

BTI 2014 | Mexico Country Report

Status Index	1-10	6.85	# 33 of 129	
Political Transformation	1-10	6.80	# 40 of 129	➔
Economic Transformation	1-10	6.89	# 31 of 129	➔
Management Index	1-10	5.64	# 45 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. 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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Key Indicators

Population	M	120.8	HDI	0.775	GDP p.c.	\$	16731.1
Pop. growth ¹	% p.a.	1.2	HDI rank of 187	61	Gini Index		47.2
Life expectancy	years	76.9	UN Education Index	0.721	Poverty ³	%	4.5
Urban population	%	78.4	Gender inequality ²	0.382	Aid per capita	\$	7.8

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

The last two years in Mexico have been marked by three main issues: On the one hand, the government continued its war against organized crime, although the death toll and efficacy of this policy has increasingly been questioned. On the other hand, Mexico continued to feel the aftereffects of the world financial crisis, during which GDP fell by more than 6%. Finally, the presidential elections of 2012 were marked by the return of the Institutional Revolutionary Party (Partido Revolucionario Institucional, PRI) to the presidency.

The Felipe Calderón government continued with its war against organized crime, which continued to act with total impunity in many regions of the country, while diversified its criminal activities into trafficking of migrants and arms, kidnapping, and other areas. As a result of the government strategy, violence has escalated to levels previously unknown in Mexico. Violence has also filtered into the political world: city mayors, electoral candidates and even governors have been killed as a form of retaliation by these illegal groups. Finally, the government's decision to send the army to perform internal security tasks has led to numerous abuses of human rights, a situation denounced by most human rights organizations. This situation has led to several massive social demonstrations against violence, the emergence of a number of civil society organizations, and an increasingly critical stance against the government strategy on the part of academics and social and political leaders.

Although the global financial crisis had a serious impact on the Mexican economy, it recovered in 2010 with growth of 5.5%, and another 3.9% in 2011. Employment has also grown significantly, with around 600,000 jobs being created each year. The country's adequate reserves level, comparatively low external debt level and ability to attract investment capital have assured macroeconomic stability. Nevertheless, absolute job creation is totally insufficient for a country where population growth demands that one million jobs be created every year. On the other hand, salaries and per capita GDP have stagnated in the last 12 years, weakening the domestic market. The dependence on the external market and especially on the U.S. market is increasingly seen as

a disadvantage, as the U.S. economy is likely to experience slow growth for the next decade or more.

Both the Vicente Fox and Calderón presidencies strongly disappointed democratic expectations, as they failed to fight corruption to the degree they had initially promised, while adapting well to the operating modes of the large corporations and unions that remain the legacy of more than 70 years of authoritarian PRI government. Although the PRI has now recovered the presidency, it will most probably be unable to impose a style of rule similar to that exerted during its seven decades of authoritarian governance. However, both in the election and in the first few months of its new rule, it seemed again to display many of the characteristics that defined it in the past, indicating that its modernization is at best incomplete.

History and Characteristics of Transformation

The main characteristic of the Mexican regime that endured from 1929 until 2000 was the existence of a hegemonic state party, the Institutional Revolutionary Party (Partido Revolucionario Institucional, PRI), which controlled most social organizations. This regime emerged from the Mexican revolution (1910 – 1917). Based on the constitution of 1917, the state used the revolutionary myth as the main source of its legitimacy, using this as a platform for wide-ranging intervention in the Mexican economy. The three decades starting with the beginning of World War II were a golden age for Mexico, often referred to as the Mexican Miracle (El Milagro Mexicano). This period was characterized by economic growth, social mobility, the formation of a basic Mexican welfare state and further construction of a Mexican national identity. The head of state, the president, was the primary political agent, controlling all important political actors – parliament, governors, social organizations, the army and the judiciary – through the PRI. Thus emerged a relatively mild and integrative form of authoritarianism (by Latin American standards), which enjoyed broad social and popular support from the 1930s on.

The end of the 1960s showed not only the first signs of the exhaustion of the economic basis for the miracle years, but also a growing discontent with the political regime. This was particularly manifested by the student movement, which was violently suppressed in the 1968 – 1971 period. In the 1970s, Mexico's economic prosperity came to an end as the economic import substitution model reached its limits. The decline in oil prices at the beginning of the 1980s, together with the rise in interest rates, led to a financial collapse that culminated in the debt crisis of 1982. One of Latin America's biggest debtors to international banks, the Mexican government declared default in 1982.

The financial crisis, coupled with pressure from international financial institutions, led the Miguel de la Madrid government (1982 – 1988) to initiate a liberalization of the Mexican economy (in part by entering the General Agreement on Tariffs and Trade (GATT) in 1986). This entailed the opening of the Mexican economy and the reduction or elimination of subsidies to Mexican

entrepreneurs, workers and peasants. Market liberalization was marked by a rapid and meaningful reduction in trade restrictions and by the privatization of state companies, with the significant exception of those involved in the production and sale of electric energy and oil. The governments that followed, under Carlos Salinas de Gortari (1988 – 1994) and Ernesto Zedillo (1994 – 2000) continued this liberal economic course. A significant step in this direction was the signing of the North American Free Trade Agreement (NAFTA) and Mexico's admission to the OECD in 1994. The Zapatista uprising of 1994 was a symbol of the rejection of these policies by those parts of the population that were not to see significant tangible benefits from the neoliberal economic strategy.

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

This set the stage for polarization between those who had benefited from the new economic model and those who had suffered from it; this divide led to the highly polarized electoral scenario of 2006. The PAN candidate won the 2006 elections on the basis of a very small margin (0.56%) after a campaign marred by the intervention of incumbent President Vicente Fox and the business sector. This prompted PRD candidate Andrés Manuel López Obrador to denounce the elections as fraudulent, deny recognition to the new government, launch a movement of resistance against the incoming government and declare himself to be the legitimate president. This situation influenced Calderón's decision to send the army into the streets in order to fight the drug cartels. This resolution was taken in part as a political tactic to gain legitimacy and show the opposition mobilized by López Obrador that the president had the support of the army; but it was also seen as the new president's genuine strategy in fighting the growing power of the drug cartels. Since that time, the war against the drug cartels has become the main issue in the country, with violence escalating to unprecedented levels. The violence has contaminated other criminal activities, such as kidnappings and robbery. Although the government has effectively beheaded the most important cartels, the struggle between subordinates that are younger and even crueler has increased violence enormously.

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

Question
Score

President Calderón's strategy of fighting the drug cartels directly by sending the army to accomplish internal security missions resulted in unprecedented levels of violence and human rights violations (including disappearances), reaching levels similar to those experienced by countries under military rule or torn by civil war. The war on drugs has led to more than 60,000 violent deaths, more than 20,000 disappearances, and the displacement of between 7,000 and 21,000 people from their homes. The official strategy was to behead the drug cartels and reduce their size, rendering them more controllable and easier to defeat. Instead, as leaders have been arrested or killed, lieutenants who are younger, better armed and more violent have begun fighting each other. There are now more than 25 smaller cartels fighting for territory. In some states (Chihuahua, Michoacán, Guerrero, Tamaulipas) and cities (Acapulco, Ciudad Victoria and Veracruz, among others) the situation seems out of control. The drug cartels have extended their reach and diversified into other criminal activities such as hijacking, car theft, the abuse and murder of migrants, and business "protection." Mexico City, the south of the country and some parts of the center have been spared from violence thus far. However, in most states where there is violence, the drug organizations have infiltrated the police forces, the local judicial system and in some cases local politics. In some regions, this corruption reaches all the way up to the state governor level.

Monopoly on the
use of force

5

The new PRI government has played down the fight against drugs and pledged to reduce violence, though without defining a new strategy. General Óscar Naranjo, who led the war against drugs in Colombia, is the main counselor to Mexico's new President Enrique Peña Nieto on the issue. In the first month of the new government, there were more than 700 drug-related killings, a level similar to that under the Calderón presidency.

Formally speaking, all groups living in Mexico are accorded the same citizenship rights, without prejudice. Nevertheless, the indigenous population, which numbers around 6 million people, lives in marginal conditions, according to the National Institute of Statistics and Geography (INEGI), Mexico's official statistics body. These communities live in isolated regions, which effectively excludes them from partaking from benefits such as minimum living resources and education, despite their right to receive these goods. On the other hand, although Mexico's constitution states that it is a multicultural country and legislation against discrimination is in place, Indians routinely face discrimination. The Zapatista movement of the mid-1990's heightened public consciousness of the fact that indigenous peoples faced discrimination and were economically, socially and politically marginalized. This movement ultimately did not achieve much in the way of improving the social and economic situation of Indians, but surely helped to affirm their identity. Before the movement, most Indians conceived of themselves as peasants and fought for their rights through peasant organizations. Individually, they did not dare to assert their indigenous identity (indianidad). Since the Zapatista movement, indigenous identity has become a banner under which these communities can unite and identify. The exceptional characteristic of the Mexican indigenous population's identity affirmation (and indeed, of most of the analogous Latin American movements) is that it does not entail an aggressive position toward non-Indians; nor does it challenge the identity of the Mexican state. There has never been a question of territorial secession or even of any profound level of autonomy. In the wake of this movement's activity, the constitution was modified to recognize the Mexican nation as a multicultural state in 1997. Some localities, especially in Oaxaca, have been granted the right to exert political and civic rights under Indian customary law. In some cases, these particular conditions have led to separate problems such as discrimination against women.

State identity
8

The Mexican state is strictly secular. The church and state have been officially separated since the mid-19th century, particularly following the Mexican Revolution of the second decade of the 20th century. There has been no official religion, no religion taught in public schools, and the church was barred from intervening in public matters, even to the extent of priests appearing in public dressed in official garb. 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. It did not maintain relations with the Vatican, although the great majority of the population was Catholic. This situation arises from the country's history. The Catholic Church supported a war and the installation of a foreign emperor in the 19th century, as well as a bloody war against the revolutionary government in the second decade of the 20th century.

No interference of
religious dogmas
10

In 1992, the Salinas government modified the constitution in order to give recognition to the various religions that exist in Mexico. Following PAN's assumption of the presidency and rise to power in some of the more devoutly Catholic regions, the

Catholic Church has increasingly started to intervene in issues such as abortion and gay marriage. As a result, states such as Guanajuato and Querétaro have restricted what was already a very limited right to abortion (in the case of rape). The only state to have passed general, comparatively liberal laws on abortion and gay marriage is Mexico City. The Catholic Church has openly criticized these laws and the local government, and has called on its members to vote against the leftist PRD. Although this has in effect been an open and to a certain respect illegal intervention by the church in public affairs, the Mexican national government through the Ministry of the Interior has not reacted, evincing a tacit agreement that the church has the right to have its say in social matters.

Mexico's urban/rural and north/south divides affect the provision of basic services to a significant degree. While in the urban centers and in the northern part of the country, communication, education, and health care infrastructure is comparable to that in other emerging countries, conditions in the rural and/or southern parts of the country are similar to those in the poor countries of the South American continent or Africa. In some regions, notably the marginal indigenous regions or the states where these communities represent a majority of the population (Chiapas, Oaxaca, Guerrero, Hidalgo), the situation is dismal. This is reflected by the fact that although 85% of the population at present has access to sanitation, 15% still lacks this service, and at least 4% lack access to clean water. Both figures are probably underestimated if one takes into account the fact that some parts of Mexico City (where 20% of the total population lives) still lack these basic services. Transport and communication infrastructure has greatly improved in recent years, again primarily in the northern regions and large cities, basically driven by the economic integration with the United States.

Basic
administration
8

One cannot say the same of tax administration, which is basically federal; municipalities and states (excepting Mexico City) have a very low tax collection capacity. Even the federal state has a tax rate of barely 10% of GDP. Law enforcement is highly deficient across the country. Local, state and even federal police and the judiciary are badly paid, demonstrate low capacity levels (although there has been a significant effort to change this situation in recent years), and are plagued by corruption. All these bodies have been increasingly infiltrated by drug cartels in recent years.

2 | Political Participation

Elections are regularly conducted on the national, state and municipal levels; universal suffrage with secret ballot is ensured; multiple parties with different platforms are able to run; and political posts are filled according to election outcomes. However, elections in Mexico are not free of controversy. Both the 2006 and 2012 elections raised questions as to how fair and free elections in Mexico truly are, as

Free and fair
elections
7

well as to the efficiency and legitimacy of the institutions organizing them. In both elections, the leftist party candidate rejected the result as invalid. In the 2006 presidential elections, PRD candidate Andrés Manuel López Obrador lost by 0.56% of the vote. He demanded a recount of the votes, but the electoral institutions did not grant his request. In 2012, there was a clear propaganda broadcast by private media organizations that the Federal Electoral Institute (Instituto Federal Electoral, IFE) was unable to control or sanction. In addition, there was ample vote buying by the PRI, which went similarly unsanctioned. Other tactics such as co-opting candidates from other parties have occurred before the campaigns have begun.

The overall impact of these actions on the final electoral result remains unclear. However, none was found to be significant enough by the Electoral Tribunal to allow for the annulment of the elections, and it is most probable that neither election was subject to generalized and organized fraud. Nevertheless, part of the population was left with a feeling that the election results were illegitimate. Anti-democratic clientelistic practices inherited from the PRI regime have also been adopted by the PAN and the PRD.

While direct mass media time is strictly allocated to each party and candidate, news coverage is subject to less control. Thus, some political actors are never mentioned or are mentioned negatively for years, while others are mentioned continuously in a very positive light, as in the case of the PRI candidate who won the presidential elections with the support of the country's two main television channels. Studies have confirmed that these two channels supported Peña Nieto without counterbalance until the campaign started and the IFE began controlling the number times each candidate appeared in the media. Indeed, studies showed that even during the campaign, the information provided by the media was far from being equitable if the positivity, negativity or neutrality of each appearance was accounted for as well as the simple number of appearances.

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

Drug interests have infiltrated political circles to a significant extent in recent years. In all probability, this infiltration has progressed quite far in regions where drug trafficking has traditionally been strong, though primarily at the municipal and state level. Although this has not yet emerged as a serious problem on the national level, aside from one proven case involving a Chamber of Deputies legislator, there has

Effective power to
govern

7

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

On the other hand, the Mexican state is confronted with very strong private interests in sectors such as telecommunications, banking, cement and others, which the state is incapable of controlling. To a large extent, these companies or groups force the state to define regulatory conditions in their sectors so as to be favorable to their private interests rather than to the public at large. The World Bank has described Mexico as a captured state, insofar as the regulatory institutions tasked with controlling these companies are very weak or even directly controlled by them.

Certain corporatist organizations inherited from the PRI times also wield veto power in their specific areas. The teachers union, the biggest union organization in Mexico, remains a dominant actor in the educational arena, where it has succeeded in blocking a much-needed educational reform. The petroleum workers union wields a semi-veto power in the energy sector. Although the army in Mexico 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 in the context of the fight against drug trafficking and local violence may imply future changes. This has led the army to start expressing its opinion on aspects of the country's civilian governance, something that has not been common in the past.

There are no formal limits on social organization. Formally, ample rights of association and assembly are in place. Nevertheless, there are informal and even illegal means by which free association can be undermined, such as preventing workers from organizing in trade unions or forcing them to organize under specific unions, a common practice because the Ministry of Labor controls these matters even today. With the complicity of this ministry, enterprises have organized and registered "phantom" trade unions, impeding workers' ability to organize independently. As Mexico has closed-shop rules and allows just one union per enterprise, union leaders can effectively control their memberships. It is very difficult to organize an opposition, as this puts one's job at risk. Thus, the leadership of such unions is not elected regularly, and relationships with members are based on the clientelistic exchange of favors.

Although the electoral system does not impede the emergence of new parties, it strongly favors the three big parties in a way that discriminates against existing smaller parties. Independent candidates are not allowed to stand for election.

Mexico's mass media is basically free; de jure and mostly de facto, citizens and journalists may speak and write freely. However, electronic media ownership is very concentrated. On the national level, there are two main TV channels, while radio is largely controlled by the same two companies along with a few other big radio companies throughout the country. These two primary media enterprises are thus the

Association /
assembly rights

8

Freedom of
expression

6

most influential, and have the ability to mold public opinion. There have been notable cases in which commentators who did not hold strictly to the company line were fired. There are also notable cases of “hidden” state publicity, as in the case of the present president.

At the local level, the situation is more varied, with local governments having strong power over local media in some places, while in others media at the local level is quite free. The threat of violence from organized crime has made local media very susceptible to pressure from these groups. More than 70 journalists have been assassinated in recent years, and there have been armed attacks on radio and TV stations that report on the drug cartels, mostly at the local level. As this is one of the most dominant themes in the country, the fact that journalists may be risking their lives when researching the theme means that in certain regions and on certain issues, the press may not be as free in reality as it is formally.

3 | Rule of Law

Since the PRI lost its majority in the Chamber of Deputies in 1997, there has been an ever-clearer separation between the presidency and Congress. This separation of powers has been reinforced since the PAN won the presidency, as this party lacked a majority in either of the legislative chambers. On the other hand, there has also been an increased separation of powers between the central (federal) government and the increasingly autonomous state governors.

Congress has effectively used its renewed power to negotiate amendments to or even block certain presidential initiatives. States have their own legislatures and constitutions and are quite autonomous, but nevertheless depend on the federal government for resources. In 2000, they created an organization called the National Conference of Governors (Conferencia Nacional de Gobernadores, CONAGO), which exerts collective pressure on the federal government in pursuit of additional resources. This has proven successful.

Nevertheless, in part because of this mutual autonomy, the various branches and levels of government have little effective capacity to check each other’s actions. There have been cases in which certain governors were proven to be corrupt, but the federal government was unable to dismiss them because the Senate, the only institution allowed to dismiss an elected official, refused to do so. Congress has the legal right to oversee the executive’s execution of the budget, but no capacity to impose any sanction unless it can prove misconduct.

At the state level, the separation between branches is generally much weaker or even nonexistent. This is particularly true in those few states where the PRI has ruled

Separation of
powers
8

without interruption for more than 80 years, as in the states of Mexico, Veracruz and Hidalgo, to name the largest.

Since the creation of the Federal Judiciary Council (Consejo de la Judicatura Federal, CJF) in 1995, judges of the federal judiciary have been appointed and promoted by their peers, except those of the Supreme Court and the Federal Electoral Tribunal (TRIFE). The 1994 – 1995 reforms also increased the power of the Supreme Court, giving it the status of a constitutional court, which means it can review laws passed by Congress. Its members are nominated by the Senate following the presidency’s presentation of three names for each open post. This has given independence to the judicial system; since this reform, the Supreme Court has ruled against the president on several occasions. In 2008, a new judicial reform was passed that included the introduction of oral trial procedures; a greater emphasis on the rights of the accused (i.e., the presumption of innocence, due process, and an adequate legal defense) and the rights of victims (including the principle of restorative justice); modifications to police agencies and their role in criminal investigations; and tougher measures for combating organized crime. The judiciary was given until 2016 to implement all of these measures. On the whole, the judiciary at the state level is significantly less independent than is its federal counterpart.

These reforms are intended to shorten trial times, while oral and public trials can offer less opportunity to corrupt judges. At present, the judiciary system remains very ineffective and corrupt. Poor people are sometimes forced to stay in jail for years because they cannot hire a lawyer, while the rich receive an “amparo,” or writ protecting constitutional rights, that gets them out of jail in hours.

That said, the judiciary is still very much influenced by politics, and particularly by the federal executive. This was seen in the case of the impeachment of PRD candidate López Obrador during Fox’s presidency, and more recently in the case of French citizen Florence Cassez, who was accused of belonging to a kidnappers’ gang; in this instance, the federal government pressed judges not to free Cassez, although the procedures leading to her arrest had been plagued with irregularities. The fact that the Supreme Court failed to rule on the basis of these irregularities during the Calderón presidency, but freed Cassez after the change in government, is an indicator that even the country’s highest court lacks complete independence from the executive. These two are only the best-known cases in these regard; federal and local courts have been involved in many even more scandalous cases that have received less publicity.

The autonomy of the judiciary with respect to pressure groups or criminal groups is another troublesome issue. Strong economic interests have proven able to manipulate judges to their advantage. Criminal groups have taken advantage of widespread corruption among judges, a critical problem at the local, state and even national level.

Independent
judiciary
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Prosecution of office abuse is very deficient in Mexico. Certain advances have been made with respect to the information provided to the public about corruption cases. This has come in parallel with democratization. A 2002 law created a federal institute of transparency that has made it possible for researchers and journalists to investigate how public resources are spent. There are two limits to this. First, the procedures by which information can be requested are quite complex for ordinary citizens; thus, the service has basically been used only by journalists and academic researchers. Second, the law only covers information relating to the federal executive; states and institutions such as the Congress, the judiciary, unions, parties, etc. are all exempt. In addition, the executive can protect certain issues and the related information from public scrutiny, sometimes with no genuine valid reason. The Ministry of the Public Function surveys federal public functionaries and sanctions certain administrative or corrupt actions that are not subject to legal prosecution, prohibiting the perpetrators from holding any other public post for a period typically of 10 years. The Peña Nieto government proposed a law that would oblige the states to abide by these same rules; it was passed in the first few weeks of the present administration. There are no independent institutions with the power to impeach or prosecute governors.

Prosecution of
office abuse

4

As more information has become available, and journalists and researchers have increasingly investigated the activity of public functionaries, there has been an increase in the number of office-abuse cases that have been opened to the public eye. Nevertheless, there has been little ability to prosecute these functionaries. One tragic example was a fire at a kindergarten that killed 52 children; the school turned out to have been operating without following the standards set by the government, but no state functionaries were dismissed or prosecuted as a result. The governors of the states of Mexico, Oaxaca and Puebla, and more recently of Coahuila have been accused of corruption and in some cases even of criminal behavior, but have not been prosecuted. Numerous corruption scandals have emerged in Congress and in unions, but few have been prosecuted. In sum, there is more information about the manner in which functionaries behave and exert their function today, but very limited capacity to make them fully accountable for their actions.

Civil rights are formally guaranteed in Mexico, but are often violated by police, the army, and even the judiciary. In these cases, citizens have little or no ability to obtain compensation or to receive help from within the police or judicial system. Indeed, in many cases, the police and the criminals are allied. Crimes thus often go unreported, either because victims are afraid the police may be involved or because they feel it is useless, as 97% of crimes go unsolved or unpunished. This situation has worsened dramatically in the regions where the war against drugs is most intense. In addition, the police and army are increasingly involved in violations of human rights. In the last six years, more than 60,000 people have been killed in the course of what is known as the war against drugs. In addition, more than 25,000 people have disappeared. The Movement for Peace with Justice and Dignity (Movimiento por la

Civil rights

6

Paz con Justicia y Dignidad) contends that the government has not fulfilled its main function, which is to preserve the integrity of its citizens. It has demanded specific information on all deaths and disappearances, which are today reported only as aggregate statistics. The movement has also promoted a victim's law that would oblige the government to investigate every death, punish the police or army if they were responsible for hurting or killing innocent people, and provide financial compensation for the deaths of innocent people in the drug war. This law was passed by the new PRI government, after having been blocked by President Calderón in his final weeks as president.

Because the presumption of innocence, due process and the guarantee of adequate legal defense are all far from being a reality, jails are full of innocent people, many of them poor indigenous people who lack sufficient knowledge and resources to defend themselves. Trials can take years, or even longer for the poor. The police and army have been accused of terrible violations of rights (rape, excessive use of violence, arbitrary detention, keeping arrested individuals incommunicado, shooting civilians after mistaking them for drug traffickers). Demands made by the Federal Commission of Human Rights are rarely taken into consideration by these forces. In addition, although the federal commission and its Mexico City counterpart are independent of their executives, similar commissions in many other states are controlled by the political authorities.

Severe violations of the rights of women, indigenous people and migrants take place even more frequently. The hundreds of unsolved women's murders in the northern city of Ciudad Juárez and the thousands of migrants that have been killed or have disappeared on their way from Central America to the United States are emblematic of this problem.

4 | Stability of Democratic Institutions

Mexico's political institutions are relatively stable. All relevant political and social actors seem to have accepted electoral democracy. Elections are always held on time and there is generally no controversy as to whether election results are valid. The 2006 elections should be considered as an exception in this regard. The organization of the elections by the Federal Electoral Institute (IFE) and the decisions by the Federal Electoral Tribunal (TRIFE), which rules on the validity of elections, are accepted as final. Although it is true that the IFE and the TRIFE lost some of their legitimacy following their management the 2006 election, especially due to the fact that the TRIFE rejected the PRD demand for a ballot recount. In 2012, the IFE failed to investigate all party financial transactions carried out during the campaign, especially with respect to the PRI.

Performance of
democratic
institutions

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Formally, the Supreme Court and the Congress function well. The fact that there are three big political parties results in a divided congress. The executive does not have a parliamentary majority, and in the last two administrations, many executive initiatives have been blocked. For the same reason, Congress has not been active in proposing significant reforms. This situation has resulted in the widespread public opinion that Congress is inefficient and insufficiently focused on the long term. The ban on re-election at all levels has meant that most legislators have little experience and that they are not accountable to their constituents. In fact, there is no direct re-election, but an individual can be elected to another post, something that makes the party leaderships very powerful, as they control candidate nomination decisions.

Mexico's main political and social actors are formally committed to the country's democratic institutions. All political parties are committed to formal liberal democracy; there is no anti-systemic party. To date, the army remains under civilian control, although it currently represents the first line of the war against drugs, and has begun expressing criticism of certain political actors and offering independent opinions on the conduct of the war. There is no anti-systemic party, although parties continue to function in a clientelistic manner. Although Andrés Manuel López Obrador lost the elections of 2006 and of 2012 and refused to recognize the winner, thus undermining the legitimacy of the electoral institutions that sanctioned the results, he ultimately stayed within institutional channels. He is now in fact creating a new party with which he plans to stand in the next presidential elections. Although the majority of Mexico's population still supports democracy, the lack of efficacy in both the executive and legislature has affected the public's views of political parties. This risks tainting prevailing opinions on democracy itself. Part of the population feels that the political system is controlled by the two big parties and part of the PRD, that the system is a "partitocracy," and that the dominant political parties and other political institutions are not addressing the country's most important issues. In fact, support for democracy has declined slightly in the last several years.

Part of the population (mainly López Obrador sympathizers) believes that there was electoral fraud performed in complicity with the IFE and TRIFE in 2006, that the PRI used vast sums to buy votes in the 2012 elections, and in general lack confidence in the system and its institutions. However, this population has largely followed López Obrador, who has stayed within of the confines of liberal democracy. After two unsuccessful presidential runs, López Obrador has left the PRD and is creating a new political party called Morena.

5 | Political and Social Integration

Clientelism, widely used by the PRI throughout its history and again in the last election, remains one of the dominant characteristics of the Mexican political system. The main problems in the last elections were accusations by the PRD and the PAN

Commitment to
democratic
institutions

7

Party system

8

of widespread vote-buying. This was not proven, but is credible. This is a characteristic not only of the PRI, but also of the PRD, which has been shown to maintain clientelistic relations with many of the organizations it controls, for example the powerful and numerous informal workers organizations, which were surely mobilized in the last elections. The PAN, mainly a middle class party, is less clientelistic; nevertheless, it has also been shown to adopt these methods in some of Mexico's provincial cities.

These three main parties have controlled most of the seats in the Chamber of Deputies and Senate for the last 16 years, since the PRI lost its majority in the Chamber of deputies in 1997. Thus, the problem in Mexico is not, as in other Latin American countries, the fragmentation of the party system. The problem seems rather to be the evolution of the Mexican party system into a partitocracy. This was reinforced by the electoral reform of 2007, which strengthened the main parties against smaller ones, increased available party resources and strengthened parties' influence over the electoral institutions (IFE and TRIFE).

Polarization does seem a characteristic of the Mexican political system. This situation was more evident in 2006, when the elections were polarized between candidates on the right and left, and the results were so close as to result in a long postelection battle. In the last elections, this was less evident, although the polarization remains tacit: Mexico is divided between those who have benefited from the prevailing economic model and those who haven't. In the previous election, these two groups were clearly represented by the parties of the right and left. In the 2012 election, when the main issue of public concern was violence, the PRI represented the hope of many that it would be able to overcome the previous years' lack of progress.

The party system in Mexico is quite stable. The three large parties concentrate most of the votes. In 2012, the PRI got 38.2% of the votes, the PAN 25.4% and the PRD 31.6%. Nevertheless, López Obrador left the PRD and is creating a new party, which may draw left-leaning votes from the PRD and contribute to increased volatility in the next elections. The party system's stability does not come from roots in society; in fact, it is quite detached, or at least rooted primarily in very weakly representative organizations. Its stability is derived from the rules governing the electoral and the political systems, which the parties have reinforced.

Although Mexican society is highly organized in many different sectoral organizations, these have become less and less representative. Social activity is increasingly anomic and unorganized. In the past, the PRI-led regime managed to concentrate most social interests within the party itself, thus assuring the stability of the regime. Under this schema, the main interest groups were trade unions, peasant organizations and other popular-sector organizations. All were highly organized, and their leaders negotiated within the PRI for advantages for their membership and for political posts for themselves. Although business interests were not directly included

Interest groups

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in the PRI, they were also organized and their opinions usually taken into consideration when decisions affecting them were made. During the 1980s and 1990s, these various organizations lost power and importance due to the retreat of the state from the economy, the deregulation of the labor market, the end of the agrarian reform and the democratization process. The PRI hollowed itself out, and the organizations that had served as its foundations became decreasingly representative; this process weakened the PRI itself and led to the gradual transformation of the political regime.

While popular organizations have weakened and civil society associations have to a certain degree emerged (although Mexico lags behind countries such as Brazil or Argentina in this regard), Mexico has seen the strengthening of economic interests that have in many ways “captured” the state. Among these, the big oligopolistic interests in the mass media, telecommunications and banking sectors not only have the capacity to convince the government to follow economic policies that favor them, but are important lobbies in Congress, where they influence legislation on social and political matters.

Although the unions have been significantly weakened by 25 years of neoliberal economic policy, some (notably the teachers’ union, and to a lesser degree the petroleum workers’ union, though this has lost influence) remain quite powerful and exert significant pressure on the government.

Until the presidential elections in 2006, one could have said that the commitment to democracy was rapidly gaining ground in Mexico. However, the main opposition candidate in that round of polling never accepted the results, and managed to convince around 30% of the electorate of the justice of this position. Although the postelection climate following the 2012 election was not as polarized, there were nevertheless accusations of vote-buying and the use of financial resources from unauthorized channels for electoral purposes. Democracy in Mexico may be still the preferred political system for most Mexicans, and is accepted despite its many faults.

The main democratic institutions suffered gravely from the 2006 situation; some, such as the Federal Electoral Institute (IFE), which organizes elections, and the Federal Electoral Tribunal (TRIFE), which hears election-related disputes, have never recovered their former credibility. Popular esteem for political institutions has been further undermined by the fact that during the Fox administration, Congress blocked most of the presidency’s legislative initiatives while proposing few itself, as well as by the fact that the big parties were able to pass a law reinforcing their power, although they already dominate the country’s political life. According to *Latinobarómetro*, the Mexican population’s support for democracy has gone down over time. In 2002, 63% of the country’s respondents said they approved of democracy; this fell to just 42% in 2008, and though it recovered slightly to 49% in 2010, it fell back to 40% in 2011. For Latin America as a whole, this percentage is

Approval of
democracy
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58%. Mexico has the region's lowest share of people who are satisfied with democracy: 23% in 2010, compared to a Latin American average of 39%. Just 16% of Mexicans declare that democracy has improved in their country, a share nearly as low as that of Chile (14%), while the Latin American average is 21%.

While Mexicans support democracy, they have little trust in the existing institutions of democracy. This may be interpreted as saying that people believe that democracy is in theory the best regime, but that Mexico's institutions are not in fact democratic. Only 31% of survey respondents in 2011 said they trusted the government, as compared to a Latin American average of 41%; in 2010, support for political parties (28%), Congress (19%) and the judiciary (28%) was very low, but 55% trusted the army.

According to Latinobarómetro, Mexico falls near the Latin American average regarding interpersonal trust levels, with 23% of people having confidence in the majority of other people, as compared to 22% in Latin America as a whole. Nevertheless, participation in social organizations is very low.

There are numerous civil society organizations in Mexico, but these are mostly clientelistic and are not particularly representative, as they are a legacy of the PRI years. These groups include unions, peasant organizations, informal workers organizations, and other such groups.

Participation in autonomous associations is quite low by Latin American standards. According to a 2005 Redinter report, 17% of Mexicans participate in social organizations (regionally bracketed on the low side by Ecuador at 10%, and Panama with 14%, and above by Costa Rica at 32% and Brazil at 24%). In Mexico, 42% of the population has never participated in a social or political organization (a figure comparable to Ecuador at 52% and Chile at 45%).

Social capital

5

II. Economic Transformation

6 | Level of Socioeconomic Development

Mexico has fallen somewhat in the Human Development Index (HDI); ranked at 56th place in the 2010 edition, it fell to 57th in 2011, behind Chile, Argentina and Uruguay, but above Costa Rica and Brazil. Compared to other Latin American countries, it has a relatively low percentage of people living on an income of less than \$2 a day. The share of this population fell from about 20% at the end of the 1990s to about 5% in 2010, purportedly due to the extensive poverty-alleviating programs that have existed since the beginning of the 1990s. This percentage probably reflects the indigenous

Question
ScoreSocioeconomic
barriers

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population, as between 5% and 10% of the indigenous population (depending on the method of calculation) is totally marginalized. The present PRI government is launching a program to end hunger, which means that this phenomenon does persist. The overall poverty rate has increased since the global crisis, from 47.7% in 2008 to 51.3% in 2010. If one takes the exceptional growth of the export sectors in Mexico in the last 15 years into account, one can conclude that poverty and inequality seem to be structurally embedded, and that an economic model based solely on the external market appears incapable of solving these problems. The unemployment rate reached a new high in 2010 after the global crisis, though at 5.3% at the end of 2012, it was lower than in other Latin American countries. There are no federal unemployment programs in Mexico.

General inequality has been slightly reduced over time. Although the country's Gini index score has fallen from 51.4 to 48.1 between 2002 and 2010, the country's medium level of human development and the existence of extreme poverty effectively mean that Mexico, as with the majority of Latin American countries, remains a very unequal society. Gender inequality, at an index level of 0.448, is still very substantial compared not only with other Latin American countries such as Chile, Argentina and Uruguay, but even with poorer countries such as Peru and Costa Rica. Indigenous populations are discriminated against, and tend to live at the lower strata of society.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	883741.0	1034940.9	1157646.3	1177955.5
GDP growth	%	-6.0	5.3	3.9	3.9
Inflation (CPI)	%	5.3	4.2	3.4	4.1
Unemployment	%	5.2	5.2	5.3	-
Foreign direct investment	% of GDP	1.9	2.1	1.9	1.1
Export growth	%	-13.6	21.7	7.6	4.6
Import growth	%	-18.5	19.7	7.1	4.1
Current account balance	\$ M	-7497.3	-2519.1	-10346.8	-11409.6
Public debt	% of GDP	44.5	42.9	43.7	43.5
External debt	\$ M	199944.3	243823.6	287037.3	-
Total debt service	\$ M	31846.3	32489.0	42089.5	-

Economic indicators		2009	2010	2011	2012
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	11.9	11.8	11.7	11.5
Public expnd. on edu.	% of GDP	5.3	5.3	-	-
Public expnd. on health	% of GDP	3.1	3.1	3.0	-
R&D expenditure	% of GDP	0.40	-	-	-
Military expenditure	% of GDP	0.5	0.6	0.6	0.6

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

Market competition has been solidly established in Mexico since the government opened the economy, privatized state enterprises and deregulated the economy in the 1980s. The signing of NAFTA in 1994 helped reinforce Mexico's open economy and market orientation, anchoring the country within an international treaty that imposed severe limits on any type of trade or capital-movement protection within the signatory countries.

However, two issues continue to constrain market-based competition. First, small and medium-sized companies in Mexico encounter many administrative difficulties in opening and maintaining businesses. It takes an average of 74 days to purchase land or a building that is already registered and free of title dispute, as compared to 31 in Chile, 34 in Brazil, and an average of 51 around the world. In addition, this sector has a structural need for financial support that is unmet by the government. Second, the Mexican economy is dominated by a handful of private and public oligopolies that not only impede other companies' entry into the sectors they dominate, but are responsible for passing on costs higher than in many other countries to Mexican entrepreneurs. Competition is also limited by unfair practices enabled by a corrupt judicial system. This signals the presence of structural limitations that produce and support the growing informal sector, which is estimated to account for between 40% and 50% of Mexico's economy.

Mexico's economic structure is highly oligopolistic, and the state has low regulatory capacity. A number of oligopolies act as market-entry barriers to other companies and pass on high prices to domestic companies that make international competition more difficult. There are several state monopolies (petroleum, electricity), but the primary concern in this regard rests with the private oligopolies in sectors such as

Market-based
competition
6

Anti-monopoly
policy
7

telecommunications, cement, electronic media and retail sales (Wal-Mart). Substantial market concentration around one or a few companies also exists in other sectors, such as tortilla production (Maseca) and the distribution of pharmaceuticals. Some of the sectoral regulatory commissions, as in the area of telecommunications, are captured by the oligopolies, to the extent that the World Bank published a report on Mexico called “The Captured State” in 2010.

The Federal Competition Commission lacks critical powers such as the authority to split a company deemed overlarge. It does have the capacity to impose fines, but these are either too small relative to the company’s economic capacity, or the company is able to obtain an “amparo,” or appeal for constitutional protection, that invalidates the fine. Thus, even though the regulatory institution is autonomous, it is incapable of correcting oligopolistic domination by large companies.

Mexico is rightly considered to be one of the most open economies in the world. The country began opening its economy with its accession to the General Agreement on Tariffs and Trade (GATT) in 1986. It subsequently signed the NAFTA with the United States and Canada, further liberalizing foreign trade and limiting all members’ ability to impose any protectionist measures on merchandise or capital flows. Even restrictions on short-term capital flows, such as those imposed by Chile (a very liberal country indeed) or Brazil during some periods, are disallowed. The country also has trade agreements with more than 48 countries around the world (including the European Union, Chile and Japan). As of the time of writing, it was negotiating a free trade agreement with Brazil. Most trade is done without tariffs; in 2008, the last few restrictions on trade were eliminated when the import of maize and beans was liberalized. There are no restrictions on capital inflows or exit, either in the long or short term.

Liberalization of
foreign trade
10

After the 1994 financial crisis that led to the collapse of the Mexican banking system, banks changed hands and were mainly bought by foreign institutions. Today, the main banks are owned by Spanish (BBVA-Bancomer and Santander-Serfin), U.S. (Citibank-Banamex), Canadian (Scotia-Bank) or English corporate parents. These banks represent nearly 90% of the private banking system. There is only one significant Mexican-owned bank (Banorte), which merged with IXE to become the third-largest bank in Mexico; at present it controls around 14% of the market. The fact that the banks are mainly controlled by foreign capital led to a more significant devaluation of the Mexican peso during the global financial crisis than was seen by other Latin American currencies, as foreign companies and foreign-owned banks repatriated capital in order to boost the liquidity of their parent banks back home. This pattern could portend future difficulties as well; for example, a run could develop if the situation worsens in Europe. Nevertheless, it is by no means certain that the situation would be different if the banks were domestically owned, as past events have shown (in 1982 and 1994).

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

Following the near-collapse after the 1994 “Tequila Crisis,” Mexican authorities commenced a comprehensive financial system reform and subsequently implemented regulation designed to avoid similar crises in the future. According to a study published by the Federal Reserve Bank of Dallas, 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. While current Mexican capital requirements are already consistent with Basel III standards, bank accounting standards fall short of Basel III standards for complementary, or noncore, capital. Nonetheless, the banking system seems to be quite stable as assessed on the basis of banks’ overall nonperforming loan share; this is just 2.0%, well below the international average of 6.9%, and considerably lower than the 2002 level of 3.7%.

8 | Currency and Price Stability

Inflation has been kept under control for the last decade, with annual rates of between 5% and 3.4%, comparing favorably with other developing countries. The Mexican central bank gained independence at the beginning of the 1990s, with inflation control enshrined as its primary statutory goal. For its part, the government has been very careful not to overspend, keeping a very tight control on deficits. For most of the last decade, it has even showed a positive fiscal balance. Even in the crisis of 2008 – 2009, the government’s budgetary deficit did not increase; thus, in contrast with most countries of the world, its action during the period was pro-cyclical. Since the 1995 crisis, the foreign exchange rate has been allowed to float. According to the World Bank, the value of the peso has declined relative to the rest of the world currencies by about 7% since 2005, falling from an index value of 100 to 93.1 in 2011 in that time. In 2008, the U.S. dollar was worth around 10 pesos, as compared to about 13 pesos today. The central bank has intervened to support the value of the peso by selling dollars from its foreign reserves, which are today at an unprecedented height of more than \$163 billion dollars.

Anti-inflation /
forex policy

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In comparison to many countries, especially within the European Union, Mexico has a moderate public debt of about 43% of GDP. The country has a low but permanent current account deficit that has persisted for a decade, reaching 0.8% of GDP in 2011. This is mainly because although the country has a commercial surplus with the United States, it has a deficit with the rest of the world, especially with Asia and China.

Macrostability
8

Macroeconomic stability has been maintained at the cost of sacrificing microeconomic health. Growth has been slow throughout the decade: between 2% and 3% on average, although in 2010, GDP grew by 5.5% following a 6.5% decrease in 2009. Since 2010, the economy has created around 600,000 jobs per year, although this has not been enough to compensate for the decline during the darkest moments of the global crisis, as demonstrated by rising unemployment levels. This situation is in part due to low levels of government consumption as compared to other developing countries. Mexico's state expenditure totals just 12% of GDP, compared to a developing-country average of 14%; indeed, dynamic countries such as Brazil or Poland spend almost double this share.

9 | Private Property

Property is basically well defined at the multinational company level, as well as for big and most medium-sized Mexican companies. No serious political force proposes nationalization of these enterprises. While entrepreneurs persistently complain that they encounter numerous bureaucratic problems, the number of days it takes to register a company in Mexico is in fact below the Latin American average. The situation facing small businesses is somewhat different, however. There are significant problems in defining the property of individuals and small businesses at the micro level, linked to the inefficiency and corruption of the administrative and the judicial system. Land property conflicts are common. Much of the property of the lower middle class and the poorer population has not been legally recognized, and thus cannot serve as loan security, for example, or as an economic asset aiding in the creation of a business. Many very small or micro businesses in the informal sector lack property rights, do not register their workers, and do not pay social security or even income taxes. This puts them in a rather precarious condition, and renders them vulnerable to corruption. Recently, in some of the cities hardest hit by organized crime, criminal gangs have begun demanding money from businesses in exchange for protection.

Property rights
7

In Mexico, private enterprise is largely given a free hand; there are few regulations limiting or guiding sectoral investments. Privatization was almost totally completed in the mid-1990s. Participation by private interests is barred only in the oil and electricity sectors; in this latter sector, however, private investment is permitted in the form of public-private partnerships, and there are increasing signs that the present government will try to open the oil business to private interests as well. A significant

Private enterprise
8

obstacle here is the fact that 40% of the government's resources come from Pemex, the state oil company. The presence of private oligopolies inhibits investment in certain other sectors, including telecommunications, media, maize, consumer products distribution and pharmaceutical distribution. Businesses are also affected by the rise in crime, and particularly by the fact that drug cartels have expanded into new activities such as extorting protection money from businesses.

10 | Welfare Regime

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

The PRD government in Mexico City has created a universal noncontributory pension program for people over 65, providing benefits equal to approximately half the minimum salary. This has had important effects in empowering older people who typically live with their family. The federal government implemented this program at the end of the 2000 – 2006 administration, but providing only about half the amount of money, and with coverage limited to the poorest regions of Mexico.

The health care insurance system has never covered more than 50% of the population, even at its peak in the 1970s. The remainder of the population was covered by the noncontributory public system operated by the Ministry of Health. Nevertheless this system never clearly defined who had rights to coverage, and for what kinds of treatment and diseases. Since 1995, health services have been decentralized at the state level. In 2005, the government launched the Seguro Popular program, which was intended to incorporate the population formally into a health program that would be partly contributory, depending on income, while being free for those in the lowest four income deciles. The idea was to give individuals rights to health care and to clearly define the health services covered. According to official data, more than 50 million people are in the program today, and it covers most of the diseases that affect Mexicans, although it still excludes some very important ones. Although this has been one of the government's main programmatic successes, the health institutions tasked with dealing with patients outside the contributory schemes do not receive resources commensurate to their new obligations. On the other hand, even with this program, the population's out-of-pocket expenditure share is still one of the highest in the world, being reduced from 51% to just 49% with this program. This fact guarantees

Social safety nets
6

that some families, particularly among the poorest segments, remain subject to health care spending demands at unaffordable levels. Although health expenditure in Mexico has risen by 0.5% of GDP since 2005, it remains very low compared to other countries at similar or lower levels of development – a mere 3.1% of GDP compared to more than 4% in Brazil and Argentina, or even to Chile’s 3.8%.

One of the most important social safety net programs is the Oportunidades conditional cash transfer program. This anti-poverty program has existed under various names since 1988. Today, more than 5 million families take part, and the program as a whole has a budget equivalent to 1.3% of GDP. It is very successful, in that it (along with remittances from migrants) has contributed to reducing the incidence of extreme poverty, although it has been criticized for an inability to reach the “working poor.” It has also been accused of being manipulated for clientelistic purposes in some states.

There is practically no unemployment insurance; even where such programs have been implemented, such as in Mexico City (which is governed by the leftist PRD), they cover a very small percentage of the unemployed.

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

Women have almost the same literacy rate and school attendance history at all levels as men. Thus, in this respect, at least, they seem to have access to equal opportunities. The Oportunidades program has been instrumental in this respect, as it has provided scholarships for women in the poorest homes, mainly in the countryside, in order to facilitate their continuing education. Nevertheless, 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; 41% of women are employed, a level similar to that of Italy (47%), and above Turkey (25%). This is considerably below the OECD average of around 58%. Domestic abuse is a widely acknowledged problem; Mexican women are often mistreated by their spouses or by male members of their family. The catastrophe of the thousands of unsolved crimes of violence against women, particularly the murders of women in Ciudad Juarez and other parts of the country (including the state of Mexico), led the Inter-American Court of Human Rights to issue a judgment against

the Mexican state in November 2009; this is one tragic indicator that women do not enjoy the same rights as men.

11 | Economic Performance

Although Mexico was badly hit by the global economic crisis in 2009, when its GDP decreased by 6.2% (one of the most substantial such declines in the world), the economy recovered to grow by a respectable 5.5% in 2010, creating around 800,000 formal jobs. It grew again by 3.5% in 2011, creating around 600,000 jobs. In 2012, the economy grew 4%. Recently, job creation has diminished although the pace remains significant: in the first two months of 2013, 165,000 jobs were created, a reduction of 23% as compared to the same two months last year. From a macroeconomic perspective, Mexico is in good shape. Inflation is under control, at an annual rate of 4.1% in 2012. Total external debt was around \$210 billion in 2012, or about 30% of GDP (2010: 18.8%; 2011: 24.2%). In fact, the Mexican peso has appreciated considerably since 2008, when it reached more than 14 pesos per dollar; recently, it has risen to about 13 pesos to the dollar.

Nonetheless, the trade balance and the current account balance continue to be negative; this has been so at an almost structural level for the last decade. The country showed a current account deficit of -0.6% in 2012. The unemployment rate increased from 3.5% in 2008 to 5.3% in 2010, falling in early 2013 to 4.8%. More significantly, the level of informality has not receded, today accounting for 60% of the working population according to recent INEGI estimates (considering as informal all workers that have no benefits).

The large size of the informal economy, as well as the inability of the economy to create enough formal jobs for all the people who enter the labor market, has been explained as a consequence of the country's dependence on the U.S. economy, as well as the weak connection between the export economy and the internal market, especially in the large maquiladora sector (largely manufacturing for export within special free-trade zones). Export growth has been exceptional, but the Mexican economy is highly dependent on imports, and adds comparatively little value domestically. In the maquiladora sector, the share of value added to exports is only around 3%; in only a few sectors, such as the automotive industry, is the share of added value significantly larger.

The orientation of the economy toward exports, and the concomitant abandonment of the internal market, is a major problem. According to *The Economist*, this explains in part why GDP in Mexico increased by an average of merely 1.8% during the past decade, lagging clearly behind Brazil or Chile. In addition, gross capital formation is

Output strength
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low in Mexico at around 20% of gross national product (GNP), while in India and China this figure is respectively over 30% and 40%.

Additional problems include the facts that tax revenues in Mexico are among the lowest in the developing world (around 10% of GDP), and that oil production, which still contributes 40% of the state's resources (and balances the non-oil commercial balance, which showed a deficit of almost 12 billion dollars in 2012), is declining.

12 | Sustainability

Mexico falls just under the world average with respect to the quality of environmental policy. Consciousness of environmental problems is growing within the government, civil society and the general public. Nevertheless, tangible solutions have been slow to be implemented. On the one hand, the current government's focus has been on economic stability and growth, with the fight against drug cartels also demanding considerable attention during the last six years. The last mayor of Mexico City implemented some practical measures such as an expansion of the metro (one line was constructed) and the metro bus (a few more lines were added). The city government has also sought to promote a more sensible use of water by increasing its cost, but has failed to induce more rational use. It has begun requiring the separation of organic from nonorganic material in the public collection of garbage. Other more symbolic measures like the promotion of the use of bicycles have also been implemented. However, the city government has also continued to support the use of individual cars; it recently constructed an extension of the second level on the main highway that goes through the city, as well as a tunnel from one part of city to the other.

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

There are nevertheless an increasing number of environmental NGOs that are exerting pressure on governments at both the federal and local level. In recent years, a number of local ecological movements managed to stop a waste-disposal site in San

Environmental
policy
6

Luis Potosí, as well as contamination in Torreón. All of this pales in comparison to the scale of the environmental problems of Mexico at large, however.

As a share of GDP (5.3%), Mexico's public expenditure on education is equivalent to that of other developing countries such as Brazil, China and India. Nevertheless, various evaluations such as the Program for International Student Assessment (PISA) show poor results, indicating that resources are not very effectively used. Neither resources nor salaries seem to be the core problem, as teachers' salaries in Mexico are not strikingly different from those in other countries at a similar level of development. Education problems seem to have political roots. The school system is effectively captured by the teachers' union, the largest union in Mexico and a remnant of the former PRI regime; under this former system, unions had received privileges (including turning a blind eye to corruption) in exchange for political fidelity. The new PRI government recently passed an educational reform that will implement teacher evaluations and continuous upgrading of skills (if found necessary by the evaluations). As of the time of writing, the union was mobilizing against the measure, which had yet to be implemented. In general terms, one of the main deficits of the country's educational system is the fact that parents have little information on or knowledge about how their children are being educated, and are badly organized, making it difficult for them to exert influence on the schools. For many years, the solution among middle- and higher-class families has been to abandon the public schooling system altogether and migrate to private schools, which further increases the educational gap.

Mexico R&D expenditure is quite low at only 0.37% of GDP, well behind other similar countries such as Brazil (which spends more than 1%). This is the lowest level of R&D investment among the OECD countries, below even Turkey, Portugal, Poland and Slovakia, and is lower than many other countries of similar or even lower levels of development.

Transformation Management

I. Level of Difficulty

The main structural constraints on Mexico's growth and investment are poverty, low education quality levels and inequality. About 40% of the population can be considered poor, although extreme poverty has been reduced to between 8% and 14%, depending on the source consulted. Nevertheless, inequality is an even more important factor than poverty. These two issues are the main constraints on the internal market, increasing an informal economy based on low-priced imports, smuggling and illegal merchandise, and providing incentives for young people to enter illegal activities. This is partly the consequence of an economic model based on cheap labor and low investment in human capital, which in turn implies low productivity.

Structural
constraints

6

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

The Mexican state's low taxing capacity is another constraint, affecting its ability to make investments in other areas. It collects around 10% of GDP in taxes and relies heavily on oil exports that are steadily declining. About 40% of the government's financial resources currently come from the state-owned petroleum company Pemex.

The former regime was based on state control of social organizations through the primary political party, the PRI. Although the number of autonomous organizations has grown consistently from the 1980s onward, the density of civil society in Mexico is quite weak compared to countries such as Brazil. Most social organizations are linked to one of the political parties, and entertain clientelistic relations with them. The fact that in the last election there was considerable evidence indicating that the

Civil society
traditions

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PRI and most probably the PRD bought many votes shows that civic culture still lacks deep roots within the Mexican population.

Mexico's present crisis of violence is not directly related to social, political or ethnic cleavages, although it is related to the lack of opportunities for the young people tempted to engage in illegal activities. In a sense, the violence that has led to more than 60,000 deaths can be seen as an anomic type of civil insurgence against the government and the legal economy by the young that enter the drug cartels. More traditional local conflicts, sometimes leading to violence, take place especially in the poorest regions of the country such as Oaxaca, Puebla and Guerrero. Social and political violence exists but is local and limited in scope. At the local level, conflicts derived from religious cleavages between Catholics and Protestants do occasionally flare up, especially in the south of the country in Chiapas and Oaxaca. Disputes related to land delimitation or water sometimes devolve into violent disputes. Socioeconomic conflicts are the most common type of dispute, but hardly ever become violent or massive.

Conflict intensity

7

II. Management Performance

14 | Steering Capability

Awareness by the executive that the government should make decisions on a long-term basis has increased in recent years. In effect, recent presidencies have been prone to set strategic priorities. For example, economic transformation has remained focused on the type of economic policies in place since the 1980s, with the maintenance of macroeconomic stability as a primary goal. President Calderón put special emphasis on a fight against drug cartels that was implemented strictly despite deleterious consequences. There has been a clear intent to reform the police and justice systems. The first has shown questionable results, while the second, despite a 2008 reform that moved in the right direction, has been slow to be implemented. Reform of education is also an announced priority. The present government has recently passed a law in this area. There is widespread consciousness a few fundamental areas urgently demand reform; among the most important are fiscal policy, the energy sector and the presence of oligopolies.

Question
Score

Prioritization

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Nonetheless, important actors are able to impede the implementation of these priorities. Fiscal reform is blocked by big businesses and oligopolies. Education reform is blocked by the teacher's union. Judicial reform is blocked by corrupt practices.

The implementation of government priorities has become increasingly complex due to the power acquired by Congress and the governors, and the fact that the various branches and levels of government do not collaborate closely. This has been mainly due to the confrontational relationship between Congress and the presidency under the last two PAN presidencies. As the political parties in Congress care most about their short-term interests, it has been very difficult to pass and implement important laws. This situation seems to have changed at the beginning of the present presidency, however. The new presidency signed a “Pact for Mexico” that contained 95 propositions that the main parties in Congress agreed should become laws. The first such laws included the educational reform and a transparency law concerning state and municipal finances. This may portend a change in the relations between the executive and Congress, where the PRI does not hold a majority. Nonetheless one has to consider the existence of oligopolies and corporatist interests that will try to block implementation of these laws. The oligopolies and practical monopolies that dominate certain economic sectors represent one of the government’s main challenges. These sectors have very substantial economic power and have essentially captured the relevant state regulatory bodies. All this is aggravated by an ineffective bureaucracy. Moreover, many infrastructure projects in the last administration faced a long decision-making process that raised costs and has delayed some plans indefinitely.

Implementation
7

More broadly, Mexico’s federal structure means that many services such as education and health have been decentralized, and that each state has its own Congress and laws. This means relations between the different levels of government are becoming more and more complicated. Nevertheless, the federal government still controls financial resources, as the states and municipal governments almost have no tax-collecting capacity.

Mexico has long lacked a comprehensive, professional civil service staff, although a law on the issue was passed under President Fox (2000 – 2006), and a Ministry of Public Administration (Secretaría de la Función Pública) is in place. While public policies are often subject to evaluation, there is no clear proof that these evaluations lead to program modification.

Policy learning
6

A professional civil service exists only in the ministries of Economy, Health and Foreign Affairs, and in some state institutions and companies such as the Bank of Mexico and Pemex. Most politicians taking government positions lack the preparation to understand the policies they have to implement, and have little time to learn and innovate. As changes for political reasons are still very frequent, most high-ranking politicians are primarily worried about their careers, and thus seek to minimize risk. As most also hold posts for relatively short durations, they do not have time to learn. As a result, there is little flexibility and little capacity for learning. Most functionaries are still more committed to their parties than to their office. Because elected functionaries cannot be re-elected, they usually leave their posts only shortly

after learning their job. Re-election to executive posts is absolutely prohibited, although for Congress officeholders can be re-elected in alternate terms. Nevertheless, there is “virtual” re-election if one considers that many significant political leaders simply change posts; going, for example, from the Senate to the Chamber of Deputies, then to a municipal or state executive, then back again to Congress.

15 | Resource Efficiency

Although with respect to budget and debt policy, the Mexican government is quite restrained, implementation efficiency, transparency and deviation from plans are serious problems at the federal level and even more so at the state and municipal levels.

Efficient use of
assets

6

There are constant complaints that the Mexican bureaucracy is costly with respect to the services it offers. Education is one such example: Expenditure is comparatively high as a share of GDP, yet outcomes as measured by PISA exam scores are very bad. There have been countless reports of governors making use of allocated resources to engage in nonproductive or vanity investments, providing considerable opportunity for corruption.

Every new administration changes personnel within most high-level posts. Though many observers have recommended that the government should implement a civil service, this has never been comprehensively implemented. The Foreign Relations and Finance ministries and the Bank of Mexico are the only top-level institutions to have a civil service. The situation is much more serious at the state and local level.

Mexico’s administrative apparatus has been modernized and submitted to a growing body of transparency requirements during the last 20 years. However, both for administrative and political reasons (democratization; strengthening of federalism), it has also been decentralized. These two evolutions have not always advanced in parallel: While at the federal level, a better use of resources is evident, at the state level this is not always the case. Transparency laws (if they exist at all) are much less strict at the state than at the federal level, and states’ use of public resources is usually not transparent. The new Peña Nieto administration recently passed a law extending transparency requirements to the local level; however, it remains unclear whether implementation will be successful.

The Mexican government has never instituted the role of a cabinet coordinator or held regular cabinet meetings. This means that the president generally gives orders to each of the ministers without coordinating with others. However, in special circumstances, as when there is a crisis in a certain sector, he does meet collectively with all ministers having some responsibility in the area.

Policy
coordination

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This practice creates serious problems of policy coordination both between and within the various ministries. Concurrent with democratization there was a weakening of the presidency and an empowerment of the governors, leading to a feudalization of political power and decision-making; this in turn led to lower levels of coordination than existed when the PRI controlled all levels of government.

As evident under the Calderón presidency, this lack of coordination extends to the crucial area of security. There are various police forces at the federal, state and municipal levels, and little coordination between them with respect to fighting crime. Under Calderón's presidency, competition between the three sectors of the army (the marines, the army and air force) was also evident.

An evident lack of coordination hampers the activities of the ministries of Finance and the Economy; the policies of the latter are on many occasions undermined by the general policies of the former. The Ministry of the Economy has dozens of programs aimed at micro- and medium-sized enterprises, but these are often uncoordinated or repetitive.

The first PAN presidency passed a transparency law creating the Federal Institute for Access to Public Information (IFAI), which permits any citizen to demand information on the manner in which federal government resources are spent. Separately, Congress performs an audit on the use of executive resources. Although this situation has partly succeeded in establishing a more transparent and less corrupt administration at the highest level, this has not been the case among lower echelons or at the state and municipal level.

In truth, transparency at the highest level is also quite limited. Though the public has gained increasing insight into the way resources are administered, and it has learned of a number of abuses of public funds, penal sanctions for such abuses are rare. Neither the IFAI nor Congress has the capacity to prosecute those committing the abuses; this power lies with the attorney general, which has little if any autonomy from the executive. Moreover, many institutions are not subject to oversight by federal bodies such as the IFAI, and are consequently completely opaque. This includes state and municipal governments, trade unions and most other social organizations, the judiciary, political parties and even Congress itself. In many states, IFAI-like structures are controlled by the governor or have fewer powers than does their federal counterpart, due to the fact that state laws are weaker. On the other hand, the war against the drug cartels has exposed a very high level of corruption within the police and judicial apparatuses, which also operate outside the IFAI's scrutiny.

Anti-corruption
policy
4

16 | Consensus-Building

There is a basic consensus in Mexico on the importance of democracy and market economic principles. No relevant actor is radically against either of these two goals. Although López Obrador has publicly asserted that the last two elections were plagued by irregularities and fraud, and has not accepted their results, he has neither condemned the democratic model nor promoted violence or other extra-institutional means of gaining power. With respect to the market, he and other forces that criticize Mexico's current economic model are not anti-capitalist per se, but rather against an economic model that is fundamentally outward-oriented and neglects the internal market. Thus, although the main actors agree on democracy and the market economy, they are extremely divided as to the way in which these two goals should be achieved. In another area, public opinion regarding the war on drugs launched by Calderón is quite divided; indeed, most Mexicans are against it, having seen the results in terms of violence.

Consensus on goals
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Guerrilla groups in Mexico exist but are marginal. Though very critical of the existing system, López Obrador and his movement have never fomented violence (aside from blocking the main avenue of Mexico City for more than a month in 2006). In fact, after the contested election of 2006, he again participated in the elections of 2012. Following this last round of elections, he left the PRD, but with the goal of creating a new political party. His movement is not against the capitalist system, nor against the present political regime, but against the current economic model and plans to privatize the oil industry, for example. His movement is certainly situated on a thin line between institutional and noninstitutional actions, but has not as yet crossed it.

Anti-democratic
actors
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The main danger to democracy thus comes from the organized crime that has almost totally controlled states such as Tamaulipas and Nuevo Leon, and threatens to do so in other states including Michoacán and Guerrero. This has had a significant impact on the economy in these states, and on their ability to engage in normal democratic politics. Gangs have killed local politicians and are using their financial resources to infiltrate politics, bribing some local government candidates, for example. They are thus a double danger for democracy: directly, as they are infiltrating party politics, and indirectly because the violence and presence of the army on the streets dampens collective action.

Finally, the fact that governments have increasingly depended on the military to fight the drug cartels has led to increasing numbers of human rights violations on the part of the army (which is not trained to engage in civilian police action). Moreover, its presence as an influential domestic-security actor is changing its relationship with the civilian authorities. This is not yet a governance problem today, but may become one in the future.

With some difficulty, the political leadership has prevented cleavage-based conflicts from escalating. In Mexico, the cleavage between the marginalized indigenous population and virtually all others is the most profound. Nevertheless, after the insurgency of the Zapatista movement in 1994, it has been dormant. By contrast, the cleavage between those who have benefited from the economic model of the last 30 years and those who have not has never erupted in an open and organized manner. While in 2006, López Obrador effectively represented the social sectors that have lost out or have not benefited from economic liberalization, he lost momentum in 2012. Nonetheless, on 1 December 2012, when the new president of the PRI took office there were significant and violent protests in Mexico City, led by groups of young people that called themselves anarchists. This may represent an increase in anomic reactions against the system, as discontent with existing cleavages and the lack of opportunities for the young is less able to be channeled through institutions. The fact that young people engage in illegal activity and are ready to kill or be killed for fast money can be interpreted as an anomic rebellion against the established order.

Cleavage /
conflict
management

6

Although in Mexico many people are members of civil organizations, this is an inheritance from the past. The corporatist organizations have lost most of their power within the PRI, as well as their capacity to negotiate with the government and the private sector (in the case of unions). As a result, they have lost legitimacy in the eyes of their membership, becoming essentially empty shells with low participation levels. Although a significant number of autonomous civil society organizations (CSOs) emerged in the 1980s, their overall number remains small considering the size of the country. Some of them have been co-opted and today work for the state social welfare apparatus, doing studies for the welfare system. In recent years, the violence that erupted in the context of the war against organized crime has given rise to human rights and anti-violence movements. There are daily protests in Mexico City by groups demanding something from the government. However, these tend to be isolated, with participants demanding particular actions from the state rather than broad rights. All this seems to indicate that Mexico is still dominated by a nonparticipatory civic culture.

Civil society
participation

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Crimes committed against students in 1968 and 1971, as well as in the context of the “dirty war” against the guerrillas in the 1970s have never been seriously discussed, although former President Luis Echeverría was put under house arrest for several years on the basis of these events. Paradoxically, the war against drugs, despite taking place under a democracy, has resulted in a tragedy similar to that of the military dictatorships of the Southern Cone; more than 60,000 deaths, and more than 25,000 disappearances and countless human rights violations have taken place. The Movement for Peace with Justice and Dignity has demanded that information be provided on all such deaths and disappearances. A law on the issue was passed in January 2013, obliging the government to investigate each of these cases and provide

Reconciliation

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reparations to victims or their families. All of this will be part of the agenda in the immediate future.

17 | International Cooperation

Although Mexico has many of the problems of poorer countries, it receives practically no foreign aid, as it is a full-fledged member of the OECD. It has nevertheless gained access to other types of aid enabling it to fight pollution, pursue environmental conservation goals, and protect plant and animal species. Some cities receive aid earmarked for specific problems. Mexico City has been able to get international aid to fight pollution; Oaxaca, Guadalajara and Zacatecas have gained access to resources as a result of having been declared UNESCO world heritage sites.

Effective use of support

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As part of President Calderón's war against drugs, he negotiated for aid from the United States as part of the so-called Merida Plan, in which the United States provides financial support for the purchase of new arms, offers training, and shares intelligence in the fight against the drug cartels. Mexico has received helicopters from its northern neighbor, and U.S. army and police forces are counseling and training Mexican police and army divisions at the national and some state levels. The United States is also sharing an increasing amount of information on criminal activity. Recently, the Mexican government announced that it would send police and army personnel to receive anti-terrorist training in the United States. Indeed, this seems to confirm that Mexico's policy targeting criminal activities is strongly influenced by the priorities of the U.S. government, rather than being a strictly domestic priority.

In economic terms, Mexico is considered to be a reliable partner by most other countries. It cooperates with most significant international organizations. It is a member of the OECD, the WTO, the IMF, the World Bank, and other groups. It has hosted numerous international conferences for these institutions. It is considered to be a serious partner for foreign capital, as it respects market rules, private property and democracy.

Credibility

8

Nevertheless, the persistence of corruption and the increased levels of violence are becoming an increasing worry for these international actors. The recent killing of U.S. citizens and a Mexican federal police attack on two U.S. agents on their way to Cuernavaca, where they were going to train members of the navy, has left the United States highly concerned. Central American governments have criticized the rising levels of mistreatment and even killings of Central American migrants passing through Mexico.

Finally, the state of law in Mexico is quite questionable. One important recent example, which prompted significant problems in French-Mexican relations, was the imprisonment of a French citizen under dubious conditions. The Supreme Court's

failure to liberate her in 2012 clearly stemmed from executive pressures. Her liberation in January 2013 by the Supreme Court also seemed to be due to the fact that incoming President Peña Nieto desired to improve relations with France.

Mexico has had a free trade agreement with the United States and Canada since 1994, and is considered a reliable partner. In contrast, although the country has friendly relations with its Central American neighbors, no integration efforts have been mounted. In recent years, there have been frictions with some of the governments in this region, as many migrants crossing through Mexico to the United States have suffered grave abuses at the hands of the Mexican police, migration authorities or criminal bands.

Regional
cooperation
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Strategic Outlook

As the Peña Nieto government carves out its own policy preferences, it seems clear that the Calderón strategy toward organized crime must be modified. Though the war on drugs has probably reduced the power of some of the main drug cartels that existed when Calderón took office, it has in fact increased the overall number of cartels, intensified violence, expanded criminal activities into kidnapping, human trafficking, and extortion, and generally had a disintegrative effect on Mexican society. Instead of controlling violence, violence has almost tripled in the last six years. Violence has become endemic in some parts of the country and the number of assassinations per 100,000 inhabitants has gone from 10 to 24 between 2006 and 2011. To be successful, a new strategy would have to include a professionalization and reorganization of the police forces, a strengthening of the government's intelligence capacity, and a change in focus from capturing top leadership figures to the weakening of cartels' financial and weapons capacities. Ideally, this should take place through discrete police operations rather than through army mobilization. Policies of addiction prevention and the creation of social safety nets and economic opportunities where these do not exist today would counter the cartels' capacity to root themselves in society. This global strategy would make it possible to withdraw the army from the fight against drugs. This should be a critical goal, as the military deployment entails dangers including human rights violations and increased army interference in civilian political matters.

The economic reforms of the 1980s and the signing of NAFTA have not improved the economic situation of a large proportion of Mexicans. According to the World Bank, 53% of Mexico's population was considered poor at the beginning of the 1990's; at the end of the 2000s, this had fallen to 51%. In Brazil, by comparison, this share was 43% in the early 1990s, and has fallen to around 22% today. The lack of progress in this regard has left a significant part of the population disillusioned with the prevailing economic model and with democracy itself.

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

Two fundamental structural reforms are needed. First, the country's fiscal structure must be reevaluated: Mexico cannot afford to collect a mere 9% to 10% of GDP in taxes, while depending on Pemex for 40% of state resources. Second, reform of the energy sector is of critical importance.

Pemex and CFE are two of the most inefficient companies in the world, and must be reformed in order to make them more autonomous of the government and able to establish alliances with other companies. It should also invest more, with better efficiency, in the educational and health systems, while implementing R&D programs as South Korea did in its time and Brazil is doing today.

Finally, democratic decision-making is centered within the political parties and in a political system that seems to be very distant from the worries and needs of average citizens. Indeed, it seems to profit only the parties themselves in a sort of party-driven autocracy. This is the reason why Mexicans are increasingly critical of the parties, Congress and politicians, although they still support democracy.