social work and public approval.

The 2018 BTI country report criticizes the widespread endemic corruption and questions the independence of the judiciary. As a lawyer, do you think Mexico is still a constitutional state?

Mexico has serious challenges in terms of guaranteeing human rights and democracy, but it does feature certain core aspects of a constitutional state: the recognition of human rights, division of powers, hierarchy of laws, etc.

For example, the current prosecution of certain politicians reveals high levels of corruption, but also the presence of a functioning division of powers, the relevance of public opinion, and the existence of a framework to penalize office abuse.

Mexico is in several ways in crisis, but the constitution remains a political and ethical compass for maintaining some congruence and order.

Presidential elections are coming up in July 2018. Which candidate, which party or which coalition of political forces do you believe is capable of dealing with Mexico’s manifold problems?

At this stage, for voters, candidates have become more relevant than political parties, since the differences in ideologies have blurred among political parties that form coalitions based on opinion polls rather than on programmatic goals.

It is too early to place any bets, since the political parties have not yet named their candidates. In my opinion, the candidate with greater negotiation skills and the ability to reconcile different opinions will be more capable of managing a national and international context that demands the collaboration of government, investors and society.