

# Modern Mexico

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## In the balance: parallel visions of malaise and promise

Lawlessness threatens fruits of reforms and economic progress, writes *John Paul Rathbone*

Today in Mexico, as every day this year, foreign companies will invest nearly \$100m in the country; several thousand cars will roll off modern production lines; and more than \$1bn of exports will cross the border into the US.

Mexico is one of the freest-trading countries in the world and enjoys a more diversified and more stable economy than most of its commodity-dependent Latin American peers.

Some 65,000 tourists will also enjoy Mexico's beaches and cultural heritage, from Aztec ruins to fine cuisine, and some will visit Mexico City and find it not what they expected, but richer, more picturesque and safer too.

A trendy restaurant will open; some 35m people will awake in the US to straddle the hyphen of their Mexican-

American identity; and another expatriate entrepreneur will return home to set up a business, perhaps serving the country's growing middle class.

"Mexico is about to go through the baby boomer effect that the US had 30 years ago," says Joel Muñiz, a partner at Boston Consulting Group, which estimates that Mexico's middle class is expanding by 3 per cent, or almost 2m people, a year.

But on this day too, some 55 people will also be murdered in a population of 125m and more than 90,000 predatory crimes – from extortion to kidnapping – will be committed, of which less than 10 per cent will be reported to police forces that few Mexicans trust. Another corruption scandal may surface, prompting public scorn but likely leading to little legal sanction; another bribe will be paid; and local commentators



Twin tracks: anger at the disappearance of 43 students, allegedly with police involvement (top); Mexico City, a popular tourist destination — Getty; Alamy

will lament, again, Mexico's lack of the rule of law and social malaise.

"There is a stagnating sense of social unrest," wrote José Buendía Hegewisch, a columnist in El Excelsior newspaper, in a typical recent comment.

These are contrasting but equally true realities of a remarkable country, whose past is always vividly present yet is nonetheless undergoing a remarkable transformation.

Two years ago, 58 per cent of the electorate chose Enrique Peña Nieto of the Institutional Revolutionary Party (PRI) as their president. "Feel proud, because your vote is going to change Mexico," the sleekly groomed 46-year-old said at the time. "We are going to leave behind the old practices. This is a political project committed to democracy and freedom."

In many important ways, the former state governor has fulfilled his promise. But in other – just as important – ways he has not.

On coming to power, Mr Peña Nieto swept aside the narrative of the previous government of Felipe Calderón, which had embarked on a war on organised crime that left more than 60,000 dead. Instead, Mr Peña Nieto skilfully steered a series of historic reforms through Congress and into law.

Previously untouchable telecom oligopolies, such as Carlos Slim's América Móvil, were taken on; corporate tax loopholes closed; and a revamp of Mexico's education system launched.

Most impressive, the state-controlled energy sector has been opened to private investment for the first time in 75 years. Even with the collapse in energy prices, oil majors are expected to bid billions of dollars in tenders over the next several years, boosting Mexico's dwindling energy output.

For a while, the reforms haloed the government and conjured up what came to be called "Mexico's Moment". Mexico was "open for business", and investors and foreign governments

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Modern Mexico

# Leaders: we must restore confidence

**Interviews** President and finance minister concede urgent action is needed after months of scandal. *By Jude Webber*

Mexico needed reform. Now it needs confidence. That, in a nutshell, is the diagnosis from Enrique Peña Nieto, the country's president, and his right-hand man, finance minister Luis Videgaray.

In interviews with the Financial Times, the two men shared the view that they must act swiftly to tackle the sense of crisis that has engulfed the presidency since September, when 43 students disappeared, believed to have been killed in a municipality allegedly under the sway of corrupt officials in cahoots with drug lords.

Indeed, a failure to build public confidence now could undermine the unprecedented reforms that the pair worked hard to devise and implement. Intense and focused, Mr Videgaray was a key mind behind, and chief implementer of, the president's strategic reforms, including an overhaul of weak public education, the end of a nearly eight-decade energy monopoly and increased competition in telecoms.

His conviction that this will yield sustained growth and prosperity is unshakeable.

But Mr Videgaray, the most outward-facing cabinet figure, also emerged as the first administration heavyweight to call publicly, if not for a government relaunch — he dislikes the expectations the term creates — then for a focus on what disillusioned Mexicans want now.

"This government has achieved wonderful things," Mr Videgaray says, referring to the speedy passage of nearly a dozen structural reforms that charted an ambitious course for Latin America's second-biggest economy after Brazil.

But he adds: "We can do 10 energy reforms and if we don't add trust, we will not seize the full potential of the Mexican economy."

Reform What progress has been made with the government's far-reaching programme of change?

**Energy**  
**Aim** End state energy monopoly; encourage private investment; boost production.  
**Regulatory changes** Constitution changed; regulators strengthened.  
**Outcome** Auction of oil exploration blocks is under way; foreign direct investment expected to be up to \$12bn a year — but that was before the oil price crash.

**Telecoms and competition**  
**Aim** Reduce the dominance of Televisa, the broadcaster, and Carlos Slim's América Móvil telecoms group.  
**Regulatory changes** Constitution changed; regulators strengthened.  
**Outcome** Some lower call charges and already some M&A by new entrants — but it is still early to judge.



Reformers: President Enrique Peña Nieto and Luis Videgaray after their 2012 victory — Reuters

**Education**  
**Aim** Improve teaching standards and curb power of the 1.4m-strong teachers' federation, Latin America's largest labour union.  
**Regulatory changes** Constitution changed; new autonomous regulator.  
**Outcome** Former union leader in jail pending trial for embezzlement; resistance from teachers' protests, especially in poorer southern states.

**Tax**  
**Aim** Expand tax base and close loopholes.  
**Regulatory changes** None.  
**Outcome** Hit economy initially; business and middle class complain they bore the brunt of tax increases because of large informal sector. It is too early to judge whether the tax base has expanded.

**Labour**  
**Aim** Cut hiring and firing costs, and thus reduce informal sector.  
**Regulatory changes** Introduction of universal pension/unemployment insurance — which could actually reduce incentives for labour to join the formal sector.  
**Outcome** Government trumpets fall in unemployment to seven-year low.

**Politics**  
**Aim** End century-old ban on re-election (except for presidents) in return for opposition parties' support for energy reform.  
**Regulatory changes** Strengthened oversight of local and federal elections by new National Electoral Institute.  
**Outcome** It is too early to say if reforms will make politicians more accountable.

He knows it is a tall order to sell the promise of a better future beyond the horizon to a population that has seen what look a lot like old-style corruption scandals overtake the government in recent months, while taxes have risen and a feelgood factor remains elusive.

In short, the government's reform package is essential, "but that's not the question today. It's about trust. It's about confidence," the minister says.

Mr Peña Nieto agrees. He notes a "sensation of incredulity and distrust" and an understanding that he must raise his game after a flat-footed response to the students' disappearance.

The crisis was compounded when it

emerged that both his family mansion, and Mr Videgaray's weekend home, were built by a favoured government contractor.

The president admits to a credibility gap and — despite both men denying wrongdoing — they welcome investigation so their accounts can be corroborated. Indeed, both raise the embarrassing issue before being asked.

Mr Videgaray, a US-educated technocrat and one of the most powerful ministers, is a hardworking, middle-class man who lost his father aged 11. Any leadership aspirations he may once have had may no longer look feasible, but he has spotted the political capital

to be made from the sense of malaise.

Seizing the bull by the horns, taking pre-emptive action to foster confidence, his recommendation is the same recipe as the one he has implemented to protect public finances from the oil price shock and currency volatility.

Trust in prudent fiscal management was last year rewarded by an investment-grade rating for sovereign debt, and the government knows better than to put that confidence at risk as it seeks to position itself as a great place to invest in vast energy opportunities or the booming car sector.

So at the end of January, Mr Videgaray announced he would slash public

spending by 0.7 per cent of GDP, largely to pre-empt an otherwise drastic spending cut in 2016.

"We want to send a clear message that the Mexican government won't endanger its fiscal position and we will remain on a path of fiscal responsibility," he says of the austerity drive.

He sees just a "marginal" impact on growth this year, but a bigger danger from not being clear about the government's commitment to prudent and stable economic policies.

"What would happen if the markets suddenly questioned our ability to keep public finances in check?" he asks.

"What would be the effect on growth?"

Mr Videgaray is a former Massachusetts Institute of Technology scholar who declined to follow many free-market peers and predecessors in Latin American finance who studied in Chicago because he thought markets were imperfect and needed a helping hand. He looks puzzled that what seems so obvious to him is proving so out of reach.

But Mr Peña Nieto is upbeat. He is betting reforms to create an anti-corruption system will — when allied with the fruits of the other reforms — bring sceptics aside.

"I think we are in time to show results," he says. "I am optimistic."



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## Ghosts of the past haunt an ambitious leadership

OPINION

David Gardner



Two years into a six-year term that promised so much, Enrique Peña Nieto, Mexico's president, looks in danger of hitting the buffers. The young leader's resurrection of the Institutional Revolutionary party (PRI), ruler of Mexico throughout most of the 20th century, came with a reform agenda intended to transform the country's underperforming economy.

Mr Peña Nieto has delivered on much of this. He has broken up the telecommunications oligopoly and opened up the oil industry. The latter had been closed to private capital since it was nationalised to reverential acclaim in 1938; opening it is historic, requiring almost theological tact as much as political skill.

Now he is at risk over political issues he largely ignored in his reform prospectus, such as public security and human rights, and the corruption for which the old PRI became a byword.

First, came the internationally shaming horror of the disappearance and apparent murder of 43 students in the southern town of Iguala last September — to which the government was painfully slow in responding. Then there is the matter of Mr Peña Nieto's personal mansion, built and paid for by a contractor favoured not just by this government but the administration he previously headed in the State of Mexico, bordering the capital. His finance minister, Luis Videgaray, it then transpired, had bought a house from the same contractor.

In an FT interview, Mr Videgaray admitted the government needed to regain public confidence. "We can do 10 energy reforms, but if we do not add trust, we will not seize the full potential of the Mexican economy," he said.

None of this is necessarily terminal. While the housing deals are opaque and give off a whiff of crony capitalism, they pale before the gargantuan graft of the PRI's past. But older Mexicans may feel they have seen this movie before.



Past lessons: former president Carlos Salinas de Gortari — Getty

In 1988, Carlos Salinas de Gortari, a shrewd young technocrat at the head of a government studded with zealous reformers, came to power promising a Camelot-like era of modernisation. Six years later, Mexico's economy imploded in the Tequila crisis, its institutions were penetrated by powerful narcotics gangs and Mr Salinas's designated successor, the credible reformist Luis Donaldo Colosio, was assassinated.

Although his cheerleaders chose to ignore it, there had been from the outset reason to doubt how Mr Salinas would fare. He had allied with corrupt, old guard "dinosaurs" of the PRI, who imposed his election by fraud and then availed themselves liberally of what the penal code quaintly called "inexplicable enrichment".

Sceptics about Mr Peña Nieto, sold by his supporters as Mexico's JFK, with film-star looks and a soap-opera star wife, find echoes in the past. He is from a new generation, but also a scion of a clan of rich and powerful old guard barons. As one Mexican commentator asked after his election: was this the phoenix rising from the

ashes, or a streamlined pterodactyl, the return of the dinosaurs that gave the old PRI its teeth?

The comparison is questionable, with the differences as important as the similarities. The old PRI was the party-as-nation, a pyramid of corporatism that agglomerated most of society in syndicates run from the top and oiled by patronage, the ultimate fount of which was the presidency. There are now real parties in Mexico, where civil society is resilient and better informed.

The PRI machinery is rusted. If Mr Peña Nieto is the old PRI with a telegenic mask, he still has to operate in a different context.

The similarity with the Salinas saga is the neglect of power structures — the idea that economics is a technique insulated from politics. That is more than moot in countries such as Mexico, straitjacketed by vested interests, infested by savagely violent drugs cartels, hobbled by weak institutions and with a rule of law at best unevenly applied.

Mexico has never wanted for brilliant technocrats, trained at ITAM, the university modelled on MIT in the US, and polished by Ivy League doctorates. They can be ingeniously inventive: hedging against the oil price fall now, or, during the 1980s foreign debt crisis, coming up with intricate schemes for over-indebted private companies that creditors could live with. Mr Peña Nieto has surrounded himself with some first-class brains. But the Salinas government was one of the brainiest administrations ever assembled. Both teams — fatally in the Salinas case — left politics to the barons.

Mexico's Congress, for example, is a baronial fief. The historic ban on re-electing deputies and senators gave the barons an iron grip. Since they only serve one term, they cannot hold the executive to account, nor can their voters reward or punish them. Only their political bosses can do that.

Congress voted to lift the ban on re-election in 2013 — but only from 2018 — and left intact party leaders' powers to draw up lists of candidates. That gives legs for a while yet to the barons, and teeth to the dinosaurs.

David Gardner is the FT's international affairs editor.



Modern Mexico

# Location and young workforce prove attractive

**Reshoring** The country is attracting companies from the US but needs better infrastructure, writes *Jude Webber*

Axiom, a New York-based fishing rod manufacturer, used to have its products made under contract in China. Low costs were attractive; less so was having to wait for a container to be filled with 15,000 fishing rods, then a month or more for them to be shipped to the US, and then a further three or four weeks in a truck en route to its facility.

The company, which had begun to consider moving out of China because of concerns over quality and its contractor's transparency, looked around, considering Vietnam and Thailand as potential Asian manufacturing locations. Eventually, the company decided to stop contracting out and to set up shop in Mexico.

Logistics won out. It was "just too cumbersome" for Axiom to keep its

manufacturing base so far away, says Bob Penicka, president of Axiom Industries. Slightly higher Mexican costs were offset by faster transport.

After suffering an exodus of manufacturing companies to China from 2000-2010, Mexico's star has been rising again as a destination for US companies "reshoring" into the Americas, as Chinese labour costs have increased.

However, as Axiom discovered, wages are only part of the picture. "Being able to service the US faster and cheaper is one heck of an advantage," says Hal Sirkin, senior partner and manufacturing expert at the Boston Consulting Group in Chicago.

In some industries, such as car production, aerospace and manufacturing, Mr Sirkin estimates that China's wages overtook Mexico's in 2012-13. Mexico is now Latin America's top car producer and the country makes an attractive base from which manufacturers can serve the US as well as Latin America.

"A lot of what is going on in terms of expansion in Mexico has nothing to do with cost, it has to do with regionalism," says Doug Donahue, vice-president of business development for Entrada Group, a US-based company that helps foreign manufacturers — including



Axiom — set up and run their own production in Mexico.

Mexico has a host of reshoring advantages besides location: a young and increasingly skilled workforce; the right timezone for US companies; and successful industrial clusters that have enabled the car and aerospace industries, for example, to thrive.

But Cidac, a Mexican think-tank, warned in a study last year that the country could be squandering its

Big catch: Axiom relocated its rod manufacture from China to Mexico

'A lot of what is going on in terms of expansion in Mexico . . . has to do with regionalism'

advantages because the government is failing to promote Mexico as a strategic relocation destination, tax rises that hit labour-intensive industries hard and infrastructure bottlenecks.

In 2011, Mexico was rated by 70 per cent of companies selling into the US market as the top place to relocate, but by 2014 that had shrunk to 28 per cent, says Miguel Toro, a Cidac researcher, citing data from AlixPartners, a consultancy. The US, by contrast, has overtaken Mexico: now 42 per cent of companies say they would choose the US, the survey found.

The US may be more costly, adds Mr Toro, but it can be more productive while opening operations in Mexico can be fraught with bureaucracy. He also fears that "terrible" security conditions in some border areas are a drag on what could be huge investment. By some estimates, North America could see a \$120bn influx from reshoring by 2020.

Mexico faces further challenges, including building a broader base of subcontractors and bringing down energy costs, says Mr Donahue.

China, he adds, did a "fabulous job" of creating supply chains much earlier than Mexico. Although a central area of Mexico has taken off for manufacturers,

its supply chains remain less developed and there are gaps to fill.

For example, makers of electrical wiring harnesses — used in the manufacture of tractors, cars, fridges and other appliances — need to source connectors and parts that are not made in Mexico because they are not labour-intensive to produce.

Energy costs in Mexico are also higher than in the US, although pipelines to bring more cheap US shale gas south of the border and Mexico's energy reform which is designed to boost domestic production, will gradually lower costs.

The country also needs to generate the type of labour that incoming industries will want, such as welders. But Mexico's demographic dividend — the average age of the population is 26 — and the fact that manufacturing is a respected industry suggest that it will be possible to find people willing and capable of acquiring the right skills.

The potential for Mexico is vast: Cidac has identified white goods, electronics and computing, plastics, metalworking, transport equipment, furniture, electronic equipment and medical equipment as attractive sectors.

"The window [for reshoring] is still open," says BCG's Mr Sirkin.

## Nation's twin visions of malaise and promise

*Continued from page 1*

lauded the strategic position of the world's 15th biggest economy.

Rising Chinese labour costs and Mexico's ever-closer integration into global supply chains further boosted its attraction as a manufacturing powerhouse. US companies talk of "reshoring" into the Americas. Some \$30bn of foreign investment is forecast each year.

"The process in Mexico is going in the right direction," says Oscar López-Varalde, a partner in consultancy EY's oil and gas practice.

In addition, the reforms' focus on boosting productivity should help bring about higher economic growth, from its average annual rate of less than 2.5 per cent, and also boost long-stagnant real wages. Both are disappointing in an emerging economy so closely integrated with the US.

"I believe the reforms will do a lot for Mexico," says Luis Videgaray, the finance minister. "They will take time to bear fruit . . . but we think they will add 1.5 to 2 percentage points to growth." Early signs that the reforms are working include significant falls in telecom and electricity prices.

But then, late last year, the bubble popped. The apparent murder of 43 students by drug gangs in Guerrero



Outrage: protesters in Mexico City remember disappeared students — Getty

impressively corrupt 71 years until the transition to democracy in 2000. Now, under Mr Peña Nieto, it had apparently returned with its old ways.

Presidential gaffes, such as calling corruption "a cultural matter", made matters worse. Public patience has snapped and outrage is growing, abetted by fresh scandals.

Government officials point to laws that aim to set up an independent anti-corruption prosecutor and revamp the attorney-general's office. But such initiatives have been met with scepticism. Mr Peña Nieto's popularity rating has fallen to a 20-year low for a Mexican head of state.

The president's reforms may yet prove to be as important and historic in fact as they appear on paper. But the rule of law, rather than the economy, is the country's most important challenge — as even Mr Videgaray has acknowledged.

Do other government officials believe the same? Some may draw tactical political comfort from the likelihood that the PRI will probably do no worse in June's midterm elections than any other big political party — as all of them are tainted. But such thinking, which leads to inaction, would be short-sighted and wrong.

One reason is that the lack of the rule of law imperils the reforms' implementation. More importantly, there is the danger that public disenchantment with the rottenness of the country's institutions could lead Mexicans to succumb eventually to Latin American traditions of populism. Just "look at Venezuela", as Mr Videgaray has warned.

The stakes at risk in this administration's remaining four years in power are high indeed.

15<sup>th</sup>

Mexico's ranking among the world's largest economies

60,000

died in the war on crime started by the previous government

state, allegedly with the involvement of the former local mayor and aided by police working in cahoots with the cartels, was a grisly reminder of rank corruption.

The government's leaden handling of the incident then gave the sense it was out of touch with daily concerns.

A series of conflict-of-interest scandals also erupted, including one around the houses of the president and Mr Videgaray and links to a construction company that has won millions of dollars of public contracts.

Although officials insist nothing illegal took place, the scandal seemed to confirm many Mexicans' fears about the ruling party, the PRI. It had governed for an

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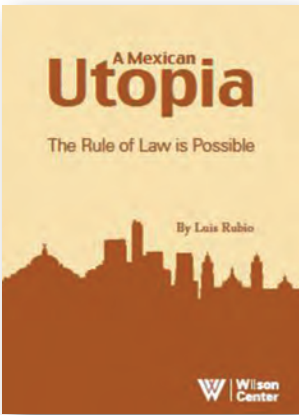
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**A Mexican Utopia: The Rule of Law is Possible**  
by Luis Rubio  
Wilson Center,  
January 2015  
Free to download

Book review A timely argument for a kinder and better society

Luis Rubio is one of Mexico's most experienced and wisest commentators. As a group they are prone to periodic laments as to why their country, so rich in so many ways, remains so poor. Is it the DNA? Or the geography and history? Or is it because of a clash between the new and the old, the democratic and the authoritarian?

In his latest book, *A Mexican Utopia*, Mr Rubio takes a different approach. It is less about how to make Mexico rich than how to make it kinder and better. His utopian vision is slightly tongue in cheek; Mr Rubio admits readers may wonder what he "has been smoking". Yet its thesis is serious and timely.

"Mexico's problem is not criminality or violence," he writes, "but the absence of government, the absence of competent institutions capable of maintaining order, imposing rules, and earning the respect of the citizenry."

In short, Mexico's central problems are gross legal impunity and the absence of the rule of law. Remarkably, the book was finished before last year's disappearance of 43 students in Guerrero state, and before the presidency of Enrique Peña Nieto was shaken by conflict-of-interest scandals. It is testament to Mr Rubio's prescience that his book reads like a commentary on both of those events.

Mr Rubio argues that Mexico is stuck, although not in a conventional sense. The economy is on a sound footing and has many centres of modernity and genuine excellence, especially among exporting and manufacturing industries. And in the first two years of his presidency, Mr Peña Nieto passed a number of radical economic reforms — including opening up the energy sector to private investment — that could expand these areas.

Yet it is not the economy that ails Mexico.

The lack of the rule of law is common to many emerging economies, but in Mexico it has particular characteristics.

For most of the 20th century, Mexico was ruled by the Institutional Revolutionary party (PRI) under a "one-party democracy". It was a stable system, based on a pyramid structure with a president-cum-emperor at the top, political and corporate chieftains jostling below him, and the rest underneath.

Although a corrupt system, based on patronage and discretionary power, it provided 71 years of stability. Then the PRI lost the 2000 presidential election and the pyramid was dismantled. Institutionally, there was little to take its place.

The exception was the 1994 North American Free Trade Agreement. Nafta instituted a degree of modernity: it reassured investors by putting in place a framework of rules that limited the discretion of elites. Their trade-off was less power in return for more economic dynamism. Yet the remainder of Mexico's democratic apparatus — the structures that buttress citizenship and the accountability of power — remained half-formed.

Mr Rubio wants the equivalent of a Nafta for the rest of Mexico — an institutional framework that supports the rule of law and replaces patronage and corruption.

The need for change is largely moral. But it is also utilitarian. Mexico's place in the global economy means that the current "prehistoric" system no longer works. Indeed, the lack of rule of law could even threaten the fruits of Mr Peña Nieto's reforms.

How to achieve this utopian state? Mr Rubio cites the example of Spain's transition to democracy. There, he writes, the main concern of the first post-Franco government was to focus less on the "what" of had to be done than on the "how", ie Spain's institutional arrangements.

In Mexico, that would mean ripping up the system of privileges and submitting all society fully to the law. Such a change would require the savviest of political operators.

So who could lead it? Mr Rubio floats a paradox: Mr Peña Nieto himself, because, as his radical reform package has shown, "Peña Nieto's greatest asset is his capacity for political operation".

That may be a pipe dream, but it is one of the more fertile possibilities raised in this rewarding book. At only 145 pages, it enjoys the further merit of brevity — and is available as a free download from the Wilson Center think-tank in Washington DC.

**John Paul Rathbone**  
[www.wilsoncenter.org/publication/mexican-utopia-the-rule-law-possible](http://www.wilsoncenter.org/publication/mexican-utopia-the-rule-law-possible)

# Hispanic Americans go back to school to learn the language of their forebears

**US community** Spanish classes are booming among the children and grandchildren of migrants, says *Barney Jopson*

The spectre of America filling with Spanish speakers who know little English is a recurring fear of anti-immigration conservatives in the US. They tell researchers they are troubled to find Hispanic servers with whom they struggle to communicate at McDonald's, or a Spanish voice giving language options on their bank's phone line. "This is not the country I grew up in," goes the common refrain.

But such fears are often out of line with the reality of the US Hispanic population and its core of 35m people of Mexican heritage. According to Census Bureau data, the main drivers of Hispanic population growth are citizens born in the US — and their English is often much better than their Spanish. One such person is Alonso Figueroa, a music student born 24 years ago in Los Angeles. His parents arrived from Mexico in the late 1980s and he now lives in Sun Valley, a district of LA which is more than two thirds Hispanic.

Speaking in English, his first language, he says: "I look Mexican. I look like I speak Spanish." But his Spanish is shaky. "It was a little bit embarrassing going to Mexico or interacting with people in Spanish here and throwing in a few English words because I didn't know the Spanish," he says. So while conservatives demand that Latinos study English, Mr Figueroa is taking Spanish classes.

Spanish teachers in the US say a grow-

ing number of adults of Mexican origin are doing the same. More school districts are also beginning to offer Spanish classes tailored to Hispanic children.

The trends point to two things. First, the linguistic diversity of the Mexican-American population. Second, the desire of some young Mexican-Americans to discover their heritage, a process sociologists call "retro-acculturation".

With Latinos accounting for one-sixth of the US population, businesses must grasp this complexity. Spanish versions of adverts are not enough. Target, a big general retailer, has run commercials mingling English and Spanish to reflect the way people speak; and broadcasters Univision and ABC in 2013 launched a channel for young Hispanics called Fusion, whose shows are in English.

The Hispanic population — including Mexican-origin families that lived in the west and southwest before they were part of the US — contains a "full spectrum" of language skills, says Ana Sánchez-Muñoz, a Spaniard who is associate chair of linguistics at California State University, Northridge.

"You're going to have Latinos that only speak Spanish," she says. "And Latinos that only speak a rural, uneducated variety of Spanish. You are going to have bilinguals; most of the second and third generations who are English-dominant; and a fourth generation with only passive Spanish."

In a 2014 survey, the Pew Research

**Live issue: the Alicia Menendez Tonight show on Fusion Television, an English language channel launched in 2013**  
AP

A survey found that 6 per cent of second-generation Mexican-Americans counted Spanish as their dominant language

Center, a think-tank, found that 6 per cent of second generation Mexican-Americans — people born to immigrant parents — counted Spanish as their dominant language. Some 54 per cent were bilingual and 39 per cent said their dominant language was English. In the third generation and beyond, the language had atrophied further: only 1 per cent were Spanish-dominant, with 29 per cent bilingual and 70 per cent English-dominant.

As a young child, Mr Figueroa spoke Spanish at home. But aged seven or eight, influenced by school and English-speaking cousins, he began using English with everyone but his parents. His Spanish stopped developing and "Spanish" emerged. "My main motivation [for lessons] is to express myself as clearly and concisely in Spanish as I can in English," he says.

Emily Spinelli, executive director of the American Association of Teachers of Spanish and Portuguese, says: "Often [adult Hispanics] can listen and comprehend, but they don't read or write."

A growing number of school districts, including many in Texas, are introducing Spanish courses for "heritage speakers" from Spanish-speaking homes. The immigrant parents of many did not complete a secondary education in Mexico so what children learn at home is not always correct, says a public school Spanish teacher in Washington DC.

Of the 154,268 children who took a

National Spanish Examination in the US last year, 8.4 per cent had some prior experience with Spanish outside the classroom, according to Kevin Cessna-Buscemi, the exam director.

Work is one reason for Mexican-American adults to take classes: there are growing job opportunities for the bilingual. Hugo Lopez, a US-born Mexican-American who is director of Hispanic research at the Pew Research Center, says he took Spanish classes because he did not speak fluently and needed to learn the vocabulary of demographics and housing.

There is also a new pride in Mexican-American identity. Many older Mexican-Americans suppressed their heritage because they thought assimilation was the way to get ahead, says Liz Castells-Heard, president of a Hispanic marketing agency in Los Angeles. Today, their adult children often have the confidence to seek out their roots.

Studying Spanish can help such people cement their Mexican-American identity. The Pew survey found that 94 per cent of US-born Mexican-Americans felt it was very or somewhat important that future generations speak Spanish, even if their own skills were weak.

Mr Lopez, whose Spanish is now polished, says: "I remember non-Hispanics speaking to me directly in Spanish and me having to say 'You can speak to me in English'. You always felt you were out of place."

# What a kidnap tells us about the need for reform

**OPINION**  
**Alejandro Hope**

In early February, a band of thugs descended on Cocula, a small town in the mountains of Guerrero, southwest Mexico, and kidnapped 12 people. It was the latest in a string of horrific incidents that have befallen that rural community of 15,000 souls.

In 2013, Cocula had a homicide rate of 83 per 100,000 inhabitants, a level reminiscent of Honduras, the most violent country on earth. Last September, the municipal dump was allegedly the scene of the execution and cremation of 43 students from a rural teachers' college, abducted in the neighbouring city of Iguala.

So there was much to fear about the fate of the 12 people abducted on February 7. But in this case something was different: at least one of the victims worked for Torex Gold, a Canadian

company mining near the town. And, lo and behold, there was a prompt and vigorous official response. Not from civilian authorities, it should be noted, but from the army. Within 72 hours, 10 of the 12 had been rescued.

That story encapsulates Mexico's three main security challenges.

First, the illegal narcotics trade is no longer the key driver of crime and violence. It is alleged that the Cocula thugs did not belong to a drug cartel, but to a local gang, spawned by the fragmentation of a large drug smuggling organisation and drawing most of its income from predatory activities. It is one of many: according to a 2013 report by the federal attorney-general's office, there are 89 recognisable organised crime syndicates across the country. These gangs have transformed the Mexican criminal landscape: the name of the game is no longer sending drugs across the border (although that still happens), but extracting rents from local economies.

Second, civilian institutions are not up to the challenge posed by the new criminal underworld. With some exceptions, local and state police forces

are underpaid, undertrained and vulnerable to corruption and intimidation. Federal law enforcement agencies are better, but they are too small: the Federal Police has barely 40,000 officers. That leaves the armed forces as the only alternative in many regions. But direct military participation in law enforcement produces different problems. Most significantly, it reduces the incentive to develop adequate civilian capabilities.

Third, access to security and justice is unevenly distributed. A foreign company will probably receive a prompt and effective response when attacked by criminals. But for a regular citizen, without pull or access to decision makers, this is less likely.

How has President Enrique Peña Nieto's administration responded to these challenges? During 2013 and most of 2014, it mostly ignored security issues, saying improved inter-agency co-ordination would be the cure for crime and violence. Belatedly, as a result of the public uproar that followed the Iguala mass abduction, the president unveiled a 10-point security plan.

The key component of that strategy is

**Anger: a woman protests at the kidnap of students in Iguala who are feared murdered**  
AFP



the proposal to merge the 1,800 municipal police departments into 32 single-state police forces.

Although superficially attractive, that is a bad idea. State police forces have proven very difficult to reform: that task would be even more difficult if their size were to increase rapidly.

More importantly, the nature of the criminal threat is increasingly local and requires local engagement.

Finally, without some local control, the security system would become even more biased against poor and politically weak constituencies.

What are the options? First, police reform should focus on the quality of police forces, not their number. Every police force should meet minimum requirements in terms of recruitment, salaries, professional standards, internal controls and external oversight.

If a jurisdiction is unable to meet them, then policing should be taken over by a different level of government. But not before allowing a serious stab at reform.

Secondly, there should be a concerted effort to improve prosecutorial and

investigative capabilities. Whatever the quality of the police, its power to deter is thwarted if criminals cannot be properly tried. For all practical purposes, state prosecutors are unable to build a criminal case unless they secure a confession, often obtained by police through torture. Changing that should become a national priority.

Finally, municipal government should be reformed and energised. That means increased transparency and accountability, a transformation of electoral rules to facilitate independent candidates and strong anti-corruption measures.

For almost two decades, Mexico has responded to crime and violence with increased centralisation. The result is an ineffective and unfair system that copes poorly with the realities of the criminal underworld. It is time for a new, bottom-up approach.

Mexico City will not save Cocula from criminals, but a reformed Cocula just might.

*Alejandro Hope is an independent security analyst and a former Mexican intelligence officer.*



Modern Mexico

# Exploration interest rises despite oil price fall

**Energy** Difficult times have not so far deterred companies in a newly liberalised market, writes *Jude Webber*

Oil companies had waited nearly 80 years to invest in oil and gas exploration in Mexico and the government had overcome enormous domestic opposition to liberalise the sector. Could there have been a worse time for oil prices to collapse?

In a word: 'no'. One international official, who is Mexican, says that despite brave faces in the sector "the decline in the oil price significantly hinders the positive effects of the energy reform, especially in the short term".

Yet despite the unfavourable environment, Mexico's first bidding round looks far from being a flop. Some 26 companies, including majors such as Exxon-Mobil, Chevron, BG, Shell and BHP Billiton, as well as Russia's Lukoil and India's ONGC Videsh, have signed up to

access geological, seismic and other data for the first blocks on offer – exploration areas in shallow waters in the Gulf of Mexico – and 42 companies in all have expressed interest in bidding. Other blocks will be offered throughout the course of Round One, as the inaugural 2015 auctions are known.

"It is going as expected," says Oscar López-Velarde, a partner in consultancy EY's oil and gas practice. "The process in Mexico is moving in the right direction . . . it should be a very successful Round One."

What is clear is that, as companies pore over their now-constrained investment budgets – oil prices remain nearly 50 per cent lower than last June, despite a recent bounce – Mexico must offer competitive terms and attractive assets.

Mexico is pinning its hopes on the fact that the shallow-water fields being tendered first cost less than \$20 a barrel to develop, but Luis Videgaray, the finance minister who relies on oil revenues to fund a third of Mexico's budget, acknowledges that the fiscal terms will need some sweetening.

Even at current prices, though, there is plenty to play for, says one investor. The typical average recovery of discov-

ered assets in an oilfield worldwide is about 30 per cent, says Alejandro Schwedhelm, managing partner of private equity firm NALA Energy, which is joining a partnership with state oil company Pemex and hopes also to bid for onshore assets when tenders for those are opened later this year.

In Mexico, however, that recovery rate is 17 per cent. "That means that Pemex has left a lot of fields only partly developed, because it had to direct its investment capital elsewhere," Mr Schwedhelm says. "We think it's possible to make significant investments even in the current price environment," he adds.

Pemex, which is facing competition for the first time, also realises it must shape up. With state finances squeezed, the company has to slash its 2015 budget by more than \$4bn, some 11.5 per cent.

Pemex says it will have to delay investment in refinery upgrades and clean fuel projects. It had been due to invest \$5.5m in such projects – something the company had touted as proof that reform was working. It is also renegotiating contracts with suppliers and seeking to cut personnel and other costs.

However, the reform does mean that Pemex is no longer obliged to spread



Rich potential: workers on a Pemex platform off Veracruz — Bloomberg

itself so thinly and can seek greater participation from the private sector. Pemex is currently negotiating to turn existing contracts with oil services companies – the only private participation in the sector allowed before the reform – into full profit-sharing, production-sharing contracts and licences, and will also be able to team up with private companies in consortiums to bid for assets.

According to the international official, who asked not to be named, low oil prices mean "implementation [of the reform] must be even more aggressive. This must shake up Pemex to act as other oil companies have . . . to accommodate to the new environment".

Before the oil price shock, the government had pencilled in annual investment in the sector of some \$12bn. Will

money still pour in? Mr Schwedhelm says "yes": his fund has signed a deal – not yet public – with a service company now renegotiating its contract with Pemex, and "that [project] will eventually require investment of at least \$2bn".

Mr López-Velarde says \$12bn a year sounds a "very conservative number when you compare it with the US". Investment in upstream and midstream projects in the US is expected to reach as much as \$275bn a year for the next six years, one oil and gas analyst estimates. Still, investment will take time.

Oil price falls have, however, altered the calendar for Round One.

Juan Carlos Zepeda, the head of the National Hydrocarbons Commission (CNH), which is running the bid rounds, says some unconventional prospects are no longer attractive at these prices. Some shale assets may now not be tendered until Round Two next year.

For other investors, Mexico's oil tenders also promise to open up an opportunity that is generating excitement among traders in Mexico, Chicago and beyond: gas futures contracts.

Jorge Alegría, head of the Mexican derivatives exchange, says he hopes to have the contracts ready this year.

## Traditional cuisine wins a place on the Unesco culinary map

Food

Authentic ingredients and flavours are finding favour both at home and abroad, writes *Jude Webber*

Mexico produces and exports something that is increasingly in demand with consumers around the world: its traditional cuisine.

It is recognised by Unesco as part of the world's intangible cultural heritage – Mexico's was the first national cuisine to qualify for the honour.

The corn, chillies, beans, salsas, herbs, cactus and even creepy-crawlies that come in a riot of colours, flavours and textures add up to one of the richest culinary offerings on earth. To quote one of Mexico's top chefs, Enrique Olvera, the palette of flavours is "pure dynamite".

Food is a serious business in Mexico: despite 20 years of ever-closer North American integration, no self-respecting Mexican would grab a sandwich and work through lunch. Phones ring unanswered while officials and executives literally make a meal of it – often involving tequila, beer or wine and lasting until 5.30pm.

US fast-food chains abound, but they are no match for the thousands of street vendors dishing up tacos with all the trimmings from roadside stalls or, in some areas, the back of a car.

Even well-heeled office workers can be seen slurping salsa as they eat, standing up, off a plastic plate on a busy street corner.

It is this ubiquitous, vibrant culture that Lesley Téllez, a third-generation Mexican-American, wants foreigners to experience.

Her company, Eat Mexico, organises market and street food tours to introduce adventurous travellers and "food nerds" to Mexican snacks, the range of ingredients, how they are made – which often involves watching the tortillas being pressed before their eyes – and their history.

She is also publishing a cookbook in May for those who want to reproduce the experience as authentically as possible in their own kitchens.

One of Ms Téllez's customers, an Irishman, started his own tortilla company after a special tour of a corn farm. He is



Unforgettable: chef Enrique Olvera says the flavours are "dynamite" — Getty

not the only visitor to take a traditional flavour of Mexico home.

Fergus Chamberlain, a British entrepreneur, tapped into both the gourmet globalisation trend and London's taste for ethnic foods with his fair trade range of spicy condiments made from pasilla chillies from the southern state of Oaxaca and smoked by farmers the way they have been for generations.

Mr Chamberlain started selling chilli paste on London market stalls. Now in his third year of trading, his offering has expanded to include smoked chilli honey, mayo and ketchup.

His products can be found in stores including Marks and Spencer, Selfridges, Harvey Nichols, Tesco and Whole Foods Market in the UK, as well as Amazon and, coming soon, Dean & DeLuca in New York and ICA in Sweden. His Gran Luchito brand is symbolised by a Mexican lucha libre wrestler.

"One of my favourite things," says Mr Chamberlain, "is going to food shows and seeing people be very, very sceptical, thinking it's going to be Tex-Mex – and then seeing their faces change."

Mr Olvera, whose Pujol restaurant in Mexico City is rated one of Latin America's finest, is one of the chefs credited with putting contemporary Mexican cuisine on the map.

As Mexican delicacies conquer new markets – traditional tequila and mezcal, made from the agave cactus, are now being exported to China – Mr Olvera has taken his quest to New York, where he opened his Cosme restaurant last September.

"I don't think anyone can forget Mexican flavours once they've tried them," he says. "There's no turning back."

### Hotspots Tastes of Mexico City

A trip to Mexico City will almost certainly take in the leafy Condesa neighbourhood. If it is tacos you are craving, ignore the dozens of fancy restaurants and head instead for Avenida Amsterdam 132.

Your destination is known as Tacos El Güero or Tacos Hola, but there is no real sign, just a battered awning and a rickety table on the pavement. Come early, before the impressive and uncommon selection of fillings runs out. It is great for vegetarians too, which



cannot always be said of Mexican food.

Maybe a mezcal? The lapsang souchong of spirits with its smoky aroma is hipper than tequila and now widely available. Settle down to sip the dozens on offer at the tiny bar, La Clandestina, on Alvaro Obregón 298, or try a mezcal cocktail at Yuban on Colima 268 in the Roma Norte district.

Something sophisticated? Casa Dragones offers artisanal luxury tequila for the discerning palate and pocketbook (about \$250 a bottle). **JW**

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Modern Mexico

# Diverse attractions lure back savvy travellers

**Tourism** After a dip amid recession and fear of crime, vistorers are returning in record numbers. By *Paul Imlison*

A stroll down Paseo de la Reforma, Mexico City’s grand Paris-style boulevard, offers a whirlwind introduction to Mexican life. On a Sunday morning, you will find families enjoying a traffic-free bike ride; another day, you might come across a rowdy political protest by farmers or teachers. In between lie dazzling free art exhibitions, world-class museums and restaurants.

Once decried as an intolerable concrete jungle, Mexico City is beginning to show the world a friendlier side. An intoxicating mix of colonial architecture, Aztec ruins, modern shopping malls, and bustling street markets, it is very much the country’s melting pot.

Falling crime rates, expanding facilities, and a clear strategy by the left-leaning city government have seen the annual number of foreign visitors to the capital double in recent years – the most visited city in Latin America.

“The city is transforming,” says Miguel Torruco, the capital’s secretary of tourism. “It was always a great city for business. Now it’s a city of leisure.”

He gestures towards the sweeping view of the metropolis from his office window. “We’re the only city . . . in Latin America with four World Heritage sites. We have more museums than any city in the world bar London.”

Like many sprawling capitals, Mexico City requires patience; traffic can be insufferable and public transport crowded. In this, too, however, the city is becoming more user-friendly with an increasingly flexible bus system, bicycle lanes, and secure taxi services. The capital’s historic centre, where many visitors once feared to tread, has undergone a comprehensive makeover, partly funded by the billionaire Carlos Slim.



Rich mix: cyclists on Paseo de la Reforma, Mexico City (left) and tourists at Chichen Itza, Yucatan



“There was a time when even Mexicans were intimidated by the place,” says Mr Torruco. “Now we’re seeing 13m foreign visitors a year.”

After a five-year decline on the back of the global recession and grisly tales of drug violence, Mexico’s tourist industry rebounded to enjoy its most successful year on record in 2014. Some 30m travellers touched down last year, bringing an unprecedented \$16bn of revenue.

“A few years ago, Mexico’s image on the world stage wasn’t great,” says Ernesto Bartolucci, director of the country’s Center for Advanced Studies in Tourism. “You only saw bad news. Now, we have a government that is working hard to change things with

reforms, strategies, and investments.

“We’re also dealing with a savvier kind of traveller these days,” he adds. “They form their own opinions, either through social media or by word of mouth. They don’t rely so much on what they read in the news.”

Mexico’s greatest strength is its diversity. From the colonial silver cities

‘There was a time when even Mexicans were intimidated. Now, we’re seeing 13m foreign visitors a year.’

in the mountains and ancient ruins to adventure holidays, large resorts, and increasingly varied arts and cultural attractions, the tourist offering is changing fast.

The developments reflect the country’s history. In the 1920s, northern border towns such as Tijuana grew rapidly thanks to the prohibition of alcohol in the US, drawing thousands of thirsty Americans to their bars, brothels and gambling dens.

In the 1930s, keen to shake such an image, the nationalist government strove to promote the country’s cultural treasures: baroque churches, colonial palaces and a rich indigenous heritage.

The 1950s would see the birth of the mega-resort; a steady stream of oil

money prompting the rise of glitzy resorts such as Acapulco and – later, in the 1970s – Cancún on the long coastline. More recently, visitors have flocked to soak up the florid pre-Hispanic cultures of the country’s south.

The government’s latest strategy, to promote Pueblos Mágicos (“magic towns”) – 83 designated towns and villages of cultural or historic interest, some rarely visited by foreigners or Mexicans – is another attempt to diversify.

“A few years ago, these towns had nothing in the way of tourist infrastructure,” says Mr Bartolucci. “Now, the government is working with the communities to make the most of their culture and history.”

Tales of drug cartels and disappearances continue to mar the country’s image and may deter some visitors. Yet the worst of the violence has always been concentrated in specific areas.

Several of the country’s 32 states boast crime rates as low as those of many developed nations. Both the UK Foreign Office and the US State Department publish frequent security updates for travellers.

“Do you avoid France because of what happened in Paris last month?” asks Mr Bartolucci. “Do you avoid Spain because there are student demonstrations in Madrid?”

“When you’re tarred with a negative image, you have to shake it off. We’re still here, and we’re moving forward.”


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