

# BTI 2008 | Mexico Country Report

<b>Status Index</b>	1-10	<b>7.30</b>	# 28 of 125	
Democracy	1-10	7.45	# 33 of 125	➔
Market Economy	1-10	7.14	# 26 of 125	➔
<b>Management Index</b>	1-10	<b>5.81</b>	# 36 of 125	

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

This report is part of the Bertelsmann Transformation Index (BTI) 2008. 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 125 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University.

More on the BTI at <http://www.bertelsmann-transformation-index.de/>

Please cite as follows: Bertelsmann Stiftung, *BTI 2008 – Mexico Country Report*. Gütersloh: Bertelsmann Stiftung, 2007.

## Key Indicators

Population	mn.	103.1	HDI	0.82	GDP p.c.	\$	9,564
Pop. growth <sup>1</sup>	% p.a.	1.0	HDI rank of 177	53	Gini Index		46.1
Life expectancy	years	75	UN Education Index	0.86	Poverty <sup>3</sup>	%	11.6
Urban population	%	76.0	Gender equality <sup>2</sup>	0.60	Aid per capita	\$	1.8

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

Mexico's current political situation has been clearly marked by the presidential and parliamentary elections of 2 July 2006. Waging claims of massive electoral fraud, presidential candidate Andres Manuel López Obrador, proclaimed himself the "legitimate" president of Mexico and called on his supporters to not recognize Felipe Calderón as the electoral winner. This crisis accentuated the Mexican electorate's polarization between the partisans of the National Action Party (PAN) and those of the Party of the Democratic Revolution (PRD), which edged dangerously close to an open confrontation. During the last year of his term, a weakened President Vicente Fox struggled with some disturbing local developments, including rampant drug-related violence in the states of Michoacan, Guerrero, and Nuevo León, and a political/social insurgency that besieged the center of Oaxaca's capital for almost six months, in which demonstrators demanded the governor's dismissal. This polarization has since been defused and the power vacuum created in the last year of Fox's term appears to have been filled in the first two months of Calderón's presidency. President Calderón immediately mobilized the police and the army to fight drug-trafficking violence in the worst affected states. Post-electoral polarization has diminished also because elected PRD officials (congressional representatives and the mayor of Mexico City) were forced by the dynamics of government to return to "business as usual," which has marginalized Obrador and his more radical followers somewhat. Mexico's key macroeconomic variables remained stable throughout the political crisis; the peso maintained its value against the dollar, and inflation has been kept at relatively low levels. Nevertheless, these healthy economic indicators did not translate into noticeably favorable effects for the well being of the majority of the population, which continues to suffer low employment levels and reliance upon the informal economy. Nevertheless, after sluggish growth during the first three years of the Fox government, the economy began growing more rapidly in the last three years. Essentially pulled by

U.S. economic growth, the Mexican economy grew by 4.5% in 2006, the highest growth rate during the Fox administration. High oil prices, remittances from Mexican immigrants in the United States and illegal resources (drug trafficking) have all buttressed Mexico's macroeconomic indicators. Remittances and government aid to the poor have helped alleviate, but not fundamentally alter, suffering among the poor. Concerns about Mexico's apparent political, social and economic stability were raised once again in January 2007 as tortilla prices began spiraling out of control, pulling with it prices for all products directly or indirectly related to maize. Oil prices, however, began to drop in January 2007, raising doubts about how long Mexico will be able to maintain its present rate of petroleum product exports. Finally, Calderón's strong-handed response to drug trafficking and the crisis in Oaxaca have come under criticism by human rights organizations.

## History and Characteristics of Transformation

The events of the elections held on 2 July 2006 derailed the seemingly smooth transition to democracy in Mexico spearheaded in 2000 with the election of National Action Party (PAN) party candidate Vicente Fox to the presidency. The electoral, and possibly social polarization of the country, flared up in the very aggressive political campaigns leading to the 2006 election, which raised doubts about the country's political stability for the first time in the transition process. Until that point, transition had unfurled without ruptures. The steadily increasing discontent with the entrenched single-party government of the Institutional Revolutionary Party (PRI) had led to the increased power of the opposition parties, the PAN and the Party of the Democratic Revolution (PRD). The massive election fraud in 1988, which otherwise would have resulted in the victory of PRD candidate Cuauhtémoc Cárdenas, marked one climax of this struggle that finally ended more than 71 years of PRI rule. This regime was defined by its adherence to the developmentalist state that resulted from 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. In terms of policy, this ideology translated into heavy state intervention in the Mexican economy. The agrarian reform, which saw more than half of cultivable land distributed to poor peasants, was one of the more remarkable actions of the new government. The other was the organization of workers in trade unions, and the general pro-labor attitude of the first revolutionary governments. One of the most spectacular political moves of the Mexican revolutionary government was the expropriation of the U.S.-controlled oil fields in 1938, which 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." Economic

growth, modest increases in wages and the formation of a basic Mexican welfare state characterized this period. These prosperous times also saw the further construction of a Mexican national identity, as manifested in many writings intended to consolidate a definition of the Mexican state, its territory and its people. For decades, political space in Mexico was characterized by the existence of a “strong” developmentalist state. The hegemony of the PRI, which claimed it would “institutionalize” the revolution, was unassailable, supported as it was by the workers’ associations and peasants. The head of state, the president, was the main political agent, as he controlled all political actors, parliament, governors, social organizations, the army and the judiciary through this all-powerful party machine. Thus, a relatively mild and integrative (by Latin American standards) form of authoritarianism emerged that enjoyed broad social and popular support from the 1930s on and maintained a long period of political and economic success. During this period, Mexico’s economy grew increasingly dependent on the U.S. economy. Mexican migrant workers in the United States (“braceros”) and the Mexicans living on U.S. territory (later referred to as “chicanos”) contributed significantly to Mexico’s GDP, as did the economic benefit of having the United States for a major trade partner. Due to the latter, economic performance in Mexico developed particularly in the north, whereas in the south economic hardship prevailed. At the end of the 1960s, signs that the “milagro Mexicano” had reached its limits began to emerge, prompting growing discontent with the political regime. Perhaps the most salient manifestation thereof was the student movement, which the regime violently suppressed in 1968 and in 1971.

In the 1970s, Mexico’s economic prosperity came to an end, leading to capital flight and the decreasing competitiveness of Mexican products. The crisis of 1976 forced a nearly 100% devaluation of the peso, almost doubling the country’s real foreign debts to \$50 billion. Negotiations between Mexico and the IMF over a \$1.2. billion loan soon followed, imposing highly restrictive guidelines for the federal budget, trade policies and wage structures on the incoming government of Lopez Portillo. The discovery of new oil resources defused the crisis briefly, but the need for capital to develop this industry led to a further increase of foreign debt. The lowering of oil prices at the beginning of the 1980s together with mounting interest on debt led to the financial collapse that culminated in the debt crisis of 1982. Having become one of Latin America’s biggest debtors to international banks, the Mexican government declared insolvency in 1982. The financial crisis of the Mexican state, coupled with pressure from international financial institutions, led the De La Madrid government (1982 – 1988) to begin liberalizing the Mexican economy. His first move was to enter GATT in 1986. This meant the opening of the Mexican economy, the privatization of the 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 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, Carlos Salinas de Gortari (1988 –1994) and

Ernesto Zedillo (1994 – 2000) followed the course of this liberal economic policy. Mexico's signing of the North American Free Trade Agreement (NAFTA) and admission to the OECD in 1994 marked milestones in this direction. The Zapatista uprising of 1994, however, revealed the discontent of those sectors of the population not benefiting from the new economic evolution. The government of Vicente Fox won the presidency more or less on the basis of his hostility toward the PRI. It raised expectations of change, the perception thereof varying widely across different sectors of society. Vicente Fox managed to dash the hopes raised in almost all social sectors. He and his government failed to dismantle the old authoritarian institutions, and failed to advance much in constructing more democratic institutions. Fox continued to apply the orthodox liberal economic model inaugurated by de la Madrid, but the economy failed to grow enough to yield tangible results in the first three years. The assistance policy neither reduced poverty significantly nor alleviated the enormous income disparity that plagues the country. All of this primed Mexican society for the polarization recently manifested during the 2006 elections between the winners and losers of Mexico's economy.

## Transformation Status

### I. Democracy

#### 1 | Stateness

The main rival contesting the state's monopoly on the use of force is without any doubt drug trafficking, although other illegal economy groups also pose a threat. It is generally agreed upon that the drug problem has evolved in Mexico; it has become a drug producer and consumer, not only a route of passage for drugs coming from Colombia and other producing countries. The levels of violence generated by this escalating situation have become an enormous problem in some Mexican states, such as Guerrero, Michoacan, Sinaloa and the states bordering the United States, especially in the border cities. Mexico City is also gravely affected by this phenomenon, although in this case the problem is not so much linked to passage of drugs to the United States but rather drug consumption and a perceived lack of security among the megalopolis' population. The drug problem is a key threat to Mexico's democracy for two primary reasons: first, because violence in itself places grave limits on the autonomy of the citizens and second, because this compounding fear may lead citizens to accept "strong-handed" policies that may impinge on human and civic rights. Finally, guerrilla groups exist in Mexico, but they are marginal in comparison with the problem of trafficking in drugs, people and goods, which expanded during the Fox administration and on which the new government of Calderon is trying to launch a frontal attack.

Monopoly on the use of force

There is a basic agreement on equal citizenship in Mexico. The groups that have raised the ethnic question, such as the Zapatista movement, have done so in inclusive rather than exclusionary terms; they demand the right of being different within the context of the Mexican nation; they do not exclude any group from this right. On the other hand, the indigenous communities in Mexico, although numerically great – between 9 and 12 million (depending on how they are classified) – represent 9% to 12% of the population and are quite heterogeneous. They are nevertheless discriminated against, and definitely constitute the poorest communities in Mexico. It was not until the Zapatista Army of National

State identity

Liberation (EZLN) raised the indigenous question that the Mexican population at large registered the extent of the discrimination against its indigenous communities and began to accept the vision of a heterogeneous but egalitarian Mexican nation.

Although the Salinas government amended the constitution in 1992 to formalize relations between the church and government, which had been cut at the wake of the Mexican revolution, the separation between church and state is clear. Although the Catholic Church is the main religious institution in the country, other religions exist and some are growing fast, particularly the various strains of Protestantism. These denominations have spread in particular in the regions along the northern border, as well as in the indigenous communities of Chiapas and Oaxaca. The growing influence of these new religions in some communities has in some cases led to internal conflicts, sometimes even resulting in expulsions and deaths. However, such situations have not yet moved from the local to a national level.

No interference  
of religious  
dogmas

There are basic administrative structures throughout the country, although their functioning is highly inconsistent in the different regions of Mexico. Administration is much more efficient in the cities and the northern states than in small cities of the center and the south. Corruption and the lack of technical capacity constitute the most serious problems threatening these structures.

Basic  
administration

## 2 | Political Participation

The 2006 elections raised the real question of how fair and free elections are in Mexico. The PRD's accusation of massive orchestrated fraud, harkening back to when elections were organized by the governing PRI, has led a significant sector of the Mexican population to consider the results to be fraudulent (around 30% of the population, almost coinciding with the electorate of the PRD in those elections). It is true that President Fox overtly intervened in the campaign against the PRD candidate and that the PAN's campaign benefited from illegal TV spots that were financed by entrepreneurial organizations. Locally there may have been cases of votes being coerced or bought (something that likely concerns all of the parties involved and not only the PAN). However, there is no hard data to prove massive fraud as the elections were conducted by citizens and the electoral apparatus functioned independently of the government. The three different vote counts and re-counts (conducted by two different electoral institutions) coincide. Nevertheless, there is a widespread belief among the population that fraud played a considerable role in the elections. In sum, the 2006 elections can be considered as free, but not entirely fair.

Free and fair  
elections

The Mexican army has been institutionalized and under the control of the civilian government since the end of World War II. Nevertheless, the fact that the army is called upon to perform internal security tasks, especially in the fight against drug trafficking and local violence, may point to a more prominent role in the future. Furthermore, the Zedillo government instituted a new police corps, the Federal Preventive Police, with personnel from the army, which Fox later called upon to intervene in social conflicts, such as Oaxaca in 2005. Both of these developments have raised fears that the army could intervene in Mexico's political affairs.

Effective power  
to govern

The rights of association and assembly are formally established. Nevertheless, these rights are in practice obstructed at times. For example, workers have been prevented from organizing trade unions or they have been forced to organize under certain unions. This is made possible by the fact that the Ministry of Labor has the power to recognize or reject unions and the legacy of informal linkages between the state and former official PRI-leaning unions. The PAN government has done nothing to change this state of affairs, continuing instead to employ these undemocratic mechanisms in dealing with trade unions. A similar situation prevails in rural areas with peasant organizations as well as in informal workers' organizations linked to the PRI and PRD.

Association /  
assembly rights

Mass media are basically free; citizens and journalist may speak and write freely. The Fox government did not intervene in this domain. The government retains a considerable capacity to exert pressure on the media, which, although not used by Fox, could be exploited in the future. The media's independence is insufficiently safeguarded. There is no independent media commission determining concessions, such as those in place in most European countries. Furthermore, there is a duopoly of TV chains as well as a tight concentration of radio station ownership, which limits pluralism of expression in the media. A communication law that was passed through Congress in 2006 will reinforce this oligopoly structure in both television and radio, as it orders the commission formed to give concessions based on the economic viability of the chain in question. Finally, at the local level, cases in which politicians and strong economic interests curtail the liberty of the press are much more common. Some themes, such as drug cartels, are almost taboo; thus, it comes as no surprise that there is a long list of journalists murdered.

Freedom of  
expression

### 3 | Rule of Law

In clear contrast with Mexican government during 71 years of PRI rule, since 1997, Mexico has shown a clear separation between the president and Congress. Congress is divided into three forces that represent the three main parties: the right, the left and the PRI. The fact that the ruling party no longer has the majority in Congress as it did during the ancien régime has resulted in a real separation of

Separation of  
powers



powers. Similar improvements have occurred at the federal level. Seventeen states are still governed by the PRI, seven by the PRD and seven others by the PAN. This means that they have much greater political autonomy from the center (the executive). They nevertheless still depend strongly on federal government resources. To better negotiate resources with the federal government, the governors have formed an organization, the National Confederation of Governors, where the governors of the different parties are represented to lobby for the interests of their respective states.

The judiciary was, like all other powers, controlled by the presidency during the PRI's rule, which owed largely to the fact that the nomination of judges was 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 Judicature, 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. The PAN's victory in presidential elections has furthered the judiciary's independence. President Fox and the more pluralistic Congress had to elect several members to the Supreme Court together, which the PRI president decided alone. The Supreme Court ruled in several occasions against measures taken by President Fox. Nevertheless, widespread corruption among judges, which is especially rampant locally, greatly affects their independence from political, economic and illegal forces.

Independent  
judiciary

Accusations of corruption among politicians have increased since press freedom, political pluralism and the strength of watchdog NGOs have increased. In 2006, accusations against the governors of Puebla and Oaxaca instigated substantial social protests against these two political figures. Nevertheless, accusations are often ineffective, as there are no adequate mechanisms for prosecution. There are many loopholes in the legislation and the judicial system is corrupt. But this situation also arises from the fact that most politicians are not liable to being prosecuted unless they go through a political trial in Congress (local or federal), which rarely occurs as political parties tend to defend their functionaries against all evidence.

Prosecution of  
office abuse

Civil rights are formally guaranteed in Mexico, but they are frequently violated and citizens have little opportunity to seek redress through the judicial system. A highly corrupt police and judiciary constantly violate civil rights, their abuses generally targeting the poorest citizens. Jails are filled with innocent people who have no resources to defend themselves. Trials take years. 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 Atenco and Oaxaca to cite the most recent massive police actions, in 2006. There is a National Commission of Human Rights, and there are local commissions in every state. Whereas the federal commission has ample

Civil rights

independence from the executive, in many states, the commission is not independent of local political authorities. Where the commission is autonomous (at the national level and in the capital city), it has the capacity to denounce violations, but not to enforce its conclusions. In many cases their denunciations are ignored by government officials, as has happened with the most recent cases of Atenco and Oaxaca.

#### 4 | Stability of Democratic Institutions

Mexico has transitioned from a regime based on an all-powerful president to a more balanced, but highly inefficient system in which Congress blocks most of the executive branch's more important initiatives. A very active Congress could have taken advantage of this new structure, but has instead poorly defined its priorities. It is profoundly divided between three main parties, which most of the time cannot transcend their own short-term visions. Fruitless ideological discussions and considerations intended to shape public opinion before elections dominate proceedings, rather than serious dialogue. In addition, congressional representatives cannot be re-elected immediately, leaving Congress with few experienced individuals. Even those returning to Congress after three years have missed the most recent debates of the last legislature. Government (both executive and legislative) inefficacy has adversely affected Mexicans' opinions of their political parties and risks affecting their opinion of democracy.

Performance of  
democratic  
institutions

Until the recent election of July 2006, every analyst would have considered Mexican leaders' support for democracy as unequivocal. Currently, however, some of the relevant actors believe the main democratic institutions to be unfair. The parties that were backing Lopez Obrador and lost the election, the PRD, the PT and Convergencia, have publicly accused the IFE and the electoral tribunal, the TRIFE, of having facilitated the fraud that led to their defeat, and they believe the new president to have usurped power. However, although they do not recognize President Calderon's legitimacy, they have been obliged to recognize him de facto, as far as they have to interact with his party in Congress. This has led the more radical groups to become marginalized somewhat by the actors that have agreed to interact in Congress, as well as in local governments, with the party of the president and with the president himself. Nevertheless, Mexico's democratic institutions have been dealt a heavy blow by the behavior of all actors during the elections of 2006.

Commitment to  
democratic  
institutions

#### 5 | Political and Social Integration

The party system is quite stable: there are three large parties that garner most of the votes; the youngest, the PRD is already 18 years old. There is moderate voter

Party system

volatility: in the 2003 elections the PRI won 30.6% of the parliamentary votes, in 2006, 28.2%; the PAN won 23.1% in 2003 against 33.4% in 2006; the PRD 17.6% to 29.0% (in a coalition). The three parties control most of the seats in chamber of deputies as well as in the Senate. Two of the parties are relatively well-rooted in society, the PRI and the PRD; they nevertheless greatly depend on clientelistic relations with their organizations and supporters, which is the source of voter volatility. In fact, in the last years we have seen an ever larger migration of leaders from one party to another, following failures to win candidacy to political posts within their parties. This occurs most often between the more similar parties (PRI to PRD), although it has also occurred between very different parties such as the PRI and the PAN and the PRD and the PAN. The constant migration of leaders bewilders Mexican voters, damages voter opinion and fuels voter volatility. However, migration rarely happens once leaders obtain seats in Congress, which is a very common problem in other countries such as Brazil.

Mexican civil society had been tightly organized by the PRI during their rule, under trade unions, peasant organizations, informal workers associations, etc. Until the 1980s the regime had basic hegemony over social organizations. This started changing in the 1980s; there was an ample expansion of autonomous civil society organizations due to the earthquake of 1985 that left thousands of people without their homes and to the diminishing interest and financial capacity of the state to finance health, education and other relief to the poor. Civil society also aimed to democratize the political regime. Nevertheless, the political system successfully co-opted most of the politically active social leadership. Many organizations have lost their *raison d'être* since the regime has democratized, and the government (federal and local) has assumed responsibility for providing relief to the poor. In this sense, civil society has weakened. Most observers thought the Fox administration would provide impetus to democratize unions and peasant organizations. However, his government found it more practical to come to terms with the traditional leadership which, although not very representative, had control over the organization apparatus, rather than risk democratization and a possible radicalization of these organizations.

Mexican citizens show a high consent to democracy in comparison with the rest of Latin America. According to 2004 UNDP figures, 54.4% of Mexicans prefer democracy, which is above the overall percentage of 43% for all of Latin America. Uruguay has the highest percentage of citizens preferring democracy (71%) and Paraguay the lowest (22%). According to Latinobarometro, the percentage of Mexicans who consider democracy more favorable than any other type of regime is similarly high, but decreased from 59% in 2005 to 54% in 2006. Nevertheless, the UNDP figures also show a large proportion of Mexicans favoring non-democratic regimes (30.4%), which is above average for Latin America (26.5%).

Interest groups

Consent to democratic norms

According to the UNDP, the level of participation in social organizations in Mexico is a little below the Latin American average. Another study done by the Red Interamericana para la Democracia for 2005 proposes that in most countries of Latin America, people participate in sports, religious, mutual help and educational associations, while few participate in trade unions, civic and political associations. Whereas in Brazil, participation is high in trade unions (12%), in Mexico this participation is only a little more than 4%. Unions in Brazil are active and representative; in Mexico, they have been controlled by non-representative leadership since the days of the PRI. In Mexico, participation in political organizations is highest, 8.3%. Participation in civic organizations is highest in Brazil (8.3%), while in Mexico it is at 7.8% and in Chile a mere 2%.

Associational  
activities

## II. Market Economy

### 6 | Level of Socioeconomic Development

Mexico is ranked 53rd on the Human Development Index, behind Chile, Argentina and Costa Rica, but above Brazil. However, the Gini index is very high, at 53.1. We have to consider, in addition, the fact that according to the UNDP the variation between the GDI value and the HDI is 98.9%. Finally, the poverty value of the HPI-1 is 7.2; Mexico ranks 9th out of 102 developing countries. According to the World Bank, between 4 and 9% of the population still live on less than one dollar a day. There is a substantial program in place to fight extreme poverty, OPURTUNIDADES, which provides resources for around five million families, equivalent to 1.3% of GDP. Nevertheless, according to the World Bank, the decrease in extreme poverty at the rural and national level is statistically significant; the decrease in urban poverty is not. Thus, even though the level of human development is moderate, Mexico is a highly unequal country – in fact one of the most unequal countries in the world. According to the World Bank, in 2002, half of the population was still living in poverty and one-fifth was living in extreme poverty. At the national level however, in 2002 the rates for access to electricity, water and sanitation were 98% and 80% respectively. According to the GDI, inequality is partly related to gender, but it is much more a question of urban vs. rural, and affects especially indigenous populations living in scattered towns far from the cities.

Socioeconomic  
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	649,076	639,110	683,486	<b>768,438</b>
Growth of GDP	%	0.8	1.4	4.1	<b>3.0</b>
Inflation (CPI)	%	5	4.5	4.7	<b>4</b>
Unemployment	%	2.4	2.5	3.0	-
Foreign direct investment	% of GDP	2.9	2.4	2.8	<b>2.4</b>
Export growth	%	1.4	2.7	11.6	<b>6.9</b>
Import growth	%	1.5	0.7	11.6	<b>8.7</b>
Current account balance	\$ mn.	-14106.8	-8835.3	-6681.8	<b>-4647.4</b>
Public debt	\$ mn.	99,821.0	106,962.9	108,810.5	<b>108,786.0</b>
External debt	\$ mn.	163,658.7	169,969.2	170,351.7	<b>167,227.6</b>
External debt service	% of GNI	6.9	6.7	7.5	<b>5.8</b>
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	12.1	12.4	11.9	<b>11.5</b>
Public expnd. on edu.	% of GDP	5.3	5.8	-	-
Public expnd. on health	% of GDP	2.7	2.8	3.0	-
R&D expenditure	% of GDP	0.4	-	-	-
Military expenditure	% of GDP	0.5	0.5	0.4	<b>0.4</b>

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

## 7 | Organization of the Market and Competition

Market competition has been firmly established in Mexico since the government implemented economic liberalization, privatization and deregulation in the 1980s. In addition, the NAFTA (1994) treaty with the United States and Canada implied that many of the measures that had been taken voluntarily by Mexican officials were thenceforth anchored in an international treaty. The open market benefits big enterprises. However, small and medium-sized enterprises encounter many difficulties. There are many steps involved with starting a business in Mexico; the

Market-based  
competition

bureaucracy involved is time- and money-consuming. Furthermore, small businesses are much more vulnerable to the lack of credit available through the banking system, which is largely available to large enterprises at the national and international levels only. Small businesses are also much more vulnerable to corrupt officials and to the competition of the informal sector, which is calculated to be between 40 and 50% of the total economy.

The Federal Competition Commission combats monopolies and trusts and ensures competition. This agency has lately acted against some enterprises, such as Telmex, and revised some fusions between companies that risked forming monopolies. It has succeeded in some cases, but in others, such as the telephone company, it has utterly failed. The agency does not have the capacity to enforce its decisions; it must endure a very long process before it can impose fines. Furthermore, large companies can appeal to the judicial system during this process to have any decisions annulled. There are clear monopolies or duopolies in some sectors, such as telephone, television, electricity and petroleum (both of the latter are state-owned). Other sectors, such as tortilla producers (Maseca), medicine distribution and food chains (Wal-mart) show a high concentration of one or a few companies.

Anti-monopoly  
policy

With NAFTA, foreign trade has been effectively liberalized. Mexico has trade agreements with as many as 48 countries around the world (including the European Union and Japan). Most trade is done without tariffs. Mexico's last few restrictions on trade, namely on maize and beans, are expected to be removed in 2008. During the period under review, the Fox presidency continued to apply a very liberal foreign trade policy. There are no restrictions on capital inflow or outflow. President Calderon has clearly stated that he will continue with this policy, and has rejected strong pressure from sectors of Mexican society to renegotiate NAFTA to protect basic food products from exposure to an open market. Recently, Calderon has also distinguished Mexico by inviting companies struggling with protectionist and interventionist governments elsewhere in Latin America to invest in Mexico.

Liberalization of  
foreign trade

The crisis of 1994 – 1995 bankrupted Mexico's banking system. The government has since managed to restore the system, but at tremendous cost and by allowing foreign investors to buy it out. Mexico's largest banks are Spanish- (BBVA-Bancomer and Santander-Serfin) and U.S.-owned (Citibank-Banamex), Canadian (Scotia-Bank) and English (HSBC). Together, they make up almost 90% of the system. There is only one significant Mexican-owned bank (Banorte). However, there have been declarations, including those of the central bank director, indicating that these banks' gains are relying too much on their private clients rather than on loans to business, which are scarce. Their current charges are very high, their interest rates for credit cards are enormous, they give loans to individuals to buy cars and houses, but there are few opportunities to finance

Banking system

small and medium-sized businesses. A relatively recent evolution is that department stores such as Elektra and Wal-Mart are being allowed to do some of the business that banks traditionally do, such as giving consumer credit and accepting money transfers from the United States.

## 8 | Currency and Price Stability

In 1992, the central bank gained autonomy from the government. The bank set out to pursue strict inflation and foreign exchange policies. Inflation has indeed been dropping almost continuously since the 1994 – 1995 crisis. It has been kept at an average of 6% from 2000 to 2004. During the period under review, inflation was even lower: 3% in 2005 and 4.3% in 2006. The goal for 2007 is set at 3%. Foreign exchange ceased to be fixed as of the 1995 crisis and has been floating ever since. The Mexican peso has devalued by about 15% in the last six years, going from 9.45 against the dollar in 2000 to 11.28 in 2006, but this has ensued with no upheavals, as was the case ten years ago. These policies have kept interest rates at a historic minimum for Mexico. According to the OECD, long-term interest rates have gone down from 16.94% in 2000 to 7.74% in 2006.

Anti-inflation /  
forex policy

Since the Zedillo administration (1994 – 2000), the government has followed very strict fiscal and debt policies, which continued through the Fox administration. Both the central bank and the Finance Ministry conduct these policies. The deficit has been continuously reduced, as has external public debt, and the reserves have grown to historic highs. The budget is balanced, hovering at -0.8% on average from 2000 to 2004. External debt has been reduced from 21.1% of GDP in the period from 2000 to 2004 to 19.9% in 2006. Nevertheless, there are concerns about the state budget's dependency on petroleum exports. Thirty-five percent of the state revenues are generated by petroleum exports. Fluctuating oil prices render the economy vulnerable to external shocks and there are growing concerns that productive capacity of Mexico's oil-producing wells is falling rapidly. This is a problem for public finances, because the Mexican government collects a very low percentage of taxes in comparison with other countries at the same level of development. Although fiscal reform is needed, there was no consensus on this issue during the Fox administration.

Macrostability

## 9 | Private Property

Property is clearly defined. The last PRI and PAN governments instituted the guarantee of private property to attract foreign investment. Even the Mexico's leftist parties do not entertain nationalization; they instead speak out against privatizing what has not yet been privatized: oil and electricity. Land ownership remains more complicated; there are still many regions where land ownership is

Property rights

not clearly defined and is thus contested.

Since the mid 1980s, the Mexican government has privatized most of the companies it had owned. In 1992, agrarian reform allowed collectively owned land (ejidos) to be sold, although the mechanism to do so was very complex. Oil and electricity are the two remaining sectors that have not been privatized. There is, on the one hand, great pressure to begin attracting private investment in these areas as the government has little investment capacity. On the other hand, key political actors such as the PRD and the left wing of the PRI as well as an important part of the population strongly resist further privatization. The government must thus try to facilitate a public-private ownership or allow Pemex, the state-owned oil company, to draw on more of its resources for investment, which would sacrifice an important source of funds. Paving an appropriate path will not prove easy. There are in addition some oligopolies in sectors such as telephone, television, medicine distribution and food distribution.

Private  
enterprise

## 10 | Welfare Regime

There has been an anti-poverty program since 1988, albeit under different names. Fox's government almost doubled its coverage to five million families. The program has a budget equivalent to 1.3% of GDP. Together with the transfers from Mexican migrants to the United States and the control of the inflation, the program has succeeded in reducing poverty in rural areas; however, according to the World Bank, poverty rates have remained constant in the cities. The employed face increasing hardships. Only around 40% of the population has access to health services. The Fox government launched a program (Seguro Popular) in 2005 to provide health services for the self-employed in the informal sector, which constitutes between 40 and 50% of the working population. However, the health system has not expanded its resources to encompass new arrivals. Pensions were privatized for all those working for the private sector, although there are many doubts as to whether the workers will be able to invest enough to live decently once retired. State employees, which make up about 30% of those with pension schemes are better off, as they will receive almost all of their basic salary when they retire. However, they will lose many of the monetary benefits that now make up a good part of their resources. The pension regime of the public sector is under great financial strain as its clientele is rapidly aging. There is, however, no consensus on reforms to defuse this ticking time bomb.

Social safety nets

The Fox administration implemented an important and successful program to improve the well-being of the indigenous population through an office specifically dedicated to this issue. The aforementioned Oportunidades program was indirectly focused on the indigenous population, because they are the poorest sector of the Mexican society. Advocating education for women, Oportunidades

Equal opportunity



proved successful in increasing the number of girls enrolled in school. Nevertheless, both of these initiatives barely palliated the very unequal conditions of the indigenous populations and of poor women.

## 11 | Economic Performance

While during the first three years of the Fox administration the economy grew only slightly, since 2003, the Mexican economy has recovered somewhat, buffeted mainly by the growth of the U.S. economy and Mexican exports to the United States. Nevertheless, this growth has proven far from sufficient to achieve the needed degree of inclusion of its population into the formal economy. Although this growth was accompanied by healthy macroeconomic indicators, such as low inflation (under 5%), a balanced budget, a slight deficit in its current account balance, high investment (between 7% and 9% of GDP) and growth of exports (11% to 12% growth rates), unemployment showed no change. However, and more crucially, the informal economy has grown considerably. This paradox can be explained by the fact that the growth of the external sector in Mexico is disconnected from the domestic economy. It surely employs workers and distributes salaries, but it does not affect the Mexican economy vertically; other industrial sectors are not pulled forward correspondingly. The fact that imports have grown almost at the same rates reveals this tendency. This means that most exports of Mexican industries (most of which are foreign-owned) do not acquire their supplies in Mexico, but import them; the capacity of the Mexican industry to supply the export industry is very small; at the level of the maquiladora industry, it is less than 3%. Therefore, strong external indicators do not show the entire picture.

Output strength

## 12 | Sustainability

Although there is a ministry charged with making the economy compatible with environmental preservation, its efforts fall far short of what Mexico's dire situation requires. Most of the rivers and water resources are contaminated, water usage for human consumption and irrigation is highly inefficient; around 40% of it is wasted. In addition, water is rarely treated by the companies or city administrations that use it. Deforestation is rampant, and large parts of the country are undergoing desertification rapidly. The Fox government launched a massive habitation project that expanded urban areas without taking care of utility services. Although the cars used in Mexican cities are now cleaner, their numbers have increased tremendously, which renders an effective fight against pollution near impossible. In addition, public transportation is underdeveloped. The high numbers of used car imports from the United States to Mexico simply transfers the problem of getting rid of hazardous waste from a wealthy to a poor country.

Environmental policy

To develop tourism, Mexico has begun building large hotels that are destroying the mangroves in protected areas such as those south of Cancun and Baja California.

Although education and research and development have been formally set as a priority of most Mexican governments, both are in a precarious situation. The country spends a significant amount of its resources on education (6.3% of GDP in both private and public), but the qualitative results are meager. Mexico is consistently behind all other OECD countries, including Turkey, in international test results. Resources are not the only problem; educational organization and quality are sub-standard. This has much to do with the monopoly held on education by the Teacher's Union. It is the largest union in Mexico, a remnant of the PRI era, which gave unions privileges – including turning a blind eye to corruption – in exchange for political fidelity. This destructive system has deeply hurt the quality of teaching and thereby education. It has been impossible to advance a reform of the system due to the resistance of the near-unassailable union. Expenditure on R&D is sharply lagging behind what is recommended by the international education institutions: it is a mere .39% of GDP, the lowest of the OECD countries, again below Turkey, Portugal, Poland and Slovakia.

Education policy  
/ R&D

# Transformation Management

## I. Level of Difficulty

Mexico is situated next to the largest market in the world; nevertheless, this proximity contributes to its incapacity to take full advantage of it. Exports and imports flow easily between Mexico and the United States, which is probably one of the reasons why Mexican entrepreneurs have difficulty in connecting with foreign-owned export industries. More notable is the rentier mentality of Mexican entrepreneurs, a mentality that was nourished by the protectionist policies of the old economic model and by the corruption of the PRI regime. There is also the problem of widespread poverty; about one-half of the population is poor, which reduces the domestic market. This, in turn, is fed by an informal economy that is based on low-priced imports, smuggling and illegal merchandise reproduction. Infrastructure is also a great handicap to constituting a substantial domestic market. The poor are concentrated in (although not limited to) the south of the country (Guerrero, Oaxaca, Chiapas, Veracruz), which remains poorly connected to the rest of the country.

Structural  
constraints

Although we have seen civil society emerge since the 1980s, it is still quite weak compared to other Latin American countries such as Brazil. This is basically due to the fact that the main social organizations, such as trade unions, peasant organizations and community associations, that were controlled by the official party of the state, are still under PRI control. The transition to democracy was mainly electoral, and left social organizations untouched: most of the popular organizations are aligned with the PRI or in its splinter party, the PRD, and have maintained their leadership. The authoritarianism of the PRI met popular demands in order to channel and control these organizations. This tradition and resulting expectation has been deeply embedded in the political culture of citizens and organizations. Many of the most important NGO leaders and other types of civic organizations have been co-opted into government (federal as well as local), and are currently developing top-down social programs.

Civil society  
traditions

Ethnic and religious differences have neither translated into political options, nor into large conflicts. Nevertheless, there are several localities affected by violent confrontations, sparked by religious cleavages (when part of the community

Conflict intensity

adopts another strain of Christianity besides the dominant Catholicism) especially in the south (e.g., in Chiapas and Oaxaca). There are also numerous localities with land delimitation problems between communities. Although the Zapatista rebellion stressed identity in inclusive terms (it posed the demand to be included as different but equal in the Mexican nation), it nevertheless resulted in a decisive opposition between communities in Chiapas. Social conflicts are more common; some are based on land delimitation, while others express the community's rejection of corrupt politicians, poverty and the lack of opportunities. These conflicts have been until the present restricted to a handful of localities (Atenco) or occasionally states (Oaxaca); they have not yet escalated to the national level as has happened in other Latin American countries.

## II. Management Performance

### 14 | Steering Capability

President Fox failed to implement the reforms he had planned and his conduct during the electoral campaign of 2006 weakened the nascent democracy he had declared his commitment to as the first president to arrive in office democratically. Opposition parties blocked his reforms in Congress, where the government party only had 31% of the deputies. Rather than cooperate to pass through needed reforms, Congress used its capacity to block Fox as a political strategy for upcoming elections. Both actors, the executive and the legislative branches, followed short-term tactics and abandoned their priorities. In the last two years of his administration, Fox sought to stop Lopez Obrador from winning the presidency (in 2005 through the *desafuero* procedure) and to back the PAN candidate. He more or less gave up trying to pass his reforms, and instead set about undermining the newfound Mexican democracy. After the demise of the PRI, the relationship between the (once powerful) president and Congress rapidly adjusted to the division of power outlined in the constitution. All presidents since Zedillo (1994 – 2000) accepted that the Congress has strong competencies both in terms of veto power and initiative-setting. This has, in practice, transformed the Mexican system into a semi-presidential or semi-parliamentarian system. But it is a system lacking both political actors accustomed to operating within such a regime and the institutional mechanisms to unblock it if necessary. That is, it lacks mechanisms for dismissing the president, separating the head of state from head of government, and the means to dissolve Congress. So far, both Congress and the president have been very

Prioritization

inefficient. Although seemingly more intelligent and pragmatic than his predecessor, President Calderon faces the same structural impasse.

The Fox administration failed to implement its most important reforms (fiscal and energy). This was in part due to the fact that Congress blocked him; Fox always faced a divided Congress, of which his party only controlled 31%. The other two parties in Congress were committed to thwarting Fox's government as a strategy for winning the next elections. If Fox had been a more able politician, he would have tried to divide the opposition in order to pass some of his reforms. He did not do so. He was increasingly involved in a confrontation with Congress and with the principal opposition candidate, Lopez Obrador. Within this confrontation, in 2005 Fox implemented a strategy to try to impeach Obrador, and thus stop him from running for the presidency. His case against Obrador was based on a real, but nevertheless minor infraction. The strategy backfired, as it raised Obrador's popularity to historic highs, and the government had to give up on the suit. During the 2006 campaign, Fox openly intervened in the campaign to back the PAN candidate. This further polarized an already strongly divided electorate, a situation that was strongly aggravated by the very close result of the elections. This conduct of the president fed the idea that there had been a state-controlled election and massive fraud. After the election, the president was badly weakened and had little legitimacy to try to mediate the election aftermath.

Implementation

During its last three years in office, the Fox government demonstrated a lack of flexibility and innovation, a criticism that should be extended to the opposition parties, especially in Congress. Both failed in their respective capacities: Fox started betting on short-term goals, such as getting rid of Lopez Obrador and getting his candidate elected; Congress blocked all Fox's reforms, also for strategic reasons. Neither actor showed the flexibility or the innovative capacity to discuss the laws and the structural reforms the country urgently needs. This situation is also related to a structural obstacle: the non-immediate re-election clause and the impossibility of registering independent candidates outside of the political parties. This means that legislators' careers are entirely dependent on their party bureaucracy's support or rejection. Congressmen and women have little independence from their parties and little knowledge of and experience with congressional responsibilities.

Policy learning

## 15 | Resource Efficiency

Fox took over an administrative apparatus when he came into office which had been modernized throughout the 1990s. There are a number of ministries and institutions with adequate internal mechanisms to select human resources: the Ministry of Foreign Affairs, the Finance Ministry, the Health Ministry, the Bank of Mexico, Pemex and Electricity (CFE). Nevertheless, there are other ministries

Efficient use of assets

and institutions that do not have an internal civil service system. Thus, the Fox administration sent a law initiative for the creation of a civil service at the federal level, which was passed in 2003. The Civil Service Law became effective in the last two years of his administration, but the results will take longer to materialize. The Fox administration also established through Congress a law to create the Federal Institute of Access to Information (IFAI), which was implemented in 2002 and has since been effective in making use of federal government resources transparent. A great problem of financial stability of the government is the budget's dependence on oil resources (about 35%). Fox was not able to construct a consensus around the necessity to pass a fiscal reform in order to alleviate this dependence and improve the government's tax-collecting capacity. At the local level, especially in the poorest states, this situation is aggravated. Though they have the formal capacity to do so, states in effect do not collect taxes; they depend almost totally on the federal government.

Fox named ministers and functionaries from the private sector to head some government ministries and institutions. On the other hand, as he realized that the presidency had lost the leadership it had had under the PRI rule, he instituted three different coordinators. Neither measure resulted in increased efficiency. Lack of coordination between the different ministries inhibited the government's functioning. The president made the mistake of failing to institute regular cabinet meetings, as exist in other countries. The problem of coordination of policies is also related to the political gridlock described above: Fox did not have a majority in Congress, and was thus unable to pass most of his reforms. In addition, the PAN only governed six states, while the rest were governed by PRI or PRD, which had their own political agendas. The state governments are largely autonomous in political terms. In the days of the PRI, the presidential party had a majority in the senate, which has the faculty to decide on a deposition of a local government. Without that majority, the president does not have this possibility. Nevertheless, governors depend financially almost completely on the federal government. This situation has led to frequent tensions not only between Congress and the presidency, but also between the presidency and the governors.

Policy coordination

The two institutions created under the Fox administration – the IFAI and the civil service – could provide for a more transparent political system in the future. However, they have important limitations: though they render the government's actions more transparent, they have no mechanisms of punishment. In a few cases, the functionary involved has been forced to resign, but few of them have been imprisoned. Furthermore, it only obliges the federal government to provide information. Congress, the political parties and the judiciary are not beholden to these laws. Finally, as federal institutions, both the IFAI and the civil service do not oblige the states to reveal their accounts or to hire functionaries according to the rules of the civil service law. Nevertheless, many states have been obliged to

Anti-corruption  
policy

emulate the federal government and have created their own IFAs. However, in most states they function with many more limitations. Corruption is not restricted to transactions of high-level officials. It extends to all levels of relations between citizens and the public sector. Mexico has thus advanced only very minimally in extirpating the problem of corruption.

## 16 | Consensus-Building

Fox was never able to convince the main political actors to agree on the necessary reforms; this was due in part to Fox's political incapacity, but also due to the strategy of the opposition, although all actors agree on the necessity of the reforms. For example, while all actors concur that the market should provide the basic means of allocating resources, they disagree on the role of the state; the PRD and part of the PRI believe that the state should be more interventionist, while the PAN and another part of the PRI hold that the intervention of the state should be minimal. Most agree on the value of democracy. An important indicator of this fact is that even though Lopez Obrador considered the election to be fraudulent, he never incited a violent response. He and his followers still believe that elections are the only legitimate way of obtaining power and eventually modifying the economic model.

Consensus on goals

There are no significant anti-democratic veto actors. The army has been institutionalized; it has never acted with autonomy from government. Mexican entrepreneurs are not anti-democratic, and they do not have the power or relationship with an armed force (the army, a paramilitary force) that could eventually be mobilized to defend potentially undemocratic interests. There are guerrilla forces in Mexico, but they are small and dispersed groups. Drug trafficking is surely the strongest non-democratic actor. Although it is very powerful, its force is economic and not yet political; drug lords have political influence at the local level, but they have been unwilling or unable to ascend to the national level. There are many drug trafficking groups, but they are dispersed throughout the country and compete against each other; there is no such hegemonic group as those found in Colombia, such as the Medellín cartel.

Anti-democratic veto actors

During the last two years of his administration, President Fox failed to defuse political cleavages. His goal of frustrating Lopez Obrador's participation in the presidential election even exacerbated political-social cleavages. In addition, throughout 2006, the Fox government neglected various political problems for electoral reasons; the most crucial was Oaxaca, as Fox thought that the cost of the conflicts would be paid by the PRI that governs the state or the PRD that supported the opposition. The conflict escalated to very dangerous levels and continues to polarize the government. Police intervention in Oaxaca defused an explosive situation, but it did not solve the more profound problems. The new

Cleavage / conflict management

Calderon government has done little to ease the social polarization left by the Fox government; he has rather concentrated on fighting drug trafficking-related violence, hoping that this action will suffice to legitimate his rule.

Civil society is weak in Mexico. It had grown during the 1980s and 1990s under the banner of democratization, but lost prominence once elections were being held independent of the government. The Fox government accepted the traditional leadership structures of trade unions and peasant organizations rather than launch a campaign to democratize them. In other words, Fox preferred to sacrifice an increase in democracy for social peace. However, he did include several programs, ideas and leadership from civil society organizations in policy-making. The Mexico City government did the same, particularly drawing on left-oriented organizations. However, despite these initiatives to open discussion with civic groups, most of the programs and ideas are still being developed in a “top-down” manner, with little discussion with civil society.

Civil society participation

Fox had two options for initiating a reconciliation process: a truth commission comprised of intellectuals, historians, and well-known figures that would examine the crimes of the past; or a special attorney that would investigate the facts and bring the accused to trial. The crimes in question included the repression of students in 1968 in Tlalteloco, another repression of students in 1971, and the war against the guerrillas in the 1970s, in which many people active in the latter were killed or disappeared without a trial. The magnitude of these crimes was rather similar to those in Brazil, where the democratic governments decided to do nothing. Fox opted for a special attorney to conduct the investigation, but the initiative failed. The results were never officially published, but merely brought two rather high military officials to trial, and the main civil commanders of the deeds went free. Nevertheless, ex-president Luis Echeverría (1970 – 1976) was put under a preventive house arrest in the last days of the Fox administration, although he has not undergone a trial. The action of the attorney did not result in significant results and satisfied no one.

Reconciliation

## 17 | International Cooperation

Mexico’s partnership in NAFTA and membership in the OECD has had as an unintended consequence that it is no longer able to receive aid from international agencies in order to combat many of the problems it shares with other poor countries such as poverty and diseases. It nevertheless has gained access to other forms of aid in fighting pollution and preserving nature as well as biodiversity. It has not had too much success in transitioning from one sort of aid to the other. There are some exceptions at the local level. Mexico City has succeeded in obtaining international aid for fighting pollution. Some cities like Oaxaca, Guadalajara, Zacatecas obtained some resources as a result of having been

Effective use of support



named World Heritage sites by UNESCO. Some rural areas, such as the forest where the “Monarca” butterfly migrate to for the winter, have received aid. But other areas of non-poverty aid have been left unexplored.

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 partners, including the European Union and Japan. Mexico’s treaties with the United States and Canada have benefited its international reputation. Mexico’s signing of the NAFTA treaty assures its commitment to a market economy. Any change in direction would imply complex negotiations with the United States and Canada. This is something no political actor has really considered. Even the left, such as the PRD, has posed only minor changes such as the renegotiation of the opening the borders to maize and beans.

Credibility

Mexico cooperates with most international organizations. It is in the OECD, OMC, FMI, World Bank, etc. It has hosted numerous important international conferences of these institutions. An ex-finance minister of Mexico is directing the OECD; it has a judge at the IPT in The Hague. It is an active member of the UN, and sat at the UN Security Council from 2001 to 2003. Together with some smaller countries, Mexico is an active promoter of ALCA, a free trade area for the entire continent that includes the United States and Canada. This has in turn complicated Mexico’s relations with some of the bigger Latin American countries – above all Venezuela, Brazil and Argentina – who prefer a different cooperation model. It has also compromised Mexico’s position vis-à-vis much of Latin America and affected Mexico’s cultivated image of neutrality.

Regional cooperation

## Strategic Outlook

Mexico's first non-PRI administration in 71 years raised and dashed great expectations of change. The Fox government left Mexico with stable economic growth but a potentially dangerous political situation. The power vacuum during the last six months of Fox's presidency was filled by rampant crime in some areas such as Michoacan, Guerrero and Nuevo Leon, and by serious social conflicts in others (Oaxaca). A deep political and social cleavage opened up between those who accepted the new president and those (30%) who suspected fraud. Lopez Obrador and his supporters occupied Mexico City's downtown and main street for over a month, forcing President Fox to cancel two important and symbolic ceremonies, his address to the Congress on the first of September, and the independence celebrations of "El Grito" in Zocalo. The PRD takeover of Congress days before Calderon's inauguration threatened the peaceful transfer of power.

Despite the turmoil, Felipe Calderon managed to take office and immediately launched a vast army and police operation against violence in the states most gravely threatened by drug mafias. Doing so clearly communicated the strong presence of the presidency, which had been absent for nearly a year. In addition, post-electoral polarization has diminished because elected Party of the Democratic Revolution (PRD) officials (congressional representatives, governors and the mayor of Mexico City) were forced by the dynamics of government to return to "business as usual" and thus to distance themselves somewhat from Lopez Obrador. This has, for the moment, calmed things down. They could nevertheless ignite at any moment if the Calderon government does not proceed carefully, that is, by attempting to alleviate social polarization. Calderon must show sensitivity toward Lopez Obrador supporters, who feel defrauded by the present government and who are disillusioned with democracy. Faced with rising tortilla prices due to the hike in maize prices on the international market, Calderon made a pact with tortilla producers to control prices. However, this will likely fall short of resolving the problem. On 31 January 2007, a large demonstration broke out against rising prices for staple food products. Such events might foreshadow Lopez Obrador's return to the forefront, as protesters hailed not only from the PRD. However, the opposition against Calderon seems to be divided, as some of the PRI-associated social organizations did not attend the demonstrations for fear of allowing Lopez Obrador to instrumentalize the movement. Nevertheless, the new government cannot continue to bet on such ad-hoc measures. It will have to address problems with structural reforms if it wants to truly defuse the opposition and

legitimate itself. Calderon will need to find a way to build the consensus that was lacking during the Fox administration. Key reforms include improving tax collection and reducing the country's dependence on oil exports in order to resolve the fiscal problems. The resources that have been taken from the oil company Pemex have dealt it a heavy blow; it no longer has sufficient resources to maintain its production and export levels, nor to produce enough gasoline for the domestic market. In the last six years, gasoline imports have increased tremendously, and recently oil production has begun to decrease. Reforming Pemex (and the entire energy sector) is urgent and private capital may be required.

The education system is also in dire need of reform and much more must be invested in research and development. Such reforms may prove difficult to implement and be compromised by the alliance between the Calderon government and the traditional leadership of the Teachers Union. In addition, Calderon's budget for 2007 showed a decrease in expenditure on both education and science. It remains to be seen if this is a temporary cutback due to time pressures or if it reflects the government's policy priorities. Structural reform is also needed in the areas of law enforcement and the judiciary. Sending the police and the army to fight drug trafficking clearly does not suffice; it is essential to reform the police apparatus that fights against drugs in order to confront the continued growth of corruption among the police as well as in the army, which would seriously compromise internal security. Finally, some adjustments have to be made to the economic model. First, a revision of the NAFTA agreements is needed to eliminate the resting tariffs on agricultural products such as maize and beans in 2008. Second, the political leadership must initiate a reform of the social assistance model that permits the poor to survive but not to leave poverty behind. Education reform will be instrumental in achieving this, but the political leadership must also find a way for the Mexican state to influence and promote job creation. The present economic model, or at least the orthodox interpretation thereof applied by Mexican authorities, has proven inefficient, if one considers the growth of the informal sector and the increase in poverty.