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*The End of Nostalgia: Mexico Confronts  
the Challenges of a Global Era*

Mexicans are proud of their noble ancestors: the most ancient Olmecs; Zapotec artists; Mayan traders; and Aztec warriors, who created a century-long empire. Later, Spanish conquerors, bringing with them both disease and Catholicism, melded with the indigenous populations to form a complex people whose adherence to a glorious past and whose fierce nationalism have become an integral part of the national discourse. Every school child absorbs tales of conquest, religion, and art derived from Mexico's ancient roots. The oversized national flag, emblazoned with an eagle devouring a serpent, reminds citizens that they are both a conquering and a conquered people.

In the nineteenth and twentieth centuries, the United States presented an existential threat. The Mexican-American War (1846–48) represented the loss of vast tracts of Pacific coast and inland deserts, and it served to remind Mexicans that the outside world was avaricious. Accordingly, for more than a hundred years, relations between Mexico and its northern neighbor were contentious. What Mexico needed was a defensive posture toward the emerging North American giant, whose interference was evident in President Woodrow Wilson's attack on Veracruz (1914) and General Pershing's raid deep into Mexico's heartland (1916). In response, relations with nonaligned countries were preferred precisely because those countries contested U.S. hegemony.

The Mexican Revolution (1910–20) was merciless in its savagery. After ten years of brutality, Mexico's leaders were determined to avoid war. Meantime, the "Great Revolution" provided the justification for an authoritarian government that co-opted the power of the army, peasants, business community, and

emerging trade unions. The grand bargain between each constituent group and the Mexican presidency was constructed to provide a means for the respective interests of each group to reach up to the highest authority. However, it was also a means for the president to send his instructions down to the groups. Co-optation rather than conflict became an essential feature of the Mexican political system, and patronage was ingrained throughout the nation. Powerful sponsors ensured access to employment, food for the family, and advancement in the political sphere. In exchange, few groups contested presidential mandates. Tacit acceptance of the patronage system formed between the government and the people, assuring citizens of security and moderate economic prosperity. For seventy-one years, the president of the dominant party, the PRI (Partido Revolucionario Institucional [Institutional Revolutionary Party]), appointed his successor and ensured that opposition was never strong enough to threaten the state.

The doubtful legitimacy of the 1988 presidential election began the unraveling of the old regime. The patronage system continued to ensure Mexico's century-long single-party rule, but signs of its demise began to appear. President Ernesto Zedillo recognized the need to dismember the one-party state and, like Mikhail Gorbachev in the Soviet Union, spurred the process of political democratization. In Mexico, this process was viewed as weakness because it resulted in victory for the opposition party, the center-right PAN (Partido Acción Nacional [National Action Party]). However, there appeared to be no stopping Mexico's historic march toward a multi-party system.

The PAN won the presidency in 2000 but struggled to negotiate legislation with a congress that was no longer compliant. The transition of a society from authoritarian rule to a government based on consensus building is necessarily slow, and the tendency to return to the old authoritarian ways remains strong. Political players found the freedom to contest the president through the media as well as in the halls of congress, and the 1998 decision to distribute federal resources to the thirty-one state governors, without demanding commensurate accountability, resulted in the diminution of the president's authority. State governors acquired new powers based on the transfer of federal funds, and a new power equilibrium ensuring greater rights for citizens spread throughout the nation. It also affected foreign relations.

Mexico's history reflects the national pride of its people, a hierarchical state structure that provided security, and a tradition of commercial trading. Mexicans, like the British, are traders. They have always ventured into new waters to find different goods, enriching their churches and homes with jade from

Meso-America, turquoise from the deserts of modern-day Arizona, silk from China, and ivory from the Philippines. In exchange, they exported gold, silver, and foods. Apart from the times of intense internal turmoil during the War of Independence and the Revolution, Mexicans have always looked beyond their nation's borders; thus, their contemporary engagement with the modern world is a phenomenon with ancient roots.

President Miguel de la Madrid's decision to join the General Agreement on Tariffs and Trade (GATT) in 1986 and the pursuit of a free trade agreement with Canada and the United States by his successor, Carlos Salinas de Gortari, opened the economy to new trading opportunities. But was the nation that had protected itself behind high tariff walls ready to engage with international competitive forces? In 1993, this author's speech before an association of engineering companies in Guadalajara on the opportunities presented by the North American Free Trade Agreement (NAFTA) was greeted with significant criticism. The prospects of competitive trade implied a threat, and all the questions from the audience centered on how their businesses might survive. Twenty years later, the same companies have either gone out of business or adapted to the reality of international trade and global competition.

Today, Mexico has become a manufacturing center, with family-owned companies engaging in international trade and acquiring new technologies. Protectionist regulations are being dismantled, and young business leaders learn colloquial English, study at international business schools, and connect easily with foreigners. The young men and women whom I met over two years at a business summit held in the colonial city of Queretaro are not resigned to the new reality; instead, they seek to thrive in a competitive world. Their network is global, including colleagues encountered at school, at professional conferences, and on social media. They interact with foreigners with enthusiasm; they take on new international contracts with excitement.

But the old ways are hard to eradicate. The yearning for the predictability of government contracts, dependence on political patrons, and reliance on family ties have not disappeared. The authors of these chapters therefore agreed on the need to analyze and relate how the old Mexican system is changing. Metamorphosis is not easy; economic and political transformation, in particular, is hard. However, a proud trading people can find confidence in their heritage. I believe that continued democratization and exposure to foreign competition is inevitable, but efforts to put the brakes on that process should not be ruled out. Therefore this volume is also about protest and conflict deep within the Mexican political economy.

In chapter 2, “Piecing Together the Puzzle of Mexico’s Growth,” Arturo Franco seeks to understand why the lusty 7 percent growth of the 1960s and 1970s has declined to an average of 3 percent growth today. He provides a comprehensive review of the factors that might explain Mexico’s lack of competitiveness—rigid labor markets, inadequate infrastructure and access to finance, size of the informal labor sector, high cost of energy, poor education system, and Chinese competition—and asks whether those factors explain Mexico’s economic underperformance. Using data from Harvard’s Center for International Development, Franco asserts that there is no single constraint to growth that affects the Mexican economy across a broad range of activities. He concludes that Mexico’s weak economic growth remains a puzzle.

What is known is that if its economic constraints can be overcome, Mexico has very high growth potential. Franco notes that a BRIC paper drafted in 2005 by Goldman Sachs concluded that Mexico, given its distinctive geopolitical location, ample natural and human resources, and highly competitive characteristics, had the potential to rival Brazil, Russia, India, and China. Mexico’s Goldman Sachs Growth Environment Score ranks in the upper third, above Brazil’s but below China’s. Moreover, according to Harvard’s Atlas of Economic Complexity Index, which measures growth potential, Mexico’s per capita GDP is expected to increase 3.5 percent a year during the 2013–20 period. In addition, overall GDP is expected to grow by 4.56 percent over the same period. Such growth is essential if Mexico is to meet the expectations of the 2 million citizens who enter the work force each year in search of quality jobs.

In chapter 3, “Unlocking Mexico’s Political Gridlock,” Franco examines the Mexican legislative agenda. He observes that in the last twenty years, Mexico has moved from a hegemonic party system under the PRI to a political equilibrium in which the three major political parties together account for 90 percent of the votes but none exceeds 42 percent. Since the election of a president from the PAN in 2000, no president has enjoyed a majority in congress, and coalitions must be formed to pass legislation. Historical review suggests that this is feasible during the first three years of a president’s six-year term (*sexenio*) but becomes much harder in the second three years—a situation familiar to observers of the U.S. Congress.

Franco asks whether the accusation that the national legislature is a “Siesta Congress” is fair, pointing out that a good number of constitutional reforms requiring two-thirds approval were initiated and passed during President Felipe Calderón’s first three years in office. A slight decrease is shown in the

last three years, but the number should silence those who claim that a “do-nothing” congress appears during that period. In response to the critique that the bills passed were relatively insignificant with respect to the national interest, Franco notes that in the last ten years Mexico’s congress has passed major health care reform, pension reform, judicial reform, and labor reform. It also created a new freedom of information law and a corresponding agency, as well as less significant changes with respect to electoral laws, the energy sector, and the fiscal regime.

However, political reforms that Calderón proposed in 2009—which would have allowed for reelection of legislators, a run-off election for presidential candidates, reduced campaign costs, participation of independent candidates in elections, and an increased voice for the electorate in forming legislation—were blocked by the PRI’s intransigence. Franco asks whether the PRI, with an increased number of legislative seats in 2012, will find it advantageous to introduce similar political reforms. If so, how might the PAN and PRD (Partido de la Revolución Democrática [Party of the Democratic Revolution]) now respond?

Duncan Wood, in chapter 4, “Energy Challenges for the Peña Nieto Administration,” examines the serious decline in petroleum reserves in Mexico and presents specific solutions to augment energy supplies. Wood diagnoses internal problems within PEMEX (Petróleos Mexicanos), the state-owned petroleum company—political interference, corrupt practices, and lack of accountability—and the role played by STPRM (Sindicato de Trabajadores Petroleros de la República Mexicana), the oil workers’ union. Without significant changes to allow opening of the oil industry to private investors, he fears that PEMEX will not be able to take advantage of new exploration in the Gulf of Mexico and the shale fields of northeastern Mexico. Wood analyzes the consequences of developing shale gas and warns that given the high projected cost of developing the fields and the current low market price of gas, it makes little immediate sense to develop Mexico’s shale reserves. He also examines Mexico’s renewable energy potential, concluding that the long-term outlook for Mexican energy output is extraordinarily positive.

In chapter 5, “Toward a Regional Competitiveness Agenda: U.S.-Mexico Trade and Investment,” Christopher Wilson examines the record for Mexican trade and investment and demonstrates that both are strategic drivers of the U.S.-Mexican relationship. Mexico is the United States’ second-largest export market, and the United States is by far Mexico’s largest export destination. Merchandise trade has quintupled since 1993, and bilateral foreign direct

investment holdings have grown sixfold. However, the high growth rate of bilateral trade and investment between 1994 and 2000 has slowed, leading Wilson to ask what more could be done to spur trade and increase regional competitiveness.

With the technological and logistical improvements that define modern manufacturing, labor costs now account for less and less of production costs. The consequences are critical for Mexico: foreign manufacturers are less likely to move their plants abroad in search of low wages and more likely to seek out locations where needed human capital and robust supply chains exist. Therefore the quality of Mexican engineers, the education of its workforce, and its capacity to innovate become critical components of regional trade, investment, and competitiveness.

Wilson favors a strategic regional approach to the Trans-Pacific Partnership (TPP), a nine-nation free trade group that Mexico and Canada joined in 2012. He believes that a joint pivot toward Asia by Mexico, Canada, and the United States to coordinate trade policy and negotiate agreements would benefit all three nations. He also believes that the TPP creates an opportunity to strengthen NAFTA without renegotiating it because the TPP seeks to create common standards and regulations in multiple areas, including financial services and intellectual property, that should facilitate the joint production of North American goods destined for the global market.

In chapter 6, "The Priority of Education in Mexico," Armando Chacón examines both the quantity and quality of education in Mexico, noting its bottom rank in Program for International Student Assessment (PISA) scores for OECD countries. He points out the value added with respect to earnings, health, absorption of new technologies, and parenting skills for every additional year of schooling beyond the sixth grade. Recognizing that all recent presidential candidates have made improved education one of their highest priorities, Chacón examines public policies to reach that goal. He advocates a comprehensive assessment of teachers, their capabilities, and their performance in the classroom, but he recognizes the opposition from both the largest teachers' union, the SNTE (Sindicato Nacional de Trabajadores de la Educación [National Educational Workers Union]), and the CNTE (Coordinadora Nacional de Trabajadores de la Educación [National Coordinator of Educational Workers]). With the arrest of the SNTE's leader in February 2013, the union may become more reasonable and willing to work with the new government. Meantime, Chacón calls for continuing teacher training, with courses and level of training determined both by the needs of specific teachers and by

the level and performance of specific schools—a lengthy and costly undertaking. A recent performance measurement, RENAME (Registro Nacional de Alumnos, Maestros, y Escuelas [National Registry of Students, Teachers, and Schools]), provides detailed information on school infrastructure as well as the monitoring of teacher and student performance. Chacón recommends that this information be published so that parents and the public may distinguish schools that add value from those that detract. With the publication of this information, government, civil society, and the business community can coordinate their responses to meet the needs of Mexican students.

The location of schools and the socioeconomic background of both students and teachers make a difference. Programs to improve education must be evaluated against carefully designed criteria in order to develop programs that stretch the value of public funds and achieve more positive results. Meanwhile, Chacón notes that Peña Nieto’s administration has yet to propose a budget that provides the funding needed to implement critical educational reforms.

In chapter 7, “Security Policy and the Crisis of Violence in Mexico,” Eduardo Guerrero presents a critical assessment of the current public security situation in Mexico and argues in favor of the process to alter security strategies. Guerrero identifies the weaknesses in President Calderón’s efforts to stop drug trafficking and discusses Calderón’s shift toward reducing violence and crime, a shift that is accentuated and ongoing under President Peña Nieto. The number of intentional homicides in Mexico has diminished since the fourth quarter of 2011 as a result of four factors: increasing public demand to stop the violence; more effective intervention by the federal and state governments; reduced availability of new recruits; and a shift to a selective law enforcement strategy. However, serious problems still remain, such as the slow pace of implementing reforms to criminal justice procedures; inadequate resources to reform the correction system; and inadequate domestic intelligence capabilities.

Guerrero presents eight recommendations that are tailored to address the main sources and consequences of organized crime–related violence. The goal is to reduce predatory crime, such as extortion and kidnapping; reduce violence throughout Mexico; improve the criminal justice system; and regain control of the prisons. To achieve these goals, Guerrero proposes a combination of short-term measures intended to deliver results in a six-month period, such as imposing a curfew on main roads to ensure public safety, conducting a prison population survey, and separating the marijuana market from the market for more damaging drugs. He also recommends medium-term interventions,

intended to deliver results in a two-year period, to strengthen security-related institutions. In order to undertake intensive institution building, Guerrero calls on outsiders with meaningful international experience to help design effective interventions for Mexico.

In chapter 8, “The Mérida Initiative: A Mechanism for Bilateral Cooperation,” Diana Villiers Negroponte examines the initiative, the principal mechanism for bilateral relations since its inception in 2007, and asks whether it has now outlived its usefulness. When President Calderón invited the U.S. government to collaborate with the Mexican government at a previously unseen level of integration, the State Department welcomed the opportunity. Since that time, the Mérida Initiative has evolved from being a mechanism for the delivery of sophisticated and custom-made equipment to being a developer of programs that support the training of law enforcement officers and seek to prevent youth from joining gangs. She traces the evolution of the initiative from integrated information sharing and operations to the creation of stand-alone programs such as the twenty-first-century border program. What lies ahead?

After announcing that it will concentrate less on drug interdiction and more on combating violence, the Mexican government is reexamining its security policy. That requires hiring more effective and less corrupt law enforcement officials at the state and municipal levels—an undertaking that President Peña Nieto is best placed to carry out as his party, the PRI, holds nineteen governorships among the thirty-one Mexican states and the Federal District (Mexico City). Under these circumstances, what might the most appropriate U.S. role be? The U.S. government’s priorities have also evolved: they now focus on strengthening the rule of law within Mexico, which means training investigative police, prosecutors, judges, and prison personnel. Focus is also given to empowering youth by developing alternatives to gang life, such as programs to train young people in IT skills. Given the evolution of policy on each side of the border, should both governments agree that Mérida has run its course? If so, what bilateral mechanism might emerge to ensure ongoing U.S. congressional support and funding?

In chapter 9, “Mexico and the United States: Where Are We and Where Should We Be?” Andrés Rozental demonstrates his deep knowledge of the U.S.-Mexican bilateral relationship, which is based on thirty years of negotiations with the U.S. government on maritime boundaries and fish stocks, nuclear nonproliferation, border issues, and immigration. From the days of a prickly relationship in the 1970s and 1980s, he notes significant improvement

in bilateral affairs. However, Rozental stresses the underlying Mexican tension over U.S. failure to address long-standing problems related to immigration, drugs, and the southward shipment of firearms. He regrets that security issues have dominated the bilateral relationship and calls for a more muscular U.S. response on drug consumption and shipment of arms and bulk cash in order to meet what Secretary of State Hillary Clinton has acknowledged is the U.S. “shared responsibility” for the violence in Mexico.

Rozental raises a question asked by many Mexicans today: “Why should Mexico expend so much money and effort on keeping drugs out of the United States when Americans fail to do much about the demand side of the equation?” Should the Peña Nieto government focus more on protecting its citizens from robbery, kidnapping, and extortion instead of keeping drugs away from U.S. consumers?

As Mexico confronts significant challenges from economic competitors in Asia, it is time to “de-securitize” the bilateral agenda and give priority to trade, investment, and climate change. Rozental joins Wilson in advocating a joint North American approach to the Trans-Pacific Partnership and argues that the United States should coordinate with Canada and Mexico in these negotiations as well as in the Trans-Atlantic Trade. Rozental also calls for frequent high-level discussions among the three North American nations to develop common positions on three subjects on the G-20 agenda, namely climate change, food security, and economic development, given their joint interest in these issues.

Finally, recognizing that the hemisphere is not homogeneous, Mexico, with one foot in North America and the other in South America, can act as a bridge. It can help develop assistance programs for the neediest countries in the region and diminish the need of the ALBA socialist countries, such as Venezuela, Ecuador, and Bolivia, to pursue policies that deliberately exclude the United States and Canada.<sup>1</sup>

## Note

1. ALBA refers to the Alianza Bolivariana para los Pueblos de Nuestra América (Bolivarian Alliance for the Peoples of Our America).