Chapter 3. The Economy

A representation of Mexican campesinos, from a painting by Diego Rivera

FROM THE 1940s UNTIL THE MID-1970s, the Mexican economy enjoyed strong growth averaging more than 6 percent, single-digit inflation, and relatively low external indebtedness. These conditions all began to change during the 1970s. Expansionary government policies generated higher inflation and severe external payments problems while failing to produce sustained growth. Government spending outpaced revenues, generating steep budget deficits and increased external indebtedness. Low real interest rates also discouraged domestic saving.

A brief financial and economic crisis in 1976 signaled the need to address the economy's fundamental problems, but subsequent petroleum discoveries reduced incentives for reform and postponed the inevitable day of reckoning. The government expanded its debt-financed spending in the late 1970s in anticipation of continued low interest rates and high oil revenue. It also maintained a highly overvalued peso (for value of the peso—see Glossary), aggravating balance of payments problems, undermining private-sector confidence, and encouraging capital flight.

External conditions turned sharply against Mexico in the early 1980s, producing a deep recession that forced a fundamental change in the country's decades-old development strategy. Higher interest rates and falling oil prices combined with rising inflation, massive capital flight, and an unserviceable foreign debt to provoke an economic collapse. Lacking access to international capital markets, the government of Miguel de la Madrid Hurtado (1982–88) had to generate huge nonoil trade surpluses to restore macroeconomic balance. Import volume fell sharply at the expense of fixed investment and consumption. As a result of the government's stringent economic stabilization program, the fiscal deficit was eliminated, international reserves rebuilt, and export growth restored, but at the cost of lower real wages and extensive unemployment. Economic output remained flat between 1983 and 1988, and inflation remained high, reaching more than 140 percent in 1987. Real exchange-rate depreciation boosted the country's debt-to-gross domestic product (GDP—see Glossary) ratio by almost 30 percentage points between 1982 and 1987.

To control persistently high inflation and restore growth and international competitiveness, the government pursued a major policy reorientation in the late 1980s. It reduced state involvement in economic production and regulation and integrated Mexico more fully into the world economy. An anti-inflation plan was introduced in late 1987 under which the government, the private sector, and organized labor agreed to limit wage and price increases. In 1989 the government reached agreement with its external creditors on extensive debt restructuring and reduction.

In an effort to restore self-sustaining growth, the administration of Carlos Salinas de Gortari (1988–94) boosted investment as a share of GDP. It also accelerated the privatization of state-owned productive enterprises, both to raise state revenue and to promote economic restructuring and modernization. The government eased foreign investment regulations, stabilized the currency, deregulated the prices of most goods, and enacted extensive trade liberalization measures, including the reduction or elimination of import barriers and the pursuit of free-trade agreements with Mexico's trading partners, especially the United States.

The Salinas government allowed the currency to become increasingly overvalued during 1994, despite mounting trade and current account deficits resulting from trade liberalization and economic growth. It kept real interest rates high to ensure sufficient inflows of foreign (mainly short-term portfolio) investment to cover the current account deficit. During 1994 the government treasury issued a large number of dollar-denominated bonds (*tesebonos*) to reinforce its capital position.

By the end of 1994, the almost total disappearance of Mexico's international reserves made the government's exchange-rate policy no longer tenable. The new administration of President Ernesto Zedillo Ponce de Leon was forced in December 1994 to devalue the new peso (for value of the new peso—see Glossary), despite promises to the contrary. The government's mismanaged new peso devaluation cost the currency nearly half of its value and the government much of its credibility and popular support. Inflation and interest rates rose sharply in subsequent weeks, throwing millions of Mexicans out of work and putting many consumer goods beyond the reach of the middle class, to say nothing of the impoverished majority. Public and private investment plummeted, and Mexico entered its worst economic recession since the 1930s.

By early 1996, however, the economy had begun to recover, as capital inflows increased and most productive sectors registered positive growth rates.

Growth and Structure of the Economy

Early Years

The Mexican wars of independence (1810–21) left a legacy of economic stagnation that persisted until the 1870s. Political instability and foreign invasion deterred foreign investment, risk-taking, and innovation. Most available capital left with its Spanish owners following independence. Instead of investing in productive enterprises and thereby spurring economic growth, many wealthy Mexicans converted their assets into tangible, secure, and often unproductive property.

The seeds of economic modernization were laid under the restored Republic (1867–76) (see The Restoration, 1867–76, ch. 1). President Benito Juárez (1855–72) sought to attract foreign capital to finance Mexico's economic modernization. His government revised the tax and tariff structure to revitalize the mining industry, and it improved the transportation and communications infrastructure to allow fuller exploitation of the country's natural resources. The government let contracts for construction of a new rail line northward to the United States, and it completed the commercially vital Mexico City-Veracruz railroad, begun in 1837. Protected by high tariffs, Mexico's textile industry doubled its production of processed items between 1854 and 1877. But overall, manufacturing grew only modestly, and economic stagnation continued.

During the Porfiriato (1876–1910), however, Mexico underwent rapid and sustained growth, and laid the foundations for a modern economy. Taking "order and progress" as his watchwords, President José de la Cruz Porfirio Díaz established the rule of law, political stability, and social peace, which brought the increased capital investment that would finance national development and modernization. Rural banditry was suppressed, communications and transportation facilities were modernized, and local customs duties that had hindered domestic trade were abolished.

Revolution and Aftermath

The Mexican Revolution (1910–20) severely disrupted the Mexican economy, erasing many of the gains achieved during the Porfiriato. The labor force declined sharply, with the economically active share of the population falling from 35 percent in 1910 to 31 percent in 1930. Between 1910 and 1921, the population suffered an overall net decline of 360,000 people. The livestock supply was severely depleted, as thousands of cattle were lost to the depredations of rival militias. Cotton, coffee, and sugarcane went unharvested as workers abandoned the fields either to join or flee the fighting. The result was a precipitous drop in agricultural output. The disruption of communications and rail transportation made distribution unreliable, prompting further reductions in the production of perishable goods. As agricultural and manufacturing output declined, black markets flourished in the major cities. The banking system was shattered, public credit disappeared, and the currency was destroyed. The mining sector suffered huge losses, with gold production falling some 80 percent between 1910 and 1916, and silver and copper output each declining 65 percent.

The Great Depression

The Great Depression brought Mexico a sharp drop in national income and internal demand after 1929, challenging the country's ability to fulfill its constitutional mandate to promote social equity. Still, Mexico did not feel the effects of the Great Depression as directly as some other countries did.

In the early 1930s, manufacturing and other sectors serving the domestic economy began a slow recovery. The upturn was facilitated by several key structural reforms, notably the railroad nationalization of 1929 and 1930, the nationalization of the petroleum industry in 1938, and the acceleration of land reform, first under President Emilio Portes Gil (1928–30) and then under President Lázaro Cárdenas (1934–40) in the late 1930s. To foster industrial expansion, the administration of Manuel Ávila Camacho (1940–46) in 1941 reorganized the National Finance Bank (Nacional Financiera—Nafinsa), which had originally been created in 1934 as an investment bank.

During the 1930s, agricultural production also rose steadily, and urban employment expanded in response to rising domestic demand. The government offered tax incentives for production directed toward the home market. Import-substitution industrialization (see Glossary) began to make a slow advance during the 1930s, although it was not yet official government policy.

Postwar Economic Growth

Mexico's inward-looking development strategy produced sustained economic growth of 3 to 4 percent and modest 3 percent inflation annually from the 1940s until the late 1960s. The government fostered the development of consumer goods industries directed toward domestic markets by imposing high protective tariffs and other barriers to imports. The share of imports subject to licensing requirements rose from 28 percent in 1956 to an average of more than 60 percent during the 1960s and about 70 percent in the 1970s. Industry accounted for 22 percent of total output in 1950, 24 percent in 1960, and 29 percent in 1970. The share of total output arising from agriculture and other primary activities declined during the same period, while services stayed constant. The government promoted industrial expansion through public investment in agricultural, energy, and transportation infrastructure. Cities grew rapidly during these years, reflecting the shift of employment from agriculture to industry and services. The urban population increased at a high rate after 1940 (see Urban Society, ch. 2). Growth of the urban labor force exceeded even the growth rate of industrial employment, with surplus workers taking low-paying service jobs.

In the years following World War II, President Miguel Alemán Valdés's (1946–52) full-scale import-substitution program stimulated output by boosting internal demand. The government raised import controls on consumer goods but relaxed them on capital goods, which it purchased with international reserves accumulated during the war. The government progressively undervalued the peso to reduce the costs of imported capital goods and expand productive capacity, and it spent heavily on infrastructure. By 1950 Mexico's road network had expanded to 21,000 kilometers, of which some 13,600 were paved.

Mexico's strong economic performance continued into the 1960s, when GDP growth averaged about 7 percent overall and about 3 percent per capita. Consumer price inflation averaged only 3 percent annually. Manufacturing remained the country's dominant growth sector, expanding 7 percent annually and attracting considerable foreign investment. Mining grew at an annual rate of nearly 4 percent, trade at 6 percent, and agriculture at 3 percent. By 1970 Mexico had diversified its export base and become largely self-sufficient in food crops, steel, and most consumer goods. Although its imports remained high, most were capital goods used to expand domestic production.

Deterioration in the 1970s

Although the Mexican economy maintained its rapid growth during most of the 1970s, it was progressively undermined by fiscal mismanagement and a resulting sharp deterioration of the investment climate. The GDP grew more than 6 percent annually during the administration of President Luis Echeverría Álvarez (1970–76), and at about a 6 percent rate during that of his successor, José López Portillo y Pacheco (1976–82). But economic activity fluctuated wildly during the decade, with spurts of rapid growth followed by sharp depressions in 1976 and 1982.

Fiscal profligacy combined with the 1973 oil shock to exacerbate inflation and upset the balance of payments. Moreover, President Echeverría's leftist rhetoric and actions—such as abetting illegal land seizures by peasants—eroded investor confidence and alienated the private sector. The balance of payments disequilibrium became unmanageable as capital flight intensified, forcing the government in 1976 to devalue the peso by 45 percent. The action ended Mexico's twenty-year fixed exchange rate.

Although significant oil discoveries in 1976 allowed a temporary recovery, the windfall from petroleum sales also allowed continuation of Echeverría's destructive fiscal policies. In the mid-1970s, Mexico went from being a net importer of oil and petroleum products to a significant exporter. Oil and petrochemicals became the economy's most dynamic growth sector. Rising oil income allowed the government to continue its expansionary fiscal policy, partially financed by higher foreign borrowing. Between 1978 and 1981, the economy grew more than 8 percent annually, as the government spent heavily on energy, transportation, and basic industries. Manufacturing output expanded modestly during these years, growing by 9 percent in 1978, 9 percent in 1979, and 6 percent in 1980.

This renewed growth rested on shaky foundations. Mexico's external indebtedness mounted, and the peso became increasingly overvalued, hurting nonoil exports in the late 1970s and forcing a second peso devaluation in 1980. Production of basic food crops stagnated, forcing Mexico in the early 1980s to become a net importer of foodstuffs. The portion of import categories subject to controls rose from 20 percent of the total in 1977 to 24 percent in 1979. The government raised tariffs concurrently to shield domestic producers from foreign competition, further hampering the modernization and competitiveness of Mexican industry.

1982 Crisis and Recovery

The macroeconomic policies of the 1970s left Mexico's economy highly vulnerable to external conditions. These turned sharply against Mexico in the early 1980s, and caused the worst recession since the 1930s. By mid-1981, Mexico was beset by falling oil prices, higher world interest rates, rising inflation, a chronically overvalued peso, and a deteriorating balance of payments that spurred massive capital flight. This disequilibrium, along with the virtual disappearance of Mexico's international reserves—by the end of 1982 they were insufficient to cover three weeks' imports—forced the government to devalue the peso three times during 1982. The devaluation further fueled inflation and prevented short-term recovery. The devaluations depressed real wages and increased the private sector's burden in servicing its dollar-denominated debt. Interest payments on long-term debt alone were equal to 28 percent of export revenue. Cut off from additional credit, the government declared an involuntary moratorium on debt payments in August 1982, and the following month it announced the nationalization of Mexico's private banking system.

By late 1982, incoming President Miguel de la Madrid had to reduce public spending drastically, stimulate exports, and foster economic growth to balance the national accounts. Recovery was extremely slow to materialize, however. The economy stagnated throughout the 1980s as a result of continuing negative terms of trade, high domestic interest rates, and scarce credit. Widespread fears that the government might fail to achieve fiscal balance and have to expand the money supply and raise taxes deterred private investment and encouraged massive capital flight that further increased inflationary pressures. The resulting reduction in domestic savings impeded growth, as did the government's rapid and drastic reductions in public investment and its raising of real domestic interest rates to deter capital flight.

Mexico's GDP grew at an average rate of just 0.1 percent per year between 1983 and 1988, while inflation stayed extremely high (see table 7, Appendix). Public consumption grew at an average annual rate of less than 2 percent, and private consumption not at all. Total investment fell at an average annual rate of 4 percent and public investment at an 11 percent pace. Throughout the 1980s, the productive sectors of the economy contributed a decreasing share to GDP, while the services sectors expanded their share, reflecting the rapid growth of the informal economy. De la Madrid's stabilization strategy imposed high social costs: real disposable income per capita fell 5 percent each year between 1983 and 1988. High levels of unemployment and underemployment, especially in rural areas, stimulated migration to Mexico City and to the United States.

By 1988 inflation was at last under control, fiscal and monetary discipline attained, relative price adjustment achieved, structural reform in trade and public-sector management underway, and the preconditions for recovery in place. But these positive developments were inadequate to attract foreign investment and return capital in sufficient quantities for sustained recovery. A shift in development strategy became necessary, predicated on the need to generate a net capital inflow.

In April 1989, President Carlos Salinas de Gortari announced his government's national development plan for 1989–94, which called for annual GDP growth of 6 percent and an inflation rate similar to those of Mexico's main trading partners. Salinas planned to achieve this sustained growth by boosting the investment share of GDP and by encouraging private investment through denationalization of state enterprises and deregulation of the economy. His first priority was to reduce Mexico's external debt; in mid-1989 the government reached agreement with its commercial bank creditors to reduce its medium- and long-term debt. The following year, Salinas took his next step toward higher capital inflows by lowering domestic borrowing costs, reprivatizing the banking system, and broaching the idea of a free-trade agreement with the United States. These announcements were soon followed by increased levels of capital repatriation and foreign investment.

After rising impressively during the early years of Salinas's presidency, the growth rate of real GDP began to slow during the early 1990s. During 1993 the economy grew by a negligible amount, but growth rebounded to almost 4 percent during 1994, as fiscal and monetary policy were relaxed and foreign investment was bolstered by United States ratification of the North American Free Trade Agreement (NAFTA). In 1994 the commerce and services sectors accounted for 22 percent of

Mexico's total GDP. Manufacturing followed at 20 percent; transport and communications at 10 percent; agriculture, forestry, and fishing at 8 percent; construction at 5 percent; mining at 2 percent; and electricity, gas, and water at 2 percent (see fig. 9). Some two-thirds of GDP in 1994 (67 percent) was spent on private consumption, 11 percent on public consumption, and 22 percent on fixed investment. During 1994 private consumption rose by 4 percent, public consumption by 2 percent, public investment by 9 percent, and private investment by 8 percent.

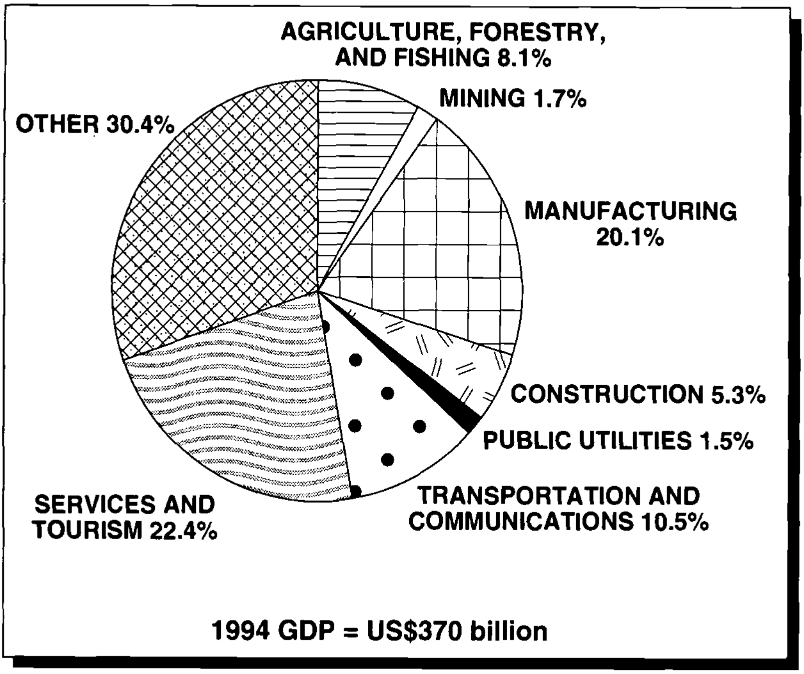
However, the collapse of the new peso in December 1994 and the ensuing economic crisis caused the economy to contract by an estimated 7 percent during 1995. Investment and consumption both fell sharply, the latter by some 10 percent. Agriculture, livestock, and fishing contracted by 4 percent; mining by 1 percent; manufacturing by 6 percent; construction by 22 percent; and transport, storage, and communications by 2 percent. The only sector to register positive growth was utilities, which expanded by 3 percent.

By 1996 Mexican government and independent analysts saw signs that the country had begun to emerge from its economic recession. The economy contracted by a modest 1 percent during the first quarter of 1996. The Mexican government reported strong growth of 7 percent for the second quarter, and the Union Bank of Switzerland forecast economic growth of 4 percent for all of 1996.

Macroeconomic Management

In the 1940s, Mexico adopted a state-led development strategy that relied on public-sector investment to integrate the national economy. Under the policy of "stabilizing development," the state promoted industrialization by encouraging import substitution, mobilizing domestic savings, and directing state credit toward priority investment projects. It followed conservative policies on interest and exchange rates in order to attract external capital to support industrialization. During the 1940s and 1950s, the government channeled public investment toward the agricultural sector, and especially into large-scale irrigation projects. During the 1960s, public spending was redirected toward expanding the nation's industrial capacity.

Although social infrastructure, such as medical and educational facilities, received some 25 percent of public spending, income distribution became steadily more unequal during the



Source: Based on information from Economist Intelligence Unit, *Country Report: Mexico,* London, No. 1, 1996, 3.

Figure 9. Gross Domestic Product (GDP) by Sector, 1994

postwar decades, and the social needs of the rural poor went largely unaddressed. Popular acceptance of Mexico's post-1940 development strategy began to wane by 1970 as its inegalitarian consequences became clear. As public pressure for state redress of social needs rose, presidents Echeverría and López Portillo turned to destructive fiscal policies that nearly bankrupted the state and contributed to Mexico's economic collapse in the early 1980s.

After taking power in 1970, Echeverría turned away from the policy of "stabilizing development" that had closely linked Mexico's economic fortunes to those of the private sector. By expanding the state's role in directing and regulating economic activity, Echeverría hoped to promote both equity and prosperity while easing political pressures on the state. Higher public spending was also intended to alleviate the social and political tensions that had found violent expression in the riots at the Plaza of the Three Cultures in Tlatelolco in 1968 and threatened continued Institutional Revolutionary Party (Partido Revolucionario Institucional—PRI) rule (see Reconciliation and Redistribution, 1970–76, ch. 1).

Echeverría's improvidence produced a growing fiscal imbalance, which he financed through foreign borrowing. Mexico's public-sector deficit rose sharply from 2 percent of GDP in 1970 to 7 percent by 1976. Under Echeverría, Mexico resorted for the first time to massive external borrowing to finance these deficits. Extensive oil discoveries in the mid-1970s gave Mexico access to almost unlimited foreign credits, allowing the government to contract huge loans to finance the fiscal and trade deficits. The share of public-sector spending financed by debt rose from 32 percent in 1971 to 50 percent by 1977. The looming fiscal crisis, together with the president's intemperate rhetorical assaults on the private sector, undermined business confidence and soured the investment climate. The government's determination to maintain a fixed exchange rate despite rising inflation undermined the competitiveness of domestic production, discouraged new investment, and encouraged capital flight.

By the mid-1970s, the balance of payments disequilibrium had become unmanageable. Inflation increased from 3 percent in 1969 to an annual average of 17 percent between 1973 and 1975. The fiscal deficit rose from 3 percent of GDP in 1971 to 10 percent in 1975. During those same years, the current account deficit rose from US$0.9 billion to US$4.4 billion, and the foreign public debt more than doubled from US$6.7 billion to US$15.7 billion. The private sector responded with massive capital flight, both to protect against the expected peso devaluation and to protest Echeverría's attacks on the private sector.

By 1976 the government could no longer ignore the crisis. Complying with International Monetary Fund (IMF—see Glossary) requirements for contingency lending and private-sector demands, the government curbed the expansion of state industry and public-sector spending, restricted credit, and forced the economy into recession. In August 1976, the government allowed the peso to float, ending more than twenty years of exchange-rate stability. The peso quickly depreciated by almost 40 percent against the dollar.

Although the discovery of massive new petroleum deposits in 1977 briefly alleviated the fiscal pressures weighing upon the government, it also led officials to abandon their newly acquired habits of fiscal restraint (see Recovery and Relapse, ch. 1). The fiscally expansionist Secretariat of Programming and Budget (Secretaría de Programación y Presupuesto—SPP), which had been established in 1977 and given responsibility for public investment planning, grew in influence at the expense of technocrats from the Central Bank and Treasury Ministry, who were more concerned with maintaining macroeconomic efficiency and stability.

The dénouement of López Portillo's expansionary policies came in mid-1981. International interest rates rose and oil prices fell. Capital flight accelerated as the government defended the increasingly overvalued peso through short-term external borrowing. Despite the warning signs, López Portillo decided to postpone adjustment measures and maintain existing policy.

In late 1982, the incoming administration of President de la Madrid faced a raft of challenges: huge fiscal imbalances, unsympathetic creditor banks, an alienated private sector, and international institutions inexperienced in managing a global debt crisis (see The de la Madrid *Sexenio*, 1982–88, ch. 1). Mexico's public-sector deficit in 1982 amounted to 18 percent of GDP. Total public spending amounted to nearly 47 percent of GDP, compared with only 30 percent in 1977, while public-sector revenue rose during the same period from 24 percent of GDP in 1977 to only 30 percent in 1982. Both production and economic growth stagnated.

Despite having vowed to defend the peso "like a dog," in February 1982 the president allowed the dollar price of the peso to almost double to discourage foreign-exchange speculation. The exchange rate rose from more than twenty-six pesos per dollar in January 1982 to about forty-five three months later. In August of that year, the government announced three more dramatic devaluations of the peso and a ninety-day suspension of debt principal payments. It also began negotiations for bridge loans and rescheduling agreements with the United States treasury, the IMF, and private commercial banks. In September the government adopted full exchange controls and nationalized the domestic banking system in a mistaken effort to stem capital flight. In November the government concluded a rescheduling accord with the IMF, and in early 1993 it negotiated a US$10 billion rescue package with private banks.

In December 1982, de la Madrid announced what turned out to be his first stabilization package, the Immediate Economic Reorganization Program (Programa Inmediato de Reordenación Económica—PIRE). This two-stage program called for "shock" treatment in 1983 to restore macroeconomic balance, to be followed in 1984 and 1985 by a "gradualist" adjustment program to open the economy to market forces. The first phase was intended to restore price and financial stability by means of a sharp reduction in public spending and a steep peso devaluation. The government instituted a harsh austerity regime that held the growth in domestic spending far below the rise in total output.

De la Madrid's first stabilization package did not work as expected. The government had expected lower inflation and more realistic prices to produce strong economic growth by 1984. This did not take place. From early 1983 until mid-1984, the government adhered closely to the goals of a November 1982 agreement it had reached with the IMF. The agreement maintained highly restrictive fiscal and monetary policies and allowed wages to lag substantially behind inflation. The austerity measures and devaluations of 1983 eliminated both the fiscal and trade deficits, but at the cost of sharply reduced imports and a severe economic recession. Contrary to expectations, the inflation rate did not fall significantly, and voluntary private lending did not resume.

Increasingly concerned about Mexico's growing fiscal deficit and its failure to reach its economic targets, the IMF in September 1985 suspended disbursement of the loan it had approved in late 1982. This announcement led to another run on the peso and a new balance-of-payments crisis. The government reacted to the situation by imposing a series of devaluations and further harsh stabilization measures, including additional reductions in spending and domestic credit. Economic growth slowed and inflation surged, suggesting the failure of de la Madrid's first stabilization package.

In 1985 the Mexican government signaled a fundamental change in development strategy by reorienting economic policy toward trade liberalization and export promotion. It expected renewed export promotion to restore external balance and trade liberalization to restrain domestic prices by encouraging import competition. In July 1985, the government substantially reduced import licensing requirements and raised the share of total imports exempt from licensing. It compensated slightly for these measures by raising tariffs. The government also devalued the peso again, despite the inflationary consequences, to force previously protected domestic firms to become more competitive against imported goods.

In late 1986, the government cautiously relaxed credit to the private sector in an effort to ease the economy out of recession. External financing was again made available in 1987 following approval of a debt rescheduling plan proposed by United States Secretary of the Treasury James A. Baker III. The Baker Plan called for rescheduling some 83 percent of the US$52.2 billion of public-sector debt that Mexico had contracted prior to 1985. The debt would be repaid over a twenty-year period, with a seven-year grace period. Multilateral agencies agreed to lend an additional US$6 billion and commercial banks an additional US$7.7 billion, of which US$1.7 billion was contingency lending. The Baker Plan also provided for rescheduling some US$9.7 billion of private debt owed to commercial banks over a twenty-year period with seven years' grace. In all, the 1986 agreement provided Mexico some US$12.5 billion in new private and official credit.

After 1987 the government finally began to make progress against inflation. Endemic price instability had severely upset economic expectations, deterred much-needed investment, and hindered the country's economic recovery. In an effort to restore price stability, government policy makers decided in late 1987 to stop devaluing the peso at rates equal to or higher than the inflation rate. Even more important, in December 1987 the government forged a joint agreement with official leaders of the labor, peasant, and business sectors to restrain wages and prices. This accord, known as the Economic Solidarity Pact (Pacto de Solidaridad Económica—PSE), promised to reduce Mexico's monthly inflation rate to 2 percent by the end of 1988.

The PSE required further reductions in public spending and credit, higher tax revenue, and a tighter monetary policy. All were intended to reduce the fiscal deficit and curb inflation. The new revenue measures included an increase in the value-added tax (VAT), a new personal income surtax, and elimination of tax exemptions. The government raised prices of public goods and services, and allowed interest rates to rise in order to promote saving and reduce capital flight. The PSE also included a structural adjustment component emphasizing trade liberalization and privatization of state enterprises.

The plan soon produced results. The inflation rate fell considerably, living standards recovered slightly, and economic growth resumed. Annual inflation fell from 159 percent in 1987 to 52 percent in 1988. The gradual recovery of Mexico's international reserves in 1989 and 1990 allowed the government to sustain a credible fixed exchange rate and finance the deterioration in the external account caused by the tariff reductions. Although President de la Madrid was himself not highly popular as he approached the end of his six-year term, his government had sufficient authority and institutional strength to enforce the wage restraints included in the PSE.

President Salinas announced in January 1989 a new version of de la Madrid's PSE, called the Pact for Economic Stability and Growth (Pacto para la Estabilidad y el Crecimiento Económico—PECE), which he hoped would end Mexico's net capital outflow. Salinas's economic program received considerable external support (see President Salinas, ch. 1). In March 1989, Mexico and the United States reached agreement on a long-term plan to restructure Mexico's US$52.7 billion debt owed to commercial creditors. The plan, proposed by United States Secretary of the Treasury Nicholas F. Brady, was intended to attract new foreign investment, encourage return capital, reduce domestic interest rates, and foster higher growth.

In July 1989, Mexico signed an agreement in principle with an advisory committee representing its 500 or so international creditors. The final agreement was signed in February 1990 and went into effect the following month.

Mexico's public finances improved steadily during the early years of Salinas's presidency. Throughout the 1980s, the Mexican government had emphasized fiscal austerity while making little effort to raise tax revenue. This policy mix began to change under Salinas, as Mexican economic policy stopped holding domestic demand below output and began to tighten tax collection. The government broadened the tax base by reducing marginal tax rates, the maximum corporate and personal tax rates, and the number of personal income tax brackets. Between 1989 and 1992, the number of taxpayers increased by 45 percent. As a result in part of improved tax collection, Mexico went from a public-sector deficit of 9 percent of GDP in

1988 to a surplus of 2 percent of GDP in 1992, although the government began to relax fiscal policy thereafter.

In the wake of the currency collapse of late 1994, the government committed itself in March 1995 to reduce public spending by almost 10 percent in real terms; it raised the VAT from 10 percent to 15 percent, and it raised prices for fuel, electricity, and other publicly provided services. Although the anti-inflationary social pact among the government, business, and labor—the PECE—was not renewed in early 1995, the government announced in October 1995 a new pact with labor and business, the Alliance for Economic Recovery (Alianza para la Recuperación Económica—APRE), which established fixed rates of increase for wages and prices. Under the terms of the APRE, the government pledged to maintain a balanced budget during 1996. It also planned a 5 percent real reduction in current spending, as well as regular increases in prices of publicly provided goods and services. Unlike its predecessors, however, this measure was not called a "pact," and it included no provision for a crawling- peg exchange rate. The government's reductions in current spending and public investment during 1995 were especially severe because vastly higher interest rates had boosted the government's interest payments by more than 37 percent in real terms.

These spending reductions helped the government to move from a public-sector deficit of 1.7 billion new pesos in 1994 to a modest surplus of 815 million new pesos in 1995, the latter representing 0.05 percent of GDP. Public expenditure in 1995 totaled 424 billion new pesos, of which 72 billion new pesos (17 percent) went to interest payments, 67 billion (16 percent) to education, 65 billion (15 percent) to energy, and 62 billion (15 percent) to health and social security. For 1996 the government budgeted total public-sector revenue of 558 billion new pesos, of which 237 billion new pesos would come from taxation and 177 billion new pesos from state enterprises. It budgeted total net expenditures of 554 billion new pesos, of which the largest share would go to education, energy, and health and social security, as well as debt service.

External Debt

By the early 1990s, Mexico's debt crisis had largely passed, although the country remained saddled with huge debts. Capital inflows were more than sufficient to service the debt through 1993 as portfolio and foreign direct investment reached unprecedented levels in response to liberalization and the successful negotiation of NAFTA. Despite the use of funds from privatization to retire old public-sector debt, total external debt continued to grow during the early 1990s as current account deficits soared after 1992.

After reaching a low of US$112 billion in 1992, Mexico's total external debt rose steadily thereafter, reaching an estimated US$158 billion in 1995. The large increase during 1995 in Mexico's total public indebtedness resulted in part from loans contracted in the wake of the new peso collapse of late 1994. In early 1995, the United States government made US$20 billion available to Mexico from the United States treasury department's Exchange Stabilization Fund, the Bank for International Settlements contributed US$10 billion, and the IMF offered US$8 billion in standby credit and US$10 billion of other funding.

In 1993 Mexico's total debt service amounted to US$21 billion, including US$14 billion in principal payments and US$7 billion in interest payments. Mexico's total external debt amounted to 356 percent of GDP in 1993.

Inflation

Control of inflation was the main policy objective of the de la Madrid and Salinas administrations between 1987 and 1993, despite the cost of this policy in terms of the currency's continued real appreciation and the resultant need to maintain high interest rates to attract foreign investment and deter capital flight. The government made steady progress against inflation following the PSE's introduction in late 1987 (replaced in 1989 by the PECE, which was revised and updated annually between 1989 and 1993). Largely as a result of the wage and price restraints included in these pacts, inflation fell from 159 percent in 1987 to 20 percent in 1989. In 1990 it rose slightly to 30 percent (double the initial target of 15 percent), as the government eased credit, eliminated price subsidies, and realigned public-sector prices as well as some private-sector prices. Thereafter, the inflation rate fell steadily from 23 percent in 1991 to 7 percent in 1994, Mexico's first single-digit inflation rate in twenty years.

Consumer price inflation rose sharply between January and April 1995 in response to the December 1994 new peso devaluation, then abated between May and August as the new peso appreciated. When the currency came under renewed pressure during the last four months of the year, however, inflation rose more quickly. It soared as high as 52 percent (Mexico's highest inflation rate since 1987) by December 1995, although it averaged 35 percent for the year. A 21 percent increase in the minimum wage and monthly adjustments of public prices contributed to the high inflation. Consumer prices rose by 11 percent during the first four months of 1996, despite Mexico's continued recession and the new peso's real appreciation. The government conservatively projected an inflation rate of 21 percent for all of 1996.

Privatization

Prior to 1970, the Mexican government operated relatively few productive enterprises. The influx of oil revenue during the 1970s, however, allowed the government to vastly expand its patronage resources by assuming ownership of hundreds of unprofitable firms. By 1982 the Mexican government ran 1,155 businesses, among them public enterprises (65 percent with state majority ownership and 6 percent with state minority ownership), trust funds, and decentralized agencies. President de la Madrid announced in February 1985 that 237 parastatal (see Glossary) enterprises would be sold to private buyers as part of the government's campaign to raise state revenues and promote economic efficiency. Privatization of state enterprises accelerated under President Salinas and became a central component of his structural adjustment program. The Salinas team began by selling smaller enterprises, then moved to larger and more complicated firms. In November 1993, Salinas announced that his government had sold a total of 390 state enterprises (63 percent of the firms in state hands in 1988), and that fifty of the remaining 209 enterprises were in the process of being sold, merged, or closed.

Despite its overall success, the privatization program eliminated more than 400,000 jobs between 1983 and 1993. Far more enterprises were closed than sold, and the overwhelming majority of the latter were sold through acceptance of private bids, mainly from wealthy Mexican investors, rather than through stock offerings to employees or the public. Some newly privatized enterprises—such as Astilleros Unidos de Veracruz, Mexico's largest shipyard—subsequently came close to bankruptcy, and several sugar mills closed soon after they were privatized.

The Zedillo government continued its predecessor's search for new privatization opportunities. During 1995 it awarded five concessions to joint ventures between Mexican and foreign companies to operate in the long-distance telecommunications market following the expiration of the Mexican Telephone (Teléfonos de México—Telmex) monopoly in January 1997. New privatization opportunities were expected to boost private capital formation, which had slumped in late 1995. The planned privatization of the secondary petrochemicals operation, Mexican Petroleum (Petróleos Mexicanos—Pemex), however, had not occurred by mid-1996, in part because of opposition from the oil workers' union and elements within the ruling party. The government also delayed its offering of railroad concessions for privatization, partly out of concern about job losses. Moreover, it had to rescue the operators of Mexico's new private toll roads, who had sharply raised tolls to recoup construction costs and then faced insolvency because they had misjudged the volume of traffic.

Labor Force

Mexico's workforce was estimated in the 1990 census at some 24.3 million. Workers constituted a relatively small share of the total population, in part because of the population's relative youth (38 percent were below the minimum working age of fourteen). Slightly more than half of the working-age population (those aged fifteen to sixty-four) had actually entered the formal labor market. In the early 1990s, an estimated 500,000 people entered the labor force each year, expanding the total workforce by some 3 percent annually.

In 1988 employers and the self-employed constituted 29 percent of the labor force, employees 56 percent, and unpaid family workers 15 percent. Agriculture, forestry, and fishing employed some 24 percent of the economically active population; manufacturing, mining, quarrying, and public utilities employed 22 percent; trade, hotels, and restaurants employed 19 percent; construction employed 5 percent; finance and real estate employed 5 percent; transportation and communications employed 4 percent; and 21 percent were engaged in other service work. About half of all manufacturing workers were employed in small and medium-size enterprises.

Partly because of high unemployment in the formal labor sector, the number of informal-sector workers swelled during the 1980s and early 1990s (see Income Distribution, ch. 2).

These informal workers included some 900,000 street vendors in forty-five cities, with annual sales of about US$13 billion. The growth of the informal sector both reduced the state's tax revenue receipts and encouraged corruption among local officials.

Historically, real wages in Mexico have been subject to tacit understandings among government officials, the private sector, and labor union chiefs. During the 1940s and 1950s, these sectors forged an understanding whereby Central Bank and Treasury Ministry technocrats would control macroeconomic policy, business groups would refrain from open political opposition while gaining political access through officially recognized private-sector associations, and labor leaders would restrict real wage demands in exchange for additional patronage for distribution to workers. After falling sharply during the 1940s, real wages began to recover in the mid-1950s and continued to rise until the late 1970s, when the government responded to growing fiscal pressures by shifting resources away from the peasantry and the public sector. The government used its control of employment opportunities and the labor union movement to hold down wages throughout the 1980s in an effort to reduce inflation.

The average real wage in Mexico remained low in 1995, both in historical and international terms (see Income Distribution, ch. 2). The Confederation of Mexican Workers (Confederación de Trabajadores Mexicanos—CTM) noted that the average worker's purchasing power in 1993 was only 65 percent of its 1982 level.

Unemployment rose sharply during the six months following the December 1994 new peso devaluation, then receded somewhat between August and December 1995. Open unemployment (according to the government's narrow definition) dropped from 8 percent to 5 percent during this period, although it subsequently increased to an average of 6 percent during the first quarter of 1996.

Although the government increased the minimum wage by 21 percent during 1995, the cost of living rose by more than 50 percent as a result of the currency collapse. In September 1995, the minimum wage was sufficient to cover only 35 percent of workers' basic necessities, compared to 94 percent in December 1987. The government's anti-inflation APRE program called for the minimum wage to increase in line with projected inflation of 21 percent. The government also pledged to

Street vendor, Mexico City
Courtesy Arturo Salinas

boost employment through fiscal incentives to encourage private investment and tax credits for companies that increased their workforce above the average level for the first three quarters of 1995. It also planned to expand public training programs for workers and to maintain its temporary public works programs (such as rural road conservation, which was expected to employ 140,000 people, as well as other temporary work programs that would employ 700,000).

Partially to increase Mexico's domestic savings, the government proposed legislation in November 1995 to reform the country's pension system by allowing the creation of individual accounts managed by private financial institutions rather than by the government's Mexican Institute of Social Security (Instituto Mexicano de Seguro Social—IMSS). Until 1992 the IMSS had been solely responsible for managing the pension system.

Labor Legislation

Mexico's first comprehensive labor law was promulgated in 1931. The Federal Labor Act of 1970 authorizes the government to regulate all labor contracts and work conditions, including minimum wages, work hours, holidays, paid vacations, employment of women and minors, collective bargaining and strikes, occupational hazards, and profit sharing. The act sets the minimum employment age for children at fourteen years. Children fifteen years old can work but are restricted from certain jobs and have special legal protections and shorter working hours than adults. Medium and large commercial and manufacturing enterprises generally observe child labor laws strictly, although small shops and informal enterprises often do not. Although the law mandates a minimum wage, noncompliance ranges from 30 percent to 50 percent among employers of urban workers and reaches 80 percent in the countryside. Industrial safety laws often are loosely observed in practice, especially in the heavy industry and construction sectors.

The maximum legal workweek is forty-eight hours, and the maximum workday is eight hours. Industrial workers generally work the maximum number of hours per week, whereas office workers typically work forty or forty-four hours. The maximum workweek consists of either six eight-hour day shifts, six seven-hour night shifts, or six seven-and-a-half hour mixed shifts. Employers are required to pay double-time for overtime of up to three hours per day, and they cannot require workers to work overtime more than three times in one week. Each employee has the right to one free day per week, five paid holidays every year, and six to eight days of vacation during each full year of employment. Workers also are entitled to a share of their employers' annual profits.

Labor Unions

More than 90 percent of production workers in industrial enterprises employing more than twenty-five workers belong to labor unions. Relatively few craft or professional workers are organized. Because almost half of all Mexican workers were either unemployed or underemployed and therefore not organizable, Mexico ranked in the early 1990s as a country with a highly organized labor force. The plant or workplace union is the basic unit of Mexican labor organization. Local units (*secciones*) are federated either into national unions (*sindicatos*) or local, regional (intrastate), or state federations. Occasionally these federations join in nationwide confederations. The CTM is the country's largest labor organization. Its secretary general in 1994 was the long-serving Fidel Velásquez. The CTM women's affiliate is the Workers' Federation of Women's Organizations (Federación Obrera de Organizaciones Femininas). Other prominent union federations include the Regional Confederation of Mexican Workers (Confederación Regional de Obreros Mexicanos), the Revolutionary Confederation of Mexican Workers and Peasants (Confederación Revolucionaria de Obreros y Campesinos), the National Federation of Independent Unions (Federacíon Nacional de Sindicatos Independientes), and the Federation of Unions of Workers in the Service of the State (Federación de Sindicatos de Trabajadores al Servicio del Estado). Most of these federations are affiliated with the Congress of Labor (Congreso del Trabajo), which represents 85 percent of all unionized workers.

Most Mexican labor unions have strong ties to the PRI. In the 1930s and 1940s, organized labor became an integral component of the regime. The official unions facilitated Mexico's dramatic postwar economic growth by accepting labor wage increases that did not exceed productivity gains, thus eliminating a major source of inflation. The unions also discouraged industrial conflict, which helped to foster a receptive climate for foreign investment. Unions close to the PRI—especially the CTM—used both coercion and bribery to restrain wage demands. The absence of meaningful union democracy made it hard for the union rank and file to press independently for wage increases. During the 1970s, an increasing number of militant union movements broke away from the control of traditional union bosses, winning considerable autonomy over hiring and firing decisions, internal labor market operations, line speeds, and other working conditions. The government's efforts during the 1980s to promote greater productivity and efficiency in both the public and private sectors led to the reversal of many of these gains. Industrial reorganizations and downsizing resulted in massive layoffs and numerous labor concessions to management regarding work practices.

President Salinas further weakened the traditional unions during his incumbency. In some cases, he forced unions to negotiate at the plant level rather than nationwide. Shortly after taking office, he weakened the official oil workers' union by having its powerful and corrupt chief, Joaquín Hernández Galicia, arrested on corruption and murder charges. Salinas also undercut the 800,000-member official public schoolteachers' union, the National Union of Education Workers (Sindicato Nacional de Trabajadores de la Educación), by transferring authority over education from the central government to the states. By doing so, he restricted the union's power by forcing it to negotiate separate contracts with each state government. The central government's ongoing privatization program eliminated hundreds of thousands of union jobs, and its 1993 decision to link future wage increases to productivity gains denied the CTM the role of bargaining with the government on wage increases for all workers. Instead, the CTM was limited to advising individual union locals as they negotiated new contracts with plant operators.

Financial System

Banking System

Mexico has one of Latin America's most developed banking systems, consisting of a central bank and six types of banking institutions: public development banks, public credit institutions, private commercial banks, private investment banks, savings and loan associations, and mortgage banks. Other components of the financial system include securities market institutions, development trust funds, insurance companies, credit unions, factoring companies, mutual funds, and bonded warehouses.

The central bank, the Bank of Mexico (Banco de México), regulates the money supply and foreign exchange markets, sets reserve requirements for Mexican banks, and enforces credit controls. It serves as the fiscal agent of the federal government, the issuing bank for the new peso, and a discount house for private deposit banks. It supervises the private banking sector through the National Banking Commission, and it provides funds for government development programs. Legislation in 1984 required the Bank of Mexico to limit its lending to the government to an amount fixed at the beginning of each year. To ensure continued control of inflation, the central bank was made autonomous in April 1994.

Mexico has a number of other official banks for agriculture, foreign trade, cooperatives, public works, housing, transportation, and the sugar industry, among other specialized purposes. The most important such development institution is the Nafinsa, which provides financial support for Mexico's industrialization program. Nafinsa provides medium-term financing and equity capital for productive enterprises, promotes Mexican investment companies, oversees the stock market and the issuance of public securities, and serves as the legal depository

Bank of Mexico headquarters, Mexico City
Courtesy Arturo Salinas

of government securities. By 1993 Nafinsa had divested itself of some of its interests, but it remained under state ownership. Mexico's other most important state development bank is the National Bank of Public Works and Services (Banco Nacional de Obras y Servicios Públicos).

The private banking sector consists of more than 200 banks, which together have more than 2,500 branches. The proliferation of banking institutions resulted from regulations that prohibited any single bank from combining more than two banking functions. Mexico's two largest private banks are the Bank of Commerce (Banco de Comercio—Bancomer), comprising thirty-five affiliated banks with more than 500 branches, and the National Bank of Mexico (Banco Nacional de México—Banamex). Development banks, known as *financieras* and organized by commercial banks in association with major industrial enterprises, provide most of the private sector's development financing.

In an effort to stem massive capital flight, President López Portillo decreed the nationalization of the country's private banks in September 1982. In August 1983, the government authorized the return of up to 34 percent of the equity shares in these banks to the private sector, and it eliminated eleven banks and merged fifty others into twenty-nine national credit institutions in an effort to improve the banking system's efficiency. In March 1985, the government announced a further reduction in the number of commercial banks, from twenty-nine to eighteen.

The government took its first actual step toward reprivatizing the commercial banks in 1987, when it returned 34 percent of their capital to private investors in the form of nonvoting stock. In 1990 it allowed the sale to foreign investors of 34 percent of nonvoting shares in state-owned commercial banks. Reprivatization began in earnest in June 1991. By July 1992, all eighteen commercial banks had been sold to private owners, yielding more than US$12 billion. The privatization program dramatically increased the number of investors holding stock in Mexican commercial banks from just 8,000 on the eve of the 1982 nationalization to 80,000 in January 1993.

To improve the availability of credit, the government allowed the establishment of new domestic banks in Mexico in 1993, and the following year it allowed United States and Canadian banks to begin operating in Mexico. At the end of 1994, there were some fifty commercial banks in operation in Mexico, up from nineteen at the end of 1992. Mexico had forty-five brokerage houses, fifty-nine insurance companies, seventy-four leasing companies, sixty-five factoring houses, and forty-nine exchange houses.

Following the currency crisis of late 1994, the government was forced to raise interest rates sharply in order to protect the new peso by retaining existing short-term foreign investment and attracting new capital inflows. High interest rates during 1995 sharply increased the payments owed by Mexican individual and business borrowers, many of whom could not shoulder the increased burden. As a result, the share of nonperforming to performing loans held by Mexican banks rose significantly, creating a major crisis for the financial sector. During the first three quarters of 1995, the ratio of bad debts to the banking system's total loan portfolio increased from 8 percent to 17 percent. Partially as a result, the rate of growth in commercial bank financing of private-sector activities declined to just 1 percent during this period, compared with 19 percent a year earlier.

The interest rate increase also raised the cost to banks and the government of the various efforts to resolve the problem of banks' nonperforming loans. In late 1994, the government took over Banca Cremi, and a year later it was forced to take control of Inverlat. The government also agreed to assume problem loans held by Banamex and Bancomer.

In the wake of the financial sector crisis, the government introduced in mid-1995 a program for rescheduling bank loans using index-linked investment units. In September 1995, the government unveiled another emergency program of aid for bank debtors, which was to provide relief for 8 million bank debtors. By February 1996, 83 percent of eligible loans had been restructured under this program. By mid-1996, the cost of the government's various efforts to prevent a banking system collapse was estimated at 91 billion new pesos. The government held control of 25 percent of bank assets, despite having privatized the banking system only four years earlier. The government's efforts to restore the financial sector's stability were rewarded by a sharp drop in interest rates in late 1995 and early 1996.

Stock Exchange

Shortly after taking office, President de la Madrid allowed the establishment of private brokerage houses with wide latitude to conduct financial transactions in domestic capital markets. That action laid the foundation for the first significant stock market in Mexican history, the Mexican Stock Exchange (Bolsa Mexicana de Valores—BMV). Following several years of dynamic growth, the BMV's leading index fell sharply as a result of the October 1987 United States stock market crash. The BMV recovered slowly in 1988, then surged ahead from 1989 through 1991. By the early 1990s, the BMV had become one of the world's fastest growing stock exchanges. During 1991 the index of traded stocks rose 128 percent in new peso terms and 118 percent in United States dollar terms. Analysts attributed the stock market's buoyancy to increased confidence in the economy and to expectations of lower interest rates and approval of NAFTA.

In 1992, 199 companies were listed as trading on the stock exchange. A total of 11 trillion new pesos were traded, and the exchange had a total capitalization of US$139 billion and a price-to-earnings ratio of more than thirteen. The total value of stocks traded increased by US$191 billion between 1987 and 1993. Treasury bills, bank acceptances, and commercial paper were the most common instruments traded. At the end of

1993, Mexican investors held about 75 percent of the equities traded. Although the value of Mexican-owned stocks rose by about US$143 billion between 1987 and 1993, only 0.2 percent of all Mexicans had brokerage accounts at the end of 1992.

The BMV's market value stood at about US$200 billion at the end of 1993. Analysts attributed the rise partly to expectations of higher profits resulting from a 1 percentage point reduction in the corporate tax rate, lower energy prices for industrial users, and euphoria over the passage of NAFTA. Despite a setback induced by the January 1994 Zapatista rebellion in the state of Chiapas, the BMV continued its strong growth in early 1994. Beginning in March, however, the market was buffeted by a series of political shocks—including two high-profile political assassinations, revelations of high-level corruption in President Salinas's entourage, and continued unrest in Chiapas—that contributed to its high volatility throughout the rest of the year.

The stock market was further buffeted by the collapse of the new peso in early 1995, causing the stock index to fall to less than 1,500 points in February of that year. The main stock index gradually recovered to just under 3,000 points by the end of 1995 and had reached 3,300 by September 1996. Mexican stocks gained 24 percent in dollar terms during the first eight months of 1996. Mexico's stock market had a US$70 billion capitalization in September 1996, according to Morgan Stanley Capital International indices.

Exchange Rate

From December 1982 until November 1991, the Mexican peso had two rates of exchange against the United States dollar—the controlled or "official rate" and the "free rate." The controlled rate applied to income from most merchandise exports, to funds used by *maquiladora* (see Glossary) assembly industries for local expenditure other than fixed assets, to nearly all import payments, and to principal and interest payments and other credit expenses. The free rate applied to most other transactions, such as tourism and profit remittances.

In November 1991, the government eliminated all exchange controls, thereby unifying the various peso exchange rates. The regime freed the peso to float within a band, the bottom of which was fixed at 3,051 pesos per dollar and the top of which was devalued by 0.2 pesos per day. Renewed pressure on the peso forced the authorities in October 1992 to raise the average daily depreciation to 0.4 pesos per dollar, increasing the peso's annual rate of devaluation to less than 5 percent. The peso continued to appreciate in real terms, however, because Mexico's inflation rate exceeded that of the United States by some 8 percentage points. The government was reluctant to devalue the peso to the full extent of the inflation differential with the United States because it feared that a large devaluation would exacerbate domestic inflation and undermine public confidence in the stability of the government's macroeconomic policy. It preferred to compensate for the less competitive position of the peso by increasing productivity within Mexico. In January 1993, the government introduced the new peso, worth 1,000 of the old and divided into 100 centavos, to simplify foreign exchange.

Intense international demand for Mexican stocks and high-yielding two-year treasury certificates, known as *cetes*, kept the new peso at a stable level of 3.1 new pesos per dollar for most of 1993. Uncertainty about NAFTA's passage drove the new peso down to 3.3 per dollar in November 1993, although it soon rallied to 3.1 per dollar as interest rates rose and NAFTA's prospects of ratification appeared to improve. By late 1993, the capital influx had overvalued the new peso against the dollar by some 30 percent, leading some investors to avoid Mexican currency for fear that the new peso's overvaluation would compel the government to impose a large devaluation that would sharply reduce the dollar return of *cetes*. Some leading private-sector figures favored devaluation, expecting it to help reduce the trade deficit, Mexico's need for foreign capital, and thus interest rates.

Political considerations deterred the government from imposing a devaluation that would lower living standards, jeopardize investor confidence, and promote capital flight in the months prior to the August 1994 presidential and congressional elections. The slowdown of capital inflows exerted steady downward pressure on the new peso throughout the year. By late 1994, the government was drawing heavily on international reserves to prop up the new peso.

The almost complete disappearance of Mexico's reserves forced the new Zedillo government to bolster the currency's value. On December 20, 1994, the government raised the ceiling on the exchange rate band from 3.4 to 4.1 new pesos per dollar. However, continued pressure on the new peso, combined with mounting investor concern about the government's intentions, forced the administration two days later to let the currency float. The new peso ended 1994 at 5.3 per dollar. It continued to weaken during early 1995, as investors doubted the government's ability to repay the US$29 billion in short-term *tesebono* debt that would fall due during that year. In 1995 the exchange rate fell to 6.5 new pesos per dollar, and in January 1996 it stood at 7.4 new pesos per dollar.

The average monthly interest rate on twenty-eight-day *cetes* rose from 14 percent in 1995 to 49 percent in 1996. When the new peso came under heavy speculative pressure in late 1995, Mexico's monetary authorities reacted by raising interest rates sharply. Mindful of the need to restore investor confidence in Mexico's early economic recovery, the authorities allowed interest rates to fall at the end of 1995.

Agriculture

Although nearly half of Mexico's total land area is officially classified as agricultural, only 12 percent of the total area is cultivated. In the early 1990s, only some 24 million hectares of a possible 32 million hectares were under cultivation.

Extensive irrigation projects carried out in the 1940s and 1950s greatly expanded Mexico's cropland, especially in the north. The government created areas of intensive irrigated agriculture by constructing storage dams across the valleys of the Río Bravo del Norte (Rio Grande) and the rivers flowing down from the Sierra Madre Occidental, by controlling the lower Río Colorado (Colorado River), and by tapping subterranean aquifers.

These water-control projects allowed Mexico to expand rapidly its total land area under cultivation. Between 1950 and 1965, the total area of irrigated land in Mexico more than doubled, from 1.5 million hectares to 3.5 million hectares. Despite a slowdown in the development of irrigated land after 1965, the total irrigated area had expanded to more than 6 million hectares by 1987. In the early 1990s, 80 percent of Mexico's cultivated land required regular irrigation. Because of the high cost of irrigation, however, the government has emphasized expanding production on existing farmland rather than expanding the area under irrigation.

Agricultural practices in Mexico range from traditional techniques, such as the slash-and-burn cultivation of indigenous plants for family subsistence, to the use of advanced technology and marketing expertise in large-scale, capital-intensive export agriculture. Government extension programs have fostered the wider use of machinery, fertilizers, and soil conservation techniques. Although corn is grown on almost half of Mexico's cropland, the country became a net importer of grain during the 1970s.

Land Tenure

During the first decade of the twentieth century, peasants began to agitate for the return of communal and private lands seized by large-scale commercial producers since the 1870s. The desire to recover lost lands motivated many peasants to join the Revolution that began in 1910. On January 6, 1915, General Venustiano Carranza began the agrarian reform process by decreeing the immediate return to their original owners of all communal lands improperly seized since 1856. Carranza, who became president in 1917, also decreed that previously landless villages receive title to lands expropriated from private hacienda owners or to excess government land. These principles were later incorporated into Article 27 of the constitution of 1917.

The constitution established three different forms of land tenure in Mexico: private, public, and social. Social property was further subdivided into communal (in southern Mexico) and *ejido* (see Glossary) lands. Private lands were worked by owners, sharecroppers, and landless peasants; social lands were worked by *colonos* (settlers) or members of *ejidos*, known as *ejidatarios*. Although the constitution limited private holdings to 100 hectares, by the early 1990s Mexico had more than 40,000 farms of 101 hectares or larger and some 500 farms larger than 50,000 hectares. The constitution prescribed national sovereignty over all land, water, and subsoil mineral resources within national boundaries. It held private ownership of land to be a privilege rather than an absolute right, and it allowed the state to expropriate lands that it judged not to serve a useful social purpose (see Rural Society, ch. 2).

Article 27 and subsequent legislation established the *ejido*, or communal landholding, as the primary form of land tenure in Mexico (see Rural Society, ch. 2). Mexico's most extensive land redistribution took place during the presidency of Lázaro Cárdenas (1934–40). Cárdenas redistributed some 18 million hectares, twice as much as all his predecessors combined. By 1940 most of the country's arable land had been redistributed to peasant farmers, and approximately one-third of all Mexicans had benefited from the agrarian reform program (see Cárdenas and the Revolution Rekindled, 1934–40, ch. 1).

Agrarian reform sharply increased the proportion of Mexico's arable land held by *minifundistas* (smallholders). The share of total crop land held by large estates fell from 70 percent in 1923 to 29 percent by 1960, while that held by small farms of fewer than five hectares rose from 7 percent in 1930 to more than 33 percent by the 1980s. Between 1924 and 1984, the government expropriated and redistributed more than 77 million hectares of large-estate land, amounting to more than one-third of the national territory.

Declining agricultural production and mounting food imports moved President Salinas finally to address the root cause of the problem, the land tenure system. In 1991 Salinas announced a constitutional reform of the *ejido* and land distribution systems intended to overcome the low productivity resulting from the fragmentation of *ejido* farming units, of which 58 percent contained five hectares or fewer. A reform of land tenure rules in February 1992 gave Mexico's 3 million *ejidatarios* formal title to their land, enabling them to lease or sell their plots if a majority of members of their *ejido* agreed. No further land would be distributed, and joint ventures with private capital were legalized and encouraged. The reforms sought to reverse the trend toward smaller and less productive farming units and stimulate rural investment by allowing *ejidatarios* to use their holdings as collateral for raising capital. Implementation was hampered, however, by delays in conducting the necessary land surveys of *ejidos* prior to transfer of title, as well as by other factors.

Government Agricultural Policy

In the years after World War II, Mexico followed a relatively moderate import-substitution policy. By striking a relative balance between industrialization and growth of agricultural output, the government was able to maintain a steady rate of agricultural output and exports and to restrict its external borrowing requirements for many years.

In an effort to resolve Mexico's long-standing conflict between promoting agricultural production for export and for domestic consumption, the government followed a dual strategy between 1940 and 1965; it promoted large-scale commercial agriculture while redistributing land to the rural poor. Government policy favored large producers because export

Ejido, *or communal farm, in Chiapas*
Courtesy Mexican National Tourist Council

agriculture provided foreign exchange needed to finance industrialization. Extensive public investment in irrigation projects primarily benefited northern areas, where large private farms were concentrated, while rain-fed subsistence farming predominated in the central, southwest, and lower Gulf of Mexico regions. Larger farms produced for the lucrative export and agro-industrial markets, while traditional farmers grew the less profitable staple crops. The government sold basic food crops through its National Company for People's Sustenance (Compañía Nacional de Susistencias Populares—Conasupo) retail outlets, maintaining low purchase prices in order to maintain domestic political stability and justify low urban wages. Until the 1970s, Mexico was largely self-sufficient in basic staple crops.

Partly in response to changing market conditions, the production of staple commodities stagnated and then declined after 1965, while production of feed crops, livestock, and export products expanded. The agriculture sector's problems resulted partly from reduced public investment, as the government shifted resources to urban areas and failed to collect sufficient tax revenue. The government responded to declining staple output in 1971 with new agrarian reform legislation intended both to encourage production and to increase rural employment. The law authorized *ejidos* to move beyond basic crop cultivation into mining, forestry, fishing, agro-industry, commerce, and tourism.

Despite such measures, agricultural output failed to grow by more than 2 percent during the 1970s even though domestic food demand steadily increased as a result of population growth, growth in personal income resulting from the oil boom, and the government's provision of consumer subsidies for basic foods in order to improve the nutrition of the poor. The government raised producer prices and began to increase public spending in support of rain-fed production by small producers. Supply failed to keep pace with demand, however, and by 1980 Mexico had become a net food importer.

In 1980 President López Portillo signaled a new emphasis on production of staple crops for domestic consumption over export-oriented agriculture by establishing the Mexican Food System (Sistema Alimentario Mexicano—SAM) (see Rural Society, ch. 2). This program sought to build a strong productive base for Mexican agriculture in order to reduce the country's dependence on food imports from the United States and restore self-sufficiency in basic staples. Its main beneficiaries included landless peasants and small farmers, mainly in rainfed areas. Additionally, the program provided subsidized "baskets" of basic foods to some 19 million undernourished Mexicans. Production priorities and goals were set for each region: wheat would be grown in the north, corn in the southeast highlands, rice in the Gulf of Mexico region, and beans throughout. Conasupo's retail outlets would distribute the food. As a result of the debt crisis, the de la Madrid administration abolished SAM in 1982.

In the late 1980s, the Mexican government began to emphasize reform and modernization of the agricultural sector (see table 8, Appendix). President Salinas moved to reduce credit costs, root out corruption and inefficiency in agricultural institutions, and raise guaranteed prices for certain products. The government's increased investment in agriculture and its 1991 reform of the land tenure system helped to attract substantial new private investment to agriculture between 1990 and 1994.

Building upon its 1991 land reform measures, the Salinas administration announced in October 1993 the details of a new agricultural income support plan, the Program of Direct Rural Support or Procampo. Starting with the 1994 growing season, Procampo replaced current price supports for basic grains with direct cash payments of 12 billion new pesos (US$3.5 billion), representing an 83 percent increase over supports paid in 1993. About 70 percent of Mexico's cultivated land was subsidized. The program was initially funded from the fiscal surplus that had accumulated since the late 1980s.

Procampo was intended to improve agricultural planning decisions and promote capitalization of the rural sector. It marked the abandonment of Mexico's traditional policy of agricultural self-sufficiency in favor of a more market-oriented system in which individual producers rather than government bureaucrats would make basic production decisions. The program also sought to offset producer subsidies in other countries, reduce domestic commodity prices to levels consistent with world market prices, encourage crop diversification and conservation, boost the competitiveness of the domestic food processing sector, and encourage the modernization of Mexico's agricultural production and marketing channels.

Initial beneficiaries of Procampo included 3.3 million growers of corn, beans, sorghum, wheat, rice, soybeans, and cotton, which together accounted for 70 percent of Mexico's arable land. Barley and safflower producers were added to the program in autumn 1994. The new subsidies were based on the size and productivity of land holdings and were paid to both commercial and subsistence growers. The government claimed that the new program would cover some 2.5 million farmers who had not benefited from the previous price support system. The 800,000 farmers who did benefit from that system received both the price subsidies and the new Procampo subsidy for an eighteen-month transitional period.

In addition to price supports, growers of program crops received in the spring and summer of 1994 a general support payment of 330 new pesos per hectare, which rose to 350 new pesos per hectare in the fall and winter of 1994. Starting in April 1995, the Procampo support payments were gradually reduced in order to bring food prices into line with market conditions. Meanwhile, direct payments under the program increased, although at a slower rate than the decline in price supports. Total support to agricultural producers fluctuated between a minimum level ensuring adequate income for subsistence farmers and a maximum level that would guarantee profitability for commercial producers.

Funding for Procampo was expected to remain steady for ten years, until 2003, and then decline over an additional five years until the program's termination in 2008. Procampo's fifteen-year duration was intended to give farmers adequate time to adopt new technologies, develop producer associations with other farmers or private agribusiness firms, and rationalize land use. To encourage alternative crop production, Procampo would continue to provide area support payments to growers who decided to change from program crops to alternative crops or livestock, forestry, ecological, and aquaculture activities throughout the fifteen-year phase-out period.

Procampo's reform of agricultural prices was expected to encourage a shift away from production of corn and dry beans and toward wheat, soybeans, and other products such as fruits and vegetables. Its impact was likely to be greatest in northwestern and northeastern Mexico and the Bajío region of west-central Mexico, where in the late 1980s and early 1990s many growers had switched from production of rice, cotton, sorghum, oilseeds, and wheat to the more profitable corn and dry beans. The direct payments were also expected to slow rural migration to cities and provide needed capital to impoverished subsistence farmers. Some government critics alleged that Pro-

Harvesting citrus by hand
Courtesy Inter-American Development Bank

Packing strawberries for shipment
Courtesy Inter-American Development Bank

campo was intended to generate rural support for the ruling PRI.

During 1995 the government introduced a new agricultural support program, the Alliance for the Countryside (Alianza para el Campo), as an adjunct to its APRE program with labor and business. The alliance program presaged the devolution of responsibility for agricultural support to state governments, and it reinforced Procampo by expanding from ten to fifteen years the period during which direct cash subsidies would be paid to producers of various basic food crops. The new program also sought to improve credit flows to farmers from Banrural and other state agencies.

Grain Production

Corn is the staple food of most Mexicans and is grown on about one-third of the country's cultivated land. Central Mexico is the main area of corn cultivation. The size of the corn harvest varies significantly with weather conditions. In the 1992–93 growing season, about 8 million hectares were planted in corn, and 16.5 million tons were harvested, a slight increase over the previous year's output of 16.3 million tons. In 1994 the corn harvest amounted to 19.2 million tons.

Until the late 1980s, Mexico enjoyed corn self-sufficiency during years when the harvest was good. In 1990, however, demand exceeded supply by some 3.3 million tons and was met by imports. Thereafter, Mexico's import needs steadily fell to 1.9 million tons, at a cost of US$178 million in 1991 and 1.1 million tons in 1992. In 1993 Mexico imported just 400,000 tons of corn, almost all from the United States.

Wheat became more widely cultivated than it had been before, as bread replaced corn tortillas among Mexican consumers. There is little correlation between poor harvests of wheat and corn because each has different climatic requirements. The total area sown in wheat declined from 1.1 million hectares in 1986 to 714,000 hectares in 1993. Mexico's wheat output averaged slightly more than 4 million tons annually during the 1980s, fluctuating from 3.2 million tons in 1981, to 3.7 million tons in 1988, and to 4.4 million in 1989. Wheat production fell slightly from 3.7 million tons in 1992 to 3.6 million tons in 1994. For most of the 1980s, domestic wheat output was barely sufficient to satisfy internal demand. Mexico's wheat import requirement steadily grew from 260,000 tons (at a cost of US$46 million) in 1990 to 1.4 million tons in 1993.

Because the climatic requirements of sorghum are similar to those of corn, its output has undergone similar weather-based fluctuations. Mexico's sorghum production declined from 5.4 million tons in 1992 to 3.9 million tons in 1994. The land area sown in sorghum declined by more than half between 1989 and 1993, from 1.3 million hectares to 600,000 hectares. Mexico's import requirements for sorghum (almost all from the United States) consequently rose between the mid-1980s and early 1990s. Mexico imported 3.0 million tons of sorghum (at a cost of US$362 million) in both 1990 and 1991. Its import needs rose further to 5.0 million tons in 1992, then declined to 2.8 million tons in 1993.

The total land area sown in rice decreased from 192,000 hectares in 1986 to 50,000 hectares in 1993. Mexico's domestic output of milled rice fell steadily from 615,000 tons in 1986 to 312,000 tons in 1989. After rising slightly to 431,000 tons in 1990, rice output fell again to 246,000 tons in 1992, then recovered to 371,000 tons in 1993. Mexico imported substantial quantities of rice from the late 1980s through the early 1990s. In 1993 the country imported 350,000 tons of rice.

Beans are a basic staple food for most poor Mexicans. Mexico's domestic production of dry beans fell from 1.4 million tons in 1991 to 719,000 tons in 1992, then recovered to 1.5 million tons in 1994. In 1991 Mexico imported 125,000 tons of beans. The 1991 bean harvest covered 1.9 million hectares, the largest area sown in beans since the early 1980s.

Mexico's barley output fell steadily from 581,000 tons in 1991 to 325,000 tons in 1994. About 450,000 hectares were sown in barley in 1993. Annual production of oats remained steady throughout the early 1990s at 100,000 tons, and some 100,000 hectares were sown in oats each year.

Fresh Fruits and Vegetables

Fruit and vegetable production is concentrated in Mexico's irrigated northeast region and directed mainly to the United States winter market. In 1991 fruit and vegetable exports earned some US$935 million, 40 percent of Mexico's total export revenue. Fresh fruit and vegetables accounted for more of Mexico's agricultural export revenue than did coffee by the early 1990s. Processed food exports grew at an average annual rate of nearly 13 percent in the early 1990s.

Mexico produced 2.7 million tons of oranges in 1993, followed by apples (580,000 tons), table grapes (270,000 tons), tangerines (185,000 tons), grapefruit (118,000 tons), pears (32,000 tons), and raisins (13,000 tons). It also produced considerable quantities of bananas, mangoes, lemons, limes, watermelons, peaches, nectarines, plums, avocados, pineapples, and strawberries.

Mexico's output of fresh tomatoes declined from 1.7 million tons in 1990 to 1.4 million tons in 1993. During the same period,the total area harvested in tomatoes fell from 74,200 hectares to 58,500 hectares.

Other Crops

Between 1990 and 1993, Mexico's soybean output fluctuated with the amount of land sown. For the 1992–93 growing season, 313,000 hectares were sown in soybeans, producing 578,000 tons. Mexico's soybean imports generally exceeded domestic production in the late 1980s and early 1990s, in some years by a wide margin. The country imported 2.1 million tons of soybeans in 1992 and 1993, mainly from the United States. In 1991 Mexico imported US$348 million worth of soybeans.

Between 1989 and 1993, Mexico's cottonseed output fell from 617,000 tons to 75,000 tons, and its total area harvested fell from 255,000 hectares to 42,000 hectares. In 1993 Mexico imported 180,000 tons of cottonseed. Peanut output averaged 104,000 tons between 1988 and 1992; the 1993 harvest of 80,000 hectares produced 108,000 tons of peanuts. Mexico produced 195,000 tons of copra and 10,000 tons of sunflower seed in 1993. Mexico also produced green chilies, green beans, and green peas.

Mexico's raw sugar industry was reorganized and modernized during the early 1980s. As a result, raw sugar production reached 40 million tons in the 1985–86 growing season, exceeding the 1982–83 harvest by 50 percent. Sugar output declined thereafter because of trade liberalization, price controls, and high credit costs. Bad weather in late 1989 and uncertainties resulting from privatization of state sugar mills also depressed production. Sugar output fell from 42 million tons in 1988 to 35 million tons in 1990, then recovered slightly to 40 million tons (from 530,000 hectares of sugarcane) in 1993. Declining domestic production forced Mexico to import large amounts of sugar to satisfy domestic demand. In 1991 it imported 1.3 million tons of sugar. Mexico's sugar harvest in 1994–95 was 4.3 million tons, and the following year's harvest was expected to rise to 4.4 million tons.

Coffee was introduced into Mexico during the nineteenth century. Mexican coffee is mainly the arabica type, which grows particularly well in the Pacific coastal region of Soconusco, near the Guatemalan border. In the early 1990s, the southern state of Chiapas was Mexico's most important coffee-growing area, producing some 45 percent of the annual crop of 275,000 tons. More than 2 million Mexicans grew coffee, most barely subsisting. Seventy-five percent of Mexico's coffee growers worked plots of fewer than two hectares. These small cultivators produced about 30 percent of the country's annual harvest; larger and more efficient farms produced the rest.

During the 1980s, coffee became Mexico's most valuable export crop. In 1985 coffee growers produced 4.9 million sixty-kilogram bags, and coffee exports earned US$882 million at the unusually high world price of US$0.90 per kilogram. Thereafter output fluctuated between 5.6 million bags and 4.4 million bags. As international coffee prices rose further, the government in 1988 encouraged coffee growers, especially in Chiapas, to increase output and expand the area under cultivation. It tried to increase production by offering easy credit to coffee growers and by converting forested land into *ejidos* for cultivation by poor coffee growers.

International coffee prices fell 50 percent between 1989 and 1993. Lower prices combined with the elimination of coffee subsidies to reduce the income of coffee growers by an estimated 65 percent. Lower prices reduced Mexico's export income from coffee to about US$370 million by 1991. They also depressed coffee production, which fell from 5.2 million bags in 1992 to 4.1 million bags in 1993.

Although cotton had lost its traditional overwhelming dominance of the export market by the 1990s, it remained—along with fresh fruits and vegetables—a major cash crop of Mexico's irrigated lands. Cotton output fell from some 1.8 million bales in 1973 to 1.4 million bales in 1989, and to 800,000 bales in 1990. The cotton industry's poor performance in the late 1980s and early 1990s resulted mainly from bad weather, low world prices, and depressed domestic demand resulting from slow growth in Mexico's textile industry. In 1992 the total area sown in cotton was 42,000 hectares, down sharply from 250,000 hectares in 1991. Mexico's cotton output in 1993 was just over 30,000 tons, down from nearly 181,000 tons in 1992. Export revenue from cotton fell from US$113 million in 1988 to US$77 million in 1991. By 1995–96, Mexico's cotton crop had recovered to 193 million tons, and the 1996–97 harvest was forecast at 266 million tons.

Mexico's cocoa production declined from 57,000 tons in 1988 to 43,500 tons in 1993. The total area harvested in tobacco rose from 18,700 hectares in 1992 to 34,000 hectares in 1993, while the total farm sales weight of tobacco fell from 38,250 tons in 1992 to 29,800 tons in 1993. Tobacco exports earned some US$44 million in 1991.

Livestock

In the early 1990s, one-third of Mexican territory was officially designated as grazing land. These lands were located mainly in the north, where Herefords and other breeds were raised on huge cattle ranches for export to the United States, and in the southern, central, and southeastern states, where native beef cattle were raised. During the 1980s, higher domestic food demand encouraged more intensive raising of improved cattle breeds near urban areas for both dairy products and beef. In 1992 the Mexican government announced new measures to assist the meat industry, including deregulation of cattle growers and tighter controls on imported meat. The needs of the livestock industry also have encouraged more extensive cultivation of fodder crops on irrigated lands.

Mexico's livestock industry accounted for some 30 percent of the agriculture sector's annual growth, although animal husbandry contributed less than 1 percent to total GDP. The industry's weak performance in the late 1980s and early 1990s resulted from inadequate investment (which obstructed the adoption of intensive production techniques), high feed costs, low prices fixed by the government, poor weather conditions, epidemics of hoof-and-mouth disease, and fears of expropriation. Weak productivity has forced Mexico to become a net importer of beef.

Mexico's total cattle stock rose slightly from 30 million head in 1992 to 31 million head in 1993, and the total swine stock rose from 10 million head to 11 million head. The number of sheep held steady at 13 million head. Production of beef and veal was 1.7 million tons in 1993. Although lower domestic demand for red meat caused a 0.5 percent decline in total livestock output in 1991, beef exports held steady and earned US$358 million in 1991, compared with US$349 million in 1990. Output of lamb, mutton, and goat meat was 138,000 tons in 1993, and swine meat production was 870,000 tons.

16 of September Market, Mexico City
Courtesy Inter-American Development Bank

Mexico's total flock of chickens rose from 282 million in 1992 to 285 million in 1993, while poultry meat output fell from 936,000 tons in 1992 to 923,000 tons in 1993. Mexico's chicken flock produced 20 billion eggs in 1993.

Forestry

Some 9 percent of Mexico's territory consists of forest or woodland, 59 percent of which is in the tropics, 15 percent in the subtropical zone, and 26 percent in the temperate and cool zones. Forests cover some 49 million hectares, almost one-third of which are open to logging, mainly in the states of Chihuahua, Durango, and Michoacán. About 9 percent of forests are on state or federal lands, 19 percent on *ejido* lands, and 72 percent on municipal or private lands. Although the tropical trees of the southwest rain forests are the most numerous, the coniferous pine forests of the temperate and cool regions are commercially more important, providing pulpwood for processing in Mexico's paper mills. More than 65 percent of Mexico's forests consist of hardwoods, and the rest are softwoods. The major timber stands are mahogany, cedar, primavera (white mahogany), sapote, oak, copa (yaya), and pine.

In 1992 forestry provided 6 percent of total agricultural output but a negligible 1 percent of overall GDP. Lumber production declined by 5 percent in 1990 and by 3 percent in 1991. Lumber companies attributed lower output to more intense foreign competition as a result of trade liberalization. Exports of wood products were valued at US$14 million in 1988.

In the late 1980s, the forestry sector suffered from overexploitation, insufficient investment and planning, and the disappearance of certain species, as well as from forest fires and insect damage (see Environmental Conditions, ch. 2). Deforestation resulted in the loss of some 370,000 hectares annually as land was cleared for cultivation and livestock grazing.

Fishing

Mexico has some 11,500 kilometers of Pacific, Gulf of Mexico, and Caribbean coastline, and its inland waters cover more than 2.9 million hectares. The country's coastal fishing grounds offer a rich variety of fish and other seafood. The Pacific coast has thirty-one ports and produces nearly three-quarters of Mexico's total catch; the states of Sonora and Sinaloa alone account for 40 percent of the total catch. Mexico's Pacific fishing grounds produce mainly lobster, shrimp, croaker, albacore, skipjack, and anchovies, while its Gulf of Mexico and Caribbean waters produce shrimp, jewfish, croaker, snapper, mackerel, snook, and mullet. The Gulf of Mexico is an especially important source of shrimp. Certain species—such as shrimp, lobster, abalone, clam, croaker, grouper, and sea turtle—are reserved for the country's more than 284 fishing cooperatives, which together have more than 39,000 members. The state-owned Mexican Fisheries (Pesqueros Mexicanos) markets about 15 percent of the total catch. In 1989 the fishing subsector employed 288,000 people. The total fishing fleet grew from 48,000 boats in 1984 to 74,000 boats in 1989.

Until about 1970, the relative distance of urban markets from the coasts depressed commercial production of seafood. During the 1970s and 1980s, the government fostered the construction of new plants for freezing and processing fish. The national catch more than doubled after cooperatives were organized. The government's US$5 billion expansion program helped the fishing industry to increase output by more than 30 percent between 1985 and 1990. Despite these efforts, however, Mexico's catch accounted for less than 10 percent of the total catch taken from waters off Mexico's coasts by United States, Canadian, and Japanese boats.

In the late 1980s, Mexico's fishing output averaged a disappointing 1.4 million tons per year, equivalent to just 0.3 percent of GDP. Production increased from 1.1 million tons in 1983 to 1.6 million tons in 1990. Output fell slightly in 1991 as the United States and Europe embargoed Mexican tuna because of concerns about inadequate protection of dolphins. The Salinas administration's National Fishing Plan for 1990–94 promised higher public investment in the fishing industry, despite the government's stated intention to sell Mexican Fisheries to private owners.

In 1992 Mexico produced 251,500 tons of California pilchard (sardine), down from more than 600,000 tons in 1991. The yellowfin tuna catch rose from 116,400 tons in 1991 to 122,200 tons in 1992. Mexico produced 3,400 tons of Californian anchoveta in 1992, down from 12,100 tons in 1991. Output of marine shrimp and prawns declined from 70,600 tons in 1991 to 66,200 tons in 1992. Mexico exported two-thirds of its catch, especially frozen shrimp, prawns, and other shellfish from the Gulf of California and Bahía de Campeche, mainly to the United States. Export earnings amounted to US$389 million in 1989. In 1992 Mexico produced 77,000 tons of cichlids and 88,100 tons of other freshwater fish.

Industry

Manufacturing

In the early 1950s, the manufacturing sector eclipsed agriculture as the largest contributor to Mexico's overall GDP. Largely because of extensive import substitution, manufacturing output expanded rapidly from the 1950s through the 1970s to satisfy rising domestic demand. The value added by manufacturing rose from 20 percent of GDP in 1960 to 24 percent in 1970, and again to 25 percent by 1980. Manufacturing output grew at an annual average of 9 percent during the 1960s, and by a slightly lower annual rate of 7 percent in the 1970s.

This forty-year trend of manufacturing growth abruptly stopped and then reversed itself during the early 1980s. Sharp reductions in both exports and internal demand caused manufacturing output to fall by 10 percent between 1981 and 1983. After recovering briefly in 1985, manufacturing output fell again by 6 percent the following year. Production of consumer durables suffered especially, with the domestic electrical goods and consumer electronics goods sectors losing between 20 percent and 25 percent of their markets during the mid-1980s. Government industrial policies began to favor manufactured goods destined for the export market, in particular machinery and electrical equipment, automobiles and auto parts, basic chemicals, and food products (especially canned vegetables and fruit).

In the late 1980s, the manufacturing sector began to recover. In 1988 manufacturing output grew by a modest 4 percent. After expanding a robust 7 percent in 1989, manufacturing output steadily slowed; it grew by only 2 percent in 1992, as a result of weak export growth and falling domestic demand. After contracting by 2 percent in 1993, manufacturing output expanded by 4 percent in 1994. The most dynamic manufacturing subsectors in 1994 were metal products, machinery, and equipment (9 percent growth), followed by basic metals industries (9 percent growth). In 1994 the manufacturing sector accounted for 20 percent of the country's total GDP and employed about 20 percent of all Mexican workers.

Mexico's export base for manufactured goods is narrow, with three subsectors (vehicles, chemicals, and machinery and equipment) accounting for more than two-thirds of non-*maquiladora* foreign earnings. The value of Mexico's imports of manufactured goods rose sharply following trade liberalization, from US$11 billion in 1987 to US$48 billion in 1992 (US$62 billion including *maquiladora* imports). Increased foreign competition has seriously threatened many Mexican manufacturing enterprises, almost all of which are small and medium-sized companies employing fewer than 250 workers. In 1991 Mexico had 137,200 manufacturing enterprises, some 90 percent of which employed no more than twenty workers.

The principal industrial centers of Mexico include the Mexico City metropolitan area (which includes the Federal District), Monterrey, and Guadalajara. In the early 1990s, the capital area alone accounted for about half of the country's manufacturing activity, nearly half of all manufacturing employment, and almost one-third of all manufacturing enterprises. About one-third of formal-sector workers in the capital area were engaged in manufacturing. Manufacturers have been drawn to greater Mexico City because of its large and highly skilled work force, large consumer market, low distribution costs and proximity to government decision makers and the nation's communications system. In the early 1990s, the chemical, textile, and food processing industries accounted for half of all manufacturing activity in the Federal District, and metal fabrication accounted for another one-quarter. Heavy industry (including paper mills, electrical machinery plants, and basic chemical and cement enterprises) tended to locate in the suburbs of Mexico City, where planning and environmental restrictions were less rigorous.

By the late 1980s, more than two-thirds of all foreign investment in Mexico was concentrated in *maquiladora* zones near the United States border. In 1965 the government began to encourage the establishment of *maquiladora* plants in border areas to take advantage of a United States customs regulation that limited the duty on imported goods assembled abroad from United States components to the value added in the manufacturing process. The *maquiladora* zones offered foreign investors both proximity to the United States market and low labor costs. Most *maquiladora* plants were established in or near the twelve main cities along Mexico's northern border. Some of these enterprises had counterpart plants just across the United States border, while others drew components from the United States interior or from other countries for assembly in Mexico and then reexport.

The *maquiladora* sector grew nearly 30 percent annually between 1988 and 1993. By the latter year, more than 2,000 *maquiladora* businesses were in operation, employing 505,000 workers. These plants generated US$4.8 billion in value added during 1992. Their main activities included the assembly of automobiles, electrical goods, electronics, furniture, chemicals, and textiles. To increase their purchase of domestic materials, the Mexican government decided in December 1989 to exempt local sales to *maquiladoras* from the value-added tax and to let these enterprises sell up to half of their output on the domestic market. Nevertheless, almost all in-bond products have been exported to the United States.

In 1994 food processing, beverages, and tobacco products constituted the leading manufacturing sector in terms of value, accounting for about 26 percent of total manufacturing output and employing 17 percent of manufacturing workers. Food, beverage, and tobacco output expanded by an annual average of 3 percent between 1990 and 1994, largely as a result of export growth. In 1994 it expanded by less than 1 percent. In the early 1980s, well over 50 percent of Mexico's productive units were involved in food processing, and Mexico's beer industry was the world's eighth largest.

Metal products, machinery, and transportation equipment accounted for 24 percent of manufacturing GNP in 1994. The automobile subsector was among the most dynamic manufacturing sectors in the early 1990s and led among manufacturing exporters. Mexico's automobile manufacturers were led by Volkswagen, General Motors (GM), Ford, Nissan, and Chrysler. Ford expanded production by 33 percent during 1991, Chrysler by 17 percent, and GM by 10 percent. Volkswagen controlled 25 to 30 percent of the domestic automobile market, and Nissan another 15 to 20 percent. Mexican automobile exports earned US$6.1 billion in 1992, not counting *maquiladora* production, which earned an additional US$1.3 billion. Export revenue from passenger vehicle sales rose by 21 percent in 1993 and by 22 percent in 1994, while domestic sales fell by some 14 percent in 1993 and rose by less than 1 percent in 1994.

In 1983 the government encouraged the automobile industry to shift from import substitution to export production. It lowered national content requirements for exporters and required assemblers to balance imports of auto parts with an equivalent value of automobile exports. In 1990 the government eliminated restrictions on the number of production lines that automobile producers could maintain and allowed producers to import finished automobiles (although they were required to earn US$2.50 in automobile exports for every US$1 spent on imports).

In the early 1980s, automobile exports increased as domestic demand fell. Export growth leveled off in the early 1990s as the domestic market recovered. Growth of total vehicle output slowed from 21 percent in 1991 to 9 percent in 1992. In 1994 vehicle production totaled more than 1 million units, of which 850,000 were cars. Production fell by 16 percent between January and November 1995. During those months, exports rose by 37 percent to 700,000 units, while domestic sales fell by 70 percent, to 140,000 units.

Textiles, clothing, and footwear together accounted for 9 percent of manufacturing output in 1994 and employed about 7 percent of all manufacturing workers. Textile and clothing production stagnated throughout the 1980s because of low domestic demand, high labor costs, antiquated and inefficient technology, more competitive export markets (especially in

Mercedes truck assembly plant, Mexico City
Courtesy Dennis Hanratty

Asia), and heavy import competition resulting from trade liberalization. In the early 1990s, the textile industry operated at just 60 percent of capacity. Import competition caused footwear and leather output to decline 4 percent annually between 1982 and 1989. In 1990 domestic footwear enterprises produced almost 200,000 pairs of shoes per week. In 1992 footwear and leather goods accounted for 4 percent of manufacturing GDP.

Non-*maquiladora* export earnings for textile, clothing, and footwear sales rose from US$499 million in 1990 to US$890 million in 1992. Imports also rose sharply to almost US$2 billion in 1992. The sector showed signs of strong recovery in late 1993, following its forced modernization.

The chemicals sector (including oil products, rubber, and plastics) accounted for 18 percent of manufacturing GDP in 1994. Its output increased by 5 percent during 1994. In 1990 this sector employed 130,000 workers. Although the chemical industry was the most important foreign-exchange earner in the manufacturing sector, its output fell far short of domestic demand. Exports of non-*maquiladora* chemicals and petrochemicals earned US$2.5 billion in 1992, but the country imported US$5.8 billion worth of chemicals and petrochemicals. The imbalance resulted partly from domestic price controls, inadequate patent protection, and high research and development costs. Chemicals and petrochemicals accounted for 72 percent of total non-*maquiladora* export revenues in 1992. The chemical industry slumped in early 1993, as sales fell by 10 percent, operating profits by 61 percent, and net profits by 59 percent.

Petrochemicals accounted for less than 2 percent of overall GDP in 1992. The state oil monopoly, Mexican Petroleum (Petróleos Mexicanos—Pemex), dominated the country's more than 200 petrochemical companies, which together operated more than 700 plants. The petrochemical subsector enjoyed robust annual growth of 7 percent between 1982 and 1988, but output slowed thereafter. Pemex produced 18.5 million tons of petrochemicals in 1993, down from 19 million tons in 1992. In 1992 the Salinas government reduced the number of basic petrochemicals reserved for Pemex to just eight and lifted restrictions on foreign investment in "secondary" petrochemicals to improve the oil company's cost-effectiveness, raise the industry's productivity, and attract new private investment.

Although Mexico's pharmaceutical industry consisted of some 450 companies, the largest ten enterprises accounted for 30 percent of all sales in 1993. In the early 1990s, some fifty-six firms controlled three-quarters of pharmaceutical production. Nonmetallic minerals (excluding oil) accounted for 7 percent of manufacturing gross national product (GNP—see Glossary) in 1994. The subsector concentrated on production of cement, glass, pottery, china, and earthenware. Total cement output in 1993 was 27 million tons. Cement exports fell from 4.5 million tons in 1988 to 1.4 million tons in 1992 because of higher domestic demand and United States antidumping sanctions. A new cement plant came into operation in Coahuila in early 1993, and the expansion of two other plants in Hidalgo was completed.

Mexico's largest cement producer is the privately owned Mexican Cement (Cementos Mexicanos—Cemex). By 1994 Cemex had become the world's fourth largest cement company, with annual earnings of US$3 billion. In an effort to establish itself as a major multinational corporation, Cemex expanded its operations during the early 1990s into the United States and twenty-five countries in Europe, Asia, and Latin America.

The basic metals subsector (dominated by iron and steel) accounted for 6 percent of manufacturing GNP in 1994. Mexico's iron and steel industry is one of the oldest in Latin America, comprising ten large steel producers and many smaller firms. The industry is centered in Monterrey, where the country's first steel mills opened in 1903. Steel plants in Monterrey (privatized in 1986) and nearby Monclova accounted for about half of Mexico's total steel output in the early 1990s. Most of the rest came from the government's Lázaro Cárdenas-Las Truchas Steel Plant (Sicartsa) and Altos Hornos de México (Ahmsa) steel mills, which were sold to private investors in 1991.

Export revenue from steel and steel products fell from US$1.03 billion in 1991 to US$868 million in 1992. Spurred by rising demand from the automobile industry, crude steel output rose 6 percent to 9 million tons in 1993. During the first half of 1993, output rose 10 percent over the same period in 1992, to 4 million tons. Production of semifinished steel rose 86 percent, reaching 573,000 tons, and rolled steel production expanded 5 percent to more than 2.6 million tons. Pipe production fell 13 percent to 174,400 tons. In 1993 Mexico was Latin America's second largest steel producer after Brazil, accounting for some 20 percent of Latin America's total steel production of 43 million tons.

Paper, printing, and publishing contributed about 5 percent of manufacturing output in 1994. Mexico produced almost 3 million tons of paper and 772,000 tons of cellulose in 1990. The country had some 760 publishing enterprises in 1990, 48 percent of which published books, 44 percent periodicals, and 8 percent both. These companies produced a total of 142 million books and 693 million periodicals. Trade liberalization hurt the domestic publishing industry in 1992, as imports rose to US$1.6 billion from US$1.3 billion in 1991. Exports of Mexican publications declined in value from US$232 million in 1991 to US$217 million in 1992.

Finally, wood products contributed 3 percent of manufacturing GDP in 1994. Although output of wood products fell in the late 1980s because of high investment costs and other adverse conditions in the primary forestry industry, it began to recover in 1993. Output of wood products increased by 2 percent during 1994.

Construction

The construction sector accounted for slightly more than 5 percent of GDP in 1994. In 1991 Mexico had about 18,000 registered construction companies that employed almost 1 million workers. In that year, heavy construction accounted for 44 percent of all construction, residential building 35 percent, and industrial construction 14 percent. Government efforts to promote private-sector investment in physical infrastructure projects (especially road building and new rental housing) helped to increase construction growth. Construction growth slowed from 7 percent in 1990 to 2 percent in 1991. It accelerated to 8 percent in 1992, but slowed again to 3 percent in 1993, partially as a result of continuing high interest rates, which discouraged private investment. In 1993 transport projects accounted for 29 percent of the value of production in the formal construction sector, the installation of water supplies accounted for 11 percent, and electricity and communications projects accounted for 9 percent.

Energy and Mining

Petroleum

Although explorers drilled Mexico's first petroleum well in 1869, oil was not discovered until after the turn of the twentieth century. Commercial production of crude oil began in 1901. By 1910 prospectors had begun to define the Panuco-Ebano and Faja de Oro fields located near the central Gulf of Mexico coast town of Tuxpán, and systematic explorations by foreign companies came to supersede the uncoordinated efforts of speculative prospectors. Mexico began to export oil in 1911.

Article 27 of the constitution of 1917 gives the Mexican government a permanent and inalienable right to all subsoil resources. The government's efforts to assert this right produced a lengthy dispute with foreign oil companies that was not resolved until the companies were nationalized in the late 1930s. The 1923 Bucarelli Agreements committed the United States and Mexico to regard titles held by foreign oil companies as concessions by the Mexican government rather than as outright ownership claims. In 1925 President Plutarco Elías Calles decreed that foreign oil companies must register their titles in Mexico and limited their concessions to a period of fifty years.

Despite disruption caused by the Revolution, Mexico's oil production peaked in 1921 at 193 million barrels (some 25 percent of world production), largely as a result of increased international demand generated by World War I. During much of the 1920s, Mexico was second only to the United States in petroleum output and led the world in oil exports. By the early 1930s, however, output had fallen to just 20 percent of its 1921 level as a consequence of worldwide economic depression, the lack of new oil discoveries, increased taxation, political instability, and Venezuela's emergence as a more attractive source of petroleum. Production began to recover with the 1932 discovery of the Poza Rica field near Veracruz, which became Mexico's main source of petroleum until the late 1950s.

In 1938 President Lázaro Cárdenas nationalized the petroleum industry, giving the Mexican government a monopoly in the exploration, production, refining, and distribution of oil and natural gas, and in the manufacture and sale of basic petrochemicals. Although Cárdenas offered compensation, United States oil companies pressured the United States government to embargo all imports from Mexico in order to discourage similar nationalizations in other countries. The boycott was in effect briefly, but the United States government soon pressured the oil companies to come to terms with Mexico as a result of President Franklin D. Roosevelt's Good Neighbor Policy and United States security needs arising from World War II. In 1943 Mexico and the oil companies reached a final settlement under which the companies received US$24 million (a fraction of the book value of the expropriated facilities) as compensation. Nevertheless, the oil nationalization deprived Mexico of foreign capital and expertise for some twenty years.

Mexico's oil output expanded at an average annual rate of 6 percent between 1938 and 1971. Production increased from 44 million barrels in 1938 to 78 million barrels in 1951. Domestic demand progressively exceeded output, and in 1957 Mexico became a net importer of petroleum products. Production rose to 177 million barrels by 1971 with the exploitation of new oil fields in the isthmus of Tehuantepec and natural gas reserves near the northeastern border city of Reynosa, but the gap between domestic demand and production continued to widen.

Extensive oil discoveries in the 1970s increased Mexico's domestic output and export revenues. In 1972 explorers discovered deep oil wells in the states of Chiapas and Campeche that showed huge reservoirs of petroleum extending for 200 kilometers northeast below the Bahía de Campeche, and possibly in the opposite direction toward Guatemala. Almost every drilling operation conducted after 1972 struck oil. In 1973 oil production surpassed the peak of 190 million barrels achieved in the early 1920s. In 1974 Pemex announced additional petroleum discoveries in Veracruz, Baja California Norte, Chiapas, and Tabasco.

By 1975 Mexico's oil output once again exceeded internal demand, providing a margin for export. President López Portillo announced in 1976 that Mexico's proven hydrocarbon reserves had risen to 11 billion barrels. They rose further to 72.5 billion barrels by 1983. López Portillo decided to increase domestic production and use the value of Mexico's petroleum reserves as collateral for massive international loans, most of which went to Pemex. Between 1977 and 1980, the oil company received US$12.6 billion in international credit, representing 37 percent of Mexico's total foreign debt. It used the money to construct and operate offshore drilling platforms, build onshore processing facilities, enlarge its refineries, engage in further exploration, prove fresh reserves, and purchase capital goods and technical expertise from abroad. These investments helped to increase petroleum output from 400 million barrels in 1977 to 1.1 billion barrels by 1982. Between 1983 and 1991, Mexico's petroleum exports by volume remained roughly constant at 1.4 million barrels per day (bpd), while total production increased from 2.7 million bpd to 3.1 million bpd.

The oil sector's share of total export revenue fell sharply from 61 percent in 1985 to 38 percent in 1990 because of higher domestic demand and lower total output. The volume of exports fell from 1.4 million bpd in 1987 to 1.3 million bpd in 1990. Oil prices rose briefly to more than US$35 per barrel in 1990 as a result of loss of supplies from Iraq and Kuwait, and Mexico's oil export revenues rose significantly to US$10 billion before falling back some 15 percent in 1991. The volume of oil exports rose slightly to 1.4 million bpd in 1991, then held steady along with production in 1992, as the oil price fell to below US$15 per barrel.

By early 1993, both crude oil production and exports had begun to decline. The drop in exports resulted from both increased domestic demand and lower total production. For all of 1993, Mexico's oil exports averaged 1.3 million bpd, 2 percent less than in 1992. Exports fell even more sharply in terms of value—to US$7 billion—because world oil prices fell steadily during much of 1992 and 1993. In 1994 Mexico's revenue from oil exports was more than US$7 billion.

In 1995 the oil sector generated slightly more than 10 percent of Mexico's export income (down from almost 80 percent in 1982). The United States bought 54 percent of Mexico's crude oil exports in 1991, Western Europe bought 25 percent, and Japan bought 11 percent. In mid-1993, heavy Maya crude accounted for 67 percent of total oil exports, the lighter Isthmus crude accounted for 20 percent, and the high-quality Olmeca type accounted for 13 percent.

In 1995 Mexico was the world's sixth-largest producer of crude oil. In the Western Hemisphere, only the United States produced more oil than Mexico. Directly behind Mexico was Venezuela, which in 1992 produced an amount equal to 89 percent of Mexico's crude oil output. The oil sector's share of overall GDP rose slightly from 5 percent in 1985 to more than 6 percent by 1992. In 1993 petroleum provided nearly 30 percent of central government revenues. Oil output rose steadily from 2.5 million bpd in 1989 to 2.7 million bpd in 1991, partly in response to the Persian Gulf crisis. Production held steady in 1992, then began to decline in early 1993. Mexico consumed 61 million tons of oil equivalent in 1992. Its total petroleum consumption amounted to 1.8 million bpd in 1992.

For the first ten months of 1995, total mineral production (including oil) contracted by a modest 1 percent. For all of 1995, oil production fell to an average of 2.6 million bpd from 2.7 million bpd in 1994. However, oil output in the first quarter of 1996 increased by 6 percent over the first quarter of 1995 to an average of 2.8 million bpd.

In 1993 Pemex operated seven oil refineries with a total capacity of more than 1.5 million bpd, the eleventh largest in the world. Mexico's average annual oil refining capacity grew steadily from 63 million tons in 1983 to 84 million tons in 1990. The country's largest oil refineries in terms of refining capacity were those at Salina Cruz (330,000 bpd) and at Tula (320,000 bpd) in the state of Hidalgo. Other refineries were located at Cadereyta (235,0900 bpd refining capacity), Salamanca (235,000 bpd), Minatitlán (200,000 bpd), Ciudad Madero (195,000 bpd), and Reynosa (9,000 bpd).

By the early 1990s, some 40 percent of Mexico's crude petroleum output was refined domestically. The government invested heavily to increase the capacity of existing refineries and construct new ones in order to retain within Mexico the maximum possible amount of value added in processing crude petroleum. In the early 1990s, financial difficulties prevented Pemex from expanding refinery capacity along with demand, forcing Mexico to consume more of its oil output internally and also to import oil. Petroleum imports rose from 2 billion liters in 1991 to almost 5 billion liters in 1992. Fuel oil imports rose from less than 3 million tons in 1991 to almost 4 million tons in 1992.

During the 1980s, Pemex constructed national pipeline distribution systems for crude and refined petroleum products and for natural gas. In 1989 an oil pipeline across the Tehuantepec isthmus opened to carry 550,000 bpd of Maya crude petroleum to Salina Cruz on the Pacific for export to the Far East. Two enormous petrochemical complexes were being built at Pajaritos and La Cangrejera in Veracruz to supply raw materials for manufacturing fertilizers, detergents, acrylic resins, polyester fibers, emulsifying agents, and other petroleum products.

In 1993 Mexico had the world's eighth largest crude petroleum reserves, amounting to some 5 percent of the world's total. Its proven crude oil reserves amounted to some 51 billion barrels in 1993, and it had potential reserves of some 250 billion barrels. The Gulf of Mexico contains approximately 56 percent of Mexico's proven reserves; 24 percent are located in the Chicontepec region, 15 percent are located in Tabasco and Chiapas, and the remainder are elsewhere. Mexico's reserves are sufficient to guarantee current production levels for fifty years.

Since the nationalization of the oil industry in 1938, the state-owned Pemex has monopolized the production and marketing of hydrocarbons. For decades the government tolerated Pemex's waste and inefficiency because the company produced nearly all public revenues. Problems mounted, however, as a result of Pemex's poor administration, low productivity, overstaffing, and corruption. By the late 1980s, Mexico's economic recovery had come to depend heavily on reform of the state oil sector.

After becoming president, Salinas moved swiftly to modernize and reorganize the oil industry. He began by breaking the power of the oil workers' union, which had contributed to Pemex's overall inefficiency by forcing the hiring of tens of thousands of unnecessary workers. In January 1989, Salinas had the union's notoriously corrupt chief, Joaquín Hernandez

Pemex refinery on Gulf of Mexico
Courtesy Embassy of Mexico, Washington

Pemex headquarters, Mexico City
Courtesy Arturo Salinas

Galicia (nicknamed La Quina), arrested on weapons and murder charges. He was subsequently convicted and received a thirty-five-year jail sentence. Salinas then ordered Pemex to monitor and account for its internal finances. To reduce expenses, the company began massive employee layoffs, slashing its workforce by 94,000 (some 44 percent of the total payroll) by mid-1993.

In April 1992, natural gas from a Pemex pipeline leaked into the Guadalajara sewer system, triggering an explosion that killed more than 200 people. The tragedy underscored Pemex's bureaucratic unwieldiness and lack of public accountability. Following the explosion, Salinas accelerated the organizational restructuring of Pemex. The restructuring resulted in the company's division in 1992 into four subsidiaries: Pemex-Exploration and Production (E&P), Pemex-Refining, Pemex-Gas and Basic Petrochemicals, and Pemex-Petrochemicals. Each unit became a semiautonomous profit center, directing its own budget, planning, personnel, and other functions. The subsidiaries deal with each other on the basis of formal contracts and market-based transfer prices. The governing board of each subsidiary is composed entirely of public-sector officials.

Pemex's new focus on profitability and cost-cutting allowed the company to save US$50 million in 1990, US$70 million in 1991, and US$100 million in 1992. Moreover, Pemex reduced its total labor force from 210,000 workers in 1989 to 116,000 in 1992, with more dismissals expected later. A new collective contract permitted the company to seek the lowest bidder for maintenance, transport, slop oil disposal, and other work formerly reserved for the official oil workers' union. Pemex's new focus on efficiency and productivity also cleared the way for previously unthinkable foreign involvement in Mexico's oil sector. Several United States oil exploration companies received permission to drill under contract in Mexico, and foreign partnerships were authorized.

In August 1993, it became known that the government was considering proposals to allow private companies to buy, sell, and distribute imported gasoline, natural gas, and petrochemicals, and to invest in new pipelines. Although the government reiterated in 1992 its longstanding pledge not to denationalize the oil industry, some observers viewed the reorganization of Pemex as a move to improve the company's efficiency and profitability as a prelude to privatization. Denationalization would require amending the constitution of 1917, which mandated state ownership and exploitation of hydrocarbons.

During 1995 Pemex proceeded with its plans to divest its secondary petrochemicals plants and allow private investment in the storage, transportation, and distribution of natural gas. In late 1995, Pemex began to divest itself of sixty-one petrochemical plants.

In early 1996, the government unveiled its Program for the Development and Restructuring of the Energy Sector. The program estimates the minimum investment required by the petroleum sector by the year 2000 to be 250 billion new pesos (at 1995 prices). The private sector is expected to provide 49 billion new pesos of this amount. The plan is intended to increase Mexico's petroleum exports, improve its competitiveness in the international energy market, and contribute to more balanced regional development (see table 9, Appendix).

Electricity

Mexico generated a total 127 billion kilowatt-hours (kWh) of electricity in 1991. Of this total, thermal (coal-, oil-, or gas-fired) plants generated 94 billion kWh (74 percent), hydroelectric plants generated 24 billion kWh (19 percent), nuclear plants generated 4 billion kWh (3 percent), and geothermal and other plants generated 5 billion kWh (4 percent). Mexico had more than 27,000 megawatts of electricity generating capacity in 1992, roughly the level of domestic demand. Net domestic electricity consumption in 1992 was 118 billion kWh, including 24 billion kWh of hydroelectric power. In 1992 Mexico's thermal plants generated 95 billion kWh of electricity, hydroelectric plants generated 25 billion kWh, and nuclear plants generated 4 billion kWh.

Interest revived in nuclear power generation during the late 1980s. In 1989 the much-delayed 1,300-megawatt Laguna Verde nuclear reactor began partial operation (654 megawatts), and in 1990 it produced 2.9 million megawatt-hours of electricity. A second reactor with similar capacity became operational at Laguna Verde in 1994.

Mexico's electric power companies were nationalized during the 1960s, and the public sector monopolized electricity generation. In 1992 the state-run Federal Electricity Commission (Comisión Federal de Electricidad—CFE) accounted for about 90 percent of gross electricity generation. In May 1991, the government enacted legal reforms allowing private companies to generate electricity either for their own consumption or for sale to the CFE or small-scale consumers in rural or remote area-megawatt power plants by 2005.

Nonfuel Mining

In 1994 the mining sector accounted for some 2 percent of GDP and 1 percent of export earnings. It employed 230,000 people in 1988. Although Mexico had approximately 2,000 mining companies in 1989, the industry was highly concentrated, with four companies producing two-thirds of the country's total mineral output. These companies were the Mexico Industrial Mining Group, Inc. (Grupo Industrial Minera México, Sociedad Anónima—IMMSA), Sanluís Industrial Corporation (Corporación Industrial Sanluís), Frisco Enterprises (Empresas Frisco), and Peñoles Industries (Industrias Peñoles).

During the 1960s, the government progressively Mexicanized the mining industry, most of which had previously been foreign-owned. A new mining law in 1961 required majority Mexican ownership and management of all mining companies. Within ten years, most companies had been Mexicanized. The government granted new concessions only to Mexican-owned enterprises and encouraged the growth of small and medium-sized operations.

The state vastly expanded its involvement in mining during the 1970s. The 1975 mining law restricted foreign companies to 34 percent participation in mining concessions on national reserves and in exploitation of certain minerals such as coal and iron ore. The government monopolized exploitation of oil and gas, phosphate rock, potassium, sulfur, and uranium. By 1980 it owned more than 40 percent of shareholders' equity in all mining activity. In 1983 mines owned by or affiliated with the state mining development commission were responsible for 87 percent of copper output, 76 percent of sulfur output, 28 percent of gold and silver, 27 percent of iron ore, 25 percent of coal, 18 percent of lead, and 10 percent of zinc.

The mining sector grew at an annual average of only 0.4 percent between 1983 and 1989. This stagnation resulted from outmoded mining technology, heavy government regulation, insufficient investment, and low world prices. The government responded in 1982 with a ten-year program to sell most of the state's forty-two mining properties. By early 1987, 46 percent of total mineral output was privately produced, and 42 percent

Strip mining in northern Mexico
Courtesy Inter-American Development Bank

came from state companies. In 1988 the government sold the Mexican Copper Company (Compañía Mexicana de Cobre) to private buyers, and in 1990 it privatized the country's largest open-pit copper mine, that of the Cananea Mining Company (Compañía Minera de Cananea), now called Mexicana Compañía de Cananea, despite a strike by the company's 3,800 workers to block the sale.

In the early 1990s, silver was the most valuable subsector in Mexico's mining industry (see table 10, Appendix). The country regained its historical position as the world's leading producer of silver following the opening in 1983 of the world's largest silver mine at Real de Ángeles in the state of Zacatecas, which in 1990 produced 290,000 kilograms of silver. Mexico produced 2,300 tons of silver in 1994, representing more than 16 percent of world silver output. Most of Mexico's silver output came from the states of Zacatecas (39 percent), Durango (15 percent), Chihuahua (14 percent), Guanajuato (7 percent), Sonora (6 percent), and Hidalgo (5 percent).

Mexico's gold output stood at 14,400 kilograms in 1994. The Guanajuato area accounted for almost one-third of Mexico's annual gold production. This region's output decreased by about 1,000 kilograms between 1991 and 1992, slightly offsetting the increase of 900 kilograms of gold production from Sonora. Other important gold-producing areas were the San Dimas district of Durango and several small mines in Sinaloa. In 1992 Mexican and foreign mining companies showed increased interest in exploring for gold in the states of Sonora, Baja California Norte, Chihuahua, Durango, and Sinaloa. Some foreign companies established wholly foreign-owned exploration enterprises by means of investment trusts.

In the early 1990s, Mexico was the world's seventh largest producer of copper. Copper ore output fluctuated in the late 1980s and early 1990s, averaging 282,500 tons per year between 1987 and 1991. Output fell slightly to 266,200 tons in 1992. Production of refined copper rose steadily from 140,800 tons in 1988 to 302,600 tons in 1994. Silver prices fell and copper prices rose in the late 1980s and early 1990s, increasing the value of Mexico's copper output over that of silver for the first time in several decades. Mexico's copper output was valued at US$663 million in 1992.

Mexico's western mining zone, which runs from the states of Baja California Norte, Sonora, Sinaloa, and western Chihuahua southward to Chiapas, is the country's main source of copper. The bulk of Mexico's 1992 copper output came from Sonora, where the country's three largest mines—La Caridad, Cananea, and María—are located. The Mexican Copper Company was Mexico's leading copper producer with 52 percent of total output, followed by the Mexican Compañía de Cananea with 23 percent.

In 1994 Mexico produced 163,700 tons of lead and 356,900 tons of zinc. Mexico's production of zinc constituted 4 percent of world output in 1992, and zinc ranked second among domestically mined minerals in terms of value, after copper but ahead of silver. Mine production of lead amounted to 5 percent of world lead output in 1992, and that mineral ranked fifth among domestically mined minerals in terms of value, ahead of gold. The most important producers of zinc and lead were Frisco Enterprises and Peñoles Industries, which together produced more than 80 percent of Mexico's total supply of these minerals. More than 60 percent of Mexico's lead and zinc output came from the state of Chihuahua, while much of the remainder came from the states of Zacatecas, Hidalgo, and San Luis Potosí.

In 1992 Mexico produced some 5.5 million tons of coal, and it had an estimated 1.7 billion tons of coal reserves. Further development, however, was not seen as commercially viable. The country consumed some 5.8 million tons of coal in 1992. In 1990 Mexico produced iron ore with a metal content of 5.3 million tons, most of it from Cerro el Mercado, Las Truchas, and Peña Colorado, at the mouth of the Río Balsas, on the Pacific coast. Most of Mexico's coal came from the Sabinas basin, about 100 kilometers north of Monterrey.

Transportation and Telecommunications

Roads

Mexico has one of the most extensive highway networks in Latin America, linking nearly all areas of the national territory. In 1994 Mexico had 242,000 kilometers of roads, of which 85,000 kilometers were paved (including more than 3,100 kilometers of expressways), 40,000 kilometers were gravel or cobblestone, 62,000 kilometers were improved earth, and 55,000 kilometers were unimproved dirt roads. The highway system includes federal roads, state roads (for which the federal government provides 50 percent of construction costs), and local roads (for which the federal government contributes 30 percent of costs) (see fig. 10).

The most heavily traveled highway routes form a triangle linking Mexico City with the large population and industrial centers of Guadalajara and Monterrey, as well as with the main port city of Veracruz. The Inter-American Highway begins at the northern border city of Nuevo Laredo and runs through Monterrey and Mexico City, where it turns southeastward toward Oaxaca and then directly eastward into Chiapas and northwestern Guatemala. Mexico has three major federal highways: the Baja California Dorsal Highway, which runs the length of the peninsula from Tijuana to Cabo San Lucas; the Trans-Mexico Highway, which roughly parallels the United States border between Tijuana on the Pacific coast and Matamoros on the Gulf of Mexico; and the Pacific Coast Highway, which extends from Tijuana to Tapachula on the Guatemalan border.

Although extensive, much of Mexico's public highway system is in poor condition as a result of insufficient investment in road maintenance and an overreliance on heavy trucks to haul overland cargo. According to the World Bank (see Glossary), in 1994, 61 percent of Mexican public roads were in poor condition, 29 percent were in fair condition, and only 10 percent were in good condition. In the early 1990s, the Salinas government took steps to reduce the strain on the public highway system by granting concessions to the private sector to build 6,600 kilometers of toll roads by 1994. The newly built toll roads are in better condition than the public highways, but tolls, which were driven up as a result of construction cost overruns, have been too expensive to divert a significant share of commercial traffic from the public roads.

In 1992 total vehicle traffic in Mexico included 7.5 million automobiles, 3.9 million trucks, and more than 106,000 buses. In 1995 there were 12.1 million registered vehicles in Mexico. Intercity bus service is extensive, with bus service generally considered fair to good on most intercity routes. Despite the availability of mass transit, the proliferation of buses and automobiles in greater Mexico City has far outpaced the capital's road building and highway expansion capabilities, causing chronic urban traffic congestion and exacerbating Mexico City's legendary smog (see Environmental Conditions, ch. 2).

Railroads

The predominantly state-owned Mexican railroad system is extensive, consisting in 1994 of 20,425 kilometers of 1.435-meter, standard-gauge line and ninety kilometers of 0.914-meter narrow-gauge line. A 102-kilometer section of line between Mexico City and Querétaro is electrified.

The largest rail line is the state-owned Mexican National Railways (Ferrocarriles Nacionales Mexicanos—FNM), which operates on about 70 percent of the total trackage and carries some 80 percent of total rail traffic. The second largest network, also state-owned, is the Pacific Railroad, which links Nogales and Guadalajara. The three smaller government-owned lines are the Chihuahua to Pacific Railroad, the Sonora to Baja California Railroad, and the United Railroads of the Southeast.

Several Mexican cities have rail links with the United States, including Ciudad Juárez, Laredo, Piedras Negras, Reynosa, Matamoros, Nogales, Naco, and Agua Prieta. The Mexican rail system also connects with Central American lines through Guatemala.

In 1992 FNM's rolling stock consisted of 1,575 diesel locomotives and 42,240 freight cars. In addition, some 60,000 pri-

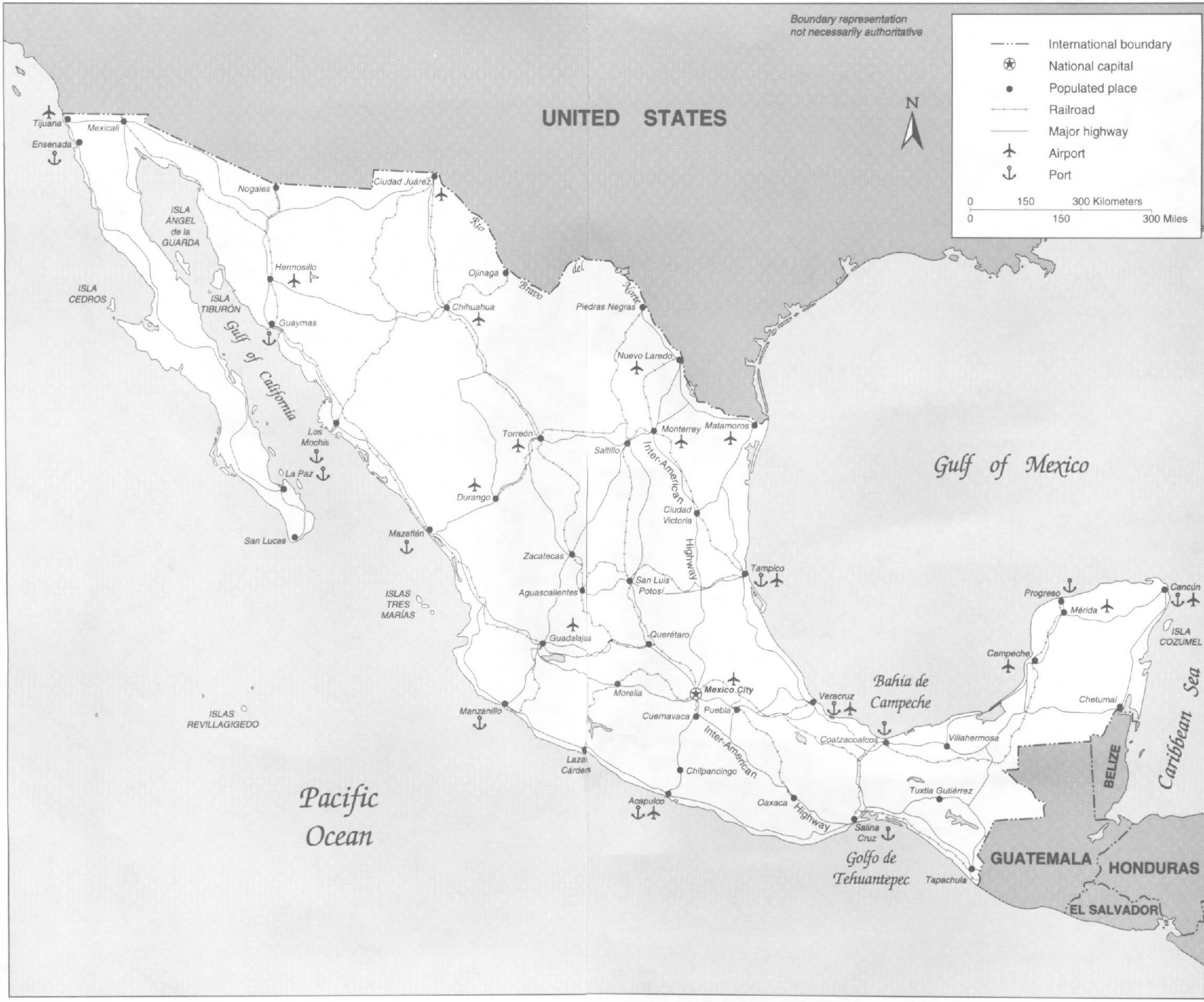


Figure 10. Transportation Network, 1996

vately owned freight cars were in service. In 1992 FNM carried 49 million tons of freight, representing 12 percent of all long-haul freight traffic in Mexico.

Railroads were only lightly used by passengers in the early 1990s, accounting for just 2 percent of total intercity passenger travel. In 1992 FNM carried almost 15 million passengers on its fleet of more than 800 passenger rail vehicles. In 1993 it began gradually privatizing its passenger operations by means of concessions to private carriers. In 1995 the Mexican congress passed legislation allowing private investment in railways under fifty-year concessions. Private enterprises were allowed to operate various portions of the rail network, provide train services, and operate railyards and terminals.

Despite its abundant mileage and rolling stock, the Mexican railroad system was generally considered to be antiquated and inefficient in the early 1990s. Corporate respondents to the World Bank's 1994 survey of commercial users of Mexican transportation services rated the state-owned rail network as the most poorly performing component of Mexico's national transportation system. Inadequate maintenance, mismanagement, and corruption were cited as major impediments to reliable service. In 1991 only 68 percent of locomotives were available for use at any given time, and terminal operations were so poorly managed that only 20 percent of shipment time was spent en route. To avoid delay, spoilage, and loss of merchandise, Mexican companies attempted whenever possible to bypass the rail system altogether by relying heavily on long-haul trucks, which accounted for 88 percent of all overland cargo travel in 1992. The inefficiency of the railroad system was considered a major impediment to Mexican commercial competitiveness under the new NAFTA trading system.

Rapid Transit

In 1969 Mexico City opened its subway system (Metro). By 1993 it comprised eight lines with 135 stations and a total route length of 158 kilometers (of which ninety-two kilometers were underground). The Metro is a heavy-rail network consisting of more than 250 nine-car trains traveling on 1.435-meter auxiliary-guide rails. A computerized system of traffic control is used in conjunction with human operators on each train. In 1991 the system handled 1.4 billion passenger journeys. The Federal District's System of Electric Transport (Sistema de Transporte Eléctrico—STE), which oversees rapid transit services in greater Mexico City, plans to expand the Metro system to fifteen lines totaling 315 kilometers route-length by 2010. At that point, it predicts daily ridership will exceed 12 million passengers.

In the early 1990s, Guadalajara inaugurated a modest subway system. Two electrified light-rail lines cross in the city's center and extend to nearby suburbs. Tracks are underground in the downtown area and use existing rail right of ways in outlying areas.

Ports and Shipping

Mexico has some 10,000 kilometers of coastline but few navigable rivers and no good natural harbors. The country's 2,900 kilometers of navigable rivers and coastal canals play only a minor role in the transportation system. In the early 1990s, Mexico's seventy-five maritime ports and nine river ports handled 65 percent of imports and 70 percent of nonpetroleum exports. The flow of freight through Mexican ports exceeded 163 million tons of cargo in 1990, representing 31 percent of total freight carried by all modes. The five largest ports—Tampico, Veracruz, Guaymas, Mazatlán, and Manzanillo—handled 80 percent of Mexico's ocean freight.

Veracruz is an important port for general cargo, especially goods headed to and from Mexico City. The port of Tampico primarily handles petroleum and petroleum products. Other important seaports include Coatzacoalcos on the Gulf of Mexico coast and Acapulco on the Pacific. Two new Pacific ports—Pichilingue and Topolobampo—were built in the early 1990s, and another was built on the Gulf of Mexico coast at Progreso, in the state of Yucatán. Between 1989 and 1994, some US$700 million was spent on port development, more than half of that amount provided by the private sector.

Mexico's system of state-owned ports is administered by Mexican Ports (Puertos Mexicanos—PM), a decentralized government agency established in 1989 to oversee the rationalization and streamlining of port operations. To increase the quality of service in the shipping sector and thereby enhance Mexico's export performance, the government announced in 1992 that it would sell management concessions for nine ports—including Acapulco, Lázaro Cárdenas, and Manzanillo—to private buyers. In 1994 ownership of the ports of Altamira, Acapulco, Guaymas, and Tampico passed to the private sector. Mexico expected to complete construction by 1996 of a 437-kilometer

Eastbound train at Orizaba on Mexico City-Veracruz route, Mexico's first rail line
Courtesy Rodolfo García

coastal canal between Matamoros and Tampico, intended to connect with the United States Intracoastal Waterway system through the Río Bravo del Norte (Rio Grande).

In 1994 the Mexican merchant marine consisted of fifty-eight vessels of more than 1,000 gross registered tons, including thirty-two oil tankers owned and operated by Pemex. The state-owned Maritime Transport of Mexico (Transporte Marítimo de México) operated most of the other ships. Maritime freight is about evenly distributed between coastal and ocean shipping, whereas most seaborne passenger travel is coastal.

Air Transportation

Mexico's air transportation system is generally considered adequate to handle projected levels of passenger and freight traffic through the end of the 1990s. In 1994 Mexico had a total of 1,585 operational airfields or airstrips, of which 202 had permanent-surface runways. Forty-four international and thirty-eight domestic airports offer services to all major Mexican cities. Mexico's principal airport and main air transportation hub is Benito Juárez International Airport, on the outskirts of Mexico City. Other major airports at Monterrey, Guadalajara, Mérida, and Cancún also handle large volumes of air traffic.

Air transport services consist overwhelmingly of passenger travel, with air freight representing only 0.03 percent by weight of total cargo transported by all modes in 1994. Mexico's proximity and extensive overland and maritime links to the United States, its main trading partner, account in large measure for the relatively light use of aircraft to transport freight.

In 1992 Mexico had seventy-seven domestic airlines, of which two, Aeronaves de México (Aeroméxico) and Mexican Aviation Company (Compañía Mexicana de Aviación—Mexicana), had international stature. Aeroméxico was sold to private investors in June 1989 after it had declared bankruptcy. Widely known in the past as "Aeromaybe" because of unreliable service, Aeroméxico has maintained consistent on-time performance since its privatization. Also in 1989, the government sold half of its 51 percent stake in Mexicana to private investors.

In 1993 Mexican aircraft flew a total of 325 million kilometers and carried 20 million passengers. Mexico has direct air connections, through Mexicana and Aeroméxico, with the United States, Canada, Europe, Australia, and the rest of Latin America. In 1994 twenty-eight international airlines provided regularly scheduled service from Mexico City to major cities in Europe, Japan, the United States, and the rest of Latin America. In addition, a variety of foreign and domestic air charter services flew directly to the country's major resort areas.

Telecommunications

In December 1990, Mexico sold its state-owned telephone system, Mexican Telephone (Teléfonos de México—Telmex), to private investors in the country's largest and most complicated privatization. The government sold majority voting rights and a 20 percent stake in Telmex to a consortium of investors for US$1.8 billion, and it sold US$3.7 billion in shares to the public in two public offerings. Nevertheless, customers continued to complain about delays in contacting operators, installing new phones, and receiving service upgrades.

In 1995 the Telmex network had some 8.7 million phone lines in service. Almost 13 percent of all international calls from the United States were made to Mexico in 1993, while

Modern port facilities at Veracruz
Courtesy Inter-American Development Bank

more than 90 percent of Mexico's long-distance calls were made to the United States.

To improve service quality, Telmex inaugurated a US$30 billion modernization program in conjunction with its partners, Southwestern Bell Corporation and France Telecom, in 1993. In early 1994, the United States telecommunications company Microwave Communications International (MCI) announced plans to collaborate with Banamex-Accival Financial Group (Grupo Financiero Banamex-Accival—Banacci), Mexico's largest financial group, in building a new long-distance telephone network in Mexico. The two companies valued the joint venture at US$1 billion, of which MCI would invest US$450 million. In early 1994, telephone industry analysts expected Mexico's US$6 billion long-distance telephone market to continue or exceed its 14 percent annual growth rate. The high growth rate stemmed from increased telephone communications between the United States and Mexico resulting from NAFTA and the government's stated intention to open the long-distance market to foreign competition in January 1997.

Mexico uses four Atlantic Ocean satellite ground stations and one Pacific Ocean satellite ground station of the International Telecommunications Satellite Corporation (Intelsat). Mexico is also connected to the Central American Microwave System. In 1985 the Mexican-owned Morelos-B domestic telecommunications satellite was launched from the United States space shuttle Atlantis. Morelos-B was replaced in 1993 by another Mexican-owned domestic telecommunications satellite, Solidarity I.

Radio

In 1993 Mexico had more than 700 commercial amplitude modulation (AM) radio stations, including 679 stations operating on mediumwave, and twenty-two AM shortwave stations. The country has a number of large commercial radio networks, including National Radio Network (Radio Cadena Nacional) and Mexico Radio Programs (Radio Programas de México). Mexico also has some cultural radio stations, operated either by public agencies or by educational institutions. In 1996 Mexico had 21 million radios.

The most important state-run radio systems are the Mexican Radio Institute (Instituto Mexicano de la Radio—IMER), which operates two networks, Mexico Radio (Radio México) and Exact Time Radio (Radio la Hora Exacta); the Education Ministry's Education Radio (Radio Educación), which has a reputation for objectivity; and Radio UNAM (UNAM Radio), run by the National Autonomous University of Mexico (Universidad Nacional Autónoma de México—UNAM). The private commercial sector is dominated by some twenty radio networks. Ninety-two percent of stations belong to a network; 72 percent belong to or are controlled by ten networks; and half are controlled by the top five. The main networks include the Acir Group (Grupo Acir), which controls 140 stations and produces three major news programs daily for national distribution; the Radio Promotional Organization (Organización Impulsora de Radio—OIR); Radio and Television Agency (Agentes de Radio y Televisión—ARTSA), and Mexico Radio Programs.

Television

Introduced in 1950, television reached some 70 percent of the Mexican population by the early 1990s. In 1995 Mexico had 326 television stations (almost 25 percent of all stations in Latin America), most of them owned by or affiliated with the Mexican Telesystem (Telesistema Mexicano—known popularly as Televisa) and the state-run Mexican Institute of Television (Instituto Mexicano de Televisión—Imevisión). In 1996 Mexico had about 800 television transmitters and an average of one television set per 8.9 viewers.

In the early 1990s, Televisa was reportedly the largest communications conglomerate in the developing world. Although a private corporation, Televisa is very close to the ruling PRI. It operates three commercial television networks in Mexico and four stations in the United States. Its main network broadcasts twenty-four hours a day, and the others broadcast between twelve and eighteen hours daily. Televisa's flagship news program is "24 Horas," which has long been the most important source of news for many Mexicans. Televisa exports 20,000 hours of television programming to other Latin American countries. In addition to television and radio, Televisa has interests in newspaper and book publishing; production of records and home videos; motion picture distribution, advertising and marketing; and real estate, tourism, and hotels.

The state-run Imevisión operates two national television networks, as well as several regional and specialized channels. The government also operates Mexican Republic Television (Televisión de la República Mexicana), which broadcasts news and educational and cultural programs to rural areas, and Cultural Television of Mexico (Televisión Cultural de México). A competing network, Televisión Independiente, operates seven stations. There are also some twenty independent stations.

In November 1993, the government granted licenses for sixty-two new local television stations, increasing Televisa's total number of stations from 229 to 291. Most of the new stations are concentrated in northern Mexico. Televisa showed considerable financial strength in 1993, with third-quarter profits of some US$120 million, up 43 percent from the same period of 1992. The company planned additional large investments in an effort to maintain its 90 percent share of Mexico's television market. Televisa's main competitor is Televisión Azteca, which owns 179 stations in two national networks. Although it commanded less than 10 percent of the national television market in 1993, it is attempting to increase its market share to 24 percent by 2000.

Tourism

During the 1970s and 1980s, tourism generated more than 3 percent of Mexico's GNP and between 9 percent and 13 percent of its foreign-exchange earnings. Only petroleum generated more net foreign exchange. The number of arriving tourists rose steadily from more than 5 million in 1987 to 7 million in 1990, despite the peso's overvaluation during those years. The number of arrivals subsequently fell to about 6 million in 1991 and 1992 as the overvalued peso raised costs for United States visitors. Mexico had 7 million foreign arrivals in 1994, and tourism generated total revenue of US$4.2 billion.

Eighty-three percent of foreign visitors to Mexico in 1993 came from the United States, many of them from the border states for short visits. Eight percent of foreign visitors came from Europe, and 6 percent from other Latin American countries. In 1990 United States residents made some 70 million visits to Mexico's border towns, and Mexicans made 88 million visits to United States border towns. In 1984 visitors to Mexican border areas spent some US$1.3 billion, compared with US$2.0 billion spent by all tourists in the interior. By 1990 border visitors spent more than US$2.5 billion, while visitors to the interior spent approximately US$4.0 billion. In 1991 each foreign tourist spent an average amount of US$594. In 1992 Mexico had some 8,000 hotels and some 353,000 hotel rooms.

In the early 1990s, Mexico City was the most popular destination for foreign tourists, followed by Acapulco. In the mid-1970s, the official tourist development agency, Fonatur, began to promote new tourist areas, including Zihuatanejo, Ixtapa, and Puerto Escondido on the Pacific coast, and Cancún on the Caribbean coast. In 1986 and 1987, work began on the new Pacific coast tourist resort of Huatulco. Mexico's tourist industry is particularly vulnerable to external shocks such as natural disasters and bad weather, international incidents, and variations in the exchange rate, as well as changes in national regulations. For instance, a 1985 earthquake that had an epicenter near Acapulco damaged many of Mexico City's central hotels. In September 1987, Hurricane Gilbert struck Cancún, causing US$80 million worth of damage that took three months to repair.

Foreign Trade

Stabilization and adjustment policies implemented by the Mexican government during the 1980s caused a sharp fall in imports and a corresponding increase in exports. Average real exchange rates rose, domestic demand contracted, and the government provided lucrative export incentives, making exportation the principal path to profitable growth. The 1982 peso devaluation caused Mexico's imports to decline 60 percent in value to US$8.6 billion by the end of 1983. After years of running chronic trade deficits, Mexico achieved a net trade surplus of US$13.8 billion in 1993.

Imports

After 1983 the government eliminated import license requirements, official import prices, and quantitative restrictions. This trade liberalization program sought to make Mexican producers more competitive by giving them access to affordable inputs. By 1985 the share of total imports subject to licensing requirements had fallen from 75 percent to 38 percent. In 1986 Mexico acceded to the General Agreement on Tariffs and Trade (GATT), now the World Trade Organization (WTO), and in 1987 it agreed to a major liberalization of bilateral trade relations with the United States.

As a consequence of trade liberalization, the share of domestic output protected by import licenses fell from 92 percent in June 1985 to 18 percent by the end of 1990. The maximum tariff was lowered from 100 percent in 1985 to 20 percent in 1987, and the weighted average tariff fell from 29 percent in 1985 to 12 percent by the end of 1990. The volume of imports subject to entry permits was reduced from 96 percent of the total in 1982 to 4 percent by 1992. The remaining export controls applied mainly to food products, pharmaceuticals, and petroleum and oil derivatives.

The value of Mexico's imports rose steadily from US$50 billion in 1991 to US$79 billion in 1994 (19 percent of GDP). It rose in response to the recovery of domestic demand (especially for food products); the new peso's new stability; trade liberalization; and growth of the nontraditional export sector, which required significant capital and intermediate inputs (see table 11, Appendix). As a result of the new peso devaluation of December 1994, Mexico's imports in 1995 were US$73 billion, 9 percent lower than the 1994 figure. In 1995 Mexico imported US$5 billion worth of consumer goods (7 percent of total imports), US$9 billion worth of capital goods (12 percent), and US$59 billion worth of intermediate goods (81 percent). Renewed growth and the new peso's real appreciation were expected to increase demand for foreign products during 1996. Imports rose by 12 percent in the first quarter of 1996 to US$20 billion.

The government tried to curb the early 1990s' rise in imports by acting against perceived unfair trade practices by other countries. In early 1993, Mexico retaliated against alleged dumping of United States, Republic of Korea (South Korean), and Chinese goods by imposing compensatory quotas on brass locks, pencils, candles, fiber products, sodium carbonate, and hydrogen peroxide. Antidumping duties were applied to steel products, and all importers were required to produce certification of origin.

But Mexico also was subject to complaints by other countries, which charged that Mexico itself engaged in unfair practices. The European Community (now the European Union—EU) and Japan lodged complaints with the GATT about Mexico's invocation of sanitary standards in late 1992 to limit meat imports.

Exports

The mid-1980s decline in world petroleum prices caused the value of Mexico's exports to fall from US$24 billion in 1984 to US$16 billion in 1986, reflecting the country's continued heavy dependence on petroleum export revenue. Lower oil earnings helped to reduce Mexico's trade surplus to almost US$5 billion in 1986. Export revenue rose slightly to US$21 billion in 1987, as oil prices began to recover. Exports continued to rise modestly but steadily thereafter, reaching US$28 billion in 1992. The government promoted exports vigorously in an effort to close a trade gap that began in 1989 and widened in subsequent years. The state-run Foreign Commerce Bank channeled finance to a wide range of potential exporters, especially small and medium-sized firms and agricultural and fishing enterprises. In 1993 it provided US$350 million for the tourist sector, representing a 35 percent increase over 1992.

The value of Mexico's exports rose steadily from US$43 billion in 1991 to US$61 billion in 1994, despite the new peso's overvaluation. The currency devaluation of late 1994 contributed to a significant jump in the value of Mexico's exports to US$80 billion in 1995, a 31 percent increase over the previous year.

Total export earnings for the first quarter of 1996 were US$22 billion. Manufactures accounted for US$67 billion (84 percent) of Mexico's exports in 1995, followed by oil exports (US$9 billion or 11 percent), agricultural products (US$4 billion, or 5 percent), and mining products (US$545 million, or less than 1 percent). This improved export performance resulted from the new peso devaluation, weak domestic demand because of the recession, new export opportunities opened by NAFTA, and improved commodity prices. Export growth was expected to slow during 1996, as a result of recovery of domestic demand, expected drops in the prices of oil and other nonfood items, capacity constraints, and strengthening of the new peso.

Composition of Exports

The 1985 peso devaluations and the 1986 oil price collapse produced a dramatic shift in the composition of Mexico's exports. The value of Mexico's oil exports plummeted from US$13 billion in 1985 to less than US$6 billion in 1986. The oil sector's share of total export revenue consequently fell from 78 percent in 1982 to 42 percent in 1987. Oil export revenue recovered in 1987 to US$7.9 billion as petroleum prices rose. Prompted by the peso devaluation and low domestic demand, nonoil exports rose 41 percent in 1986 and an additional 24 percent in 1987. In 1987 manufactured exports (especially engineering and chemical products) constituted 48 percent of total exports by value, eclipsing petroleum and reducing Mexico's vulnerability to fluctuations in the world oil price. Between 1988 and 1991, petroleum exports fell 22 percent in value because of lower world oil prices and declining sales, while nonoil exports rose 15 percent in value. By 1992 petroleum contributed only 30 percent of total exports by value.

In 1994 petroleum and its derivatives accounted for US$7 billion, or 12 percent, of Mexico's total export revenue of US$62 billion. Transport equipment and machinery exports earned US$33 billion, or 54 percent of total exports. Chemicals earned US$3 billion, or 5 percent, and metals and manufactured metal products earned US$3 billion, or 5 percent. Agricultural, processed food, beverage, and tobacco products accounted for US$3 billion, or 5 percent of total exports.

Trade Balance

Import growth outstripped export performance in the early 1990s, producing a steadily widening trade deficit. In 1988 Mexico's trade surplus had fallen to US$1.7 billion, and the following year it turned into a US$645 million deficit as imports rose 24 percent against export growth of 11 percent. In 1990 the trade deficit widened to US$4.4 billion, despite a rise in international oil prices resulting from the Persian Gulf War. Petroleum exports rose slightly, and nonoil exports grew 12 percent in 1990, producing total export earnings growth of 18 percent. But total imports increased a much more rapid 34 percent. In 1991 the trade gap widened further to US$7.3 billion, as the level of exports remained steady while imports grew 22 percent. Mexico's trade deficit widened again to US$15.9 billion in 1992. Following a slowdown in import growth in 1993, the trade deficit increased substantially in 1994, the first year under NAFTA. Low interest rates and an overvalued new peso bolstered demand for foreign goods, causing imports to grow an estimated 19 percent. Spurred by the newly devalued currency, Mexico's foreign trade balance swung dramatically back to a US$7.1 billion surplus in 1995, effectively eliminating the country's current account deficit. The trade surplus was US$1.7 billion for the first quarter of 1996, compared with the first quarter of 1995 figure of US$647 million.

Direction of Trade

Largely as a result of trade liberalization, two-way trade between Mexico and the United States doubled between 1986 and 1990. In the late 1980s, Mexico expanded its exports to the United States at an average annual rate of 15 percent. Even prior to NAFTA, more than 85 percent of Mexican exports entered the United States duty-free (see table 12, Appendix).

In 1994 the value of two-way United States-Mexico trade amounted to more than US$100 billion. Mexico exported US$53 billion worth of products to the United States and imported US$56 billion worth of United States goods. Mexico's commercial reliance on the United States has increased in recent years, despite efforts to diversify its export markets and import sources. In 1994 the United States took 85 percent of all Mexican exports (up from 83 percent in 1993). Sales to Mexico accounted for only 8 percent of all United States exports in 1991. Sales to Canada amounted to more than US$1.5 billion, or 2 percent of Mexican exports in 1994; sales to Japan amounted to US$997 million, or less than 2 percent. Spain, Germany, and France together accounted for nearly US$2 billion, or 3 percent, of Mexico's export revenue in 1994. In 1994 the United States provided 69 percent of Mexico's imports, Japan 6 percent, Germany 4 percent, Canada 2 percent, and France 2 percent.

Mexico's sales to other Latin American countries totaled US$2.9 billion in 1993, a 65 percent increase over 1988. Nevertheless, these sales constituted only some 10 percent of Mexico's total exports by value. Two-way trade between Mexico and the rest of Latin America increased to about 250 percent between 1988 and 1993. Mexico's most important trading partners in Latin America were Argentina and Brazil.

Trade Agreements

In 1991 Mexico and Chile signed a bilateral free-trade agreement under which each country would gradually reduce tariffs on three categories of products. As a result, Chilean exports to Mexico increased 112 percent between 1991 and 1993, and an additional 33 percent (US$89 million in value) between January and August 1993.

Mexico also formed a trilateral free-trade association with Colombia and Venezuela known as the Group of Three (G–3). Negotiations were concluded in 1993, and the agreement took effect during 1994. Tariffs on most products were to be gradually eliminated over ten years (twelve years for automobiles). The agreement was expected to create a US$373 billion economic market encompassing some 145 million people. In October 1993, the G–3 countries announced their intention to establish a wider Association of Caribbean States (ACS). In March 1994, Mexico and Costa Rica negotiated a bilateral free-trade agreement that was expected to provide a model for similar agreements between Mexico and other Central American countries. Mexico also discussed a free-trade agreement with the EU and membership in the new Asia-Pacific Economic Cooperation forum.

President Salinas's most significant commercial achievement, however, was the successful conclusion of NAFTA negotiations with the United States and Canada in 1993. Salinas sought free trade with the United States largely in order to increase private investment, attract new technology, and ensure continued access for Mexican goods to the United States market. Mexico's neoliberal development strategy depended on promotion of manufactured exports, which in turn required expanded United States-Mexican trade. Salinas also sought a free-trade agreement with the United States and Canada to reassure potential investors of the continuity and stability of Mexican economic policy, and to provide formal legal procedures for resolving commercial disputes. The agreement provided for ongoing consultation on issues of mutual concern to member countries, including health regulations, product subsidies, rules of origin, and quality standards (see President Salinas, ch. 1).

NAFTA provides for the elimination of Mexican tariffs on 5,900 categories of imports from the United States and Canada (mostly machinery and intermediate goods), representing more than 40 percent of Mexico's overall trade. Other products are reclassified in a simplified tariff list having four rate bands—5 percent, 10 percent, 15 percent, and 20 percent. The United States eliminated tariffs on 3,100 additional categories of Mexican goods, bringing to 80 percent the portion of all Mexican exports to the United States that will be free from tariffs. Some 4,200 categories already had been included in the General System of Preferences (GSP) and were thus already exempt from tariffs. The treaty eliminates some tariffs immediately and phases out the rest over five, ten, or fifteen years, with vulnerable industries in the United States and Mexico receiving the longest protection.

Mexico's deadlines for lowering trade barriers are generally longer than those for Canada and the United States. The latter countries are required to lift immediately their tariffs on some 80 percent of Mexico's nonoil exports, while Mexico must grant immediate free entry to 42 percent of United States and Canadian exports. Special rules apply for trade in textiles, vehicles and auto parts, and agricultural products. The treaty also governs trade in services, including overland transport, telecommunications, and financial services, and it includes provisions for the liberalization of government procurement.

NAFTA requires Mexico to abolish protectionist limitations on foreign investment (except in the energy sector), allow free profit repatriation by United States and Canadian firms, and guarantee investors against property seizure without full compensation. The treaty allows foreign banks to take up to 25 percent of Mexico's banking market and allows foreign brokerages to take 30 percent of the securities business by 2004, after which all restrictions are to be eliminated.

NAFTA is expected to create a free-trade area with a combined population of 356 million and a GDP of more than US$6 trillion. It commits future Mexican governments to preserve liberal trade and investment policies, and it maintains pressure on Mexico to increase its trade competitiveness. The agreement is likely to spur both foreign investment and increased

Interior of shopping mall, Monterrey
Courtesy Inter-American Development Bank

exports, which will allow expansion of private consumption and domestic investment as monetary controls are relaxed and interest rates fall. NAFTA's accession clause (Article 2005) allows any country or group of countries to join the treaty provided it negotiates mutually acceptable terms. New accessions are to be ratified according to each member's "standard approval procedures." Each current member enjoys an effective veto over admission of new members. Although Mexico has not opposed Chilean accession, it is unlikely to support a Central American application for fear of competition from these countries for new textile factories and other light industrial installations.

Balance of Payments

Current Account

From the mid-1970s through the early 1980s, Mexico faced persistent balance-of-payments problems resulting from the government's efforts to defend the overvalued peso while incurring massive external debts. By the late 1970s, oil prices had begun to fall, and international interest rates rose sharply, throwing Mexico's external payments so far out of balance that by mid-1982 the country could no longer service its external debt. The government was forced to declare a unilateral moratorium on debt service, devalue the peso, and drastically reduce public spending. By 1985 these measures had brought the current account back into surplus and eliminated the government's fiscal deficit, but at the cost of foregone economic growth and a sharp deterioration in the capital account. Throughout the early and mid-1980s, Mexico suffered a net capital outflow as a result of external debt service, high domestic capital flight, and weak foreign investment.

International oil prices collapsed in 1986, pushing Mexico's current account back into deficit. Meanwhile, debt-equity exchanges and capital repatriation produced a significant capital inflow and brought the capital account back into surplus. The external account balance was again reversed in 1987, as higher oil prices, increased nonoil revenue, a new commercial bank loan, and continued capital repatriation generated a US$4 billion current-account surplus, while heavy debt service obligations forced the capital account into a US$2.5 billion deficit.

Mexico's trade deficit rose sharply between 1989 and 1994, pushing the current account deeply into deficit. The current-account deficit ballooned from US$4 billion in 1989 to US$29 billion in 1994. Capital inflows were adequate to cover the current-account deficit through 1993, but began to falter in response to a series of political crises in 1994. The dramatic improvement in Mexico's trade balance between 1994 and 1995 enabled the current-account deficit to fall to US$654 million in 1995 and to be nearly eliminated by early 1996. This development increased the likelihood that the new peso would be strengthened by capital inflows, especially portfolio investment.

Capital Account

Mexico hemorrhaged capital through most of the 1980s. According to Morgan Guaranty, some US$53 billion fled the country between 1975 and 1985. Total capital flight from Mexico between 1983 and 1988 was approximately US$18 billion. Debt amortization was another major negative item in the capital account. According to the World Bank, debt repayments averaged US$5 billion annually between 1985 and 1990. Capital began to return to Mexico in 1986 and 1987, as investors and lenders were attracted by high domestic interest rates.

The trend was reversed in 1988 as a result of an exchange-rate freeze, domestic interest-rate reductions, competition from higher United States interest rates, and political uncertainty. But capital flows were positive again between 1989 and 1993.

In November 1993, the Mexican government announced that cumulative foreign investment between December 1988 and November 1993 was US$34 billion, exceeding by 40 percent the government's original target. United States direct investment in Mexico more than doubled between 1986 and 1993, to US$23 billion. United States-based multinationals provided more than 60 percent of foreign direct investment in Mexico at the end of 1992. During 1993 foreign investors vastly increased their holdings of Mexican stocks and bonds, producing a huge inflow of portfolio investment. In October 1993, foreign investors held 29 percent of Mexican stocks and 74 percent of bonds.

Foreign investment for all of 1993 reached a record US$16 billion, an increase of 87 percent over 1992. Some two-thirds of this amount (US$11 billion) was portfolio investment, while US$12 billion went to projects approved by the National Foreign Investment Commission (Comisión Nacional de Inversión Extranjera—CNIE) and the remaining US$3 billion went to investments approved in the government's official register. The manufacturing sector received 47 percent of the new investment, and the services sector received 30 percent. The capital inflow boosted Mexico's capital-account surplus to US$16 billion between January and June 1993, representing a 35 percent increase over the same period of 1992. The government was counting on the capital inflow to ensure a continued large capital account surplus with which to balance the current-account deficit.

Mexico's capital account registered a US$15 billion surplus in 1995, mainly because of the country's huge increase in borrowing. Loan disbursements to Mexico rose from US$7 billion in 1994 to US$27 billion in 1995. Foreign direct investment dropped by US$4 billion to a total of US$7 billion for the year, while stock-market investment plunged from US$4 billion in 1994 to US$519 million in 1995. The capital-account surplus allowed Mexico's international reserves to recover from a low of US$3.5 billion in January 1995 to US$15.7 billion by year's end.

Foreign Investment Regulation

Restrictions on direct foreign investment were eased during the administrations of presidents de la Madrid and Salinas. In 1990 the government revised Mexico's 1973 foreign investment law, opening up to foreign investment certain sectors of the economy that previously had been restricted to Mexican nationals or to the state. The new regulations permitted up to 100 percent foreign ownership in many industries.

However, in 1992 the government continued to retain sole rights to large parts of the economy, including oil and natural gas production, uranium production and treatment, basic petrochemical production, rail transport, and electricity distribution. Economic sectors reserved for Mexican nationals included radio and television, gas distribution, forestry, road transport, and domestic sea and air transport. The government limited foreign investors to 30 percent ownership of commercial banks, 40 percent ownership of secondary petrochemical and automotive plants, and 49 percent ownership of financial services, insurance, and telecommunications enterprises. However, foreign investors could obtain majority ownership of certain activities by means of a *fideicomiso*, or trust.

In November 1993, the government announced a new foreign-investment law that vastly expanded foreign-investment opportunities in Mexico. The new law replaced Mexico's protectionist 1973 investment code and united numerous regulatory changes that Salinas previously had imposed by decree without congressional approval. The new law allowed foreigners to invest directly in industrial, commercial, hotel, and timeshare developments along Mexico's coast and borders, although such investment had to be carried out through Mexican companies. Foreigners previously had been prohibited from owning property within fifty kilometers of Mexico's borders, and their investments in areas beyond fifty kilometers had to be carried out through bank trusts. In practice, however, foreigners already had invested in many of the listed border industries and areas through complex trust and stock ownership arrangements, although risk and bureaucratic requirements had deterred some potential investors and financiers.

The new investment code also opened the air transportation sector to 25 percent direct foreign investment and the secondary petrochemical sector to full 100 percent direct foreign investment. Mining also was opened to 100 percent direct foreign ownership; previously foreigners could provide 100 percent investment but had to invest through bank trusts for limited periods of time. Other sectors opened to foreign investors included railroad-related services, ports, farmland, courier services, and cross-border cargo transport. The new code eliminated performance requirements previously imposed upon foreign investors, along with minimum domestic content requirements.

The Future of the Economy

The market-oriented structural reforms of the 1980s and early 1990s transformed Mexico's economy from a highly protectionist, public-sector-dominated system to a generally open, deregulated "emerging market." President Salinas's moves to privatize and deregulate large sectors of the Mexican economy elicited widespread support from international investors and the advanced industrial nations. With its positive effect on trade and capital flows, NAFTA was widely interpreted by Mexican decision makers as a validation of their market-oriented economic policies. The currency collapse of December 1994 and the ensuing deep recession, however, erased the economic gains that Mexico had achieved in previous years, shook the nation's political stability, and depressed hopes for an early return to growth.

Although Mexico remained in a difficult economic condition in mid-1996, the worst of the recession had passed and the country appeared headed toward recovery. The economy registered positive growth in the second quarter of 1996, inflation and interest rates abated, and portfolio investment returned, as reflected in Mexico's rising stock exchange index. Despite continuing problems exacerbated by low investor confidence, analysts agreed that Mexico's economy in the mid-1990s was fundamentally sound and capable of long-term expansion.

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Mexico's postwar economic growth and development policies are reviewed in James M. Cypher's *State and Capital in Mexico*, Roger Hansen's *The Politics of Mexican Development*, and Clark W. Reynolds's *The Mexican Economy*. The best examinations of Mexican economic policy during the 1970s and 1980s are John Sheahan's *Conflict and Change in Mexican Economic Strategy* and Nora Lustig's *Mexico: The Remaking of an Economy*.

Denise Dresser's *Neopopulist Solutions to Neoliberal Problems: Mexico's National Solidarity Program* offers an in-depth analysis of the structure and political implications of Pronasol, the Salinas administration's major anti-poverty program.

The United States Department of Agriculture maintains extensive statistical data on a variety of Mexican agricultural products, and its annual reports on various crops provide detailed information on specific sectors. Among the best treatments of Mexico's agricultural policy are the volume edited by James Austin and Gustavo Esteva, *Food Policy in Mexico,* and Steven Sanderson's *The Transformation of Mexican Agriculture.* Government-business relations are examined in Roderic A. Camp's *Entrepreneurs and Politics in Twentieth-Century Mexico* and *The Government and Private Sector in Contemporary Mexico,* edited by Sylvia Maxfield and Ricardo Anzaldua.

The United States Department of Energy's *International Energy Annual* provides statistical data on Mexican oil production and reserves. Petroleum policy is examined in Judith Gentleman's *Mexican Oil and Dependent Development* and Laura Randall's *The Political Economy of Mexican Oil.* Among the best examinations of Mexico's international economic relations are David Barkin's *Distorted Development* and Van R. Whiting, Jr.'s *The Political Economy of Foreign Investment in Mexico.* (For further information and complete citations, see Bibliography.)

Chapter 4. Government and Politics

A representation of the Mexican coat of arms—an eagle standing on a cactus, with a snake in its mouth—from a painting by Diego Rivera

FOR MORE THAN THREE GENERATIONS, Mexicans have attributed the origins of their political system to the Revolution of 1910–20. They cite the constitution of 1917, a sweeping document that capped nearly a decade of civil war among rival regional militias, as the foundation of their modern political institutions and practices. Mexico's governing institutions and political culture also bear the imprint of three centuries of Spanish colonial rule. Mexicans' adherence to a highly codified civil law tradition, their acceptance of heavy state involvement in business and civic affairs, and the deference accorded the executive over other branches of government can be traced to the administrative and legal practices of the colonial period. Finally, the traumatic experiences of the nineteenth century, including foreign military occupations and the loss of half of the national territory to the United States, as well as the disillusion sown by a series of unconstitutional regimes, continue to have a profound impact on contemporary political culture.

During the 1920s, President Plutarco Elías Calles (1924–28) reorganized Mexican politics along corporatist (see Glossary) lines as a way to contain latent social conflicts. Calles expanded the government bureaucracy to enable it to mediate among rival constituencies and to dispense state funds to organizations supportive of the "official" party. Calles also created new umbrella organizations that lumped together disparate groups according to broad functional categories. The newly created interest groups depended heavily on the state for their financing and were required to maintain strong ties to the ruling party. By grafting corporatist institutions onto Mexico's historically fractious political system at a time when ideologies of the extreme left and right were gaining support throughout the world, Mexico's leaders avoided a return to the widespread violence that had engulfed their country during the 1910s and early 1920s. Subsequently, the relatively inclusive nature of Mexican corporatism and the firm foundations of civilian supremacy over the military prevented Mexico from following the pattern of alternating civilian and military regimes that characterized most other Latin American countries in the twentieth century.

One of Calles's successors, Lázaro Cárdenas (1934–40), revived populism as a force in national politics by redistributing land to landless peasants under a state-sponsored reincarnation of communal farming known as the *ejido* (see Glossary) system. Cárdenas also emphasized nationalism as a force in Mexican politics by expropriating the holdings of foreign oil corporations and creating a new national oil company. Cardenas's reforms of the late 1930s bolstered the legitimacy of the government while further concentrating power in the president and the Institutional Revolutionary Party (Partido Revolucionario Institucional—PRI), the "official" party of the Revolution. By the early 1940s, the political processes and institutions that would broadly define Mexican politics for the next forty years were well established: a strong federal government dominated by a civilian president and his loyalists within the ruling party, a symbiotic relationship between the state and the official party, a regular and orderly rotation of power among rival factions within a de facto single-party system, and a highly structured corporatist relationship between the state and government-sponsored constituent groups.

During the financial crisis of the 1980s, the stable, ritualistic pattern of Mexican politics instituted by Calles and Cárdenas began to break down. As public funding for a variety of programs dried up, the state's role in the economy was scaled back, and the clientelist relationships developed over four decades between government agencies and legally recognized constituent groups were weakened. Seeking to establish a basis for future economic growth, the governments of Miguel de la Madrid Hurtado (1982–88) and Carlos Salinas de Gortari (1988–94) carried out a structural adjustment program that systematically rolled back state ownership and regulation of key industries. They also eliminated long-standing protectionist legislation that had made Mexico one of the most closed economies in the world and lifted the constitutional prohibition on the sale of *ejido* land to allow it to be converted to larger, more efficient farms. In the mid-1980s, an internal rift emerged between the populist and the more technocratic wings of the ruling party over the market reforms and the authoritarian nature of the PRI-dominated political system. The economic reforms initiated by President de la Madrid had been opposed by many members of the PRI's core agrarian and labor constituencies. These groups rejected privatization and the elimination of economic subsidies for consumer goods and services. The naming of Salinas, a United States-educated technocrat, as de la Madrid's successor was also repudiated by the leftist faction of the PRI leadership. This internal rift developed into the first major mass defection from the PRI ranks when Cuauhtémoc Cárdenas Solórzano, son of the former president, left the party to contest the 1988 presidential election as head of a coalition of leftist parties.

Since the late 1980s, the PRI has defeated serious electoral challenges to its central role in Mexican politics from parties of the left and right. During his presidency, Salinas liberalized the electoral system but further concentrated power in the executive. The main objectives of the Salinas administration were to restructure the Mexican economy and to integrate Mexico into the global market, rather than to democratize the political system. Nevertheless, the electoral reforms enacted by Salinas under domestic and international pressure for democratization set the stage for competitive, internationally monitored presidential and congressional elections in 1994.

After a strongly contested presidential campaign marred by the assassination of its original candidate, the PRI maintained its hold on the presidency with the election of yet another United States-educated technocrat, Ernesto Zedillo Ponce de León, in August 1994. Zedillo's victory preserved the PRI's dubious distinction as the world's longest-ruling political party. The PRI victory also presented Zedillo and his party with the unenviable challenge of guiding Mexico through a difficult and uncertain period of economic dislocation and broad political realignments. By the mid-1990s, most observers believed that the PRI-dominated political system begun in the 1920s was in an advanced state of decay and that a transitional period marked by a greater pluralism of organized political activity was at hand. How this transition would unfold, and whether it would ultimately lead to a more participatory and competitive political process across the spectrum of Mexican society, was yet to be determined.

Constitutional History

Nineteenth-Century Constitutions

The roots of the Mexican republic can be traced to two documents drafted during the early independence struggle against Spain: *Los sentimientos de la nación* (1813), by José María Morelos y Pavón, and the Constitution of Apatzingán (1814). These tracts introduced the ideal of a republic based on liberal political institutions and respect for individual rights. Mexico's independence was attained, however, by an alliance of liberal and ultraconservative forces under the leadership of Agustín de Iturbide (see Wars of Independence, 1810-21, ch. 1). Iturbide's Plan of Iguala proposed an indigenous constitutional monarchy, rather than a republic, as the alternative to Spanish rule. By assuming imperial powers following the victory over Spanish colonial forces in 1821, Iturbide continued the Iberian practice of plenipotentiary rule by the chief executive.

Mexico's first republican constitution was the Acta Constitutiva de la Federación Mexicana (Constituent Act of the Mexican Federation), which was promulgated in 1824, following the forced resignation of Iturbide and the breakup of the short-lived Mexican Empire (see The Abortive Empire, 1821–23, ch. 1). A liberal document modeled largely on the United States constitution, the constitution of 1824 established a federal republic with a divided central government. To avoid the abuses of executive authority experienced under Iturbide, the constitution required the president to share power and responsibility with a bicameral congress and the federal judiciary. Breaking with the Spanish colonial legacy of centralism, the constitution instituted a strong federal system, wherein presidents were to be indirectly elected every four years by a simple majority vote of the republic's nineteen state legislatures.

A document of dubious relevance, the constitution of 1824 was never fully observed by the politico-military leadership of the early Mexican republic. The survival of two of its most important principles, federalism and congressional authority, was more a reflection of the de facto decentralization of power in early nineteenth-century Mexico than of a generalized observance of the rule of law. Many provisions of the constitution of 1824 and subsequent nineteenth-century constitutions were simply ignored by the combative regional caudillos (strongmen) who dominated national politics. The most commonly breached constitutional principle was that of an orderly, electoral process of presidential succession. The violent overthrow of governments and the perpetuation in office of powerful presidents were problems that would plague Mexico throughout the rest of the nineteenth century and into the revolutionary period. Between 1824 and 1857, only one president, Guadalupe Victoria, completed his term and handed over power to an elected successor (see Centralism and the Caudillo State, 1836–55, ch. 1).

In 1833 the conservative president and military caudillo, Antonio López de Santa Anna Pérez de Lebrón, suspended the 1824 constitution and imposed a new national charter known as the Siete Leyes (Seven Laws). The Siete Leyes was a reactionary document that strengthened the powers of the presidency, militarized the federal government, and raised property qualifications for voting.

After three decades of political instability stemming from unrestrained power struggles between liberal and conservative elites, a new reformist constitution was promulgated in 1857 by the liberals, who had gained the upper hand. The 1857 constitution was reminiscent of the 1824 charter but was noteworthy for its introduction of major reform laws restricting military and clerical *fueros* (privileges) and clerical property rights. The new constitution also introduced a bill of rights, abolished slavery, and reestablished a strong national congress as a unicameral body. The clerical reform laws, moderate in comparison to the strongly anticlerical constitution of 1917, nevertheless galvanized the conservative opposition and led to a three-year civil war. Although the liberal forces under President Benito Juárez eventually prevailed, the conflict left Mexico divided and deeply in debt.

Using the excuse of collecting compensation for damage incurred during the civil war, the French landed troops in Veracruz. The French government, hoping to reestablish a French empire in the Americas, allied itself with conservative and church forces in Mexico and sent French troops to take Mexico City (see Civil War and the French Intervention, ch. 1). French troops entered the capital in 1863, and an empire under the Austrian archduke Ferdinand Maximilian Joseph von Habsburg was declared. Republican forces retreated to the far north, and for four years Mexico had two governments.

Bowing to pressure from the United States and responding to the increased belligerency of Prussia, Napoleon III of France decided to withdraw French troops at the end of 1866. The conservative forces in Mexico, disillusioned by Maximilian, threw their support to Juárez. Before the last French troops had boarded their ships in Veracruz, Maximilian had surrendered, and the republican forces again controlled the entire country.

Although the constitution of 1857 was restored, its democratic principles were increasingly violated in the decades to follow. Juárez was reelected twice amidst charges that his administrations were becoming increasingly dictatorial. After Juárez's death in 1872, Sebastián Lerdo de Tejada assumed the presidency. Under Lerdo, a bicameral congress was reinstated. When Lerdo announced he would run for reelection in 1876, José de la Cruz Porfirio Díaz took control as dictator. For more than a third of a century, either directly of indirectly, Díaz ruled Mexico (see The Porfiriato, ch. 1).

The revolutionary years from 1910 to 1917 were a period of governmental chaos (see The Revolution, 1910–20, ch. 1). Various groups espousing populist and revolutionary ideals roamed the country. By 1917 forces under Venustiano Carranza gradually had consolidated their control of the nation. Carranza then called a constitutional convention and presented a draft constitution, similar to the constitution of 1857, to the delegates. Carranza's moderate faction was outnumbered by the radicals, however, and numerous anticlerical and social reform articles were added.

Constitution of 1917

The constitution of 1917, proclaimed on February 5, 1917, is considered by many to be one of the most radical and comprehensive constitutions in modern political history. Although its social content gave it the title of the first modern socialist constitution—it preceded the constitution of the former Soviet Union—the Mexican document replicates many liberal principles and concepts of the constitution of the United States. The liberal concepts include federalism, separation of powers, and a bill of rights. In addition to reaffirming the liberal principles of the nineteenth-century documents, the 1917 constitution adds a strong nationalist proclamation, asserting Mexico's control over its natural resources. It also recognizes social and labor rights, separation of church and state, and universal male suffrage. Reflecting the varied social backgrounds and political philosophies of its framers, the constitution of 1917 includes various contradictory provisions, endorsing within the same text socialism, capitalism, liberal democracy, authoritarian corporatism, and a host of unimplemented provisions for specific social reforms.

Formally, the constitution prescribes a federal republic consisting of thirty-one states and a federal district. The federal government is divided into executive, legislative, and judicial branches, but these branches do not have comparable powers. Only the president may promulgate a law, by signing it and ordering its publication. The executive can veto bills passed by the legislature, either in whole or by item, and although a veto may be overridden, there is no constitutional way in which the president may be forced to sign a bill into law. In addition, executive-sponsored bills submitted to the Congress take precedence over other business, and the constitution gives the president broad authority to issue basic rules (*reglamentos*). *Reglamentos* have the same legal force as laws and are the source of most statutory regulations.

The constitution treats many matters of public policy explicitly. For example, before being amended in 1992, Article 27 placed stringent restrictions on the ownership of property by foreigners and the Roman Catholic Church and declared national ownership of the country's natural resources (see Church-State Relations, ch. 2). Religious groups were excluded from any kind of political activity and were not allowed to participate in public education, conduct services outside churches, or wear clerical dress in public. In its original form, Article 27 also granted the government broad powers to expropriate private property in the public interest and to redistribute land.

The constitution prescribes an activist state that will ensure national autonomy and social justice. Thus, in addition to a charter of individual rights, the constitution provides for a number of social rights for workers and peasants and their organizations. In Article 123, the constitution provides what has been described as "the most advanced labor code in the world at its time." It guarantees the right to organize, as well as an eight-hour workday, and provides for the protection of women and minors in the workplace. It mandates that the minimum wage "should be sufficient to satisfy the normal necessities of life of the worker," and establishes the principle of equal pay for equal work regardless of gender, race, or ethnicity. In addition, Article 123 clarifies the right to strike. Strikes are legal when their purpose is to "establish equilibrium between the diverse factors of production, harmonizing the rights of labor with those of capital." The article further establishes arbitration and conciliation boards made up of equal numbers of management, labor representatives, and one government representative. Although many of these provisions were not implemented until 1931, Article 123 mandates the incorporation of organized labor into the formal political process and serves as a basis for labor's claim to a preeminent status in national politics.

Government Structure

Executive

The presidency is the paramount institution, not only of the Mexican state, but of the entire Mexican political system. Critics have pejoratively labeled the presidency the "six-year monarchy" because of the seemingly unchecked power that historically has resided in the office. Much of the aura of presidential power derives from the president's direct and unchallenged control over both the state apparatus and the ruling political party, the PRI.

Presidents are directly elected by a simple majority of registered voters in the thirty-one states and the Federal District. The president holds the formal titles of chief of state, head of government, and commander in chief of the armed forces (see fig. 11). Presidential candidates must be at least thirty-five years old on election day and must be not only Mexican citizens by birth but also the offspring of Mexican citizens by birth (this clause was amended in 1994 to make the children of naturalized citizens eligible for the presidency, effective in 1999). To be eligible for the presidency, a candidate must reside legally in Mexico during the year preceding the election. The candidate cannot have held a cabinet post or a governorship, nor have been on active military duty during the six months prior to the election. Priests and ministers of religious denominations are barred from holding public office.

The presidential term of six years, commonly known as the *sexenio*, has determined the cyclical character of Mexican politics since the late 1930s. A president can never be reelected, and there is no vice president. If the presidential office falls vacant during the first two years of a *sexenio*, the congress designates an interim president, who, in turn, must call a special presidential election to complete the term. If the vacancy occurs during the latter four years of a *sexenio*, the congress designates a provisional president for the remainder of the term.

In addition to the president's prerogatives in legislative matters, he or she may freely appoint and dismiss cabinet officials and almost all employees of the executive branch. Subject to traditionally routine ratification by the Senate, the president appoints ambassadors, consuls general, magistrates of the

Supreme Court, and the mayor of the Federal District. The president also appoints the magistrates of the Supreme Court of the Federal District, subject to ratification by the Chamber of Deputies. Presidential appointment authority also extends downward through the federal bureaucracy to a wide assortment of midlevel offices in the secretariats, other cabinet-level agencies, semiautonomous agencies, and parastatal (see Glossary) enterprises. This extensive appointment authority provides a formidable source of patronage for incoming administrations and has been an important factor in ensuring the regular, orderly turnover in office of competing elite factions within the official party.

Despite the nominally federal character of the Mexican state, presidents have historically played a decisive role in the selection and removal of state governors, all of whom, until 1991, were members of the PRI. President Salinas was particularly assertive in bringing about the resignations of PRI governors widely believed to have been elected through blatant fraud. In some cases, Salinas annuled the election and appointed the opposition candidate governor.

The president confers broad powers on cabinet secretaries, although the cabinet rarely meets as a single body. There is a hierarchy of influence among the different cabinet posts, and the power of a minister or secretary varies, depending on the priorities set by a particular president as well as the resources available at the time. Traditionally, the secretary of interior has been an influential figure and often has been chosen to succeed the president. During the José López Portillo y Pachecho *sexenio* (1976–82), the Secretariat of Programming and Budget (Secretaría de Programación y Presupuesto—SPP) was reorganized to coordinate all government agencies, supervise the budget, and design the national development program. Until its merger with the Secretariat of Finance and Public Credit (Secretaría de Hacienda y Crédito Público) in 1992, the SPP was extremely influential, becoming the launching point for the presidencies of de la Madrid and Salinas.

In 1994, President Salinas broke with the pattern of selecting SPP economists by designating the Secretary of Social Development, Luis Donaldo Colosio Murrieta, as the PRI presidential nominee. This departure from the established practice of nominating ministers with economic portfolios appeared to reflect a reemergence of a social welfare agenda within the PRI after years of orthodox economic policies. When Colosio was assassi-

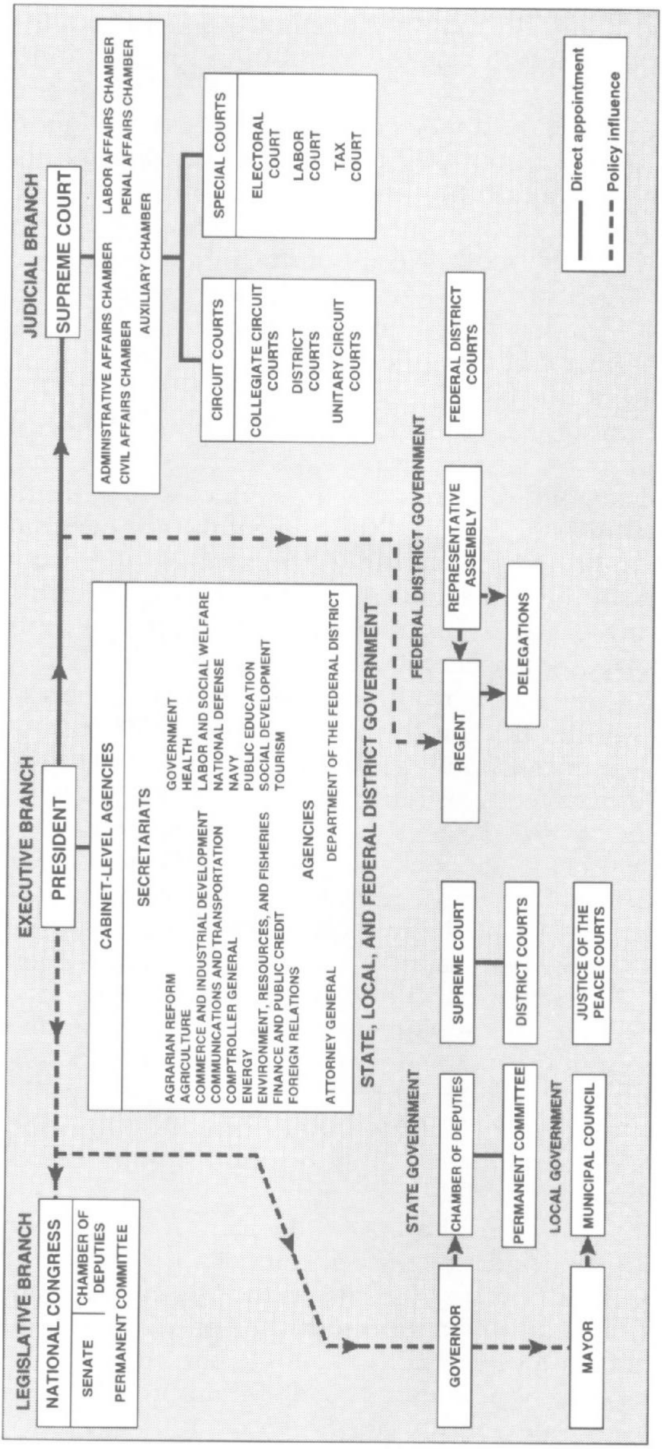


Figure 11. Government Structure, 1996

nated during the presidential campaign, Salinas returned to the fold by selecting Zedillo, a former education and SPP secretary who was then serving as Colosio's campaign manager, to replace the fallen candidate.

One of the unique features of the Mexican presidency has been the highly secretive and mysterious process of presidential succession. Since the 1930s, Mexico's PRI presidents have enjoyed the right to personally name their successor, a privilege known as the *dedazo* (tap). The prerogative of choosing one's successor has allowed outgoing presidents to select individuals who embody either change or continuity with past policies, as demanded by circumstances and public opinion. Over the years, the skillful selection of a successor to the president has become an important element of the adaptability that has characterized the PRI-dominated system.

During the last two years of a *sexenio,* a president selects a short list of candidates for the PRI nomination from among an inner circle within the cabinet. Before announcing the nominee, an event known as the *destape* (unveiling), a president gauges public opinion of the candidates. The *destape* has been criticized for being undemocratic and anachronistic in the age of mass communications. Beginning with the elections of 2000, the PRI's presidential candidate will be selected by a nominating convention, similar to that followed by the other major parties.

Legislative

The legislative branch of the Mexican government consists of a bicameral congress (Congreso de la Unión) divided into an upper chamber, or Senate (Cámara de Senadores), and a lower chamber, or Chamber of Deputies (Cámara de Diputados). As in the United States, both chambers are responsible for the discussion and approval of legislation and the ratification of high-level presidential appointments. In theory, the power of introducing bills is shared with the executive, although in practice the executive initiates about 90 percent of all legislation.

The congress holds two ordinary sessions per year. The first session begins on November 1 and continues until no later than December 31; the second session begins on April 15 and may continue until July 15. A Permanent Committee (Comisión Permanente), consisting of thirty-seven members (eighteen senators and nineteen deputies), assumes legislative responsibilities during congressional recesses. The president may call for extraordinary sessions of congress to deal with important legislation.

Historically, the Senate consisted of sixty-four members, two members for each state and two representing the Federal District elected by direct vote for six-year terms. However, as part of the electoral reforms enacted by the Salinas government in 1993, the Senate was doubled in size to 128 members, with one of each state's four seats going to whichever party comes in second in that state. Since 1986 the Chamber of Deputies has consisted of 500 members, 200 of whom are elected by proportional representation from among large plurinominal districts, and the remainder from single-member districts. Members of the Chamber of Deputies serve three-year terms. All members of the congress are barred from immediate reelection but may serve nonconsecutive terms.

The powers of the congress include the right to pass laws, impose taxes, declare war, approve the national budget, approve or reject treaties and conventions made with foreign countries, and ratify diplomatic appointments. The Senate addresses all matters concerning foreign policy, approves international agreements, and confirms presidential appointments. The Chamber of Deputies, much like the United States House of Representatives, addresses all matters pertaining to the government's budget and public expenditures. As in the United States, in cases of impeachment, the Chamber of Deputies has the power to prosecute, and the Senate acts as the jury. In some instances, both chambers share certain powers, such as establishing committees to discuss particular government issues and question government officials. The deputies have the power to appoint a provisional president. In the event of impeachment, the two chambers are convened jointly as a General Congress. Each legislative chamber has a number of committees that study and recommend bills. If there is disagreement between the chambers, a joint committee is appointed to draft a compromise version.

Judicial

The judicial branch of the Mexican government is divided into federal and state systems. Mexico's highest court is the Supreme Court of Justice, located in Mexico City. It consists of twenty-one magistrates and five auxiliary judges, all appointed

The National Palace, the president's official work place
Courtesy Arturo Salinas

by the president and confirmed by the Senate or the Permanent Committee.

Mexican supreme court justices must be Mexican citizens by birth, thirty-five to sixty-five years old, and must have resided in Mexico and held a law degree during the five years preceding their nomination. According to the constitution, supreme court justices are appointed for life but are subject to impeachment by the Chamber of Deputies. In practice, the justices, along with the entire federal judiciary, traditionally submit their resignations at the beginning of each *sexenio.*

The Supreme Court of Justice may meet in joint session or in separate chambers, depending on the type of case before it. The high court is divided into four chambers, each with five justices. These are the Penal Affairs Chamber, Administrative Affairs Chamber, Civil Affairs Chamber, and Labor Affairs Chamber. A fifth chamber, the Auxiliary Chamber, is responsible for the overload of the four regular chambers. Court rulings of both the whole, or plenary, court and the separate chambers are decided on the basis of majority opinion. Rulings by the separate chambers may be overturned by the full court.

There are three levels of federal courts under the Supreme Court of Justice: twelve Collegiate Circuit Courts, each with three magistrates; nine Unitary Circuit Courts, each with six magistrates; and sixty-eight District Courts, each with one judge. Federal judges for the lower courts are appointed by the Supreme Court of Justice. The Collegiate Circuit Courts are comparable to the United States Courts of Appeals. The Collegiate Circuit Courts deal with the protection of individual rights, most commonly hearing cases where an individual seeks a writ of *amparo*, a category of legal protection comparable to a broad form of habeas corpus that safeguards individual civil liberties and property rights. The Unitary Circuit Courts also handle appeals cases. The Collegiate Circuit Courts are located in Mexico City, Toluca, Guadalajara, Monterrey, Hermosillo, Puebla, Veracruz, Torreón, San Luis Potosí, Villahermosa, Morelia, and Mazatlán. The Unitary Circuit Courts are located in Mexico City, Toluca, Guadalajara, Monterrey, Hermosillo, Puebla, Mérida, Torreón, and Mazatlán.

The Mexican legal system is based on Spanish civil law with some influence of the common law tradition. Unlike the United States version of the common law system, under which the judiciary enjoys broad powers of jurisprudence, Spanish civil law is based upon strict adherence to legal codes and minimal jurisprudence. The most powerful juridical instrument is the writ of *amparo*, which can be invoked against acts by any government official, including the president. Unlike the United States system, where courts may rule on basic constitutional matters, the Mexican Supreme Court of Justice is prohibited by the constitution from applying its rulings beyond any individual case. Within this restricted sphere, the Supreme Court of Justice generally displays greater independence in relation to the president than does the legislature, often deciding against the executive in *amparo* cases. Nevertheless, the judiciary seldom attempts to thwart the will of the president on major issues.

State Government

Mexico is divided into thirty-one states and a Federal District that encompasses Mexico City and its immediate environs. Each state has its own constitution, modeled on the national charter, with the right to legislate and levy taxes other than interstate customs duties. Following the federal organization at the national level, state (and local) governments also have

Congress building
Courtesy Arturo Salinas
Supreme Court of Justice building
Courtesy Arturo Salinas

executive, legislative, and judicial branches. Despite its federal structure, Mexico's political system is highly centralized. State governments depend on Mexico City for much of their revenue, which they, in turn, funnel to municipal governments in a clientelist fashion. Mexican presidents have historically played a prominent role in selecting PRI gubernatorial candidates and in settling state-level electoral disputes. President Salinas was especially assertive in this regard, having removed or prevented the seating of eight PRI governors widely believed to have been fraudulently elected.

The state executive branch is headed by a governor, who is directly elected by simple majority vote for a six-year term, and, like the president, may not be reelected. State legislatures are unicameral, consisting of a single Chamber of Deputies that meets in two ordinary sessions per year, with extended periods and extraordinary sessions when needed. Deputies serve three-year terms and may not be immediately reelected. Legislative bills may be introduced by the deputies, the state governor, the state Superior Court of Justice, or by a municipality within a given state. Replicating the pattern of executive dominance at the national level, most policy-making authority at the state level has historically resided in the governor. The state judiciary is headed by a Superior Court of Justice. Justices of the Superior Courts of Justice are appointed by governors with approval of the state legislatures. The superior court magistrates, in turn, appoint all lower state court judges.

The Federal District, which encompasses Mexico City and its southern suburbs, has traditionally fallen under the supervision of the president, who appoints a mayor (*regente*). In addition to performing his municipal duties, the mayor also holds cabinet rank as head of the Department of the Federal District. In September 1993, the congress approved an electoral reform package that introduced the indirect election of the mayor of the Federal District.

The Federal District has local courts and a Representative Assembly, whose members are elected by proportional representation. The assembly, historically a local advisory body with no real legislative power, is scheduled to elect Federal District mayors beginning in late 1996.

Local Government

The basic unit of Mexican government is the municipality (*municipio*), more than 2,000 of which were legally in existence in 1996. Municipal governments are responsible for a variety of public services, including water and sewerage; street lighting; cleaning and maintenance; public safety and traffic; supervision of slaughterhouses; and the maintenance of parks, gardens, and cemeteries. Municipalities are also free to assist state and federal governments in the provision of elementary education, emergency fire and medical services, environmental protection, and the maintenance of historical landmarks.

Municipal governments, headed by a mayor or municipal president (*regente*) and a municipal council (*ayuntamiento*), are popularly elected for three-year terms. Article 115 of the 1917 constitution proclaims the autonomy of local governments according to the principle of the free municipality (*municipio libre*). Although they are authorized to collect property taxes and user fees, municipalities have historically lacked the means to do so, relying mainly on transfers from higher levels of government for approximately 80 percent of their revenues. Responding to concerns that excessive centralization of political power and financial resources would jeopardize long-term popular support for the PRI, President de la Madrid advocated reforming intergovernmental relations to allow greater municipal autonomy. De la Madrid's municipal reform culminated in the 1984 amendments to Article 115, which expanded municipalities' authority to raise revenue and formulate budgets. The Salinas administration's National Solidarity Program (Programa Nacional de Solidaridad—Pronasol) provided another source of revenue for municipal governments (see Social Spending, ch. 2). By bypassing state bureaucracies and channeling federal funds directly to municipalities and community organizations, Pronasol undermined state governments' control over municipal finances, albeit by promoting municipalities' dependence on the federal government.

The Party System

Institutional Revolutionary Party

The PRI, Mexico's "official" party, was the country's preeminent political organization from 1929 until the early 1990s. In terms of power, it was second only to the president, who also serves as the party's effective chief. Until the early 1980s, the PRI's position in the Mexican political system was hegemonic, with opposition parties posing little or no threat to its power base or its near monopoly of public office. This situation changed during the mid-1980s, as opposition parties of the left and right began to seriously challenge PRI candidates for local, state, and national-level offices.

The PRI was founded by Calles in 1929 as the National Revolutionary Party (Partido Nacional Revolucionario—PNR), a loose confederation of local political bosses and military strongmen grouped together with labor unions, peasant organizations, and regional political parties. In its early years, it served primarily as a means of organizing and containing the political competition among the leaders of the various revolutionary factions. Calles, operating through the party organization, was able to undermine much of the strength of peasant and labor organizations that affiliated with the party and to weaken the regional military commanders who had operated with great autonomy throughout the 1920s. By 1934 Calles was in control of Mexican politics and government, even after he left the presidency, largely through his manipulation of the PNR.

Between 1934 and 1940, an intense struggle for political control developed between Calles and the new president, Cárdenas. At the time, Calles represented the conservative elements of the revolutionary coalition, while Cárdenas drew his support from the more radical political elements. To strengthen his hand against Calles, Cárdenas reunited the labor and peasant organizations that Calles had earlier fragmented and formed two national federations, the National Peasant Confederation (Confederación Nacional Campesina—CNC) and the Confederation of Mexican Workers (Confederación de Trabajadores Mexicanos—CTM). Using these organizations as the bases of his support, Cárdenas then reorganized the PNR in 1938, renaming it the Party of the Mexican Revolution (Partido de la Revolución Mexicana—PRM), incorporating the CTM and the CNC and giving the PRM an organization by sectors: labor, agrarian, popular, and military. The creation of these groups and their integration into the party marked the legitimation of the existing interest group organizations and the transformation of the political system from an elite to a mass-based system. Within a year, the PRM claimed some 4.3 million members: 2.5 million peasants, 1.3 million workers, and 500,000 in the popular sector. In 1946 President Manuel Ávila Camacho abolished the military sector, shifted its members into the popular sector, and renamed the party the PRI.

Beginning with the Cárdenas administration in the late 1930s, the PRI and its predecessors engineered an unprecedented political peace. The overt political intervention by the military that had characterized the country's politics throughout the nineteenth and early twentieth centuries largely disappeared when Ávila Camacho, the last president who came from a military background, left office in 1946. For nearly five decades, there were few episodes of large-scale organized violence and no revolutionary movements that enjoyed widespread support, despite considerable economic strains between 1968 and 1975 and a difficult period of economic austerity beginning in 1982.

For the middle class, whose members typically had led rebellions in the past, the PRI provided upward mobility either through politics (the rule of no reelection opened frequent opportunities for public office) or through business during the high-growth period of "stabilizing development" that lasted from the early 1950s until the late 1960s. The PRI also integrated workers and peasants into the political system by claiming to be the only vehicle able to realize their demands for labor union rights and land reform. The party operated much like an urban political machine in the United States. It weakened attempts to form horizontal class- or interest-based political alliances within the lower class by dispensing services to individuals in exchange for their votes. The PRI emphasized personal relationships between individuals of the lower class and party and government officials. It distributed political patronage from the top down to members of organized labor, the agrarian movement, and the popular sector in accordance with each group's relative strength in a given area. Finally, it used electoral fraud, corruption, bribery, and repression when necessary to maintain control over individuals and groups.

The PRI has been widely described as a coalition of networks of aspiring politicians seeking not only positions of power and prestige but also the concomitant opportunity for personal enrichment. At the highest levels of the political system, the major vehicles for corruption have been illegal landholdings and the manipulation of public-sector enterprises. In the lower reaches of the party and governmental hierarchies, the preferred methods of corruption have been bribery, charging the public for legally free public services, charging members of unions for positions, nepotism, and outright theft of public money. This corruption, although condemned by Mexican and foreign observers alike, historically served an important function in the political system by providing a means of upward mobility within the system and ensuring that those who were forced to retire from politics by the principle of no reelection would have little incentive to seek alternatives outside the PRI structure.

Official corruption reached unprecedented levels during the 1970s when petroleum revenues surged as a result of higher oil prices and when newly discovered oil fields in Chiapas and the Bahía de Campeche began producing. Much of the wealth that flowed into the country through the state oil monopoly, Mexican Petroleum (Petróleos Mexicanos—Pemex), was squandered in wasteful and unnecessary projects and the inflation of payrolls. The main beneficiaries of high-level graft during this period were the senior executives of the national oil workers union and high-level PRI functionaries. This brand of official corruption reached new heights during the presidency of López Portillo (1976–82), who allegedly acquired a US$2 million house as a "gift" from the oil workers' union and was subsequently vilified by the media and the public as a symbol of PRI graft.

Public disclosure of the excesses of the López Portillo years, which came to light during the severe financial crisis of the early 1980s, had a significant impact on the PRI's internal politics as well as on its overall level of public support. Internally, the severe public backlash against the PRI discredited many career politicians within the party who had personally benefited from the fiscal profligacy of the López Portillo *sexenio,* and created opportunities for an emerging generation of *técnicos* (technocrats) to assume high-level government posts. Many of these *técnicos* were brought into the cabinet by President de la Madrid to help restore the integrity of the public accounts during the early 1980s financial crisis.

During the de la Madrid *sexenio* (1982–88), the PRI began to downplay its traditional populist and nationalist agenda and adopted a probusiness, free-market platform. These changes produced an intraparty split between the populist wing dominated by *políticos* (career politicians) and the politically inexperienced *técnicos.* The nomination of Salinas, a Harvard-educated political economist, as the PRI candidate for the 1988 presidential election triggered the final rupture between these two groups. Salinas's nomination prompted two important party leaders, Cuauhtémoc Cárdenas (the son of President

Cárdenas and himself a former governor of Michoacán) and Porfirio Muñoz Ledo (a former PRI secretary general), to resign from the PRI and create a broad coalition of leftist parties, labor unions, and grassroots organizations united in support of a presidential bid by Cárdenas (see Party of the Democratic Revolution, this ch.). This leftist faction criticized the "neoliberal" policies of the de la Madrid government and called for a return to the party's traditional populist platform.

Although the PRI party bosses remained loyal to Salinas, allowing the party to win the July 1988 presidential election, the 1988 vote was a major psychological blow to the ruling party. With the 1988 vote, the PRI saw its fifty-year dominance over the political system come to an almost disastrous end. The PRI received its lowest margin of victory ever, a dubious 50.7 percent of all votes cast, down from 71.6 percent in 1982 and 98.7 percent in 1976. For the first time since the consolidation of single-party rule in the 1940s, opposition leaders were elected to the Senate, and the PRI lost more than one-third of the seats in the Chamber of Deputies to the two main opposition forces, the National Action Party (Partido de Acción Nacional—PAN) and the Cárdenas-led coalition. The results of the 1988 elections were widely viewed as marking the end of single-party hegemony by the PRI and were even interpreted by some observers as a prelude to the fragmentation and collapse of the ruling coalition.

Responding to public pressure for political renewal and seeking to avoid further rupture in the party ranks, President Salinas attempted to improve the PRI's public image without fundamentally challenging its authoritarian and clientelist practices. Salinas took steps to clean up the electoral process and moved forcefully against those elements of the party and organized labor most closely associated with corruption. However, Salinas's anticorruption efforts were by no means systematic. In many instances, corrupt officials were dismissed because of their defiance of the new president rather than for their venality. Although he continued de la Madrid's practice of tapping highly trained technocrats to fill cabinet posts, Salinas took care not to completely disavow the party's *político* wing in filling high-level posts. In addition, the new president shrewdly manipulated state resources through popular programs, such as Pronasol, in order to recover the support of low-income Mexicans who had backed Cárdenas in 1988.

President Salinas's political maneuvers and a modest economic recovery resulted in a better showing for the PRI in the midterm elections of August 1991. In the races for 300 electoral districts in the Chamber of Deputies, thirty-two Senate seats, and six governorships, the PRI won 61.4 percent of the votes cast. This was a sizable increase from the 50 percent received in the 1988 national election. Overall, the PRI won 290 seats in the Chamber of Deputies, all but one seat in the Senate, and five of the six contested governorships.

During his administration, Salinas downplayed the corporatist relationships between the state and society instituted by Cárdenas while reaching out to more traditional interest groups. In his efforts to broaden and democratize the PRI, Salinas distanced the party from the PRI-affiliated labor unions and *ejido* associations, while seeking a reconciliation between the PRI and its historical adversaries, such as foreign investors, agribusiness, private banks, the Roman Catholic Church, and export industries. In foreign affairs, the PRI shed much of its economic nationalism under Salinas, while retaining its independence from the United States on regional security matters. However, even President Salinas was unwilling to seek a constitutional amendment to end public ownership of petroleum and natural gas deposits, a mainstay of PRI nationalism for more than sixty years.

The executive organization of the PRI is pyramidal, with the president of the Republic at the top. The party is headed by a president and a secretary general, who together direct a National Executive Committee of the party's top leaders. At the party base, there is a National Assembly, which meets every six years to discuss and review the party's platform as well as to formally nominate the party's candidate for the presidency. The National Assembly also elects the members of the National Executive Council. Although the party's presidential candidate is formally nominated at the National Assembly Congress, in practice the assembly has served only to ratify the candidate handpicked by the president through the *dedazo*. In accordance with political reforms approved in the early 1990s, the PRI's National Assembly is expected to assume a much more significant role in nominating the party's presidential candidate for the election to be held in the year 2000.

National Action Party

Founded in 1939 by Manuel Gómez Morán, the National

Action Party (Partido de Acción Nacional—PAN) was the first genuine opposition party to develop in Mexico. The PAN emerged as a conservative reaction against the nationalizations and land confiscations undertaken by the Cárdenas government during the 1930s. The PAN resembled a standard Christian Democratic party, and its early support derived primarily from the Roman Catholic Church, the business sector, and other groups alienated by the left-wing populist reforms of the Cárdenas government. Although the PAN is much more conservative than the PRI on social issues, since the mid-1980s the PAN's economic program has been almost indistinguishable from that of the PRI governments it has attempted to supplant.

The PAN has traditionally favored a limited role of the government in the economy, an orientation that has been adopted by the PRI during the past fifteen years under presidents de la Madrid, Salinas, and Zedillo. Historically, the PAN also has campaigned in favor of a breakup of the communal *ejidos* into individually owned plots of land. In 1992 the Salinas administration introduced radical reforms to the land tenure law that allowed *ejidatarios* to sell their plots and to consolidate their holdings (see Rural Society, ch. 2). This convergence of PRI and PAN economic programs encouraged the PAN congressional delegation to work closely with the Salinas administration to pass the government's sweeping economic reforms. In an effort to distance itself from the PRI, in the mid-1990s, the PAN has stressed issues such as the need for democratization, eradication of government corruption, and additional electoral reforms.

Traditionally, the PAN has had strong support in the country's wealthiest and most urbanized regions of the north and center, particularly in the Federal District, Jalisco, Nuevo León, Puebla, and Sonora. The effects of PAN victories in the northern part of the country since the 1980s are highly significant, particularly in the states of Baja California Norte, Chihuahua, Durango, Nuevo León, Sinaloa, and Sonora. The PAN has also displayed political strength in the states of Guanajuato, Jalisco, and Yucatán. The PAN won the governorships and congressional majorities in Baja California Norte and Chihuahua during the Salinas administration, and the local congress in the state of Guanajuato gave a third governorship to the PAN after a state election had been plagued with irregularities. The PAN's major handicap has been its lack of appeal to urban labor and peasant groups.

The PAN has presented a candidate in every presidential race since 1946 with the exception of 1976, when its leadership could not reach consensus on a candidate. It has always been the main opposition to the PRI, although in the 1988 presidential election its presidential candidate, Manuel Clouthier, ran third to Salinas and Cárdenas. By 1992 the PAN controlled more than 100 municipal governments in addition to the three governorships. With Diego Fernández de Cevallos as its candidate and "por un México sin mentiras" ("for a Mexico without lies") as its campaign slogan, the PAN won a comfortable second place in the 1994 presidential race. The second-place win consolidated the PAN's role as the main opposition political force in the country.

Democratic Revolutionary Party

The Democratic Revolutionary Party (Partido Revolucionario Democrático—PRD), established in 1989, evolved from the National Democratic Front (Frente Democrático Nacional—FDN), under the leadership of Cuauhtémoc Cárdenas. Cárdenas left the PRI in 1988 in protest over its choice of Salinas, a free-market reformer, as the PRI's presidential nominee. The PRD's party program emphasizes social welfare concerns and opposes most of the economic reforms implemented since the mid-1980s.

The PRD's agenda dates back to the populist and nationalist measures implemented by President Lázaro Cárdenas during the 1930s. The party promotes economic nationalism, as opposed to the structural neoliberal changes that focus on increasing trade and foreign investment to boost the Mexican economy introduced by the PRI during President de la Madrid's administration. Although the PRD holds a good part of the former communist and socialist parties' rank and file, the PRD is controlled by former PRI leaders. An estimated 70 percent of its leadership consists of former PRI members, while 30 percent consists of former members of the Mexican communist and socialist parties. The PRD president, Porfirio Muñoz Ledo, served as president of the PRI during the *sexenio* of Luis Echeverría Álvarez. The PRD opposed most of the constitutional amendments passed during the Salinas government, the most important being the ecclesiastical, agrarian, and electoral system reforms. Although the PRD is currently recognized as an opposition voice in the national debate, it remains in a distant third place in the electoral scenario. Toward the end of the 1994 presidential race, the left strongly criticized Cuauhtémoc Cárdenas for having lent qualified support to the broad principles of the North American Free Trade Agreement (NAFTA) and the privatization of some state-owned companies. Despite these changes, Cárdenas and the PRD are committed to greater state control of the economy and propose the renegotiation of parts of NAFTA with the United States and Canada.

Minor Opposition Parties

In 1954 dissident members of the PRI established the Authentic Party of the Mexican Revolution (Partido Auténtico de la Revolución Mexicana—PARM). Its political platform, which is based on the principles of the Mexican Revolution and the constitution of 1917, is strongly nationalistic. The PARM has a limited role in national politics, although it was able to maintain its electoral registration status as well as its minority representation in the lower chamber until the 1994 elections, when it received less than 0.5 percent of the vote. The PARM temporarily joined the FDN during the 1988 elections but broke with the party coalition in 1989.

The Popular Socialist Party (Partido Popular Socialista—PPS) was first organized in 1948 by a radical sector of the PRI led by Vicente Lombardo Toledano, the founder of the PRI's labor organization. Despite the PPS's Marxist orientation, its membership has traditionally supported the official party's candidate in presidential elections, while working closely with the PRI in most initiatives dealing with the expansion of the government's role in the economy. In 1988, however, the PPS broke with tradition and joined the FDN in support of Cárdenas's presidential bid. The PPS fielded its own candidate, Marcela Lombardo Otero, in the 1994 presidential election. Otero received 0.46 percent of the total vote.

The Cárdenas Front of the National Reconstruction Party (Partido del Frente Cardenista de Reconstrucción Nacional—PFCRN), formerly the Socialist Workers' Party, was established in 1973 with labor support. It traditionally had worked closely with the PRI, but joined the FDN in supporting the candidacy of Cárdenas in 1988. The PFCRN ran its own candidate, Rafael Aguilar Talamantes, in the 1994 presidential race, receiving 0.77 percent of the vote.

Other small political parties that registered for the 1994 presidential election included the Mexican Green Ecologist

Party (Partido Verde Ecologista Mexicano—PVEM), the Labor Party (Partido del Trabajo—PT), and the National Opposition Union (Unión Nacional Opositora—UNO). Support for the PT and the PVEM is found predominantly in urban areas. The PT operates mainly in the Federal District, where it made a surprisingly strong showing in 1994.

Of the six small political parties that participated in the 1994 elections (PARM, PFCRN, PPS, PT, PVEM, and UNO), only the PT and its candidate, Cecilia Soto González, received more than 3 percent of the vote. Under current electoral law, the PT is the only minor party that may legally contest the next presidential election in 2000.

Institutions of Civil Society

Organized Labor

Labor unions are mostly representative of workers in urban areas. Most labor unions are affiliated with the PRI through the Confederation of Mexican Workers (Confederación de Trabajadores Mexicanos—CTM), which is associated with some independent unions and federations in an umbrella organization known as the Congress of Labor (Congreso del Trabajo—CT). During August 1991, the CT confirmed its direct relationship with the government party in a document called the Political Agreement Between the PRI and the Organization of the CT.

The CT, considered the labor sector of the PRI, consists of more than thirty organizations encompassing 85 percent of the unionized workforce. In the early 1990s, Mexico had an estimated 9.5 million unionized workers. The CT mediates between the labor unions and the government. At the same time, it provides the state with a formal mechanism for political manipulation of the labor force.

The CTM is the largest and most influential organization in the CT, comprising over 11,000 labor unions with more than 5 million union members. It is considered the spearhead of the Mexican labor movement. Since 1941 the CTM has been tightly controlled by its secretary general, Fidel Velázquez, considered one of the most influential political figures in Mexico.

The second organization within the CT is the Federation of Unions of Workers in the Service of the State (Federación de Sindicatos de Trabajadores al Servicio del Estado—FSTSE). The FSTSE was established in 1938 as an umbrella organization for labor unions within the federal civil system and other government-related organizations. In 1990 the FSTSE consisted of eighty-nine unions with a total membership of 1.8 million employees.

The Revolutionary Confederation of Workers and Peasants (Confederación Revolucionaria de Obreros y Campesinos—CROC) is the third largest labor organization within the CT. The CROC was established in 1952; since 1980, it has been under the leadership of Alberto Juárez Blancas. During the 1990s, the CROC had an estimated membership of some 600,000. Other important labor organizations are the Regional Confederation of Mexican Workers (Confederación Regional de Obreros Mexicanos—CROM), the National Federation of Independent Unions (Federación Nacional de Sindicatos Independientes—FNSI), the Confederation of Workers and Peasants (Confederación de Trabajadores y Campesinos—CTC), the International Proletarian Movement (Movimiento Proletario Internacional—MPI), the Confederation of Revolutionary Workers (Confederación de Obreros Revolucionarios—COR), the General Confederation of Workers (Confederación General de Trabajadores—CGT), the Authentic Labor Front (Frente Auténtico del Trabajo—FAT), and the Revolutionary Confederation of Workers (Confederación Revolucionaria de Trabajadores—CRT). There are, in addition, some 1.5 million members of independent unions and company labor organizations.

In theory, labor-management relations are well defined by the Labor Code, which leaves little margin for bargaining in labor disputes. All labor unions receive official recognition by applying to the Secretariat of Labor and Social Welfare. Once it is officially recognized, a union is protected by the Labor Code, which details the rights of each official organization to receive social security payments, to participate in profit sharing, and to use meeting halls, among many other benefits. The code stipulates that strikes are illegal if unauthorized by the secretariat and that workers participating in an illegal strike will be subject to government sanctions and dismissal by their employers.

Corruption, paternalism, and abuse of union funds have traditionally been rampant in the labor movement. In recent years, however, the traditional oligarchic leadership of most Mexican labor unions has been challenged by the rank and file, as well as by independent unions wishing to end the use of leadership positions to amass wealth and power. The lack of support for Salinas's presidential bid by the leadership of some powerful unions, in particular that of the union of oil workers, contributed to a change in government relations with union groups. President Salinas launched an anticorruption campaign during his first year in government, toppling from power strong labor leaders in corruption-related scandals. Although the level of corruption and abuse of power has not been substantially reduced, the political relationship and corporatist structure between the labor sector and the party are currently undergoing profound changes. There is a sharp distinction between two clashing forces in the labor movement: the traditional leadership that forcefully resists political change and a new generation that strongly supports the government's neoliberal policies currently in place. In the mid-1990s, labor groups have less impact on Mexican politics than they did in the past.

Business Organizations

Traditionally, business interests in Mexico are driven by government policies and interests. In addition to participation of individual businessmen in politics, many business groups are represented in government agencies and commissions. There has always been a close connection between the business community and the different economic cabinets. The most influential of all business associations is the Confederation of National Chambers of Commerce (Confederación de Cámaras Nacionales de Comercio—Concanaco). The Confederation of Chambers of Industry (Confederación de Cámaras de Industria—Concamin) serves as the umbrella organization for industrial associations. There is also the National Chamber of Manufacturing Industries (Cámara Nacional de la Industria de la Transformación—Canacintra), which historically has represented small and medium-sized businesses. A sharp distinction exists between small and big business in Mexican politics. Although technically these organizations are not integrated into a particular political party, contributions of big business go first to the PRI to reward government policies that benefit big business and to make sure that such policies continue. According to PRI Finance Secretary Oscar Espinoza Villareal, the Mexican private sector contributed between 54 and 67 billion new pesos (for value of the new peso—see Glossary) to the campaigns of government party candidates for the August 1994 elections.

Business associations such as Concanaco play an active role in government policy debates. Most of the business sector currently supports the reduction of trade barriers, liberal economic policies, and conservative labor legislation. The success of the liberal policies launched during the Salinas *sexenio* greatly benefited the Mexican private sector. Thus, relations between the business community and the PRI improved significantly. A clear example of the improved relationship was a well-publicized gathering held in February 1993, when thirty of Mexico's multimillionaires pledged an average US$25 million each in support of the 1994 PRI election campaign. At the fund-raising dinner, television baron Emilio Azcarrago, considered the richest man in Latin America, pledged US$70 million to the government's party "in gratitude" for his prosperity during the Salinas administration. The great disparity in funding between the PRI and the opposition during the 1994 electoral race was clearly attributable to generous contributions from domestic private enterprises to the PRI.

The Church

Although there has been conflict between church and state in Mexico since the country's independence, more than 90 percent of the population remains Roman Catholic, according to 1990 census estimates. The state feud with the Roman Catholic Church is reflected in the 1917 constitution, which imposes many restrictions on the influence and privileges of the clergy in Mexico. The early drafts of the 1917 constitution banned public religious ceremonies, the establishment of monastic orders, and property ownership by the Roman Catholic Church, and forbade the clergy from participating in elections. All church buildings, according to law, were considered national property, and church ministers had to be Mexican nationals. The law also prohibited criticism of public law and institutions, both public and private, by members of the clergy.

Far from bring a traditional conservative force, however, the Roman Catholic Church has been a strong advocate for social and political change. In the late 1980s, for example, the clergy were active in the northern states, condemning electoral fraud to the extent of threatening to cease celebrating masses unless there were a recount of the vote. The Roman Catholic Church was also instrumental throughout the 1980s in demanding recognition of its legal status and electoral participation for the clergy. Despite the traditional view of the Roman Catholic Church as representative or supporter of the elites, the Mexican Roman Catholic Church has emerged during the last decades as the defender of social justice, and the more progressive clergy have worked closely with underprivileged sectors to increase economic and social reform.

The Salinas administration changed dramatically the relations between church and state in Mexico (see Church-State Relations, ch. 2). During the fall of 1991, Salinas's government took the first steps toward lifting some restrictions on church activities and introduced a reform proposal to end constitutional limits on the church. The new law, approved by the Congress in December 1991 and promulgated in January 1992, amended the constitution of 1917. Under the new law, the Roman Catholic Church is formally recognized by the state, the clergy are allowed to vote, the possession of property by churches is legal, and religion may be taught in private schools. Mexico also established diplomatic relations with the Vatican, relations that had been broken in 1867. State and church, nevertheless, remain separate, and church buildings remain state property.

Protestant groups in Mexico have tended to support the PRI, in light of the party's broad appeal. The political alternatives are not viable options for Mexican Protestants because the opposition on the right, the PAN, openly represents Roman Catholicism and groups on the left exclude religion from their political goals. Toward the latter part of the twentieth century, the participation of Protestant groups in Mexican politics increased as Protestants supported efforts aimed at political change.

Given the country's anticlerical history, it is highly unlikely that the Roman Catholic Church will assume a direct role in Mexican politics in the near future. However, the church's traditional commitment to social justice and economic development, along with the government redefinition of its institutional responsibilities, provides the Roman Catholic Church with a strong voice on future political issues.

The Media

Based on the number of newspapers, publishers, radio stations, and television networks in the country, Mexico is considered the media power center of Spanish-speaking Latin America. Mexico's mainstream newspapers and periodicals range in political ideology and independence from the official government newspaper *El Nacional* to the left-wing independent *El Proceso.* Although the press was for many years generally pro-establishment and supportive of the PRI, it diversified during the 1980s to reflect a wider spectrum of opinion. In early 1994, the government postponed its stated plans to sell *El Nacional* to private owners but declared that the newspaper would no longer receive public funding.

The constitution of 1917 explicitly guarantees freedom of the press. Article 7 forbids prior censorship, and an amendment to Article 6 adopted in 1977 declares that "the right of information will be guaranteed by the state." However, these guarantees are highly qualified in practice. The Press Law of 1917, for instance, restricts the press on matters of personal privacy, morality, and public health. Many other regulations govern the news media. The 1960 Law on Radio and Television, for instance, forbids the broadcast of material deemed offensive to national heroes.

Although nominally independent, the news media are subject to a variety of mainly indirect economic and political pressures from the government. The Secretariat of Communications and Transport supervises the news media, granting publishing and broadcast licenses and ensuring adherence to the media laws. Successive PRI governments have influenced the news media by paying individual journalists for favorable coverage, by restricting access to newsprint and ink (the state monopolizes the production of both, although this control was somewhat reduced under President Salinas), by withholding information from critical journalists, and especially by granting or withholding government advertising, an important source of revenue for the press. Many newspapers accept government payments for the insertion of official announcements disguised as editorials. Occasionally, the government provides indirect financial inducements to particular journalists (for example, by offering them part of the payment for official advertising run by their newspapers). Some journalists and opposition political parties have accused the government of trying to conceal the extent of official subsidies to journalists by redirecting payoffs through the PRI's Office of Information.

Government tolerance of press freedoms varies according to the sensitivities of the president in office. Traditionally, the media avoid direct criticism of an incumbent president. On sensitive issues affecting the government, the press provides only minimal coverage. Among the many unwritten rules is one that says that journalists are expected to respect the image of the president and other high-level government officials.

In essence, government policies may be criticized, but elected individuals must not be ridiculed. Since the early 1980s, the trend toward a more open political debate has brought greater tolerance of criticism in the media. Some argue that this tolerance, which has occurred faster than the increasing democratization of the political system, has definitively contributed to increasing public awareness of the need for changes within the Mexican political system.

Television is highly biased toward the official party, as illustrated by the open support the Televisa network gives to the government. Televisa is part of Mexican Telesystem (Telesistema Mexicano), considered the biggest communications conglomerate in the developing world, as well as one of the world's major transnational media empires. Televisa's political and economic influence in Mexico is extensive. Aside from the ownership of television and radio stations, it has significant interests in newsprint and publishing, record production, home videos, cinemas, advertising and marketing, real estate, tourism, sports, and the food processing and transport industries.

Mexico City has fifteen newspapers; its dailies account for more than 50 percent of the national circulation. In 1994 there were eight newspapers in Mexico City with a daily circulation of more than 100,000 issues: *Esto* (450,000), *La Prensa* (300,000), *Novedades* (240,000), *Ovaciones* (220,000), *El Heraldo de México* (209,600), *Excélsior* (200,000), *El Financiero* (135,000), and *El Universal* (122,000). *Excélsior* is the most prestigious national daily and one of the most prominent newspapers in Latin America, known for its breadth of coverage, analytical style, and relative independence. The oldest of the traditional newspapers is *El Universal*, closely associated with the government throughout the 1970s, but currently known for its independence in reporting. *El Nacional* is the official newspaper of the federal government. The largest newspaper group is the Organización Editorial Mexicana (OEM), which owns some ninety newspapers throughout the country. The second largest publishing group is Novedades Editores, which is part of the Telesistema Mexicano conglomerate. Some of the leading daily newspapers, such as *Excélsior* and *La Prensa*, are run as cooperatives.

There are five national news agencies: Notimex, Infomex, Noti-Acción, Notipress, and Agencia Mexicana de Información. Infomex is the largest, with almost 100 offices throughout the country and some twenty foreign correspondents. All leading international agencies have bureaus in Mexico City.

National broadcasting stations are divided into commercial and cultural networks. All commercial stations are financed by advertising (both public and private) but must provide 12 percent of broadcasting time for government use. All cultural stations are operated by government agencies or by educational institutions. Media analysts expect that the economic policies pursued by the Salinas and Zedillo administrations will have a major impact on the media by further reducing state intervention and promoting the concentration of private ownership.

The Electoral Process and Political Dynamics

The Electoral Process

Article 41 of the constitution of 1917 and subsequent amendments regulate electoral politics in Mexico. Suffrage is universal for all citizens eighteen or older, and voting is compulsory, although this provision is rarely enforced. The Mexican constitution enshrines the principle of direct election by popular vote of the president and most other elected officials. Executive officeholders may not be reelected, and legislators may not serve consecutive terms. Ordinary elections are held every six years for president and members of the Senate, and every three years for deputies. Since 1986 midterm elections have renewed one-half of the Senate, in addition to the entire Chamber of Deputies. Gubernatorial elections are evenly distributed throughout a *sexenio,* so that ordinarily no more than six governorships are contested in any given year.

Although holding multicandidate elections in which the electorate makes the final choice is one of the basic principles of the Mexican Revolution, the electoral process in Mexico has historically fallen short of this liberal ideal. During the sixty-year period of single-party hegemony that followed the consolidation of the revolutionary regime, regular elections became an important symbol of stability and of the regime's self-ascribed democratic character. Beyond fulfilling an ambiguous plebiscitary function, however, elections were not intended as a means of selecting new leaders, nor were they usually relevant to the public policy process. Instead, leadership turnover was centrally controlled by the president, while most significant interaction between public officials and the citizenry took place within the context of day-to-day corporatist bargaining and informal clientelist relationships.

As the beneficiary of a noncompetitive electoral process, the official party has historically enjoyed a near monopoly of all levels of public office. For almost six decades, the principal political battles in Mexico were fought among elite factions and interest groups within the PRI party structure, with little or no meaningful participation by independent organizations or opposition parties. During this prolonged period of one-party hegemony, several modest electoral reforms were implemented by the government in order to maintain the appearance of electoral democracy and undercut the appeal of latent opposition movements. Electoral reforms enacted during the 1970s included the allotment of a minimum number of congressional seats to both legitimate and "satellite" opposition parties. Additional steps toward greater political pluralism were taken during the early 1980s, when President de la Madrid embarked on a campaign to make local-level politics more competitive.

By the mid-1980s, the electoral arena had been liberalized and the political space for opposition had expanded to such an extent that the PRI found itself increasingly challenged at the ballot box. In 1985 the landslide victories of PRI candidates in gubernatorial and municipal elections in the northern state of Chihuahua led to widespread allegations of electoral fraud by the opposition PAN, which had expected major wins in one of its traditional strongholds. In an unprecedented series of public protests, a variety of civic groups, with support from the Roman Catholic Church, staged massive demonstrations denouncing the official tallies.

Responding to increasing popular pressure for democratization, the de la Madrid administration in 1986 introduced an electoral reform package that expanded opportunities for an opposition presence in the congress. The 1986 Electoral Reform Law enlarged the Chamber of Deputies from 400 to 500 seats and doubled the number of congressional seats filled by proportional representation to 200. Of the 500 deputyships, one each is allocated to 300 electoral districts, elected by simple plurality in single-member districts comparable to those in the United States. The remaining 200 seats are assigned by proportional representation based on a party's share of the national vote tally. The proportional seats give opposition parties an opportunity to be represented in the congress even if they lose all of the district races. The PRI assured, however, that the distribution of proportional seats would not become a means for a coalition of parties without a plurality of the overall vote to take control of the lower house. A clause in the electoral law provides that enough proportional seats in the Chamber of Deputies be assigned to the party winning an overall plurality in the election to give that party a majority in the Chamber of Deputies.

Theoretically, no party is barred from holding a single-member district seat, although in practice an overwhelming number of such seats have been held by the PRI. The increase in the number of proportional seats was a concession to the opposition, which relies heavily on proportional seating for its representation in the congress. The 1986 reform also introduced proportional representation in state legislatures as well as government funding for all registered political parties.

The 1988 Elections

The 1988 elections were a watershed in the history of Mexican politics, marking a radical shift in the country's political dynamics and providing the first test of the 1986 electoral reforms. The emergence of two nationally prominent opposition candidates afforded an unprecedented challenge to the PRI's electoral machine, which until that time had faced mostly obscure and poorly financed adversaries.

Assailed by a partisan rupture over the nomination of Salinas, which ultimately led to the defection of much of the PRI's populist wing to the leftist opposition, the PRI party apparatus was under intense pressure to produce a victory or face disintegration. Within the context of a national economic crisis, an intraparty split, and a hotly contested presidential race, many observers expected the PRI to resort to fraud to secure a decisive win.

Although the PRI maintained control of the presidency and preserved its congressional majority in the July 1988 balloting, the elections were a blow to the PRI's preeminent position in Mexican politics. The PRI suffered a dramatic erosion of 18 percent in its share of the presidential vote from the previous election and surrendered an unprecedented 48 percent of seats in the Chamber of Deputies to the opposition. The official tally, which showed Salinas winning a bare majority of 50.7 percent of the vote, was questioned by an unexpected week-long delay in the computerized tally and widespread reports of vote fraud and irregularities. As a result, the new administration began its term in office as one of the most unpopular in recent Mexican history.

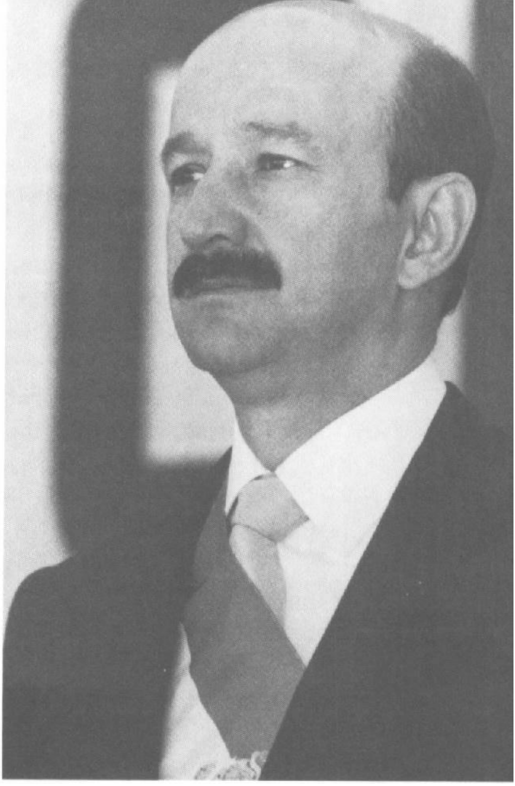
The Salinas Presidency: Reform and Retrenchment

Upon assuming office in December 1988, Salinas faced grave challenges to his authority as president. Among his most pressing concerns was the need to defuse political tensions that had arisen in the highly polarized climate of the election. The defection of many former PRI stalwarts and the threat of further erosion of the party ranks also placed enormous pressure on Salinas to relax the economic austerity measures put in place by his predecessor. Compounding the new government's problems was the fact that, for the first time in its history, the PRI did not command the two-thirds majority in the Chamber of Deputies required to amend the constitution. To continue liberalizing the economy, the government would need to negotiate with the 101 delegates of the "moderate" opposition (the center-right PAN) to remove the remaining constitutional barriers to reform.

Perhaps the most formidable political challenge faced by the new Salinas administration was mistrust of the official party's leadership and its lack of credibility among a likely majority of the electorate in light of the questionable results of the 1988 presidential vote. In the aftermath of the narrow PRI presidential victory and facing widespread charges of electoral fraud, President Salinas sought limited reforms of the electoral process without disavowing the PRI's many legal and financial advantages in the political system.

Seeking to restore the government's credibility and to pacify the opposition, Salinas increased the opportunities for opposition politicians to take office at the state and local levels. This strategy benefited mainly the PAN, whose free-market economic policies closely resembled those of the modernizing *técnico* wing of the PRI. Whereas previous PRI administrations had been willing to concede some municipalities to the PAN, the growth of opposition strength after the 1988 elections compelled the PRI to begin surrendering state governments as well.

The first test of Salinas's commitment to cleaner gubernatorial elections came in 1989, when the PRI conceded its first governorship to an opposition party by accepting a PAN victory in Baja California Norte. In 1991 PRI victories in the gubernatorial elections in Guanajuato and San Luis Potosí sparked widespread allegations of fraud. In both cases, the president



Carlos Salinas de Gortari, president, 1988–94
Courtesy Embassy of Mexico, Washington

intervened by forcing the local PRI candidate to step down. Whereas in San Luis Potosí another PRI leader was installed as interim governor, in Guanajuato the interim governorship was handed to the PAN candidate.

The 1992 gubernatorial elections in Chihuahua and Michoacán illustrated the Salinas administration's ambivalent approach toward the opposition in general. Although the PAN candidate won and was allowed to take office in Chihuahua, the PRI spent vast amounts of party and government funds to defeat the PRD in its regional stronghold of Michoacán. Following months of strident PRD protests over the official results, Salinas faced the prospect of a massive protest march on Mexico City. The president was finally compelled to intervene and replace the sitting governor with a more suitable PRI substitute.

Although President Salinas's rejection of overt electoral fraud was by no means novel or systematic, his admonitions concerning fraud in state and local elections did help curb some of the more conspicuous abuses. In addition, the president's moves against individuals associated with corruption served as a powerful weapon in his reformist struggles against the most recalcitrant factions of the PRI old guard. Many members of the PRI's *político* wing opposed the president's economic policies and resented central government interference in state and local politics.

Contradicting his moves on behalf of more transparent and competitive elections, Salinas took some measures that made it more difficult for the opposition to contest the PRI's public policy initiatives. In the name of preserving "governability," Salinas resorted frequently to his executive prerogatives in pushing legislation through the Congress with a minimum of public debate. Although the 1990 electoral reform created institutions and a legal framework to fight electoral fraud and abuses, it also contained a new formula for legislative seating that made it more difficult for the opposition to gain seats in the Chamber of Deputies. Under the 1990 electoral code, the threshold for obtaining an automatic majority of seats in the chamber was reduced to 35 percent of the national vote. This threshold practically ensured that any future PRI administration could count on a PRI-controlled Chamber of Deputies to pass its legislative initiatives. This highly unpopular electoral law was rescinded in 1994 during the reforms leading to the August elections.

One of the key features of the 1990 electoral code was the abolition of the discredited Federal Electoral Commission and its replacement with a new Federal Electoral Institute (Instituto Federal Electoral—IFE). The IFE is a semiautononomous organization, consisting of representatives from government and the major political parties. It supervises elections and investigates complaints of irregularities. The IFE also administers the entire electoral process at the federal, state, and local levels. During the early 1990s, reforms of the IFE strengthened its capacity to serve as a nonpartisan electoral commission. These reforms included the introduction of majority nonpartisan representation (six out of eleven seats) in the IFE governing board, a legal framework for Mexican and foreign observers to monitor the elections, and an independent audit of the national voter list. Other electoral rules implemented during the Salinas *sexenio* included the compilation of a new and more accurate national electoral roll, and the issue of new voter registration cards bearing voter photographs and fingerprints.

The Salinas government reform program was twofold. It focused on economic growth and the replacement of wide-ranging subsidies to the middle class by a welfare program targeted at the poorest sectors of Mexican society. In a coordinated effort to stimulate economic growth and restructure the economy, Salinas promoted the privatization of state firms that brought more than US$10 billion to the Mexican government. The administration also launched an active campaign to increase foreign investment in Mexico. A second approach involved the massive National Solidarity Program (Programa Nacional de Solidaridad—Pronasol), which was to help the poor and attract political support (see Social Spending, ch. 2). Pronasol distributed several billion dollars, derived from privatization funds, aimed at delivering public works projects to poor areas within the country. Heavy government spending on social projects (schools, health clinics, and roads, among others) contributed to PRI victories in the 1991 midterm elections.

Two important events in 1994 led to dramatic political reforms. First came the Chiapas rebellion on New Year's Day, in which an army of some 2,000 peasants led by the masked Subcommander Marcos demanded social justice and democratization of the Mexican political system (see President Salinas, ch. 1). Two months later, PRI presidential candidate Colosio was assassinated while campaigning in Tijuana.

Despite the rhetoric calling for political reform and democratization, President Salinas actually strengthened the traditional pattern of centralized authority in the decision-making process. A clear example of the continuation of the *dedazo* was the tight control and secrecy around the unveiling of the second PRI presidential candidate, Zedillo, soon after Colosio's assassination. Critics charged that much of the effort to curb voting fraud stemmed not from a change in institutions but from the personal intervention of President Salinas. Electoral reform was also inhibited by a lack of meaningful political participation by women (who did not attain voting rights until 1954) and by ethnic minorities. Despite the glorification of Mexico's indigenous history in popular art and literature, Mexico's indigenous peoples have been largely marginalized in national politics.

Foreign Relations

The principles of Mexican foreign policy are respect for international law and the judicial equality of states, respect for the sovereignty and independence of nations, nonintervention in the domestic affairs of other countries, the peaceful resolution of conflicts, and the promotion of collective security through participation in international organizations. Traditionally, Mexico's foreign policy has been considered leftist, prorevolutionary, and nationalistic. Demonstrating independence from United States foreign policy, Mexico supported the Cuban government during the 1960s, the Sandinista (see Glossary) revolution in Nicaragua during the late 1970s, and leftist revolutionary groups in El Salvador during the 1980s.

Mexico has played a minor role in international affairs through most of its history. Since the mid-nineteenth century, Mexican foreign policy has focused primarily on the United States, its northern neighbor, largest trading partner, and the most powerful actor in hemispheric and world affairs. Mexico's role in international affairs was limited until the 1970s, mainly because of the country's need to concentrate on domestic issues, particularly on internal stability and economic growth.

The discovery of vast petroleum reserves during the 1970s, however, placed Mexico in the forefront of oil producers and exporters. Mexico soon became the principal supplier of oil to the United States after the 1973 energy crisis. The heavy inflow of dollars contributed to changing Mexico's perceptions of its role in world affairs while increasing its potential of becoming an important regional power. Mexico has maintained an independent oil policy, however, refusing to join the Organization of the Petroleum Exporting Countries (OPEC) during the 1970s, but participating in the Organization of Latin American Petroleum Exporting Countries (OLAPEC) during the 1980s.

Beginning with the presidency of Luis Echeverría (1970–76), Mexico developed and implemented a more independent and assertive foreign policy. Following an activist policy independent of the United States, the Echeverría government asserted Mexico's position as a leader in the developing world's affairs, particularly on discussions for establishing a new international economic order as part of the so-called "North-South Dialogue." The Echeverría administration boycotted the General Assembly meeting of the Organization of American States (OAS) in 1973 to protest the military coup in Chile that deposed the popularly elected government of Salvador Allende Gossens and suspended diplomatic relations with Chile and South Africa because of these governments' human rights violations. The Mexican government frequently criticized United States foreign policy for favoring military regimes throughout the Third World. Most distinctively, Mexico adopted an aggressive role as a leader within Latin America in concerted efforts

Ernesto Zedillo Ponce de León, president, 1994–
Courtesy Embassy of Mexico, Washington

to adopt a unified position in regional relations against the United States.

During the late 1970s, Mexico broke diplomatic relations with the Somoza regime in Nicaragua on the advent of the Sandinista revolution and in 1980 joined Venezuela in the San José Accords, providing favorable trade conditions for oil supply to the depressed economies of Caribbean and Central American countries. In 1983 Mexico was instrumental in the establishment of the Contadora (see Glossary) Group, a diplomatic effort by four regional governments (Colombia, Mexico, Panama, and Venezuela) to present a Latin American solution to the crisis in Central America. The document developed by the Contadora Group was instrumental in the final Central American Peace Plan (see The United States and the Crisis in Mexico, ch. 1).

During the Salinas administration, the central theme of Mexican foreign policy became free trade, especially NAFTA. Mexico focused on bilateral discussions with countries within the hemisphere in an effort to improve trade and investment potential. By 1994 it had signed free-trade agreements with Venezuela and Colombia (effective January 1, 1995) as well as with Bolivia. Under President Salinas, Mexican nationalism was redefined as "progressive nationalism," or the pursuit of economic development while strengthening Mexico's international role. Salinas felt that national independence demanded that Mexico effectively insert itself into the international market. In the mid-1990s, President Ernesto Zedillo continued to stress Mexico's strategic position and market potential worldwide.

Relations with the United States

Throughout its history, Mexico has had an ambivalent love-hate relationship with its northern neighbor. Nationalist rhetoric continuously highlights the loss of one-half of Mexico's territory and natural resources to the United States in the 1800s. Even at times when United States-Mexican relations have been at their best, this loss is still present in Mexican rhetoric. During the Rio Group summit in September 1994, for example, President Salinas commented on the United Nations-sponsored United States intervention in Haiti, "Having suffered an external intervention by the United States, in which we lost more than half of our territory, Mexico cannot accept any proposal for intervention by any nation of the region." In economic terms, good relations with the United States have long been critical for Mexico, given that its northern neighbor is its principal trading partner, both for exports and imports. For its part, the United States gives serious consideration to its relations with Mexico because of Mexico's strategic location on the United States southern border as well as the fact that Mexico has the largest oil deposits in Latin America.

Relations between the countries often have been characterized by conflict. Analysts attribute much of the antagonism to the great disparities in wealth between the two countries; a history of intervention by the United States that makes Mexico highly critical and suspicious of United States positions; cultural differences and stereotypes of both nations; and the high levels of interdependence on many socioeconomic and political issues, both at the national level and in border areas.

In the past, Mexico defied the United States on a number of crucial hemispheric issues. Mexico never broke relations with the Cuban communist regime as did the rest of Latin America in the early 1960s. During President Echeverría's *sexenio*, Mexico took a leading role in demands for a new international economic order. During the 1970s, Mexico challenged the United States position in Central America and led a concerted regional effort that excluded the United States to bring a peaceful end to regional conflicts. During the 1980s, Mexico was highly critical of United States policy in El Salvador and, along with the French government, called for formal recognition of the Salvadoran guerrillas in the peace process.

The most important bilateral issues in the 1990s are drugs, trade, and illegal immigration into the United States. Drug trafficking is a pressing issue for both Mexico, as a producer and point of entry of the drug trade from South America into the United States drug market, and the United States, as a major consumer. Mexico insists that the trafficking of drugs would not exist without the enormous and growing market in the United States, thus placing responsibility on its northern neighbor. Nevertheless, the corruption and crime provoked by the growing drug business in Mexico have led the Mexican government to take domestic antidrug measures. The Salinas government launched a massive military campaign to counter the threat posed by the narcotics trade within the country. In 1989 Mexico signed a cooperation agreement with the United States on fighting the illegal drug trade (see President Salinas, ch. 1). Mexico's position on drug trafficking consists of two major contentions: Mexico will make a good-faith effort to eradicate the production and trade of drugs, and it will not, under any circumstances, allow the consolidation of narcotics groups within its territory. Currently, Mexico has a large portion of its army involved in the government's drug eradication program (see Narcotics Trafficking, ch. 5).

Trade between the two nations remains an important issue. A trade and environmental agreement signed in late 1989 paved the way for an expansion of bilateral trade and investment with the United States. In 1990 Mexico began negotiations over NAFTA with the United States and Canada. The main objective of NAFTA was to remove all trade barriers and investment obstacles among the three countries over a fifteen-year period. Negotiations concluded in 1992, and NAFTA was approved in 1993. The agreement was activated on January 1, 1994, creating the world's richest and largest trading bloc, consisting of 360 million consumers in a US$6.6 trillion market (see Foreign Trade, ch. 3).

A third pressing issue between the two countries continues to be illegal immigration of Mexicans into the United States. By the mid-1990s, this issue occupied center stage in United States-Mexican relations. Since the 1960s, the number of Mexican illegal immigrants into the United States has soared to an average of 300,000 to 500,000 per year. These groups are concentrated in the southwestern states of the United States, especially California. Although NAFTA may help to decrease this trend in the long run, the presence of a large number of illegal residents in the United States—many of whom benefit from local and federal programs—triggered a legislative proposal in 1995 in the state of California to deprive these groups of any United States government support. In particular, legislation in the state of California has revived anti-United States feelings among Mexicans.

Relations with Cuba

Mexican policy toward Cuba has been the cornerstone of its assertive independence from United States policies. Mexico's closeness with Cuba also set it apart from its Latin American neighbors, especially in the 1960s when Mexico was the only Latin American country that did not break diplomatic relations with the Cuban government. Mexico also opposed any foreign interference in Cuban affairs, including the United States-backed Bay of Pigs invasion in 1961 and the expulsion of Cuba from international organizations—for example, the suspension of Cuba from the OAS in 1962. As part of asserting Mexican independence from United States policy toward Cuba, the Mexican president pays an official visit to Cuba during the last year of his term. This practice was established by President Echeverría in 1975 and continued by presidents López Portillo in 1980, de la Madrid in 1988, and Salinas in 1994. Mexico and Cuba currently hold many formal agreements on economic, educational, and cultural issues.

Relations with Guatemala

Mexico's shared border with Guatemala has led to tensions between the countries. Because of the disparity between the two countries in economic levels and power, some critics draw parallels to United States-Mexican relations. Traditionally, Guatemalans have crossed the border seasonally to work in the coffee fields of southern Mexico. During the early 1980s, however, a military campaign against indigenous Mayan peasants in northern Guatemala forced an exodus of refugees, who crossed the Mexican border to get away from the violent displacement of their communities. From 1982 to 1993, more than 40,000 Maya lived in refugee camps along the southern border of Mexico, creating a problem for local authorities. The

Mexican government, at both the national and local levels, was unprepared and unwilling to support such mass immigration into its territory. The emergence of the Zapatista guerrilla movement and alleged drug trafficking in the region exacerbated the situation. The Mexican government was criticized for its neglect and selectiveness regarding political asylum issues. Repatriation agreements between the Guatemalan government and organized refugee groups were reached during 1992, providing for the return of these groups to their country. Repatriation has proceeded slowly since then.

Relations with Other Latin American Countries

Mexico is a founding and active member of various hemispheric fora that support regional political and economic cooperation within Latin America. Mexico is, for example, a founding member of the OAS and the Inter-American Treaty of Reciprocal Assistance (Rio Treaty). But although Mexico is an active participant in many regional organizations, it maintains an independent view and often dissents from decisions taken by the international forum. Its record within the OAS consistently shows an independent Mexican policy: Mexico dissented from the United States-sponsored 1954 Caracas Resolution, which was directed at the leftist government of Jacobo Arbenz Guzmán in Guatemala; it systematically opposed the United States-led imposition by the OAS of economic sanctions against Cuba during the 1960s; and it opposed United States interventions in the Dominican Republic (1965), Grenada (1983), Panama (1990), and Haiti (1994).

Through most of the 1980s, Mexico was among the leaders of an intra-Latin American cooperation effort that excluded the United States. As a member of the Contadora Group established in 1983 with Colombia, Panama, and Venezuela, Mexico advocated a negotiated settlement of the Central American conflict and called for the withdrawal of foreign influence—including that of the United States and the Soviet Union—from the region. Mexico was also a founding member of the Cartagena Group (1984), an informal Latin American forum established to deal collectively with issues concerning foreign debt. Along with Venezuela, Mexico established the San José Accords, a cooperative effort to supply Central American nations, Barbados, the Dominican Republic, and Jamaica with oil on concessionary terms. Currently, Mexico is an active participant in the Group of Eight (derived from the Contadora

Group), which includes Argentina, Brazil, Colombia, Mexico, Panama, Peru, Uruguay, and Venezuela; and in the Group of Three, along with Colombia and Venezuela.

Membership in International Organizations

Mexico has always been a staunch supporter of international cooperation through multilateral institutions. Mexico maintains diplomatic relations with 176 countries. Mexico also is a founding member of the United Nations and participates as an active member in more than seventy other international fora, including the General Agreement on Tariffs and Trade (GATT; now the World Trade Organization—WTO), the Organisation for Economic Co-operation and Development (OECD), the Asia Pacific Economic Cooperation (APEC) forum, NAFTA, and the Rio Group. In addition, the Mexican government was among the leading members of the Inter-American System that drafted the Treaty of Tlatelolco, which prohibits Latin American countries from acquiring nuclear weapons.

Prospects for the Future

The presidential election of 1994 was unlike any election of the twentieth century. With more than 80,000 Mexican observers and 1,000 foreign poll watchers stationed around the country, the 1994 presidential election was, by far, the most open and honest in modern Mexican history. A high voter turnout (70 percent of the electorate) provided credibility to the election process and confirmed the government's commitment to, and the legitimacy of, democratic practices in Mexico. In his campaign, the new Mexican president, albeit representing the traditional forces within the official party, promised to divert powers from the executive branch to the other two branches of government. He also promised to democratize the PRI's presidential selection process.

Although significant changes during the 1990s have contributed to the development of a more competitive and democratic Mexican political system, a strong executive branch, as well as a close connection between the PRI and the government, continues to prevail as the official party enters its seventh decade in power. Most analysts agree that the period of PRI hegemony is over. The outcome of this new pluralism, however, is a matter for conjecture. Mexico today faces the challenge of maintaining political and economic stability while pursuing a dramatic transition toward an open economy and a competitive, pluralist political system.

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The body of work on Mexican politics is extensive. Recent books include Roderic A. Camp's *Politics in Mexico,* Wayne A. Cornelius and Ann L. Craig's *The Mexican Political System in Transition,* Dan A. Cothran's *Political Stability and Democracy in Mexico,* and Jaime E. Rodríguez's *The Evolution of the Mexican Political System.* Roger Hansen's *The Politics of Mexican Development,* although becoming dated, continues to provide the best analysis of the PRI. The articles on Mexico in *Latin America and Caribbean Contemporary Record* provide useful information on political and economic events, as do the articles on Mexico in the yearly special issue of *Current History.* Information on contemporary events is available in the *Latin America Regional Reports: Mexico and Central America Report* and *Latin America Weekly Report,* both published by Latin American Newsletters of London, and in various issues of the *Financial Times,* the *Los Angeles Times,* the *New York Times,* the *Wall Street Journal,* the *Washington Post,* and the Mexican newspapers *Excélsior,* the *News,* and *Uno Más Uno.* (For further information and complete citations, see Bibliography.)