

BTI 2010 | Mexico Country Report

Status Index	1-10	7.09	# 33 of 128	
Democracy	1-10	7.25	# 35 of 128	➔
Market Economy	1-10	6.93	# 30 of 128	➔
Management Index	1-10	5.90	# 36 of 128	

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

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	105.3	HDI	0.85	GDP p.c.	\$	14104
Pop. growth	% p.a.	1.0	HDI rank of 182	53	Gini Index		48.1
Life expectancy	years	75	UN Education Index	0.89	Poverty ²	%	4.8
Urban population	%	76.9	Gender equality ¹	0.55	Aid per capita	\$	1.2

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

The last two years have been marked by three broad issues. The first few months of Felipe Calderón's presidency were still marked by the elections of 2006 and the protests of Andrés Manuel López Obrador. This situation influenced Calderón's decision to send the army into the streets to fight against drug cartels. The measure in part represented a political tactic designed to gain legitimacy and show López Obrador's opposition that the president had the support of the army; but was also a clear sign as to how the new president planned to fight the worsening problem of drug trafficking. From mid-2007 on, the war against the drug cartels became the country's main issue. Violence escalated to unseen levels, with policemen, soldiers and drug dealers being killed every week. Violence also escalated in other criminal scenarios, such as kidnappings and robberies. On 1 September 2008, the first terrorist attack perpetrated by a drug-dealing gang killed eight civilians during Mexican Independence celebrations in the center of Michoacán. In mid-2008, two kidnappings ended up with the murder of the hostages, children of two of the most prominent businessmen in Mexico. This gave rise to a massive demonstration organized by civil society organizations (CSOs) against violence, which united hundreds of thousands of people across the country.

At the end of the review period, after October 2008, the main issue became the way in which the global economic crisis was going to affect Mexico. Three primary channels of influence were seen: (1) a reduction of exports to the United States; (2) the collapse in the price of petroleum (which still accounts for 40% of the government's revenues); and (3) the reduction in remittances sent by Mexican migrants in the United States, as well as the possibility of a massive return of migrants if the U.S. economy worsens or stagnates for a long period of time. All these factors have taken place in a social and political context which is still polarized by the elections of 2006.

Indeed, the electoral and social polarization demonstrated in the 2006 elections kindled doubts about the country's political stability for the first time in contemporary Mexican history. However, the war against the drug cartels, the army's involvement and the violence that has ensued is now considered to be a much more serious threat to governability in Mexico.

History and Characteristics of Transformation

The main characteristic of the Mexican regime that endured from 1929 until the Partido Revolucionario Institucional (PRI) lost the presidency in the year 2000 was the existence of an electorally hegemonic state party, which controlled most social organizations. Until the mid-seventies it was also a very interventionist state, applying an import-substitution economic policy between 1945 and 1982.

This regime was the result of the Mexican revolution (1910 – 1917), which was the first of its kind in the 20th century. Based on the constitution of 1917, the state used the revolutionary myth as the main source of its legitimacy and showed a strong ideological commitment to the welfare of its population, which found its correlate in heavy state intervention in the Mexican economy. The agrarian reform, which saw more than half the country's arable land distributed to poor peasants, was one of the most remarkable actions of the post-revolution government. The other was the organization of workers in trade unions, and the pro-labor attitude of the first revolutionary governments. One of the most spectacular political moves was the expropriation of the U.S.-controlled oil fields in 1938, an event that also contributed to the construction of a Mexican national identity.

The following decades, from the beginning of World War II, were a golden age for Mexico, often referred to as "el milagro mexicano." This period was characterized by economic growth, modest increase in wages, the formation of a basic Mexican welfare state and further construction of a Mexican national identity as manifested in many writings intended to consolidate the Mexican state, its territory and its people. For decades, the political space in Mexico was not only characterized by the existence of a "strong" developmentalist state, but also by the hegemony of the PRI, a political party that saw as its goal the "institutionalization" of the revolution, and which helped organize the workers and peasants who benefited from governmental policies. The head of state, the president, was the main political agent, as he controlled all important political actors – the parliament, the governors, the social organizations, the army and the judiciary – through this party. Thus emerged a relatively mild and integrative form of authoritarianism (by Latin American standards), which enjoyed broad social and popular support from the 1930s on, as well as a long period of political and economical success.

The economic relevance of the United States as trade partner complemented this picture. This relationship meant that economic development in Mexico took place more quickly in the north, while economic hardships predominated in the south. The end of the 1960s not only showed first

signs of the exhaustion of the economic bases underlying the “milagro mexicano,” but also a growing discontent with the political regime, which 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; the economic import substitution model reached its limits, agricultural growth started to decline and the economy failed to step forward to a model of capital goods substitution. Both sectors showed a decline in productivity. This, together with growing social movements, the existence of guerrilla groups and the leftist tendencies of the Luis Echeverría government, led to an increase in capital flight. This situation led to the economic crisis of 1976, which forced a radical devaluation of the peso that nearly halved its value, almost doubling the real foreign debts to \$50 billion. The subsequent negotiations between Mexico and the IMF over a \$1.2 billion loan imposed very restrictive guidelines on the incoming government of José López Portillo (especially with respect to the federal budget, trade policies and wage structures). The situation was defused for a short time by the discovery of new oil resources, but the need for capital to develop this industry led to a further increase in foreign debt. The decline in oil prices at the beginning of the 1980’s, together with the rise in interest rates, led to the 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 Mexican economy (in part by entering GATT in 1986). This entailed the opening of the Mexican economy, the privatization of semi-state companies, 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 government of the PRI fueled a surge in support for the opposition parties: the right-wing Partido Acción Nacional (PAN) and the left-wing Partido de la Revolución Democrática (PRD). The massive election fraud in 1988, which otherwise would have resulted in a victory for Cuauhtémoc Cárdenas (who founded the PRD in 1989), was one of the most remarkable episodes in this years-long process, which ultimately ended a PRI rule of more than 71 years. PAN candidate Vicente Fox won the 2000 presidential elections basically on the basis of an anti-PRI vote. His victory raised very high expectations of change, which was understandably very differently understood by different sectors of society. However, Fox’s administration managed to disillusion almost all social sectors. It did not dismantle the old authoritarian institutions, nor did it advance much in the construction of more democratic ones.

He continued to apply the orthodox liberal economic model inaugurated by de la Madrid, but the economy failed to grow substantially in the first three years of his term. The state's assistance policies did not manage to reduce poverty significantly, or to alleviate the country's enormous income disparities. This set the stage for polarization between those who had benefited from the new economic model and those who had suffered from it; this divide led to the highly polarized electoral scenario of 2006. The PAN candidate won the 2006 elections on the basis of a very small margin, lower than 1%, after a campaign marred by the intervention of incumbent President Vicente Fox and the business sector. This prompted PRD candidate Andres 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 the legitimate president.

Adding to the social and political polarization that resulted from the 2006 elections, the first two years of the Calderón presidency saw an explosion of violence linked to drug trafficking, kidnapping and other types of crimes, resulting in part from the "war on drugs" launched immediately after the new president's inauguration, with the army on the front lines. This violence has been interpreted in two different ways: as proof that the "war" is bearing fruit insofar as traffickers are fighting to occupy the space opened by the capture of cartel leaders, and as a sign that this way of dealing with the problem simply exacerbates it. As a whole, these events have shown that despite the country's many advances, existing institutions are not enough to guarantee either democracy or the security of the inhabitants. Indeed, events seem to have demonstrated that Mexican democracy is far from being consolidated, and that the corruption of the police and the judiciary, as well as the ability of various criminal gangs to act with impunity, indicate a serious lack of a state of law.

Transformation Status

I. Democracy

1 | Stateness

For the first time since the 1960s, the state monopoly on the use of force is at the present time being gravely challenged. In that turbulent decade, a series of guerrilla groups appeared that managed to operate both in the countryside and the cities in Mexico. They were able to kidnap important personalities, and even killed one of the country's biggest entrepreneurs, the leader of the Monterrey group, Garza Sada. Broadly, the violence of the 1960s led to the "dirty war" and indirectly prepared the 1968 Tlatelolco massacre, in which a student movement demanding more democracy from the government was met with lethal force. Never since that time has the Mexican state faced such a serious threat to its monopoly on the use of force as presented by the current "war" against the drug cartels. Today, the municipal police, the federal police, the juridical apparatus and lately even the army all have shown signs of infiltration by the drug and other criminal cartels. At the beginning of the Calderón presidency, the army was sent to fight these gangs, but to date this has only increased the levels of violence. There have been more than 7,000 deaths linked with this situation since the beginning of the "sexenio," or six-year presidential term. In some regions such as the state of Chihuahua, the army has been sent with considerable force – around 10,000 soldiers to this state alone. One of the main police officials was killed at his home in mid-2008. A retired general serving as a counselor to the local government of Cancun was murdered in February 2009. On the other hand, while the scale of infiltration of the cartels is not known, there is at least one policeman in most of the bands of hijackers. When the army occupies a locality, as it has done in Cancun, Juarez and Morelia, it disarms the local police and investigates all the members of the police force.

Monopoly on the use of force

There is basic agreement on state identity in Mexico, although, Indian communities face some discrimination. Illiteracy rates are much higher among the Indian population, and there are thousands of Indians in the jails. A conclusive proof is that they constitute the poorest of the poorest. Although numerically great, between 9 million and 12 million individuals (depending on the manner of classification), they

State identity

represent 9% to 12% of the population and are not homogeneous. It was not until the Zapatista Army of National Liberation (EZLN) raised the Indian question with the revolt of 1994 that the rest of Mexico realized that the country did indeed have an Indian problem – a fact that has now been slowly accepted. The native populations have demanded equal rights, although also ask for the right to follow their own traditions and to express their differences, rather than integrate the nation by abandoning these practices. The EZLN effectively raised the ethnic question, although it is remarkable that this movement fought for the identity of the Indian population in inclusive and not in exclusionary terms; they demanded the right to be different, while still existing within the context of the Mexican nation.

The Salinas de Gortari government changed the constitution in 1992, reestablishing the official relationship between the church and government that had been broken at the opening of the Mexican revolution. This has opened a path to increased intervention by the Catholic Church (the country's dominant faith), particularly in social questions such as abortion and gay marriage. Some of the PAN governments at the local or state level have allowed the Church to become more and more influential, as the party basically shares the Church's views. This trend has led to conflicts between groups or individuals fighting for more social rights and local governments trying to implement traditional policies. However, these conflicts rarely rise to the national level, and when they do, they are usually decided against the church and traditional groups. Although this situation does indicate imperfect separation between the state and the church, it does not seem to threaten the existence of a laic state, or the principle of separation between state and church in any fundamental manner. Beginning in the 1970s, protestant churches have been increasingly active in the country, mainly in the south and the north. This has led to conflicts at the local level, especially in Chiapas and Oaxaca, but has not transcended to the national level.

No interference of religious dogmas

The increase in political competition has augmented the efficiency of some government agencies at all levels. This is especially true in the north of the country and some central states such as Mexico City, Aguascalientes, San Luis Potosi and Jalisco. However, this has not been a continuous evolution, and there have been setbacks. Some of the states where there has not been a political alternation continue to be dominated by traditional political interests, usually linked with the PRI, which are not as inefficient and corrupt as in the past, but which nevertheless use public administration in a clientelistic manner. Corruption continues to be a major problem of the administration at all levels, which the political alternation has not done much to better. The creation of the IFAI (Federal Institute for Accessing Information) has increased transparency at the national level, but this has not been replicated at the local level.

Basic administration

2 | Political Participation

The 2006 elections raised the question of whether elections in Mexico are in fact fair and free. The accusation of major fraud leveled by the main opposition candidate, Andres Manuel López Obrador, was at some points shared by up to 30% of the population. However, the organizations that sent observers to Mexico, such as the OAS and the EU, accepted the results as valid. Since then, local and state elections have been much less contested and have given way to legitimately elected governments. Nevertheless, the problem of participation looms over the congressional midterm elections of 2009. The parties have had serious internal crises in the last two years, which have included accusations of fraud.

Free and fair elections

The Mexican army has been institutionalized and subject to civilian government control since the end of World War II. Nevertheless, the fact that the army has been called upon to perform internal security tasks, especially in the context of the fight against drug trafficking and local violence, is a factor that may imply changes in the future. This may also happen if the army is infiltrated by drug interests in the same manner in which police forces have been infiltrated. This poses a very serious threat to the Mexican state and to the government, with more and more voices saying that the army should be taken out of the fight against drugs, and that the police should be reformed in order to do this job. The drug cartels and other criminal associations also pose a more direct threat to governability: In some areas of Mexico they demand ransom payments in return for offering “protection” to businessmen and farm producers. Guerilla groups exist in some parts of the country, but seem to be very small and isolated. There are very important and powerful economic groups that have established oligopolies in various economic sectors. They have political power, basically to influence how people vote by means of illegal campaign financing methods (as we saw in 2006). However, they do not have real veto power, because they do not have direct relationships with power holders such as the army.

Effective power to govern

Formally, ample rights of association and assembly are in place. However, these apply basically to the political-electoral context, as informal and even illegal methods of preventing workers from organizing trade unions, or of forcing them to organize under certain unions, exist. There are also ways to control assembly rights through “phantom or protection” trade unions, in which the enterprise itself organizes a union and registers it with the help of a business lawyer. In this case, workers don’t even know they are unionized; the union serves only the purpose of preventing another union from appearing, as closed-shop rules apply, and only one union per enterprise is allowed. Outside of the labor world, there are similar means by which to prevent the appearance of independent organizations of peasants, taxi drivers, informal workers, and other groups. The political transition has nevertheless changed the situation, as the PRI was in past years the sole organizer

Association / assembly rights

of the popular interests. That monopoly has now been broken, and the big informal workers associations have broken up into many groups under different leaderships. However, the methods they employ to control their membership are very similar to those that existed under the PRI (basically clientelism).

Mass media are basically free; citizens and journalists may speak and write freely. Nevertheless, the media are very much concentrated in Mexico. There are two national TV stations, and radio stations are also very much concentrated in a few enterprises. As a result, two important dissident and critical figures have been barred from the airwaves in the last two years. The arguments for these decisions have always been economic, but some suspect that these acts were taken in concert with the government. Freedom of expression may also be threatened by the chilling effect of drug-related violence, and the relationship between drug traffickers, the police, the judiciary and the army. These themes are growing in importance and sensitivity. In 2006, seven journalists were killed in Mexico, while 2008 saw nine assassinations and two disappearances. Indeed, all questions dealing with drugs and violence, issues becoming more and more dominant in Mexico's daily life, are increasingly dangerous to cover. According to the International Press Institute, Mexico is the second most dangerous place to exercise the profession of journalist, after Iraq. With respect to liberty of expression, Mexico is rated by the France-based Reporters without Frontiers at 149th place out of 173 countries.

Freedom of
expression

3 | Rule of Law

In contrast to the 71 years of PRI rule, the post-1997 years have seen an ever clearer separation between the presidency and the National Congress, and between the federal government and the state governors. What is now needed is more cooperation between the government branches, something that has started to occur in the present government after six years of stalemate during the Fox administration. Congress is divided into three forces, representing the three main parties of the right (PAN), the left (PRD) and the PRI. The governors are also divided between these three parties. Congress effectively has and uses its power to block or amend proposed laws sent to it by the president. It still makes little use of its capacity to develop its own independent proposals. State governments have their own congresses and constitutions and are quite autonomous; in fact since 1997 there have been occasions in which the federal government wanted to remove a governor, but proved unable to do so because the accused had the support of his local government and enough support from his party to avoid impeachment by the Senate. The governors depend on the federal government for resources, but since 2000 a union of governors, the CONAGO, has in turn exerted pressure on the federal government.

Separation of
powers

The judiciary was, like all other powers, controlled by the presidency during the PRI's rule, owing largely to the fact that judge's nominations were contingent upon their allegiance to the PRI. The situation has improved in the last decade thanks to the creation of new institutions such as the Federal Judicial Council (Consejo de la Judicatura Federal), which decides on the promotion of the judges, as well as to the increased powers of the Supreme Court, which has acted as a constitutional court since the 1995 constitutional reforms. Since that time, the Supreme Court has in several occasions ruled against measures taken by the president. Nevertheless, there is widespread corruption among the ranks of lower-level judges, especially rampant at the local level, and the threat posed by violence and other criminal activity is reducing the autonomy of the judiciary with respect to the drug cartels and other gangs. This situation is not only due to the judiciary, but to the fact that the police forces are so inefficient and corrupt that judges risk their lives if they condemn somebody.

Independent
judiciary

The press and other mass media are increasingly free. A growing number of civic organizations survey the political class, and institutions exist that push the federal government to a transparent use of public resources. This has resulted in a rising number of accusations against corrupt politicians, including the governors of Oaxaca and Puebla. Nevertheless, mechanisms that enable the public to learn about abuse of office are not matched by efficient mechanisms to prosecute such abuse. Governors have to be impeached by their local congresses or by the federal Senate, but they control their congress and their party usually protects them in the Senate. In sum, there is more information available about corruption, but the system is not able to prosecute the perpetrators, a situation that obviously undermines the rule of law.

Prosecution of
office abuse

Civil rights are formally guaranteed in Mexico, but are frequently violated. Citizens have little opportunity to seek redress through the judicial system. A highly corrupt police and judiciary constantly violate civil rights, with their abuses generally targeting the poorest citizens. Jails are filled with innocent people who have no resources to defend themselves. Trials take years to complete. The police force has been accused of terrible violations (rape, excessive use of violence, arbitrary detention, holding the arrested incommunicado) when reacting to conflicts such as those in Atenco and Oaxaca in 2006, or in the course of operations such as one that took place in a dance club, which resulted in the deaths of 16 people. There is a National Human Rights Commission, and local commissions in every state. Although the federal commission has ample independence from the executive, a distance that increased after the PRI lost the presidency, commissions in many states are subordinate to local political authorities who are not respectful of human rights.

Civil rights

4 | Stability of Democratic Institutions

Mexico has transitioned away from the days when there was no division of power, when the president sent initiatives to Congress, and Congress passed them with virtually no discussion. However, the succeeding system during the Fox presidency was very inefficient, as most of the executive's more important initiatives were blocked. This could have been compensated for by an active Congress that proposed and passed its own independently developed laws; but in fact, the legislature proved very inefficient in defining its own priorities. The situation in the present Calderón administration is somewhat better, and a few important laws such as energy reform, electoral reform and fiscal reform have been passed with the support of both the president's party (the PAN) and the PRI (the lingering ill-will of the 2006 elections has kept the PRD from negotiations with the PAN). But for the most part, parties in Congress have proved incapable of transcending their short-term vision. They often embark on fruitless ideological discussions or considerations that are intended to impact public opinion with an eye to elections, rather than a serious dialogue. Exacerbating Congress' low efficiency is the fact that legislators can not be immediately reelected, which means that many legislators are in Congress for the first time and have little experience.

Performance of democratic institutions

The main social actors seem to be formally committed to democratic institutions. The army is today subordinate to the civilian authorities, although its use in the war against drugs, and the fact that it is being called upon more and more often to fulfill tasks linked to social order, has led some to fear that this control may one day evaporate. The parties are committed to democracy, and there are no anti-system parties. However, parties continue to function in a clientelistic manner and have problems in their internal elections, especially in the cases of the PRI and the PRD. Although most social organizations are not democratic in their internal life, they do not propose a non-democratic regime as a viable public option. Nevertheless, following the 2006 election, the movement led by López Obrador refused to recognize the election results, and used non-institutional mechanisms to protest and propose reforms. Although this represented an important challenge for Mexico's democracy, it is not really a lasting threat, as the López Obrador movement has not adopted an anti-institutional stance and has demonstrated peacefully. The most serious threat to democracy comes from a non-political source: the criminal bands that seem to be infiltrating parties at the local and perhaps even higher levels. If this continues, it threatens to weaken the institutions of the Mexican state.

Commitment to democratic institutions

5 | Political and Social Integration

The party system in Mexico is quite stable: there are three large parties that concentrate most of the votes; the youngest, the PRD, is already 18 years old. There is a moderate volatility of the vote: in the 2003 elections the PRI won 30.6% of the

Party system

parliamentary votes, and 28.2% in 2006; the PAN won 23.1% in 2003 as compared to 33.4% in 2006; the PRD attracted 17.6% in 2003, and 29.0% in 2006, as part of a coalition. The three parties account for most of the seats in the Chamber of Deputies and in the Senate. The PRI and the PRD are relatively well rooted in society, but nevertheless depend greatly on clientelistic relations with their organizations and supporters. The problem in Mexico is not, as in other Latin American countries, volatility in the party system. Nevertheless, in the last years there has been growing concern among specialists as to whether the Mexican party system is evolving into a partitocracy. This situation is due to the distance the parties seem to be acquiring from the population. According to Latinobarómetro, participation levels in political organizations are at 12% in Mexico; these reach their highest regional level in Costa Rica, at 24%, and their lowest levels in Chile (10%) and Ecuador (8%). There was a reduction of compromise with democracy in Mexico between 2006 and 2007, probably as a result of the 2006 election: according to Latinobarómetro, support for democracy diminished from 54% to 48% between 2006 and 2007 and satisfaction with democracy dropped from 41% to 31%. This tendency may be reinforced by the recent passage of an electoral law that reinforces the three big parties against the smaller ones, and the lack of transparency with respect to resources allocated to the parties. Although the new electoral law prohibits parties from buying campaign advertisements on radio or television, they continue to get almost the same amount of resources as before the reform.

In the past the main interest groups were trade unions, organized entrepreneurs, peasant organizations and other popular organizations dependent on the PRI. With the end of the PRI regime, the old corporatist interest groups have lost much of their power, although two of them remain very influential: the petroleum company trade union and the teachers' union. Both of these are in practice untouchable. Yet in fact, Mexican society remains highly organized under trade unions, peasant organizations and community associations that were once controlled by the state, through the PRI. These organizations are either still controlled by this party, or have implemented clientelistic relationship with other parties such as the PRD or the Panal, a new party based on the teachers' union. There are some independent trade unions, basically organized around the Unión Nacional de Trabajadores (UNT), which has around 500,000 members but still represents a minority of workers. Nevertheless the main interest groups at the present time are the big economic groups and the media companies. These are so powerful that they even control the regulatory agencies that are supposed to control them. Nevertheless, none of these groups can be said to hold a veto power on democracy, and they all accept this regime.

Until the 2006 presidential elections, one could have surely said that commitment to democracy was rapidly gaining ground in Mexico. However, allegations by leftist candidate López Obrador that the elections were marred with fraud persuaded a

Interest groups

Consent to
democratic norms

large sector of the population – up to 30% at the controversy’s height – that there was in reality no democracy in Mexico. In addition, the main institutions tasked with securing free and fair elections, the Federal Electoral Institute (IFE) and the Federal Electoral Tribunal (TRIFE), were both badly de-legitimized by their performance during the elections and by López Obrador’s accusations. Since then, a state of profound crisis has risen inside the various parties. The PRD, for example, was incapable of announcing who won their last internal elections for more than six months. According to a 2008 Latinobarómetro poll, 23% of Mexicans believed that democracy in Mexico was better than that of the rest of Latin America, 42% thought it worked just as well and 20% considered it to be worse. Support for democracy in Mexico was at just 43%. Nevertheless, 67% of respondents said that democracy was necessary to become a developed country.

According to Latinobarómetro 2007, participation in social organizations is quite low by Latin-American standards. In Mexico, 17% of people participate; this compares at one extreme to Ecuador, with 10%, Panama with 14% and Chile with 18%, and at the other pole, Costa Rica with 32% and Brazil with 24%. In Mexico, 42% of people say they have never participated in a social or political organization. In Ecuador, this figure is 52% and in Chile, 45%. On the other side of the scale we have Bolivia with 27% and the Dominican Republic with 8%. Social trust in Mexico is at the middle of the scale for Latin America, with 20% of people saying they trust others. This compares to 31% in Guatemala, 27% in Uruguay, 9% in Chile and 6% in Brazil.

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

Although Mexico has seen enormous growth in its exports, largely to the United States, this evolution has not led to the solution or even considerable reduction in the problem of poverty and inequality. There exists a very ample program to fight extreme poverty, OPORTUNIDADES, which spends the equivalent of about 1.3% of GDP and provides resources to around 5 million families. According to the World Bank, this program and the remittances sent by Mexican migrants from the United States have decreased levels of extreme poverty in rural areas, thereby reducing poverty at the national level. However, it has not been able to decrease urban poverty. The current world economic crisis threatens to destroy around 380,000 jobs, according to the United Nations-affiliated Economic Commission for

Socioeconomic
barriers

Latin America and the Caribbean (CEPAL). This, in combination with a decrease in the amount of the remittances, threatens to become a significant setback for Mexico's economy. Mexico is ranked 52nd on the Human Development Index, behind Chile, Argentina and Costa Rica, but above Brazil. On the other hand, the country's Gini coefficient is very high at 46.05. According to the World Bank, between 4% and 9% of the population still live on less than \$1 a day, a level close to that found in some of the world's poorest countries. We can thus affirm that even though the level of human development is of medium rank, Mexico is a very unequal country, in fact one of the most unequal countries in the world. On the other hand, according to the BTI data sheet, while overall levels of poverty have been reduced since 2000, dropping from 24.2% in that year to 20.3% in 2002, in 2004 there was still 17.6% of the population living in extreme poverty. According to the 2008 CEPAL report on Latin America poverty was reduced from 45.1% in 1994 to 31.7% in 2006, while extreme poverty went from 16.8% to 8.7% in the same years. According to the GDI, inequality is partly related to gender, but it is much more a question of city versus countryside, which affects especially indigenous populations living in scattered towns far from the cities.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	759421.8	846989.6	948864.6	1022815.3
Growth of GDP	%	4.0	3.2	4.8	3.2
Inflation (CPI)	%	4.7	4.0	3.6	4.0
Unemployment	%	3.7	3.5	3.2	3.4
Foreign direct investment	% of GDP	3.0	2.5	2.0	2.4
Export growth	%	11.5	6.8	10.8	6.2
Import growth	%	10.7	8.5	12.8	7.0
Current account balance	\$ mn.	-5168.5	-4369.0	-4374.2	-8178.2
Public debt	\$ mn.	108507.0	108481.9	96094.1	105379.1
External debt	\$ mn.	171161.7	167941.6	160490.0	178107.7
Total debt service	% of GNI	6.7	5.4	6.0	4.0

		2004	2005	2006	2007
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	10.7	10.8	10.5	10.2
Public expnd. on edu.	% of GDP	5.4	5.5	5.5	-
Public expnd. on health	% of GDP	3.0	2.9	2.9	-
R&D expenditure	% of GDP	0.5	0.5	-	-
Military expenditure	% of GDP	0.4	0.4	0.3	0.4

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

Market competition has been solidly established in Mexico since the de la Madrid government opened the economy in 1986, privatized its enterprises and deregulated the economy in the 1980s and 1990s. In addition, the government negotiated and signed NAFTA with the USA and Canada in 1994 as a means of anchoring these changes and preventing a new government from changing the policy of open markets. This competitive market situation is basically true for big Mexican and multinational companies. However, small and medium-sized enterprises encounter many difficulties, starting with the administrative requirements necessary to open an enterprise, register its workers in the social security and so on. In addition, there is a structural deficit in financing for these smaller enterprises, as most cannot show enough guarantees for the banks to get credit. The government programs designed to finance them are too time-consuming and complicated, and are not sufficient for the needs of small and microenterprises. These enterprises are usually financed by the companies for which they provide services or products, a very inefficient and costly way of financing. Moreover, many of the main products or services they need to function are controlled by monopolies or oligopolies (state or privately owned, including telephone service, gas, electricity, cement and so on) that result in costs that are much higher than those faced by larger competitors. Partly as a result of these hurdles, the informal sector is quite large, calculated to constitute between 40% and 50% of the economy.

Market-based
competition

Although the Mexican government opened the economy, privatized enterprises and engaged in substantial deregulation in the 1980s, it is widely admitted that one of the most important remaining problems is the existence of monopolies that charge higher prices than those in competing countries. There are state monopolies (petroleum, electricity), but most importantly private monopolies or oligopolies in

Anti-monopoly
policy

the telephone sector, cement, electronic media, and retail (Wal-Mart). In other sectors, such as among tortilla producers (Maseca), in the distribution of medicines, and in the commercialization of consumer products (Wal-Mart), there is also substantial concentration in one or a few companies. Although the Federal Competition Commission is tasked with regulating monopolies and trusts, this agency has little power compared to comparable agencies in the United States, and has been shown to be inefficient. The main problem this agency faces is that it has no capacity to oblige monopolies to split, and it can impose fines only after a long judicial process, usually at a level easily absorbed by the company in question. Apart from this federal agency, several deal with specific sectors such as telecommunications. However, according to some studies (most notably by the World Bank) these are controlled by the enterprises they are supposed to control.

Mexico opened its economy when it entered the GATT in 1986. With the implementation of NAFTA, foreign trade was further liberalized. Mexico now has trade agreements with as many as 48 countries around the world (including the European Union and Japan). Most trade is done without tariffs; in 2008 the last few restrictions on trade were eliminated for maize and beans. There are no restrictions to capital inflow or exit.

Liberalization of
foreign trade

The crisis of 1994 – 1995 led to the effective bankruptcy of the banking system, which was saved by the government at a tremendous cost, calculated at near 17% of GNP. After that point, it was privatized, with the main banks bought mainly by foreign investors. Nowadays, the main banks are Spanish (BBVA-Bancomer and Santander-Serfin), U.S.-owned (Citibank-Banamex), Canadian (Scotia-Bank) or English (HSBC). These banks collectively represent around 90% of the private banking system. There is only one significant Mexican-owned bank (Banorte) remaining.

Banking system

Banks in Mexico rarely lend to enterprises; rather, their business is focused on lending to individual clients by means of house, automobile and credit card loans, as well as ordinary deposits and transfers. These transactions are very profitable for the banks, as they charge very high commissions and interest rates by international standards. Government officials sporadically accuse banks of charging exorbitant commissions, but the Banking Commission has been incapable of changing things. The large Mexican companies that participate in international markets get their loans in those markets with lower interest rates. We have seen recently the risks that this practice involves, as foreign banks have been very hesitant to renegotiate loans given to “national heroes” such as CEMEX or VITRO, putting them in a very serious situation in the present crisis. However, small and medium-sized enterprises that cannot provide warrants for their loans have little access to the financial market. A recent evolution in the capital market is that department stores such as Elektra and Wal-Mart are being allowed to offer consumer credit, and are accepting money transfers from the United States.

8 | Currency and Price Stability

The central bank was given full autonomy from the government in 1992. Since then, its main function has been to control inflation and administer foreign currency reserves in order to control sudden fluctuations in the exchange rate. Inflation has fallen almost continuously since the year 2000, when it reached a level of 9.5%. According to CEPAL and BTI socioeconomic data, inflation was 4.5% in 2003, 4.7% in 2004, 3.6% in 2006, 4.0% in 2007 and 5% in 2008. In 2008 it rose due to the increase in the costs of food staples, spurred by scarcity at the international level, as well as the rising costs of many government-delivered services and products including gas, gasoline and electricity. Since the 1995 crisis, the foreign exchange rate has not been fixed but is floating. Before autumn 2008 there was no serious devaluation of the Mexican peso, which hovered in a band of about 15% of its total value, from around 10 pesos against the dollar to over 11 pesos at some points. However, since the beginning of the worldwide recession, the peso has seen its price fall by around 40% with respect to its height of 10 pesos. By January 2009, the dollar was selling for more than 14 pesos, and was under continuous pressure from companies that require this currency to pay debts or buy imported products. Economic policies have kept interest rates at historic lows for Mexico. According to the OECD, long-term interest rates dropped from 16.94% in 2000 to 7.74% in 2006. However, the situation has changed drastically since autumn 2008. Interest rates have started to increase, loans have become more and more rare, and the number of people who cannot pay their loans has significantly increased.

Anti-inflation /
forex policy

Although authorities stress that Mexico's ability to face today's economic crisis is much better than in past such situations, due to a broader macroeconomic stability, things may in fact be more complicated. The government has been very careful not to run a deficit for more than 10 years. However, a serious problem is the extremely low percentage of taxes it collects, around 12% of GDP. When one adds to these resources the amounts the government gets from its services and products (especially oil exports), total government revenues reach 18% or 19% of GDP. This is the most important fragility of the Mexican government. Although the current account is balanced by means of capital inflow in the form of direct foreign investment and the remittances of Mexican migrants, the commercial deficit has been structural and growing. Although in relative terms this deficit has represented 1% or less of GDP since 2004, it is considerable in absolute terms, reaching \$16.8 billion in 2008. This is potentially serious in that exports of manufactured products to the United States are falling at the same time as the flow of remittances, foreign investment and oil has substantially diminished.

Macrostability

9 | Private Property

Property is basically well-defined at the level of the multinational companies and the big Mexican companies, and there is no serious political force that proposes nationalization. Nevertheless, there are numerous problems in defining the property of individuals and small businesses at a micro-level. This is not linked to any political ideology, but rather to the inefficiency and corruption of the administrative and the judicial system. As Peruvian economist Hernando de Soto argues, much of the property of the lower middle class and the poorer strata of the population is not legalized, and is thus not able to be converted into an economic asset upon which to get a loan, start a business or otherwise serve as the basis of contractual obligations. Nor are these rights assured in case of conflicts involving property rights (as is the fact in the case of land). Many micro-level businesses that function informally do not have registered property rights, a situation which puts them in a precarious situation.

Property rights

In Mexico, private enterprise is free, with few limitations on investment decisions. Privatization was almost totally completed in the nineties. The only remaining (though clearly important) sectors where private property is not allowed are the oil and the electricity industries, although public-private partnerships are allowed in this latter sector. However, private oligopolies or monopolies do inhibit investments in certain sectors, including telecommunications, media, maize tortilla, consumer products distribution and pharmaceutical distribution.

Private enterprise

10 | Welfare Regime

Mexico's health and pension systems never covered more than 50% of the population even in their best years, in the 1970s. Their coverage has receded since that time. The government privatized the private-sector pension program in 1995, and that of the public sector in 2007. As a result, newcomers in the labor market must now save individually for their pensions, as in Chile. This will probably lead to the same problems the system in that country is facing, where workers find they have only low pensions at the end of their working life. Public health services have been receding in relative terms with the growth of the informal sector, and now cover around 40% of the population.

Social safety nets

The government's main argument behind the imposition of this policy is that it is more just to target scarce resources on the poor. And in fact, the safety net for the poor has been growing steadily. The program for fighting poverty has existed since 1988, under different names. The Fox administration almost doubled this program's coverage, to five million families. It now has a budget equivalent to 1.3% of GDP. Although in 2005, the Fox government also launched a program (the Seguro

Popular) to provide health services for people who are not covered because they are self-employed in the informal sector (a group that makes up between 40% and 50% of the working population), the health institutions that are supposed to incorporate these people have not correspondingly increased their resources, despite an already deficient public health system. Health expenditure in Mexico is very low, compared to other countries with a similar or even much lower standard of development – a mere 2.9%.

There is practically no unemployment insurance, and the programs that have been implemented, for example in Mexico City (which is governed by the leftist PRD) cover a very minor percentage of the unemployed. The government of Mexico City allocates \$60 dollars a month to people over 70 years old.

Equality of opportunity is not a reality for the indigenous population or women. The last two presidential administrations have implemented programs that have tried to ameliorate this inequality, but neither was extremely successful. The assistance programs for the poor fail to reach a significant percentage of the poorest of the poor, the Indians, as they live in very inaccessible places. On the other hand, the Oportunidades program has offered higher-education scholarships for women in the poorest homes, mainly in the countryside, to continue their education. According to various reports, this program has actually been able to keep young women in school longer than before. Nevertheless, at the level of the job market, most studies, including OECD data, indicate that women receive lower salaries than men on average. In the context of the OECD, Mexico occupies the last but one place with regard to women's employment rates, at 41% (a figure similar to Italy, with around 47%, just before Turkey, with 25%, and much below the OECD average, which is around 58%).

Equal opportunity

11 | Economic Performance

In 2007, the first year of President Calderón's administration, the economy grew at a rate of 3.3%, and created around 800,000 jobs. This is a considerable number, but below the level needed to absorb the roughly 1.4 million newcomers to the job market that year. In 2008, the economy grew much more slowly due to the economic crisis which had reached the country by the end of summer. Since the signing of NAFTA, exports have consistently increased, accompanied by low GDP growth rates (lower than those of Mexico's main trading partner, the United States, and of those of the other countries of Latin America). This is linked with the fact that the external sector of the Mexican economy is only weakly connected with its internal market; the percentage of national added value to exports is very low, around 3%.

Output strength

The current crisis threatens to hit Mexico hard, although the country has a solid macroeconomic foundation. The Mexican economy is very closely linked to that of the United States; it has almost no internal resources. Growth has been very dependent on exports, so now that the American economy is in crisis, with the auto and the electronics industries deeply affected, Mexico is likely to see foreign car makers reducing personnel and maquiladoras firing workers or simply closing down, as in 2001 – 2002. Both unemployment and informal employment will surely increase, as both have already done in the last several months. By the end of 2008 the unemployment rate was 4.3%, 1% higher than that registered in 2007.

12 | Sustainability

The last several years has seen growing consciousness of the need to preserve the environment. A symbol of this trend was the creation of a Ministry of the Environment. Nevertheless, the situation with respect to environmental questions is very bad. Most rivers and water resources are contaminated, 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 almost rampant, and large parts of the country are rapidly becoming deserts. The present government implemented what was supposed to be a vast reforestation program, but this has recently been accused of being inefficient and corrupt.

Environmental
policy

The Fox administration launched a massive building project aimed at expanding urban areas, without consideration for the services and sustainability of these developments. Although the cars used in cities have become cleaner, there has been an immense expansion in the number of automobiles in most of the cities, making it impossible to fight effectively against pollution. In addition, public transport has lagged far behind. Nevertheless, the present administration of Mexico City is building one additional metro line, and at least two more bus corridors.

Mexico is also importing large numbers of used cars from the United States, which means that the problem of getting rid of the old tires, batteries and other hazardous materials is being transferred from a richer to a poorer country in a surreptitious manner. In order to develop the tourist sector the Ministry of the Environment has been allowing the construction of big hotels that are destroying the mangroves in protected areas such as south of the Mayan Riviera area, in Quintana Roo.

Although education and R&D have been formally set as priorities by most Mexican governments, both are in a precarious situation. The country spends a significant amount of its resources on education (5.5% of GDP, counting both private and public spending), but the qualitative results are meager: Mexico has consistently lagged behind all other OECD countries, including Turkey, in the results of

Education policy /
R&D

international tests such as PISA. The problem seems to be neither resources nor salaries, if one considers that teacher's salaries in Mexico are not very different from that of other countries with similar level of development. The problem rather seems to be the poor organization and quality of the education, which is closely linked with the monopoly that the teacher's union holds on education in Mexico. It is the largest union in Mexico, a remnant of the old regime's tactic of giving unions privileges (including turning a blind eye to corruption) in exchange for political fidelity. This situation has fostered attitudes on the part of public sector teachers that deeply hurt the quality of education. It has been impossible to push through reforms due to the resistance of this very strong political actor.

Expenditure on R&D lags well behind what is recommended by international education institutions; it is a mere 0.5% of GDP, the lowest such level among OECD countries, again below Turkey, Portugal, Poland and Slovakia, as well as of other countries of similar or even lower levels of development.

Transformation Management

I. Level of Difficulty

About 40% of Mexico's population can be considered to be poor, although extreme poverty has been reduced since the year 2000. This is the main factor that reduces the internal market, which then feeds on the informal economy based on low-priced imports, smuggling and illegal merchandise, reproduction of movie and music, and other such activities. There is also an important lack of infrastructure, especially in the south of the country, where the poorest sectors of the population live. Educational levels and labor force competitiveness are quite high, although at the middle level, engineering and administration, there is a lack of highly qualified personnel. This, along with the lack of investment in R&D and of close working relationships between industry, research centers and universities, helps explain the lack of new technological developments and the low level of patent registration.

Structural
constraints

Since the mid eighties, there has been an increase in the level of civil society organization. Nevertheless, it is still quite weak compared to other Latin American countries such as Brazil, and is largely still organized under corporatist or clientelistic organizations. In fact, the Mexican society remains highly organized under trade unions, peasant organizations, and community associations that were once controlled by the state, through the PRI party. These organizations are today either still controlled by this party, or have implemented clientelistic relationships with other parties such as the PRD or the Panal, a new party based on the teachers' union.

Civil society
traditions

The authoritarian culture that existed in Mexico at least since the state party was created in 1929 has penetrated the Mexican people as well as its institutions. The state took care of popular demands in order to channel and control them, basically in a top-down manner. This attitude has been deeply imbedded in the political culture of citizens and organizations. People usually join organizations that have something to offer. Many of the most important leaders of civil society organizations have been co-opted into government (federal as well as local), and are currently developing social programs from the top. Even leftist leaders (for example in Mexico City, where the left has governed for more than 10 years) have never espoused organizational forms that empower civil society, such as the participative budget. The Latinobarómetro data cited in section 5.4 provides additional insight into this problem.

Ethnic and religious differences have not translated into political options, nor have they resulted in large-scale conflicts. Although national politics were highly confrontational during and just after the 2006 elections, elections at the state level during the past two years have not been so. There are nevertheless all kinds of local problems, especially in the poorest regions of the country (Oaxaca, Puebla, and Guerrero), which result in violent confrontations. At the local level these sometimes derive from religious questions (when part of the community adopts a religion that differs from the dominant Catholicism), especially in the south of the country, in Chiapas and Oaxaca. Land disputes, basically due to land delimitation or use of resources, are still the source of numerous conflicts that can turn violent. Socioeconomic conflicts are more common, usually due to price increases, demands for salary increases, subsidies, or informal workers delimitations, but these hardly ever become violent or massive, and tend to remain localized.

Conflict intensity

II. Management Performance

14 | Steering Capability

One of the main problems the Mexican regime faced during the dominion of the PRI was continuous change in the priorities of the various governments, at all levels. There was no state policy, only governmental policies; every administration had its priorities. It was thought that once another party gained the presidency, this situation would change. In fact, it hasn't, with one exception: general economic policy. Emphasis has been put on the market, on a low governmental deficit or balanced budget, and low inflation. But in everything else – education, environment, infrastructure, the internal market, R&D, judicial reform and more – the problem of setting priorities has become even more complex because of the power acquired by Congress and the governors. During the Fox administration, when the PAN did not have a legislative majority, the Congress blocked virtually all presidential initiatives. During the present administration, Calderón has successfully passed some laws, but none of them significant enough to change structures in any lasting way. The energy reform was the product of such sweeping compromise that the situation of the sector does not seem to have changed much. The new electoral law has apparently served to reinforce the main political parties; while it does prohibit them from buying campaign ads in the media, it has not made elections cheaper (a demand of public opinion) and has been criticized for its partitocratic tendency. A fiscal reform was passed, but changed the amount of revenue collected by the government in only marginal terms.

Prioritization

Finally, to a certain extent it has been reality that has set priorities. Against the problem of violence and drug cartels, the executive and Congress passed a judicial reform; this may in fact improve things, although the results are not yet clear. The government's response to the economic crisis has been less striking; rather than a long-term strategy for reforms that might change structures, the administration has adopted procedures reflecting a short-term perspective.

The basic elements of democratic and market reforms have been implemented. What Mexico lacks at the present time is other reforms that might advance the consolidation of democracy or modify the structural deficits of the economic model in place since the 1980s. Such reforms might advance the implementation of a state of law, the enhancement of the internal market, and improve the competitiveness of the country's small and medium-sized enterprises. In this respect things are advancing too slowly. The economic sphere is dominated by the ideology of the free market and the retreat of the state from the economy. The Ministry of Finance and the Central Bank not only dominate economic policy, but concentrate the financial and the human resources needed to define the direction of the economy. This means that actions that might increase productivity, competitiveness, and the development of human capital are sacrificed to macroeconomic stabilization; the country has not yet found a way of doing both. Although electoral rules seem to be quite well instituted (despite suffering an important drawback in the last presidential election), the nation is confronted with the problem of the lack of a state of law. Addressing this issue will require a profound transformation in the judiciary and the police, measures which do not seem to be advancing much.

Implementation

Apart from some technocrats in the economic and social policy ministries, and some functionaries at the second level of bureaucracy, most politicians lack the preparation to comprehend the policies that they have to implement once becoming part of the government. Nor do they have ample time to learn and innovate, as changes for political reasons are still very frequent. Reform often meets substantial resistance on the part of the sectors affected, most of which are organized in strong corporatist organizations (such as the various unions representing teachers, petroleum workers, electrical workers or bus drivers, or associations of informal merchants or taxi drivers) that block transformation in their respective sectors. At the other end of the economic scale, powerful oligopolies and monopolies block any change in anti-monopoly policies, in the reinforcement of anti-monopoly commissions, or in other such pro-competition reform. Finally, economic resources are allocated and reforms developed by means of a very complex process of political negotiation in Congress. The legislature usually does not deliberate on the basis of knowledge of the problems and projects involved, but rather on the basis of political rationales. This environment as a whole makes it very difficult to engage in a coherent and innovative reform dynamic that might solve the country's most serious problems.

Policy learning

15 | Resource Efficiency

The Mexican state administration has been modernizing since the seventies. It has also gone through a significant process of decentralization. Nevertheless, apart from some ministries with an ad-hoc civil service system and the posts that are regulated by the civil service law (which has many loopholes), posts are largely politically assigned. This means that some functionaries who are efficient are blocked or dismissed for political reasons, and that crucial posts are distributed in this same manner (for example, the son-in-law of the teacher's union leader is the director of basic education, charged with the reform of education). There is a transparency law at the national level that functions to some extent, but the use of resources at the subnational level is less and less controlled. The same is true of administrative capacity, which decreases as one moves from the federal to the state and to the municipal level, and from the relatively richer parts of the country, the north, center and west, to the south.

Efficient use of assets

The government's capacity is constrained by a number of factors: It collects a relatively small amount of resources via taxes, it has privatized most of the enterprises it once held, and it has reduced the activity of the development banks it still holds, such as Nafinsa, Banobras and Bancomext, to a minimum. What has helped in recent years is the high price of oil, which increased the amount of available government resources without its needing to change anything. The income sent by Mexican immigrants in the United States also complements the government's social policy.

There are serious problems of policy coordination between different ministries and even inside individual ministries. When the president dominated politics, policy was more coordinated in line with the dominant projects and interests of the incumbent officeholder. Paradoxically, with expanded democracy and the governors' increase in power, a feudalization of political power and decision-making has taken place, leading to a lower level of coordination.

Policy coordination

This is especially true in the crucial area of security. There are various police forces in the country, at the federal, state and municipal levels, and absolutely no coordination between them with respect to fighting crime. Indeed, there is no trust between them, as municipal and state police are thought to be infiltrated by the drug lords and are never informed of the operations led by federal police or the army. The army does not inform the federal police of their activities, and even the various federal police corps fail to coordinate activity. This has sometimes resulted in serious conflicts between these various forces, which all ought to have the same goal.

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

Two institutions created under the Fox administration, the Federal Institute for Access to Public Information (IFAI) and the civil service, have tended to set a more transparent example for the rest of government. Nevertheless, they have important limitations: The key problem is that, while rendering the actions of the government more transparent, they cannot punish those who infringe the rules. In a few cases functionaries accused of corruption have had to resign, but few have been imprisoned. On the other hand, these are federal institutions, with their authority confined to the federal government: Congress, the political parties, the judiciary, and social organizations are unaffected by these laws. Neither the IFAI nor the civil service oblige states to reveal their deliberative proceedings or to hire functionaries according to the rules of the civil service law. Although many states have been forced to emulate the federal government and have created their own IFAI's, these institutions do not work properly.

Anti-corruption
policy

A very serious threat is the capacity that the drug cartels have recently shown to infiltrate government offices: airports, customs, the police, the army and the parties. While the struggle for more transparency has previously centered on federal government spending, all other sources of corruption were set aside, but these now appear as crucial to governability.

16 | Consensus-Building

Mexico's move to a market economy was implemented under PRI authoritarianism. This means that there was no possibility of resisting it, nor was it necessary to build a consensus with respect to these goals. The government simply pledged that the changes would improve the living conditions of the Mexicans. Today, after more than twenty years of market-economy reforms, the percentage of the population that is poor (or near poverty) has grown, as has the informal sector, and income distribution has become even more unequal. A significant sector of the population agrees with the politicians of the political left (basically López Obrador and his followers) who argue that the market alone cannot benefit all Mexicans, and propose a return to an interventionist state. This is largely why the last two governments have failed to reform Pemex and the electricity company, or to pass a fiscal reform policy, all of which are crucial for the future of the Mexican economy. On the other hand, all significant actors agree on the value of democracy. An

Consensus on goals

important indicator of this fact is that even though López Obrador alleged that the 2006 election was fraudulent, he never called for violent resistance. He and his followers still believe that elections are the only legitimate way of arriving to power and eventually modifying the economic model.

Although guerrilla forces exist in Mexico, they are basically small and dispersed groups, and thus not a serious threat to democracy at the national level. The movement led by López Obrador has acted within the democratic rules of the game, as do all other parties; there is no anti-system party. The parties themselves have trouble behaving democratically in their internal affairs, but that does not endanger democracy at the national level. Drug trafficking bands are surely the most serious threat to democracy. Although they are very powerful, their force remains economic (and in some regions social) rather than political. They have political influence at some local levels, but as yet have been unwilling or unable to transcend to the national level. Nevertheless there is growing concern that they are beginning to infiltrate higher-level politics.

Anti-democratic
veto actors

The López Obrador movement represents a deeply ingrained cleavage in Mexican society, running basically along socioeconomic lines, representing those who have failed to benefit from the neoliberal model or who have been disappointed by the promises associated with trade liberalization. While the PAN represents the continuation of this neoliberal model, López Obrador and the PRD represent a possible return to increased state intervention, protection of the Mexican economy and more emphasis on the internal market. The fact that López Obrador lost the election by a very small margin and did not accept the results, after an extremely polarized campaign in which he vehemently attacked the government, the businessmen and the prevailing economic model, and in which Fox, the PAN and outside businessmen intervened directly (and sometimes illegally) in the election, taken as whole seemed to indicate serious problems. Nevertheless, this situation did not evolve into open conflict, basically because the opposition movement had always defended a peaceful solution. On the other hand, Calderón is a much more conciliatory president than Fox, and his declarations and actions have not further polarized the situation. He has tried to come to terms with most of the political forces, and there have not been any local conflicts of the importance of Atenco and Oaxaca during the Fox administration.

Cleavage /
conflict
management

Civil society is highly organized in Mexico, but largely within corporatist organizations, an inheritance from the old PRI regime. During the 1980s and 1990s, a great number of autonomous civil society organizations emerged. These participate in certain public policies, basically offering assistance to the poor and to other sectors of society that are marginalized (including women). This participation is much stronger in Mexico City, where the leftist party, the PRD, governs. Nevertheless policies, programs, and ideas are developed in a “top down” manner, with little input from civil society groups. In the last few years, in the face of the

Civil society
participation

increasing violence and insecurity, and the inefficiency of the police and judicial authorities, a movement against violence and the culture of impunity has arisen. This movement has organized massive demonstrations of hundreds of thousands of people. The government has to date responded with reform projects, but little in the way of concrete results.

During the Fox administration, the crimes of the government against students in 1968 and 1971, as well as the “dirty war” against guerrillas in the 1970’s, in which many people disappeared or were killed, and in which many innocent people were also victims, were issues of debate. Although the government named a special prosecutor to study these cases, the results were very limited, and did not satisfy the groups demanding reparation. Nevertheless, the then-interior minister and former president of the republic, Luis Echeverría, was put under house arrest for a couple of years. However, although the crimes were qualitatively equivalent to those that took place in Argentina or Chile, the scope of the human rights violations in Mexico were not as broad as under the Southern Cone regimes. Although the issue is important, it has lost relevance in the present administration.

Reconciliation

17 | International Cooperation

Mexico has integrated into the world market in a rather passive manner: Its exterior market is very dynamic, but its internal market is disconnected, and is in fact stagnant. Although some specific projects have been deemed crucial for solving this situation – the energy reform and the fiscal reform, for example – these seem to have been pursued in an ad hoc manner, rather than as part of a global project of development. In this situation, and due to the fact that Mexico is too large and complex a country to be adequately counseled by any external body, it has had to rely on its own means.

Effective use of support

The fact that Mexico is a member of NAFTA and of the OECD has had the unintended consequence that the country is no longer able to receive aid from international agencies in order to fight the problems it shares with poorer countries: poverty, disease and the like. However, it has gained access to other types of aid to fight against pollution, to preserve the environment, and to protect various animal and plant species. At the local level, Mexico City has been able to get international aid to fight pollution. Some cities like Oaxaca, Guadalajara, and Zacatecas have obtained resources as a result of having been deemed World Heritage Sites by UNESCO. Some rural areas, such as the forest where the monarch butterfly passes the winter, have received aid. But other areas of “post-poverty” aid have been left unexplored.

Due to the growing problem with violent crime, the government recently negotiated the so-called Merida Plan with the United States, designed to obtain counseling,

financial support for new armaments, and intelligence to fight the drug cartels. It is very probable that cooperation in this field will increase in the next few years, as the drug problem gets worse and the threat to the United States through its frontier with Mexico becomes more serious.

Mexico is considered to be a reliable partner by most of the countries of the world. It has numerous free trade agreements with many different countries and areas, including Europe and Japan. It is considered to be a serious partner for foreign capital, as the state respects the market, private property and democracy. Thus, a significant amount of foreign capital has flowed into the country. Nevertheless, the continued corruption, violence, and kidnappings are becoming more and more worrisome for these international actors, damaging the country's external reputation. Lately there have been reports in several journals and in a U.S. army working paper that Mexico is in danger of becoming a failed state.

Credibility

Mexico cooperates with most international organizations. It is a member of the OECD, the WTO, the IMF, the World Bank and others. It has hosted numerous important international conferences. A former Mexico finance minister is directing the OECD; it has a judge at the International Court of Justice at The Hague. It is an active member of the United Nations, sitting as a member of that group's Security Council during the years 2001 – 2003, and again beginning in January 2008. Relationships with several Latin American countries governed by leftist administrations (Cuba, Venezuela and Bolivia) were affected during the Fox presidency; these issues seem to have been mended by the new government. Nevertheless, the violence of the "war on drugs," which expresses itself in a more virulent manner near the borders with the United States and Guatemala, has given rise to worries on the part of the governments of these two countries. This may lead both to stronger border surveillance by the armies of those nations, and to more cross-border cooperation.

Regional
cooperation

Strategic Outlook

The outlook for Mexico has changed radically in the last two years. Felipe Calderón took office in an extremely complicated political crisis, threatened by a socio-political movement that threatened to bar him from assuming the presidency, or to make his term in office unmanageable. Nevertheless, he managed to take the reins of government without open, violent conflict breaking out. He immediately launched a vast army operation against the drug cartels in the most gravely threatened states. This measure was taken for two reasons. On the one hand, the president wanted to give the impression that he was in control of the situation, and that the army backed him absolutely against any ideas that the political opposition may have had concerning the outcome of the elections. On the other hand, he was effectively responding to an unmanageable situation, in which the drug lords were acting with complete impunity in some parts of the country, and had corrupted police officials and political personalities. His government took office during a short economic boom that created around 800,000 new jobs.

The situation evolved in a very different manner than expected. The main problem faced by the country two years after the elections is not political after all. The movement led by López Obrador has lost its momentum, diminished so that it now includes just one part of the PRD and two of the smaller parties of the alliance that supported the candidate in the presidential elections. The side that won the PRD's most recent internal elections has taken a more conciliatory stand toward the Calderón government, and has put distance between itself and López Obrador. Particularly the PRD governor of Mexico City has gained sympathy beyond his own party because of his modern and progressive actions.

Rather, the country's main problem is the upsurge of violence as an effect of the "war on drugs." This violence has spilled over to other crimes, including the kidnapping of businessmen or their children. In fact, some of the most dramatic recent criminal events were the murders of the son of a very well-known businessman during a kidnap attempt, and of the daughter of another. Both events generated a civil society movement in which hundreds of thousands of people took to city streets in protest, demanding that the government reestablish security.

In addition, the sudden economic decline in the fourth quarter of 2008 shifted the political calculus. The price of oil dropped radically, deeply affecting a sector that contributes 40% of government revenues. Automobiles and electronics, Mexico's main exports to the United States, are decreasing steeply. Other export sectors may follow, leading to a rise in unemployment and informal employment. The value of remittances is falling for the first time in 10 years. Finally, the specter of tens of thousands of Mexican migrants coming back to Mexico from the United States haunts policymakers' imaginations.

Both fundamental threats, the persistent violence and the economic crisis, are apparently being faced with a lack of imagination. The solution chosen to fight drug cartels seems to be the "war

on drugs” executed by the army. However, this approach has given rise to more violence and to numerous violations of human rights as a result of the army’s deployment in the streets. On the other hand there is a real risk that the army, the backbone of the state, will itself be corrupted. An alternative and global solution is seemingly not being seriously discussed; the police are not undergoing the radical reform they need, including increases in professionalization and intelligence capacity. There has been an important judicial reform, which will likely bear fruit over the long term.

The economic crisis may offer an opportunity to change some of the policies and structures of the economy, redirecting the prevailing model toward undeveloped sectors, the internal market, and to an increase in productivity. However, the measures announced to date seem to be mere palliatives aimed at protecting those who will be unemployed. Meanwhile, the opposition parties, whether the PRI or the PRD, have evidently been unable to design an alternative structural way out of the present crisis; rather, they have mainly been focused on profiting politically from the situation.