THE POLITICAL ECONOMY OF TRADE LIBERALIZATION IN MEXICO: THE DE LA MADRID ADMINISTRATION, 1982-1988

Malory Greene

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To my mother and father

Abstract

This thesis examines the political economy of Mexican trade policy in the administration of Miguel de la Madrid (1982-1988). The central question focuses on the reasons for and the conditions under which Mexico decided to liberalize its trade regime in the early 1980s. The study contends that Mexico implemented trade policy reforms because of a combination of five international and domestic factors. The first variable - the 1982 economic crisis - proves to be the catalyst for policy reform. Without this external shock, the Mexican policymakers might not have taken the decision to change so fundamentally the post-Second World War development strategy. The second determinant examines the international, especially US, pressures for economic policy change. It is argued that these pressures reinforced and helped speed up a liberalization process that the Mexican government itself had already initiated. The third factor explores the global resurgence of neoliberalism and the transmission of ideas. It is maintained that neoliberal ideas were carried from the international to the domestic arena through international education and institutions via an epistemic community. This paradigm shift globally proved to be a legitimizing factor for Mexican policymakers. The fourth variable is the institutional arrangements of the Mexican state. This factor conferred the Mexican decision makers with a certain degree of autonomy in the policymaking process, making the individual policymakers themselves important. Finally, the fifth factor examines the key policymakers and their perceptions, values and experiences. These policymakers were predisposed toward economic liberalization through a change in their professional and educational socialization experiences. All of the five variables are mutually dependent and reinforcing factors that best explain why Mexico liberalized its trade regime in the 1980s.

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As always, I accept full responsibility for the views and any errors expressed in this thesis.

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Acronyms

ANIERM	Mexican Importers and Exporters Association
CANACINTRA	National Chamber of the Transformation Industry
CCE	Co-ordinating Business Council
CNC	National Peasant Confederation
CNE	National College of Economists
CONCANACO	Confederation of Chambers of Commerce of Mexico
CTM	Confederation of Mexican Labour
CVDs	countervailing duties
DIMEX	Import Rights for Exporters
ECLA	(United Nations) Economic Commission for Latin America
EFF	Extended Fund Facility
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
HST	hegemonic stability theory
IDB	Inter-American Development Bank
IEPES	Institute for Political, Economic and Social Studies
IMCE	Mexican Institute of Foreign Trade
IMF	International Monetary Fund
IPN	National Politechnical Institute
ISI	import substitution industrialization
ITAM	Autonomous Technological Institute of Mexico
MFN	Most Favoured Nation
OPEC	Organization of Petroleum Exporting Countries
OECD	Organization for Economic Co-operation and Development
PAN	National Action Party
PEMEX	Mexican Petroleum Company
PIRE	Immediate Economic Rearrangement Programme
PND	National Development Plan
PRI	Institutional Revolutionary Party
PROFIEX	Integral Programme for Export Development
PRONAFICE	National Programme for Industrial Protection and Trade,
PSBR	public sector borrowing requirement
SECOFI	Secretariat of Commerce and Industrial Promotion
SEMIP	Secretariat of Energy, Mines and Parastatal Industry
SEPAFIN	Secretariat of Patrimony and Industrial Promotion
SEPANEL	Secretariat of National Patrimony
SHCP	Secretariat of the Treasury
SP	Secretariat of the Presidency
SPP	Secretariat of Programming and Budget
SRE	Secretariat of Foreign Relations
UNAM	National Autonomous University of Mexico
UNCTAD	United Nations Conference on Trade and Development
UNOID	United Nations Organization for Industrial Development

Chapter One: Introduction: Trade Policy Reform in Mexico

Introduction

This thesis examines the reasons why Mexico liberalized its trade regime during the administration of Miguel de la Madrid (1982 to 1988). The focus is on the first four years of the de la Madrid government when Mexico substantially reduced commercial restrictions and made the commitment to long-term structural change by joining the General Agreement on Tariffs and Trade (GATT).[1] Trade policy reform was so fundamental that, by the end of the decade, Mexico went from being one of the most protected to one of the more open economies in the international system.

The liberalization of trade restrictions is important because not only did it signal a policy shift, but it marked a watershed in the underlying philosophy of Mexico's post-Second World War development strategy (1940 to 1982). The postwar policy had been loosely based on the theory of economic nationalism, emphasizing the primacy of the state in economic policymaking and industrialization as its foremost objective. With the de la Madrid administration, Mexico now turned toward the theory of economic liberalization. Rather than supporting state intervention, the new philosophy stressed the commitment to the market and the price mechanism and managing the market economy in order to achieve economic growth, maximize efficiency and ensure the progress of the modernization of Mexican society.

Why did Mexico reverse forty years of development policy and shift toward economic liberalization in the 1980s? The principle hypothesis examined argues that Mexico's trade liberalization was introduced as a result of complementary international and domestic pressures, which bolstered a process of reform *initiated*, on its own accord, by the de la Madrid economic team.

[1]The GATT entered into force in January 1948 - the only multilateral instrument that lays down agreed rules for international trade. The GATT's principal objective is to liberalize international trade and place it on a secure basis, thereby contributing to economic growth and development. It acts both as a code of rules and as a forum in which countries can discuss solutions to their trade problems and negotiate the reduction of various trade restrictive and distortive measures.

Although the Mexican policymakers[2] are responsible for making the decision to liberalize the economy, it was the international and domestic pressures which facilitated the *pace* and *intensity* of the reforms and ensured their continuance. Without these pressures, it is unlikely that the de la Madrid government would have liberalized as quickly and to the extent that it did in the 1980s.

The international relations field has long sought to determine a framework for analysis that would integrate both the international and domestic determinants for policy change.[3] It is not the purpose of this thesis to evaluate the relative merits of these approaches, but rather to state that both international and domestic variables are essential to explaining trade policy reform in Mexico. The economic policy of Mexico is affected by the qualities of its policymakers, its domestic socio-political and economic conditions and by the external environment and the stimuli the state receives abroad. Neither an emphasis on the international nor the domestic alone can determine the reasons for policy reform. As Keohane quite aptly argues,

> An international analysis ... is ... neither an alternative to studying domestic politics, nor a mere supplement to it... On the contrary, it is a *precondition* for effective comparative analysis. Without a

[2]The terms policymaker and decision maker are used interchangeably to mean the top political leaders in the executive branch.

[3]For a discussion of the tri-level analysis, see, for example, Kenneth Waltz in *Man, State and War: A Theoretical Analysis* (New York, NY: Columbia University Press, 1954); on 'linkage politics', see James Rosenau, 'Toward the Study of National-International Linkages', *Linkage Politics: Essays on the Convergence of National and International Systems* (New York, NY: Cornell University Press, 1969); for an examination on two-level game approach, see Robert D. Putnam, 'Diplomacy Politics: The Logic of Two-Level Games', *International Organization* (Vol. 42, Summer 1988); for a critique of the two-level construct, see Jeffrey W. Knopf, 'Beyond Two-level Games: Domestic-International Interaction in the Intermediate-Range Nuclear Forces Negotiations', *International Organization* (Vol. 47, Autumn, 1993); For a discussion on the domestic determinants of foreign policy, see Peter Katzenstein (ed.), *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States* (Madison, WI: University of Wisconsin Press, 1978) and Stephen Krasner, *Defending the National Interest* (Princeton, NJ: Princeton University Press, 1978); and finally, for an examination of the impact of the international economy on domestic politics and domestic economic policy, see Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca, NY: Cornell University Press, 1986).

> conception of the common external problems, pressures, and challenges ... we lack analytic basis for identifying the role played by domestic interests and pressures ... Understanding the constraints imposed by the world political economy allows us to distinguish the effects of common international forces from those of distinctive national ones.[4]

Thus, this thesis offers five international and domestic determinants that have had, to varying degrees, significant effects on trade policy direction in Mexico: the impact of the 1982 economic crisis; leverage by international actors; the transmission of ideas; the institutional arrangements of the state; and the perceptions, values and experiences of the individual policymakers. These factors were derived through an examination of the empirical evidence provided by a wide-array of governmental and nongovernmental documents and interviewing Mexican and US politicians, civil servants and academics. (Archival work and interviews were held in London, UK; Madrid, Spain; Washington DC, USA; and Mexico City, Mexico. A list of interviews is included in the bibliography.)

The chapter is divided into three parts. The first section discusses the international relations theories that best explain why Mexico implemented trade liberalization policies. In addition, the section examines the existing studies on Mexican trade policy reform in the 1980s and highlights the problems with these analyses. The second part of the chapter discusses the five variables and how they answer why Mexico liberalized its trade regime in the 1980s. The final part outlines the structure of the thesis.

[4]Robert Keohane, 'The World Political Economy and the Crisis of Embedded Liberalism', in John H. Goldthorpe (ed.), *Order and Conflict in Contemporary Capitalism* (Oxford: Clarendon Press, 1984), p. 16.

1.1 Theoretical Approaches to Policy Change

There is no one theory that adequately explains why Mexico liberalized its trade regime. This thesis offers three: international regime theory, the epistemic community approach and a domestic political analysis. Before these theories are examined it is important to point out why the thesis does not use asymmetrical interdependence. When analyzing Mexico's foreign policy - usually *vis-à-vis* the United States - complex interdependence[5] is often employed.[6] According to this approach, it is the asymmetries in dependence that are the sources of power and influence of one actor toward another in the international system. Hence, because of the asymmetrical interdependence between the United States and Mexico, the former has more power in influencing economic policy in the latter - forcing Mexico to implement economic policies it might not have otherwise chosen.

Understanding and defining power resources and the bargaining process are problems of the concept.[7] The power to influence policy is not always as obvious as the relative strengths would make it appear. As Keohane and Nye point out, political bargaining is usually the 'means of translating potential into effects, and a lot is often lost in the translation'.[8] The reasons for Mexico opening its trade regime is more subtle than pure power relations would suggest. Rather than the use of asymmetrical power relations, an analysis of the interplay between international interdependence and domestic politics is essential.

This thesis utilizes international regimes, transnational networks and the Mexican state to analyze why Mexico liberalized its trade regime. The agreed upon rules in the international arena can greatly influence domestic behaviour.

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[5]The concept of complex interdependence was introduced by Keohane and Nye. See Robert Keohane and Joseph Nye, *Power and Interdependence*, 2nd ed. (London: Scott, Foresman and Company, 1989).

[6]See, for example, George Grayson, *Oil and Mexican Foreign Policy* (Pittsburgh, PA: University of Pittsburgh Press, 1988).

[7]R. Keohane and J. Nye, *op. cit.*, in footnote 5, p. 225.

[8]*Ibid*, p. 11.

International regimes, embodying the rules and regulations, are important influences on domestic policymaking. In addition, the role played by transnational alliances of parallel members in different societies and states also pressure domestic policy choices. Finally, the domestic policymaker in the executive branch and the institutions responsible for decisional outcomes are key to explaining Mexican trade policy reform.

1.1.1 *International Regime Theory*

The discussions of interdependence and what factors propel co-operation at the international level has focused attention on international regimes.[9] Although the international system appears to be an 'anarchical society',[10] international co-operation, not conflict, is often the outcome of relations among states. The interest in international regimes is influenced by the wish to comprehend the mutually accepted limitations that affect the behaviour of nation-states. International regimes are defined simply as the 'principles, norms, rules and, decision making procedures around which actor expectations converge in a given issue-area'.[11] By creating or accepting the international regime, state governments regulate and control transnational and interstate relations. An example of an international regime is the global trading system created after the Second World War. The trade regime, as represented by the GATT, encompasses a combination of rules and

[9]For further discussion on the regime literature, see, for example, the special issue in *International Organization* (Vol. 36, No. 2, 1982). Also see, Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, NJ: Princeton University Press, 1984). For a critique of the concept, see Susan Strange, '*Cave! hic dragones*: A Critique of Regime Analysis', in Stephen Krasner (ed.), *International Regimes* (London: Cornell University Press, 1983). Strange argues that the concept is a fad, ambiguous and imprecise. She maintains that the concept is value-based, essentially static and rooted in a state-centric paradigm.

[10]Hedley Bull, *The Anarchical Society: A Study of Order in World Politics* (London: Macmillan Press, 1977).

[11]Stephen Krasner, 'Structural Causes and Regime Consequences', *International Organization* (Vol. 36, No. 2, Spring 1982), p. 185.

norms that limit government intervention in the international political economy and facilitate the free flow of goods across national boundaries.

Some regime analysts point to the role of a hegemon in assuming the leadership and guaranteeing the order in the international political economy, and thus perpetuating the international trade regime.[12] The analysis for this study emphasizes the international transactions among nation-states rather than the hegemon. This position argues that increasing transactions in the international system triggers a learning process which produces and ensures the perpetuation of international regimes. This would explain the lag times between changes in power structures and transformations in international regimes.[13] The approach maintains that even if the hegemonic actor becomes too weak to enforce the basic rules upon which the system depends, the international regimes put in place by the hegemon tend to persist and can even be strengthened.[14] The analysis, therefore, should not concentrate on the existence of a hegemon as a stabilizing influence in the international system, but on the ideas, values and norms of the regime left in its place. *It is the international regime, not the hegemon, that influences domestic policymakers.*

International regime explanations for policy change are important in order to set the broad margins of and to describe the environment in which certain

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[12]The hegemonic power has a strong preference for liberal economic regimes and possesses the power to maintain such regimes either by providing collective goods - such as an open and liberal trading system - or by coercing reluctant states to participate. The hegemonic economy uses its influence to create the norms and values that make up the international regimes. The regime dictates what is and is not legitimate behaviour in order to limit conflict, ensure equity or expedite agreement. The HST holds that domestic policy change is shaped by a state's position in the international economy. The HST has been subjected to much inquiry and debate. See Duncan Snidal, 'The Limits of Hegemonic Stability Theory', *International Organization* (Vol. 39, No. 4, Autumn 1985) and R. Keohane, *op. cit.*, in footnote 9. The demise of the HST school of thought is not so clear cut. The debate about the decline of American hegemony is addressed in Susan Strange, 'The Persistent Myth of Lost Hegemony', *International Organization* (Vol. 41, No. 4, Autumn 1987).

[13]Keohane argues that the HST theory could not explain these lag times. Robert O. Keohane, 'The Demand for International Regimes', *International Organization* (Vol. 36, No. 2, Spring 1982), p. 326.

[14]D. Snidal, *op. cit.*, in footnote 12.

policy decisions were made, however, they cannot explain the reasons for specific policy choices by domestic policymakers. With the increasing interdependence of national economies, there results a clash between domestic policy autonomy and the influence of international regimes. A central focus of this thesis is how the set of ideas or beliefs were transferred from the international system into the domestic decision making process (in Chapter 5). In the case of Mexican trade reform, the acceptance of international regimes could be explained by: 1) coercion; 2) by some inherent logic of economic liberalism or 3) an acceptance of an ideology, a belief or set of ideas. This thesis argues that Mexican trade liberalization was neither the product of coercion nor the product of the power of the market. Rather, this study asserts that Mexican policymakers voluntarily, consciously and deliberately embraced the ideas of the international regime, and formulated policies accordingly. An explanation for how these ideas and beliefs are transferred from the international to the domestic is needed. The epistemic community approach attempts to provide the link.

1.1.2 *The Epistemic Community Approach*[15]

An epistemic community is a network of knowledge-based experts with recognized specialization and ability in a particular field and an authoritative claim to policy-relevant knowledge within this sphere or issue-area. The epistemic community approach explores the role of these communities in helping the state identify its interests and determining the reasons for and possible solutions to complex problems facing the nation. The state, in response to new knowledge articulated by an epistemic community, may elect to pursue entirely new objectives - such as

[15]The term 'epistemic community' comes from B. Holzner and J. Marx, see Burkhart Holzner and John H. Marx, *Knowledge Application: The Knowledge System in Society* (Boston, MA: Allyn & Bacon, 1979), pp. 107-11. They defined the term as a shared faith in the scientific method as a way of generating truth. My use of epistemic community will draw from Peter M. Haas. See, for example, Peter M. Haas, 'Introduction: Epistemic Communities and International Policy Coordination', *International Organization* (Vol. 46, No. 1, Winter 1992), pp. 1-35 and Peter Haas, 'Obtaining International Environmental Protection through Epistemic Consensus', in Ian H. Rowlands and Malory Greene (eds), *Global Environmental Change and International Relations* (London: Macmillan, 1992), pp. 38-59.

economic policy reform. The group of scholars who put forth this view argue that control over knowledge and information is an important dimension of power and that the diffusion of new ideas and information can lead to new patterns of behaviour.[16]

This approach uses the epistemic community as the basic unit of analysis. They have:

> 1) a shared set of normative and principled beliefs, which provide a value-based rationale for the social action of community members;
>
> 2) shared causal beliefs, which are derived from their analysis of practices leading or contributing to a central set of problems in their domain and which then serve as the basis for elucidating the multiple linkages between possible policy actions and desired outcomes;
>
> 3) shared notions of validity - that is, intersubjective, internally defined criteria for weighing and validating knowledge in the domain of their expertise; and
>
> 4) a common policy enterprise - that is, a set of common practices associated with a set of problems to which their professional competence is directed, presumably out of the conviction that human welfare will be enhanced as a consequence.[17]

Epistemic communities consist of individuals from any discipline or profession, such as economics, who have a strong claim to a body of knowledge valued by society. These individuals acquire their knowledge through educational and professional experiences. All economists, for example, do not belong to an epistemic community. They share a set of causal approaches and a consensual knowledge, but they do not necessarily share *normative* commitments. Each sub-group of economists, such as Keynesians, structuralists and monetarists, constitute

[16]See the contributions to *International Organization* (Vol. 46, No.1, Winter 1992).

[17]P. Haas, 'Introduction', *op. cit.*, in footnote 15.

epistemic communities on their own. Each systematically contributes to a concrete set of projects informed by its preferred views, beliefs and ideas.

Although an epistemic community emerges in the national arena, they often forge links with like-minded communities internationally. These transnational links are strengthened as a result of the diffusion of community ideas through conferences, journals, research collaboration and an array of informal dialogues and connections. These transnational ideas take root in international organizations and/or in individual state institutions. Then they are circulated to other states via the decision makers who have been influenced by the community's ideas.

According to this approach, there are three major elements for epistemic co-ordination: uncertainty, interpretation and institutionalization. The complex and technical nature of the wide-range of issues (e.g., monetary, macroeconomic and environmental) confronting domestic policymakers today causes a certain amount of uncertainty with regard to policy formulation, *especially in times of crisis*. With the increasing economic interdependence of nation-states and the globalization of the economy, the domestic and international agendas have become increasingly linked. Understanding these complex linkages is vital for domestic policy formulation. In times of uncertainty, policy elites may not be sure what strategies will most likely keep them in power. Also, poorly understood conditions create enough disorder that standard operating procedures may break down, making institutions unworkable. When confronting conditions of uncertainty, therefore, policymakers have reasons to look to specialists for help.

Because of the epistemic community's acknowledged expertise, its members are accorded access to the political system by policy elites who legitimize their activities. Whether the ideas of these communities influence policy choice depends upon the group's access to the decision making process. One way this is done is through the political infiltration of an epistemic community into governing institutions. This access enables the community to lay the groundwork for a broader acceptance of their ideas and beliefs. An important point that this approach makes is that once inside the bureaucratic process, these communities do not operate to preserve their mission and budgets, as the bureaucratic politics paradigm would indicate. Rather, the epistemic community applies its knowledge and beliefs to the policymaking process. Once part of the bureaucracy, the community may vie for key positions, thus increasing their influence over policy decisions. The epistemic community approach to policy change attempts to answer questions such as, how ideas emerge and change, why some ideas prevail over others, how these ideas are disseminated and who the carriers are. The communities, who acquire their knowledge through both professional and educational experiences, are the channels or carriers of the new ideas into the domestic policymaking process. The epistemic community can influence the content and direction of policy through access to state institutions.

Haas argues that by shifting the focus to these 'goal-seeking' actors, the study of international relations is influenced in two ways: by the substantive role of ideas as a motivating source of national interest and by the question of institutional learning as different governments respond to the provision of consensual knowledge.[18] International relations scholars have introduced many variables and concepts to help understand policy outcomes and co-ordination. The epistemic community approach explains how these transnational networks convey ideas to decision makers that influence their perceptions of policy dilemmas and the possible solutions to the problems. Thus, the epistemic community approach is useful for understanding how the ideas and perceptions of the domestic policymakers are formed.

Both international regime theory and the epistemic community approach help explain why Mexico liberalized its trade regime. The first approach describes the international policymaking environment and the rules and norms of the international system. The epistemic community approach illustrates how the international regimes are transferred from the international to the domestic policymaking arena. It provides an answer to how decision makers acquire

[18]P. Haas, 'Obtaining...', *op. cit.*, in footnote 15, p. 41.

particular policy preferences and what international factors determine the perceptions of specific policy problems. What is needed now is an analysis of the domestic political process.

1.1.3 *The Domestic Political Process*

This state-centred approach[19] attributes policy outcome to the individual policymakers and the institutional arrangements of the state. Both elite theories of politics and the institutional theories of the state represent these positions.[20] The state is credited with specific interests and policy preferences of its own as well as the capacity to impose those preferences against domestic resistance. The capacity to implement policy depends on the institutional setting and the organizational resources they have at their command and the autonomy of the state.[21] Without a certain degree of state autonomy, policy elites would find it difficult to pursue

[19]See, for example, Theda Skocpol, 'Bringing the State Back In: Strategies of Analysis in Current Research', in P. Evans, D. Rueschemeyer and T. Skocpol, *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985).

[20]For information on elite theory, see Patrick Dunleavy and Brendan O'Leary, *Theories of the State: The Politics of Liberal Democracy* (Basingstoke: Macmillan Press, 1987), Chapter 4. For a discussion of the 'new institutionalism', see James G. March and Johan P. Olsen, 'The New Institutionalism', *American Political Science Review* (Vol. 78, No. 3, September 1984).

[21]There exists a vast literature on the autonomy of the state (or lack of). The definition of 'autonomy' poses some problems as it is not clearly defined. The Marxist definition holds that autonomy exists when the state overcomes the opposition of the capitalist class that is taken to be dominant within civil society. Hamilton defines autonomy as 'the ability of those who control the state apparatus to use it for ends other than, and particularly contrary to, those of the dominant class, since it is this class which benefits from the reproduction of the existing mode of production by the state'. Others explain the term as the extent to which the state translates its own preferences into authoritative actions. Nordlinger offers four subjective properties of the state: malleability, insulation, resilience and vulnerability. See, for example, Nora Hamilton, *The Limits of State Autonomy: Post-Revolutionary Mexico* (Princeton, NJ: Princeton University Press, 1982), p. 23; Eric A. Nordlinger, *On the Autonomy of the Democratic State* (Cambridge, MA: Harvard University Press, 1981). Joel Migdal focuses on the dichotomy of a strong state-weak state, rather than on the autonomy of the state. According to Migdal, whether a state acts autonomously is not the central question. Rather, the focus should be on whether the state is able to implement what its policymakers set out to do. Joel Migdal, 'Strong States, Weak States: Power and Accommodation', in Myron Weiner and Samuel P. Huntington, *Understanding Political Development* (Boston, MA: Little, Brown and Co., 1987) and also see Stephen Krasner, *Defending the National Interest* (Princeton, NJ: Princeton University Press, 1978).

politically delicate policies associated with dramatic shifts in policy, such as trade liberalization. The state-centric explanations are important for indicating the major role played by decision makers and state institutions in determining policy outcomes. In a country like Mexico, where the state defines the goals and objectives of society, the perception of these policymakers and the organizational context of the government is vital to policy reform.

The state-centric analyses rely exclusively on the state as the most important actor in the international system. They consider all states as somewhat the same, ignoring the structural power relations among states. In addition, this approach does not acknowledge the importance that transnational actors and coalitions can play in international relations, thus it understates the role of non-state actors within and outside of the state.[22] However, the emphasis on the individual policymakers and the institutional arrangements of the state coupled with international regimes and transnational networks does provide a satisfactory theoretical framework for analysis. The following section discusses the existing studies on trade policy reform in Mexico and how they are lacking in their explanations.

[22]For critiques of the state-centric, realist paradigm, see, for example, Robert Keohane (ed.), *Neorealism and its Critics* (New York, NY: Columbia University Press, 1986).

1.2 Existing Studies

Although there is ample material written on Mexican economic policymaking in general - especially the management of the debt crisis,[23] there exists no study that adequately answers why Mexico liberalized its trade regime. Three works do attempt to address this question. The first two explore the reasons for economic policy change by focusing on the international determinants, while the third examines the domestic variables. In the first work, Teichman argues that state managers were weak *vis-à-vis* international actors and therefore, Mexico liberalized its economy primarily because of pressure from the United States and international financial institutions.[24] This explanation disregards the importance of domestic factors, wrongly argues that state managers were in a weak position *vis-à-vis* international actors, and cannot explain Mexico's decision to liberalize trade *before* these external forces were exerted.

The second study by Stallings does not address Mexico specifically but offers a general framework for developing countries.[25] She maintains that although domestic influences can be important, international factors - such as the leverage by international actors - are crucial to explaining broad policy shifts. Her argument, while useful for an international analysis, fails to explain why Latin American countries facing similar external pressures took very different policy directions.

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[23]See, for example, John Bailey, *Governing Mexico: The Statecraft of Crisis Management* (London: Macmillan Press, 1988); Wayne A. Cornelius, *The Political Economy of Mexico Under de la Madrid: The Crisis Deepens, 1985 - 1986* (San Diego, CA: University of California, San Diego, Center for US - Mexican Studies, 1986); Robert E. Looney, *Economic Policymaking in Mexico: Factors Underlying the 1982 Crisis* (Durham, NC: Duke University Press, 1985); Miguel D. Ramírez, *Mexico's Economic Crisis* (New York, NY: Praeger, 1989) and Donald L. Wyman, *Mexico's Economic Crisis: Challenges and Opportunities*, Monograph Series 12, Center for US-Mexican Studies (San Diego, CA: University of California, San Diego, 1983).

[24]Judith A. Teichman, 'Mexico and Economic Change', *Latin American Perspectives* (Vol. 19, No. 2, Spring 1992).

[25]Barbara Stallings, 'International Influence on Economic Policy: Debt, Stabilization, and Structural Reform', in Stephen Haggard and Robert R. Kaufman (eds), *The Politics of Economic Adjustment* (Princeton, NJ: Princeton University Press, 1992).

Both these studies identify the leverage by international actors, but fail to acknowledge the importance of domestic factors for Mexican trade policy reform. Although this thesis does acknowledge its importance, the leverage argument leaves important questions unanswered. If international actors were so influential, then why did some Latin American countries liberalize in the 1980s and others did not? Are domestic factors totally irrelevant? Do not domestic policymakers have some say in policymaking or are they at the mercy of international pressures?

Stallings does highlight a very important international variable - the transmission of ideas - but she does not take the argument far enough. She argues that the transmission of ideas is indeed an important factor in the broad policy shift toward economic liberalization in the developing world. She does not, however, identify how these ideas influence decision makers or how they were transferred from the international to the domestic policymaking arena. The transmission mechanisms and the carriers of ideas are important factors for Mexico's decision to liberalize its trade regime. The thesis analyzes the reasons for the resurgence of neoliberalism globally and the means by which the ideas were transferred to Mexican policymakers.

The third study examined primarily the domestic reasons for policy change - the role of the private sector during the de la Madrid administration.[26] Of all the interest groups in Mexico, the business community would most likely have had the most influence on policy direction. Yet, Hobbs found that business groups, although more influential than in the past, were marginalized in the policymaking process before 1985 because of the corporatist structure of the Mexican state. After this time, the private sector was restricted to a reactive rather than proactive role in policymaking decisions. By identifying the corporatist structure of the Mexican state, Hobbs does identify an important variable for policymaking in Mexico - the institutional arrangements of the Mexican state. However, he does

[26]See, Jeremy Hobbs, *The Role of Business Organisations in the Transition from an Import Substituting to an Export-oriented Model of Growth in Mexico After 1982*, PhD thesis (Colchester: University of Essex, 1991).

not emphasize the institution of the presidency or the importance of the individual policymakers within the executive branch. These two factors are key to explaining the domestic variables for trade policy reform during the de la Madrid administration.

As argued above, there are many important questions still unanswered in these three studies. In response, this thesis attempts to provide a fuller understanding for why Mexico liberalized its trade regime by introducing five factors. It is argued that the domestic and international determinants are mutually dependent and reinforcing variables. Without any one of the five variables, Mexico would have had a much more difficult time implementing such radical policy reforms. The variables are discussed in the following section.

1.3 International and Domestic Determinants

This thesis proposes five international and domestic determinants for Mexican trade reform in the 1980s. The international factors are the impact of the 1982 economic crisis, leverage by international actors and the transmission of ideas from the international system to the domestic political arena. It is argued that the economic crisis is the catalyst for policy change, the leverage by the international actors proves to be a reinforcing factor, while the shift in the global development paradigm provides the outer margins for policy choice. The domestic variables are the institutional arrangements of the state and the perceptions, values and experiences of the individual policymakers. The study maintains that the institutional arrangements bestow the Mexican decision makers with a certain degree of autonomy in the policymaking process, while the perceptions, values and experiences determine the specific policy choices. These five mutually reinforcing variables best explain why Mexico liberalized its trade regime during the de la Madrid *sexenio*.[27] The international and domestic variables are introduced below.

1.3.1 *The Economic Crisis*

The early 1980s was a time of crisis in Mexico. Not only was the country unable to service its huge external debt and manage its considerable budget deficit, but there were socio-political problems that had been brewing for over a decade.[28] The new de la Madrid government was confronted with the task of attempting to manage the economic, political and ideological crises.

In this study of why Mexico decided to liberalize its trade regime, the economic crisis confronting the country is one of the foremost external variables. Hence, the nexus between crisis and policy change is central to the thesis.

[27]The *sexenio* is the 6-year presidential term. The 1917 Constitution stipulates that a Mexican president can only serve one term; he cannot stand for re-election.

[28]For more information on the concept of crisis and the socio-political problems, see Miguel Basañez, *20 Years of Crisis in Mexico, 1968-1988*, PhD Thesis (London: The London School of Economics and Political Science, 1991).

However, determining the link between the crisis and policy change can be difficult. Unless a clear measure of crisis is adopted, explanations can involve a sort of circular reasoning: fundamental policy changes are initiated because there is a crisis and therefore a crisis exists when major policy reforms are adopted. Hampson offers three criteria to define a crisis situation: policymakers perceive that a crisis exists; there is a general consensus among the policymakers that the crisis situation is real and of a threatening nature; and decision makers believe that failure to act on the crisis could jeopardize the legitimacy and survival of the regime.[29]

Crisis decision making provides the opportunity for policy reform. Not only is there a perceived threat, but policy decisions must be made in a short time period. The primary actors responsible are the president and his advisors excluding the Congress, bureaucracy and interest groups.[30] It is argued that during such crises, there is not only strong pressure for reform, but decision makers are more likely to institute radical or innovative policies than when a crisis does not exist. Although institutions are prone to inertia, they become more flexible in times of crisis. The environment becomes less of a policymaking constraint and new ideas and solutions are introduced.

Although the crisis situation of the early 1980s provided the opportunity to implement reforms, it did not necessarily stipulate what those reforms would entail. As the cases of many countries in Latin America clearly illustrate, similar crises generated dramatically different policy responses. In the largest and third largest debtor countries in the region, Brazil and Argentina, domestic policymakers were resistant to neoliberal stabilization policies and these countries

[29]Fen Hampson, *Forming Economic Policy: The Case of Energy in Canada and Mexico* (London: Pinter Publishers, 1986), pp. 16-17.

[30]For more information on crisis policy, see Randall B. Ripley and Grace A. Franklin, *Congress, The Bureaucracy and Public Policy* (Homewood, IL: Dorsey Press, 1980); John Spanier and Eric M. Uslander, *American Foreign Policy Making and the Democratic Dilemmas*, fourth ed. (London: Holt, Rinehart and Winston, 1985); and Graham Allison, *Essence of Decision: Explaining the Cuban Missile Crisis* (Boston, MA: Little, Brown and Co., 1971).

applied a variation of heterodox policies to deal with the economic crisis. In Mexico, on the other hand, orthodox stabilization policies were implemented and long-term structural reform, including trade liberalization, were policy objectives from the beginning of the de la Madrid administration. The difference in policy response was due to domestic factors. Although the economic crisis acted as an external pressure for some kind of policy reform and was a necessary precondition for policy initiatives, the exact content was determined by domestic policymakers.

1.3.2 *International Leverage*

The second international force for policy change in Mexico concerns the leverage placed on the Mexican decision makers by the creditor nations - primarily the United States, international financial institutions and commercial banks. The leverage by international actors proves to be a reinforcing factor for policy reform. It is necessary to examine the dimensions of the action, but is not particularly useful in explaining why specific changes occurred in Mexico. In 1982 Mexico could no longer service its external debt obligations and required International Monetary Fund (IMF) assistance in the form of stand-by loans, renegotiations of the debt and increased levels of financial support. The leverage argument maintains that the magnitude of the crisis and the need to rely to some extent on external assistance, provided an opportunity for those external players to offer assistance and set the conditions for its disbursement. In exchange for increased financial assistance, the IMF, the major donor institutions and the United States prescribed economic management based on neoliberal economics and focused on stabilization and structural adjustment.

The 'leverage' explanation argues that the external economic crisis changed the basic policy agenda during the 1980s, forced some policy changes directly and enhanced the political power of creditors. Because of the economic constraints on domestic policymakers and the asymmetry in the power relations between Mexico and its creditors, the country was strongly pressured to adopt the orthodox policy reforms.[31] But can national responses be explained solely by the power of international actors? Because of the leverage they had, did international creditors force Mexico to reform policy? Most Latin American countries experienced the debt crisis, and subsequently faced pressure of varying degrees to reform policy in the direction of neoliberalism. Yet, the differences in their policy responses are more striking than their resemblances. How then can a difference in policy responses in the various countries be accounted for?

There are two problems with the 'leverage' argument: the problems of implementation and the lack of commitment by the debtor countries. First, international actors had difficulty imposing their preferences despite apparent power asymmetries between them and the Latin American countries. Kahler found three obstacles that reduced the leverage of these international actors: the problems of cross-conditionality among donors and international financial institutions, the multiple and conflicting goals *vis-à-vis* the debtors and the difficulties that arose in the attempt to impose external conditions.[32] These problems of policy direction, co-ordination and implementation greatly reduced the leverage by the international actors over the Mexican decision making process. In addition, whether certain policy reforms would be implemented depended upon the commitment of the specific domestic government. Kahler found in a cross-national study that those committed to policy reform would most likely undertake them and those that were opposed would resist their implementation.[33] Thus, the central focal point returns to the domestic policymakers.

It is acknowledged that the international actors, especially the United States, had a considerable degree of leverage on Mexican policymaking, but this pressure did not force Mexico to implement policies it had not already wanted.

[31]B. Stallings, *op. cit.*, in footnote 25.

[32]Miles Kahler, 'External Influence, Conditionality and the Politics of Adjustment', in Stephen Haggard and Robert R. Kaufman (eds), *The Politics of Economic Adjustment* (Princeton, NJ: Princeton University Press, 1992).

[33]*Ibid.*

Rather, the reinforcement from these international actors facilitated the *speeding up* of policy implementation and ensured their continuity. Moreover, the thesis will demonstrate that this leverage came after important long-term structural changes had already been initiated. The policy prescriptions advocated by these international governments and agencies coincided with a preferred policy path of the de la Madrid economic team.

1.3.3 *The Transmission of Ideas*

Keynes argues that:

> the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually slaves of some defunct economist.[34]

This indeed proved to be true for this case. The third international factor is the transmission of ideas from the international system to the domestic political arena. The crisis enabled new ideas and solutions to enter the policymaking process. These new ideas were brought in through information available from technical experts both inside and outside of the government. This technical information, carried by an epistemic community, was important in convincing decision makers in Mexico that a crisis existed, reform was needed and only certain options could solve the economic problems.

The thesis examines the fundamental shift in economic policy in the industrialized nations and the corresponding change in policy in the developing world. A shift occurred in the global development paradigm ushered in by new ideas concerning the best way for states and markets to interact. With the ascendance of neoclassical economics in Britain and the United States in the late 1970s and early 1980s, there occurred a shift toward orthodoxy in most developing

[34] J. M. Keynes, *The General Theory of Employment, Interest and Money* (London: Macmillan, 1936), p. 383.

nations. In addition to the rise of such ideas in government circles, there was a long-term intellectual change within the economics profession and the development field. The *perception* that the East Asian newly industrializing countries had broken into international markets by shifting from an inward- to an outward-looking development strategy played an important role. The stark lessons of the successful export-oriented East Asian countries and the heavily-indebted and inward-looking Latin American nations were quite apparent to Mexico. The ISI strategy and the heterodox policies implemented in Latin America as a whole seemed to demonstrate the failure of the region's post-Second World War development model.

The channels for transferring these orthodox ideas from the developed to the developing world include academic and institutional links. Through the study of these new ideas in the academic literature and through foreign education, senior economic policymakers and academic economists were important carriers of neoliberal economic ideas into Mexico. In addition, many of the Mexican policymakers had worked for international institutions such as the World Bank, the IMF or the Inter-American Development Bank (IDB). These technocratic policymakers had a greater understanding of the new ideas and a comparative knowledge of similar countries' experience through these transnational links with an epistemic community. This international linkage had a tremendous impact on the perceptions and values of Mexican policymakers.

The international conditions discussed above: the economic crisis, the leverage by international actors and the transference of ideas from the developed to the developing world all serve to explain the environment in which policymaking was made in Mexico in the early 1980s. International events may well have determined the margins and conditions for policy choice, but policymakers were still left with a significant range of options and substantial room for manoeuvre in the extent, timing and order of reform initiatives.[35] These individuals have made the critical difference in the introduction, the scope and the pursuit of economic policy reform. The discussion now turns to the two domestic factors: the institutional arrangements of the state and the perceptions, values and experiences of the individual policymakers.

1.3.4 *The Institutional Arrangements of the State*[36]

This first domestic factor - the institutional arrangements[37] of the Mexican state - is important for explaining economic policymaking because it endows the state with considerable powers *vis-à-vis* social classes and interest groups and places the executive branch at the forefront of making policy choices. The Mexican political system is characterized by limited political pluralism, low subject mobilization of the population and the predominance of patrimonial rulership on the part of a single leader or small group.[38] By briefly examining statism and presidentialism, it will be possible then to focus the analysis on the few individuals in the executive branch responsible for economic policymaking in Mexico.

The roots of the modern Mexican state can be found in the Mexican Revolution and particularly the 1917 Constitution. According to Article 25:

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[35]Reform is defined here as deliberate attempts by policymakers to 'redress perceived errors in prior and existing policy and institutional arrangements'. See Merilee S. Grindle and John W. Thomas, *Public Choices and Policy Change: The Political Economy of Reform in Developing Countries* (London: The John Hopkins University Press, 1991), p. 8.

[36]There are many definitions of the state. The interpretation used here identifies both the individuals who occupy decision making positions within the executive and bureaucracy and the state institutions. The state is defined as an enduring set of executive and administrative organizations whose role is to control a given territory and to make authoritative decisions for society. See Max Weber, 'Politics as a Vocation', in H. Gerth and C. Wright Mills, *Max Weber: Essays in Sociology*, 7th ed. (Oxford: Oxford University Press, 1970), pp. 77-8.

[37]For an institutional analysis in the case of Mexico, see J. Bailey, *op. cit.*, in footnote 23 and Sylvia Maxfield, 'Bankers' Alliances and Economic Policy Patterns: Evidence from Mexico and Brazil', *Comparative Political Studies* (Vol. 23, No. 4, January 1991).

[38]See Susan Kaufman Purcell, 'Decision-Making in an Authoritarian Regime: Theoretical Implications from a Mexican Case Study', *World Politics* (Vol 26, October 1973), p. 30.

> The rectorship of national development corresponds to the State in order to guarantee that this [development] is integral, that it fortifies the sovereignty of the nation, and that through the promotion of economic growth, employment, and a more just distribution of income and wealth, it permits the full exercise of the liberty and dignity of individuals, groups and social classes, whose security this constitution protects.[39]

Most importantly, the constitution provided the legal basis for an interventionist and autonomous state *vis-à-vis* social classes or interests and established Mexican sovereignty over its natural resources. Hamilton dates the consolidation of the Mexican state from the Cárdenas period (1934 to 1940) when it took its nationalist-populist form.[40] Statism as an institutional feature of the Mexican regime endows the state with considerable powers. As the rector of the economy, the Mexican state greatly influences the national unity and cohesion of society by the perceived pursuit and achievement of economic growth and development. In turn, the Mexican regime derives a large degree of legitimacy from this economic advancement, empowering the state and reducing the influence of the strongest interest group - the private sector.[41]

Traditionally, interest groups and competing political parties have had very little input into the policymaking process. Since the 1940s, the state has co-opted and controlled all major interest groups - the peasant, labour and some business

[39]John Bailey, *Reform of the Mexican Political System: Prospects for Change in 1987-88* (Washington, DC: Office of External Research, US Department of State, 17 July 1987), p. 14.

[40]N. Hamilton, *op. cit.*, in footnote 21, p. 271.

[41]For more information on the private sector, see John Bailey, 'The Impact of Major Groups on Policy-Making Trends in Government-Business Relations in Mexico', in R. Camp (ed.), *Mexico's Political Stability: The Next Five Years* (London: Westview Press, 1986); Roderic A. Camp, *Entrepreneurs And Politics in Twentieth-Century Mexico* (Oxford: Oxford University Press, 1989); Sylvia Maxfield, 'International Economic Opening and Government-Business Relations', in W. Cornelius, J. Gentleman, and P. Smith (eds), *Mexico's Alternative Political Futures*, Monograph Series 30 (San Diego, CA: Centre for US-Mexican Studies, University of California, San Diego, 1989); S. Maxfield and R. Anzaldúa M. (eds), *Government and Private Sector in Contemporary Mexico*, Monograph Series 20 (San Diego, CA: University of California, San Diego, Center for US - Mexican Studies, 1987); and L. Rubio F., 'The Changing Role of the Private Sector', in S. K. Purcell (ed.), *Mexico in Transition, Implications for US Policy: Essays from Both Sides of the Border* (New York, NY: Council on Foreign Relations, 1988).

organizations by incorporating them into the ruling party, the PRI. This arrangement is characterized by compulsory membership, lack of competition, hierarchical relationships and little or no autonomy from the state.[42] The Mexican state has performed the critical function of regulating sociopolitical and economic interactions among various social forces through pacts and coalitions - a 'revolutionary coalition'.[43] Because of this coalition, the political system has enjoyed relative stability for over sixty years.

Since policy emanates from the executive branch, it is then important to discuss the institution of the presidency. Theoretically, the constitution provided for legislative and judicial branches to provide checks-and-balances powers, but in practice, power has rested with the presidency. During the six-year term, the Mexican president is virtually omnipotent. He is generally immune from media criticism and opposition within the PRI. Until recently, the congress and the bureaucracy all obeyed him unconditionally. The president made all laws while the congress and the court functioned as rubber stamps.

The presidency has evolved so that it is the key to economic policy formulation and implementation. The institution of the presidency provides a small group of policymakers, led by the president, a substantial amount of autonomy in the policymaking process. The values, perceptions and experiences of these few individuals are key to the reasons for trade policy reform in the early 1980s. The next section outlines these individual policymakers.

1.3.5 *The Individual Policymakers*

In times of crisis and within the institutional framework of the Mexican state, individual policymakers have considerable autonomy in the policymaking process.

[42]Rose J. Spalding, 'State Power and its Limits: Corporatism in Mexico', *Comparative Political Studies* (Vol. 14, No. 2, July 1981), p. 141.

[43]Brandenburg called this group the 'revolutionary family' while Padgett named it the 'revolutionary coalition'. Frank Brandenburg, *The Making of Modern Mexico* (Englewood Cliffs, NJ: Prentice-Hall, 1964) and L. Vincent Padgett, *The Mexican Political System* (Boston, MA: Houghton Mifflin, 1966).

The structure of the political institutions in Mexico influence both the capacity of the individual policymakers to act and the extent of social interests that are represented. Domestic policymakers are in the unique position to identify, articulate and propose policy reforms that coincide with the aims of the state and society. Policymakers are aware of the international and domestic interests and constraints in both historical context and bureaucratic capacity. They seek to manoeuvre within these constraints and to design solutions that will be politically acceptable and seriously address public problems.[44]

The choices available to the domestic policymakers are not derived from interest groups or classes, international actors and conditions or by the hold of history or culture on policy choices. Such influences form the outer boundaries of policy choice, but still leave the policymakers substantial room for manoeuvre. This room for manoeuvre and influence defines what Grindle and Thomas call a 'policy space'. For any given problem,

> a space that is determined by the ability of a regime and its political leadership to introduce and pursue a reform measure without precipitating a regime or leadership change or major upheaval and violence in society, or without being forced to abandon the initiative. Within issue areas, a policy space consists of the range of options that could be introduced without major adverse consequences for policy makers, the regime, or reform itself.[45]

Why a specific policy decision is taken can best be understood by examining the origins of the perceptions, values and experiences of the individual decision makers. When determining the reasons for policy choices it makes a difference what values, experiences, training and commitments policymakers have when they are involved in discussions and debates about particular policy and organizational reform initiatives. The thesis argues that because of the generational distance from the 1910 Revolution and a shift toward private and foreign

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[44]M. Grindle and J. Thomas, *op. cit.*, in footnote 35, p. 5.

[45]*Ibid*, pp. 7-8.

postgraduate education, the Mexican governing elite has changed.[46] With the transformation in the ruling elite, policymakers have developed fundamentally different policy perceptions and prescriptions.

Because of the different personal values and predispositions of individuals, it makes a difference who the policymakers are. Especially in a country like Mexico where only a few individuals are involved in the policymaking process, the individual characteristics of the decision makers loom large and can greatly affect the outcome of issues being discussed. The perceptions of policy problems and the perceived viable solutions are important determinants in reform initiatives. These perceptions are undoubtably influenced by ideological biases. The thesis argues that through a domestic socialization in technocratic ministries - the central bank and the treasury - and private and foreign education - primarily in the United States - those policymakers predisposed to neoliberalism came to power and put forth their policy preferences.

The perceptions and ideological beliefs of the individual policymakers are greatly influenced by professional expertise and training. Increasingly, individuals with technical training and experience in specific subjects are found among decision makers in Mexico.[47] Their specialization - in economics and public administration, for example - influences how they perceive problems and what solutions they believe ought to be applied. These domestic policymakers form

[46]The governing elite is defined as those leaders who directly or indirectly play a part in ruling society. These leaders include the Mexican executive branch, primarily the president, his cabinet and bureaucracy. It does not include the military or commercial elite.

[47]The Mexican 'old-guard' replaced by the new technocratic elite is discussed at length in Chapter 6. For more information, see Roderic Camp, *The Making of a Government: Political Leaders in Modern Mexico* (Tucson, AZ: The University of Arizona Press, 1984); R. Camp, 'The Political Technocrat in Mexico and the Survival of the Political System', *Latin American Research Review* (Vol. 20, No. 1, 1985); Peter H. Smith, 'Does Mexico Have A Power Elite?', in José Reyna and Richard S. Weinert (eds), *Authoritarianism in Mexico* (Philadelphia, PA: Institute for the Study of Human Issues, 1977); and P. Smith, 'Leadership and Change, Intellectuals and Technocrats in Mexico', in R. Camp (ed.), *Mexico's Political Stability: The Next Five Years* (London: Westview Press, 1986).

epistemic communities with transnational like-minded communities and influence the direction of policy reforms.

The international and domestic determinants outlined above are identified as the factors contributing to Mexico's trade liberalization in the 1980s. It is argued that without one of these key variables, the others would have been less likely to have caused Mexico to liberalize its trade regime. The economic crisis is particularly important as it acts as the catalyst for policy reform. Without such an event, it is unlikely that Mexican policymakers would have made such a radical shift in trade policy as quickly and as fundamentally as they did. In addition, without the crisis, the ideological vacuum would not have been exposed to the degree that it was enabling the transmission of new ideas. These ideas greatly affected individual policymakers' perceptions of policy options. The individual policymakers are key to the policy shift. They are the ones who chose a particular policy path before the crisis struck and implemented such policies afterward. They also were educated abroad incorporating new ideas to their beliefs and forming transnational links called epistemic communities. The institutional arrangements of the Mexican state enabled a select few to guide policy in Mexico with considerable autonomy in the policymaking process. Finally, the international actors are indeed important, but I argue not solely responsible for a policy shift as has been argued in previous studies. They act as a reinforcer to the domestic policymakers to stay the course and implement trade liberalization faster and further than might have been the case. Together, these five variables answer why Mexico liberalized its trade regime during the administration of Miguel de la Madrid.

1.4 Thesis Structure

This thesis is comprised of seven chapters, of which, this introduction is the first. Chapter Two provides a brief historical overview of the post-Second World War development strategy from 1940 to 1986. The first part of the chapter examines the nationalist development strategy and the events leading up to the financial crisis in the summer of 1982. The second part explores the short-term economic stabilization policies of the de la Madrid administration. The economic conditions and the policies employed in the aftermath of the financial crisis explain the pace and intensity of the trade liberalizing reforms in the early 1980s.

Chapter Three discusses the first international variable: the economic crisis. It is argued that this systemic crisis acted as a catalyst for trade policy reform. The chapter tracks the implementation of trade liberalizing measures culminating in the accession to the GATT in August 1986. It is demonstrated that *gradual* trade policy reforms were a stated objective of the de la Madrid government from the beginning of the *sexenio* and before the crisis intensified. Although the reforms were initiated by domestic policymakers, the worsening economic crisis contributed to their rapid implementation.

Chapter Four considers the second international determinant: the leverage exerted by international actors on Mexican policymakers. The analysis looks primarily at the bilateral trade relationship between Mexico and the United States. In addition, the chapter explores the relationship between Mexico and international financial institutions. It argues that, although the United States and international financial institutions reinforced Mexico's neoliberal economic policies, they did not force Mexican policymakers to implement such reforms.

Chapter Five looks at the third international factor: the transmission of ideas from the international system to the domestic arena. In particular, it focuses on the shift in global development paradigm from a state-led, inward-looking development policy to the more market-led, export-oriented strategy for growth. The chapter identifies the carriers or channels by which these ideas are conveyed from the international system to the domestic political arena (i.e., an epistemic community). The chapter links the transnational epistemic community with Mexican domestic policymakers.

Chapter Six examines the two domestic determinants: the state institutions and the perceptions, beliefs and experiences of the domestic policymakers. The chapter makes two points. First, the institutional arrangements of the Mexican state invested policymakers with a certain degree of autonomy from social interest groups, thereby enabling them to implement their policy preferences. Second, by determining the origins of the values and beliefs of the decision makers and their links to a like-minded transnational network, the reasons for particular policy reforms are identified.

Finally, Chapter Seven concludes the thesis by briefly summarizing the five international and domestic variables that explain trade policy reform in Mexico in the 1980s. It discusses the variables and their relevance in the post-1986 economic, political and ideological developments in Mexico. The chapter ends by addressing the broader implications of these variables in the study of international political economy.

Chapter Two: The Historical Roots of Trade Liberalization in Mexico

Introduction

This chapter provides a brief historical overview of Mexico's post-Second World War political economy (1940 to 1986). The first part examines the state's import substitution industrialization (ISI) development model (1940 to 1970) and the economic troubles of the 1970s and early 1980s. This brief synopsis offers a fuller understanding not only of the nationalist development strategy, but also of the events leading up to the financial crisis in the summer of 1982. The second part of the chapter explores the short-term economic stabilization policies of the de la Madrid administration. The economic conditions and the policies employed in the aftermath of the financial crisis explain the pace and intensity of the trade liberalizing reforms in the early 1980s. Understanding the post-Second World War development strategy - its successes and failures - helps to determine the origins of Mexico's shift toward economic liberalization in general, and trade policy reforms in particular.

2.1 The Post-Second World War Development Strategy

For most of this century, Mexico has experienced both political stability and economic growth unsurpassed in the Latin American region.[1] This is due primarily to the authoritarian-corporatist regime established in post-revolutionary Mexico (1917).[2] The social peace and political collaboration necessary for the rapid modernization of the economy was assured by instituting corporatist structures to co-opt and mollify the broad sectors of society included in the peasant, labour and popular organizations. The constitution of 1917 and the subsequent evolution of the state apparatus ensured the instruments necessary not

[1]Unlike many of its counterparts that have experienced military coups and revolutions, Mexico has been governed by a succession of civilian presidents who each have served out his single six-year term followed by orderly elections managed by the ruling party, the PRI.

[2]For more information on this period in Mexican history, see Robert Ryal Miller, *Mexico: A History* (Norman, OK: University of Oklahoma Press, 1985).

only for the dominant role of the state *vis-à-vis* society, but also for an activist role in the economy.

2.1.1 *State-led Industrialization (1940 to 1970)*

Mexico's foremost objective in the post-Second World War period was industrialization. Policymakers believed that industry would have spillover effects which in turn would lead to overall development. From 1940 to 1970, Mexico's economic policy - known as *desarrollo estabilizador* or 'stabilizing development' - used the import substitution model. This strategy was based on the theory advanced by Raúl Prebisch, the Director of the United Nations Economic Commission for Latin America (ECLA), and others who critiqued the neoclassical theory of international trade. The theory held that world demand for primary goods, traditionally exported by developing countries would decline relative to the demand for manufactured goods, traditionally imported by developing countries. In order to prevent impoverishment from declining terms of trade, Prebisch argued, developing countries should restrict imports and encourage domestic production of manufactured goods.[3]

The ISI strategy aimed at aiding industrial development with selective economic policies while protecting domestic production from external competition. This would entail an integrated domestic economy, one that could create goods for all the stages of the production chain: consumer, intermediates and capital. Economically, the main objective was to replace imported products with goods produced locally. The strategy encouraged the development of manufacturing, freeing the country from spending scarce foreign exchange funds on imports.

[3]Raul Prebisch, 'Commercial Policies in the Underdeveloped Countries', *American Economic Review* (May 1959), pp. 251-73. The role of ECLA and the ISI strategy is examined in Chapter 5, section 5.2.2.

In addition to the economic reasons for the ISI strategy, there were also political goals.[4] Successive Mexican governments believed that industrialization would lead not only to economic self-sufficiency, but also to political autonomy. The plan aimed at enabling Mexico to break away from external ties and gain self-sufficiency and independence, mostly from the United States.

Initially the strategy, which began Mexico's industrial revolution, produced impressive results.[5] Throughout the ISI period, Mexico had one of the fastest growing economies of the world with an average annual rate of growth of over 6 per cent coupled with low inflation below 5 per cent annually.[6] Sectoral shifts in both output and employment over the period illustrated the fundamental nature of the changes which the Mexican economy had experienced. From 1950 to 1968, industrial output increased on an average rate of growth of 6.7 per cent per year.

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[4]The political motive was based on the *dependencia* approach. The most commonly sighted definition of dependency is given by Dos Santos as:

> a conditioning situation in which economies of one group of countries are conditioned by the development and expansion of others. A relationship of interdependence between two or more countries or between such countries and the world trading system becomes a dependent relationship when some countries can expand through self-impulsion while others, being in a dependent position, can only expand as a reflection of the expansion of dominant countries, which may have positive or negative effects on their immediate development.

T. Dos Santos, 'The Crisis of Development Theory and the Problem of Dependence in Latin America', in H. Bernstein (ed.), *Underdevelopment and Development: The Third World Today* (Hammondsworth: Penguin Books, 1973), p. 76. For more information on the *dependencia* approach, see Cristobal Kay, *Latin American Theories of Development and Underdevelopment* (London: Routledge, 1989); P. O'Brien, 'A Critique of Latin American Theories of Dependency', in I. Oxaal, et al. (eds), *Beyond The Sociology of Development* (London: Routledge and Kegan Paul, 1975); and Ian Roxborough, *Theories of Underdevelopment* (London: Macmillan, 1979).

[5]Mexico's industrialization began in the period before the rapid expansion of exports in the second half of the nineteenth century. In fact, industrial development in Mexico can be traced as far back as 1840, when small factories devoted to fabrics, paper and ironworks initiated the transition from artisan to modern industry. But the earliest major advances in industrial development were made in the late 1800s, particularly with the construction of railroads and the establishment of metallurgical factories. The industrialization process made significant progress in the decades prior to the Second World War and more importantly, prior to the beginning of the ISI strategy.

[6]Economic Commission for Latin America, *Economic Survey of Latin America* (Santiago, Chile: ECLA), various years.

Manufacturing output grew from 1940 to 1968 at 7.8 per cent annually.[7] In the process, Mexico restructured its economy from an export-enclave economy to a semi-industrial country. People migrated from the rural areas; agriculture's contribution to total production diminished from 21 to 11 per cent.[8] Whereas two-thirds of the labour force had been employed in agriculture in 1940, the figure dwindled to little more than a third by 1970.[9] As the population moved to the urban areas, they found employment in industry and the service sector. By 1970 Mexico was largely self-sufficient in the production of foodstuffs, basic petroleum products, steel and most consumer goods.

When the international environment began to change in the early 1970s with the OPEC petroleum price rises and the international recession which followed, Mexico's economy also started to experience difficulties. This is when the flaws of the ISI strategy were exposed. The years of protection had made Mexican industry inefficient and highly uncompetitive internationally. The state's large role in the economy had produced a swollen, inefficient and costly bureaucracy.

The difficulties inherent in the ISI programme were many. The most fundamental problems were that it prescribed development policies that did not take into account the market size, the product being produced or the nature of the technology used. The most obvious result of the strategy was the bias against exports and agriculture. Mexico neglected exports both by failing to diversify the export structure in accordance with the changing internal economic structure which ISI brought about. By the late 1960s, 75 per cent of Mexico's exports still

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[7]Roger D. Hansen, *The Politics of Mexican Development* (Baltimore, MD: Johns Hopkins University Press, 1971), p. 42.

[8]Carlos Tello, *La Política Económica en México*, 4th edition (Mexico City: Siglo Ventiuno, 1980), p. 15.

[9]Economic Commission for Latin America, *Economic Survey of Latin America* (Santiago, Chile: ECLA, 1949) and Inter-American Development Bank, *Economic and Social Progress in Latin America, Annual Report* (Washington, DC: IDB, 1971).

consisted of traditional primary and food products.[10] With the rapidly growing population, especially in the urban centres, the domestic demand for foodstuffs outstripped the supply which the agricultural sector was capable of offering. This led to shortages and imports of food. ISI also contributed to a worsening of the income distribution because governments failed to redistribute income through fiscal policies and ISI failed to increase employment. Foreign companies used capital intensive technologies with no incentive to adopt labour-intensive techniques of production.[11]

Increasing political centralization and the contradictions embedded in the economic development model pursued after the 1940s (which generally favoured private sector capital accumulation and rapid growth rather than income redistribution and social reform) led dissident labour unions, peasant groups and university students to challenge the system at different times. Politically, the Mexican government started to experience the breakdown of the social pact (between labour, business and the government) in the late 1960s and 1970s. In the summer of 1968, social unrest spread from what started out as a clash among rival groups of students to include hundreds of thousands of professionals, members of labour unions and some government officials. The concern was with greater political democracy and the call for the end to the authoritarian rule of the Mexican government. The impact of the 1968 movement was a watershed because it introduced the perception that the political system was not immune to social uprising.[12] The events of 1968 sent a clear message to the politicians: economic policies could no longer be confined to promoting economic growth at the expense

[10]Werner Baer, 'Import Substitution and Industrialization in Latin America: Experiences and Interpretations', *Latin American Research Review* (Vol. 8, No. 1, 1972), p. 106.

[11]For more information on the problems of the ISI model see, L. Antonio Aspra, 'Import Substitution in Mexico: Past and Present', *World Development* (Vol. 5 Nos. 1/2, 1977); W. Baer, *ibid*; and Herbert Schmitz, 'Industrial Strategies in Less Developed Countries', *Journal of Development Studies* (Vol. 21, No. 1, October 1984).

[12]Rosario Enriquez,'The Rise and Collapse of Stabilizing Development', in G. Philip (ed.), *The Mexican Economy* (London: Routledge, 1988), p. 30.

of economic justice. Indeed, regime support declined in the late 1960s and early 1970s as the rate of growth slowed and a broad range of socioeconomic problems seriously worsened.[13]

2.1.2 *Shared Development (1970 to 1976)*

As Mexico entered the 1970s, it confronted serious social, economic and political problems. In this period of crisis, the administration of Luis Echeverría (1970 to 1976) retreated into an inward-looking, populist direction with the concept of 'revolutionary nationalism'. Essentially this concept followed the social democratic ideology, positing a mixed-economy under state tutelage, central planning and increased welfare. The objective of revitalizing the economy as well as confronting the salient issues of unemployment, poverty and exploitation of the poor were tackled by President Echeverría in his programme called *desarrollo compartido* or 'shared development'. Its aim was to open up the political system and place emphasis on redistributive and social welfare measures while maintaining rapid economic growth.

Although the policy of import substitution was continued throughout the Echeverría administration, significantly, a concerted effort was made to stimulate manufacturing exports. Import duties were reduced to improve the competitiveness of Mexican manufactured goods, and direct subsidies were made available for exports as were credits at low rates of interest from the newly formed IMCE (Mexican Institute of Foreign Trade). An attempt was also made to restructure import protection so as to provide greater stimulus to the domestic manufacture of

[13]These problems included severe inequalities in national income distribution and regional development; widespread unemployment and underemployment; inflationary pressures that eroded real wages; growing foreign indebtedness; stagnating agricultural production and a growing need to import basic foodstuffs; and the declining ability of the national educational system to meet the needs of an expanding urban middle class. See Pablo Gonzáles Casanova and Enrique Florescano (eds), *Mexico Hoy* (Mexico, DF: Siglo Ventiuno Editores, 1979) and John F. H. Purcell, 'Mexican Social Issues', in Susan Kaufman Purcell (ed.), *Mexico-United States Relations* (New York, NY: Academy of Political Science, Vol. 34, No. 1, 1981), pp. 43-54.

capital goods.[14] In addition, the administration pursued vigorous policies to stimulate the establishment of *maquiladoras* or export processing zone assembly plants.[15] Mexico introduced the *maquilas* in 1965 to encourage foreign firms to build factories along the US-Mexico border.[16] With the Echeverría administration, these export zones were broadened to other parts of the country.

Proponents of 'shared development' argued that it was only through increased state spending and major tax reform that the presidential objectives of improved income distribution and the removal of investment bottlenecks blocking economic growth could be achieved. Rather than deciding between promoting industrialization or redistributing the country's wealth, the Echeverría administration attempted to do both. It embarked upon a populist programme designed to raise the state's provision of collective consumption goods, such as subsidized health, housing and education. The social security system was expanded and there was an increase in public investment into agriculture, energy and heavy-industrial and capital goods.[17] The first action was obviously designed to diminish social tensions while the second was counted upon to foster rapid economic growth and profits to generate jobs and appease the concerns of the private sector.

To accomplish the objectives of 'shared development', President Echeverría expanded the role of the state in the economy. The size of the public sector in terms of expenditure as well as of direct ownership rose. Total government spending increased from 23.6 per cent of GDP in 1970 to 36.6 per cent of GDP in

[14]C. Gribomont and M. Rímez, 'La política económica del gobierno de Luis Echeverría (1971-1976): Un primer ensayo de interpretacion', in *El Trimestre Economico* (Vol. 44, No. 176, octubre-diciembre 1977), p. 821.

[15]The *maquila* programme is discussed in Chapter 4.

[16]Leslie Sklair, *Assembling for Development: The Maquila Industry in Mexico and the United States* (London: Unwin Hyman, 1989), p. 10.

[17]Judith Teichman, *Policymaking in Mexico: From Boom to Crisis* (Boston, MA: Allen & Unwin, 1988), p. 47.

1975.[18] The parastatal sector grew rapidly. The number of enterprises in which there was public participation, with shares ranging from very small to large, increased from 84 in 1970 to 845 in 1976, while the number of government employees doubled to more than 1 million.[19]

Yet the public sector role in the economy was being increasingly undercut by its financial problems. The Mexican regime seemed unable to exercise certain fundamental options to gain the revenue necessary to meet its public sector responsibilities. Its inability to tax business and wealth sufficiently was crucial. It also seemed unable to cut back on subsidies not just to industry, but also to needy consumers. Because of the significance that a strong public sector had had in Mexican politics, selling public enterprises in order to balance the budget was not a possible solution. In order to finance such spending, President Echeverría relied on deficit financing. This meant that in order to finance its various programmes, the public sector had no recourse but to increase its external indebtedness. Because of the lack of sufficient sources of credit, the government borrowed abroad. Consequently, the level of foreign public debt skyrocketed from US$4.2 billion in 1970 to US$19.6 billion in 1976.[20]

It was not coincidental that Mexico's economic achievements were occurring at the same time as the international economy was also expanding rapidly. Before the world recession in 1974 to 1975, the international economy had experienced a long business cycle boom which began after the Second World War. In the 1970s, however, instability rocked the international economy with the collapse of the Bretton Woods System. This System had consisted of fixed exchange rates and had provided financing for temporary balance of payment disequilibria. Although the system was supposed to be self-regulating, it had

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[18]C. Gribomont and M. Rímez, *op. cit.*, in footnote 14, p. 784.

[19]Daniel Levy and Gabriel Székely, *Mexico: Paradoxes of Stability and Change* (Boulder, CO: Westview, 1983), p. 148.

[20]*Ibid*, p. 149.

proved to be inherently unstable and required a hegemonic or stabilising power. This role had been played by the United States until the late 1960s. Because Europe and Japan were emerging as economic powers in their own right, the United States was increasingly confronting competition from them. US export shares dropped and its imports rose resulting in a large US trade deficit. This deficit along with high inflationary rates, caused by increased military spending, led first in 1971 to the devaluation of the dollar and subsequently to the replacement of the fixed exchange rate regime with a new system of free currency floats. This set the stage for the growing financial and monetary instability of the 1970s and 1980s.

The collapse was extremely important in that it marked the end of 25 years of stability for the international economy. The end of the Bretton Woods System would have been enough to disrupt seriously the international economic community. When coupled with the simultaneous occurrences of the OPEC price rises, the increase in most commodity prices and the 1972 crop failures, instability and turbulence plagued the world economy. What resulted was wide-spread inflation and world recession.

Global inflation and the subsequent world recession were transferred to Mexico via various channels. One such means was trade. In light of the international economic environment, a large majority of the industrial countries resorted to protectionist measures. As Mexico was highly dependent on US markets for both imports and exports, the country experienced reduced access to these markets and a sharper decline in its export volumes.

During the last year of the Echeverría administration - 1976 - the economic situation further deteriorated. Inflation had stood at 4.4 per cent in 1971 but began to rise. Originally policymakers had viewed the higher rates of inflation as the necessary social price that had to be paid to achieve the twin goals of income redistribution and rapid economic growth. Beginning in 1974, however, inflation became a serious problem rising to 24.4 per cent. Although inflation dipped down to 16.6 per cent in 1975, it re-emerged the following year. With the rise in inflation in 1976, the growth rate of real GDP fell to 4.2 per cent. Capital flight increased to the level of US$4 billion during 1976 as growing uncertainty among private investors led to increasing speculation against the Mexican *peso*.[21] In 1976 the government ran out of reserves and the *peso* was devalued for the first time in 22 years. The Echeverría administration devalued the currency from 12.5 *pesos* to the dollar to 19.7 in August 1976 to 25.49 two months later.[22]

Throughout the post-Second World War period, Mexican economic elites rarely participated openly in politics. The private sector was, however, consulted on economic policy and even had the use of an informal veto, but their role was primarily reactive rather than proactive. Business was willing to refrain from interfering in policymaking so long as the government carried out two tasks: manipulating and controlling societal agents, such as labour, and subsidizing business activity.[23] This informal agreement began to disintegrate during the presidency of Echeverría when the business community became alienated from the regime in the early 1970s. Rising inflation and a series of populist policy reforms began to erode the decades-old business-government pact. These events prompted private investors to withdraw their capital from the country not only to protect their wealth against possible currency devaluations, but also as a political weapon. After the assassination of a leading industrialist, Eugenio Garza Sada (head of the Monterrey group), political organization by business groups rapidly occurred. For the first time in Mexico's post-revolutionary history, the private sector publicly criticized the government's running of the economy. This discontent translated into political action. The political 'right' and entrepreneurs established the Co-ordinating Business Council (CCE) in 1975 which became the major forum for

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[21]Miguel D. Ramírez, *Mexico's Economic Crisis* (New York, NY: Praeger, 1989), pp. 84-5.

[22]Inter-American Development Bank, *Economic and Social Progress in Latin America* (Washington, DC: IDB Annual Report, 1976). The peso was devalued by 40 per cent in 1948 and by 31 per cent in April 1954.

[23]Sylvia Maxfield and Ricardo Anzaldúa Montoya (eds), *Government and Private Sector in Contemporary Mexico*, Monograph Series 20 (San Diego, CA: Center for US - Mexican Studies, University of California, San Diego, 1987), p. 2.

private sector interests. This led to greater political organization and participation against the PRI.

President Echeverría finished his term in the midst of violent and widespread criticism. Not only was there open conflict with the economic elites, but the rewards of higher living standards for the middle-classes (the sector most favoured by general policies adopted from the late 1950s onward) had to be postponed. The workforce that had benefited from the substantial expansion in social services provided by the state had seen its income eroded by rising inflation. The peasantry had experienced a bettering of its situation only in very localized and specific geographical areas which were subject to special development programmes. At an international level, unfortunate foreign policy statements, restrictions on foreign investment[24] and rising indebtedness had damaged Mexico's relationship with important foreign powers. In retrospect, the 1970 to 1976 period shows a government that tried to do too much, too fast and without the necessary resources to succeed.[25]

When President Echeverría came to power in 1970, Mexico was experiencing one of the worst crisis situations since the revolution. *His response was to turn inward and put forth a populist platform.* Although the measures employed attempted to quash socio-political unrest, the 'shared development' model only exacerbated the economic problems. Thus, when President López Portillo took office in 1976, Mexico was once again experiencing economic difficulties. The next section analyzes the López Portillo administration and its

[24]President Echeverría instituted laws regulating foreign capital and technology. The most important of which was the 1973 Law to Promote Mexican Investment and Regulate Foreign Investment, which made 51 per cent Mexican ownership the general rule for new ventures.

[25]On President Echeverría's economic programme, see E. V. K. Fitzgerald, 'Stabilization Policy in Mexico: The Fiscal Deficit and Macroeconomic Equilibrium, 1960-1977', in Rosemary Thorpe and Laurence Whitehead (eds), *Inflation and Stabilization in Latin America* (London: Macmillan, 1979); Merilee S. Grindle, *Bureaucrats, Politicians and Peasants in Mexico* (Berkeley, CA: University of California Press, 1977); and Leopoldo Solis, *Economic Policy Reform in Mexico* (New York, NY: Pergamon, 1981).

attempt to open the trade regime through import liberalization and joining the GATT.

2.1.3 *The López Portillo Administration (1976 to 1982)*

The first task at hand for the new administration was to confront the problems of the 1976 devaluation and the ensuing economic crisis. The new president, José López Portillo, proposed two actions: political reform and an 'alliance for production'. The latter's aim was to mend the business-private sector rift. The alliance for production sought to re-negotiate the pact among labour, business and government in order to stimulate investment and growth. In return for the government's promise to straighten out its management of the economy, recognize the essential role of the private sector in a mixed economy and provide economic incentives, businessmen vowed to operate more efficiently and expand investment.

With the economic difficulties inherited from the Echeverría administration, López Portillo agreed to implement a package of austerity measures prescribed by the IMF in exchange for a stabilization loan of US$1.2 billion. The three-year austerity programme called for: 1) a sharp decrease in the public sector deficit from 9.9 per cent of GDP to 6 per cent; 2) an overall ceiling on annual wage increases to no more than 10 per cent; 3) systematic devaluation of the *peso* to maintain domestic prices in line with external ones; and 4) a reduction of the overall tariffs so that goods produced by Mexican firms would reflect their real costs of production.

Such austerity measures might have led Mexico down the path of development policy reform in 1976 if not for the discovery of oil. Because of the 'oil bonanza', the austerity programme was effectively abandoned. The oil boom brought new development possibilities and seemed a painless solution to Mexico's economic and social problems. By increasing the government coffers through oil revenues, the government could increase its spending and thus assure the restoration of economic growth and strengthen its political support.

The Oil Boom[26]

Central to President López Portillo's alliance for production strategy was petroleum development. Although Mexico's oil industry had been successful, it had run into difficulties in the early 1970s. The country recorded its first petroleum trade deficit in 1970; four years later the deficit reached over US$250 million. With the discovery of new oil deposits in 1978, however, the Mexican petroleum industry experienced a dramatic turnaround. Proven oil reserves increased more than six-fold: in 1976, the reserves stood at 6.3 billion barrels compared to 40.2 billion barrels in 1978.[27] In 1982 the country's proven reserves were estimated at more than 60 billion barrels; Mexico ranked fourth in proven reserves and production among the world oil producers.[28] As Table 2.1 shows Mexico's influence as a global oil producer grew between 1973 and 1983. Compared with the United States, Mexico produced one-twentieth of the US production in 1973, but this figure grew to one-fourth in 1983.

Mexico's fortunes changed with the 1978 oil discovery. Rather than adjusting to scarcity, Mexico had to deal with administering the abundance. The oil option would be the 'axis of national development' and would provide the much needed remedy for the fundamental problems of the Mexican economy. President López Portillo's oil-based development policy sought to accelerate economic development while reducing the country's external dependency. 'Oil is our chance for self determination because it will improve our international economic relations.'[29]

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[26]For more information on the oil boom in Mexico, see George W. Grayson, *The Politics of Mexican Oil* (Pittsburgh, PA: University of Pittsburgh Press, 1980); Pamela S. Falk (ed.), *Petroleum and Mexico's Future* (London: Westview Press, 1987); and J. Teichman, *op. cit.*, in footnote 23.

[27]M. Ramírez, *op. cit.*, in footnote 21, p. 87.

[28]George Grayson, *Oil and Mexican Foreign Policy* (Pittsburgh, PA: University of Pittsburgh Press, 1988), p. 26.

[29]Cited in Judith Gentleman, *Mexican Oil and Dependent Development* (New York, NY: Peter Lang, 1984), p. 83.

Table 2.1
Mexico's Growth as an Oil Producer:
Global Oil Production, 1973 to 1983
(in billions of barrels)

Year	World Total	OPEC	US	USSR	Mexico
1973	21.2	11.3	4.0	3.1	0.2
1975	20.2	9.9	3.6	3.6	0.3
1977	22.6	11.4	3.6	4.0	0.4
1979	24.0	11.3	3.7	4.3	0.5
1981	21.6	8.2	3.7	4.5	0.8
1983	20.6	6.3	3.7	4.5	1.0

Source: *La economía mexicana en cifras* (Mexico: NAFINSA, 1986), cuadro 15.4, p. 356. Cited in Van Whiting, Jr., *The Political Economy of Foreign Investment in Mexico: Nationalism, Liberalism, and Constraints on Choice* (London: Johns Hopkins Press, 1992), p. 27.

Oil led to a new self-confidence in Mexico that was evident in both domestic and foreign policy. José Andrés de Oteyza, the Minister of Public Sector Industries, when speaking about domestic economic policy, remarked

> The capacity for financial self-sufficiency which the oil profits offer, allied to the right plans for their use, can allow our economy to grow at annual rates of 10% for a relatively long period without pressure on the balance of payments or extreme inflationary effects. With this growth rate the new work force can be absorbed and hidden unemployment slowly eradicated by the 1990s.[30]

In addition, the López Portillo administration pursued an activist foreign policy which brought the country into conflict with its most important neighbour, the United States. Mexico refused to boycott the Moscow Olympics, back economic sanctions against Iran and openly criticised the United States on its policy in El Salvador.[31] Grayson maintains that Mexico's oil wealth (high petroleum prices

[30]Hugh O'Shaughnessy, *Financial Times* (London), 3 January 1979.

[31]For an indepth analysis of President López Portillo's strong foreign policy stand, see G. Grayson, *op. cit.*, in footnote 28, Chapter 2.

and the expectations that those prices would continue to rise) created the possibility to develop a new, prosperous Mexico. This improved outlook transformed Mexico's 'role conception' - that is, the enduring self image of the appropriate relationship of Mexico *vis-à-vis* the external environment.[32] With every increase in oil prices and reserves, the López Portillo administration more forcefully advanced Mexico's bid for leadership.

Table 2.2
Real GDP Growth, 1977 to 1981
(percentages)

Year	GDP Growth
1977	3.4
1978	8.1
1979	9.0
1980	8.3
1981	8.1

Source: Banco de México, 1982.

Mexico's vast oil reserves were used to foster growth and development. Both the public and private sectors went on an investment binge and increased this spending as the price of oil rose in 1979. This public expenditure-led growth strategy, during the four years of the oil boom (1978 to 1981), recorded impressive growth rates. As Table 2.2 shows, whereas real GDP growth stood at 3.4 per cent in 1977, it reached 8.1 per cent in 1978, 9.0 per cent in 1979, 8.3 per cent in 1980 and 8.1 per cent in 1981. In addition, total investment increased more than 15 per cent a year and real minimum wages rose slightly.[33]

The Mexican self-confidence, borne from the development possibilities of the oil-led growth strategy, adversely affected the limited trade liberalizing

[32]*Ibid*, pp. 6-8.

[33]Nora Lustig, 'The Mexican Economy in the Eighties: An Overview', in F. Desmond Mc Carthy, *Problems of Developing Countries in the 1990s*, Vol. II (Washington, DC: IBRD, World Bank Papers, No. 98, 1990), p. 80.

measures initiated in 1977. Like the IMF austerity programme, the trade liberalizing measures were abandoned in 1980 when the country decided not to join the GATT. The following section discusses the 1980 GATT debate.

The GATT Debate

For many years Mexico chose to keep the GATT at arms length. First, the underlying philosophy of the GATT - that of free trade - clashed with the post-Second World War Mexican trade policy - that of protectionism. Like many developing countries at the time, there existed much hope in the United Nations Conference on Trade and Development (UNCTAD),[34] whose doctrine had been, to a great extent, the work of the first secretary-general, Raúl Prebisch, reflecting the structuralist analysis of North-South relations. However, disillusionment with the UNCTAD, the failure of the new international economic order, and by the late 1970s, a more sympathetic stance toward developing countries' demands by the GATT, led Mexico to look in other directions.[35]

Mexico actively participated in the Tokyo Round (1973 to 1979). Although Mexico had not signed the final document, it did reach several bilateral agreements - all beneficial without making significant concessions. It could be argued that the United States, for example, may have signed these agreements in order to lure Mexico to enter the GATT. By the mid-1970s, Mexico had increased its trade links with its northern neighbour. The United States extended most favoured nation (MFN) status to Mexico as well as trade privileges under the

[34]The UNCTAD met in Geneva in 1964 and attacked the rules of the GATT for excluding the developing countries from the post-Second World War expansion and perpetuating their existence as primary commodities exporters. The calling for a conference to deal with world trade problems meant a challenge to the GATT. The proposals of the UNCTAD I were incorporated in Part IV of the General Agreement. Diane Tussie, *The Less Developed Countries and the World Trading System: A Challenge to the GATT* (London: Frances Pinter, 1987), p. 3.

[35]In the 1960s, the Kennedy Round added Part IV 'Trade and Development' to the General Agreement and in the 1970s, a number of provisions in the Tokyo Round were formulated specifically for the developing countries.

Generalized System of Preferences to help Mexico promote its manufactured exports.[36]

In January 1979, Mexico sought GATT membership. The initial negotiations were completed in October producing the Protocol of Accession. The protocol's terms for Mexican entry were:

> 1) a time period of twelve years in which to eliminate the remaining import permits;
>
> 2) incorporation of the bilateral tariff concessions negotiated in the Tokyo Round;
>
> 3) acceptance of the new Mexican system of tariff valuation;
>
> 4) allowance for the continued use of export subsidies and controls in Mexico;
>
> 5) the right to implement the National Industrial Development Plan of March 1979 and to continue granting certain tax incentives to industry;
>
> 6) full rights to manage internal development policies and to protect industry and agriculture;
>
> 7) recognition of Mexican protectionist policy toward rural products and of the priority given to the agricultural sector, especially the basic foodstuffs;
>
> 8) the rights to ignore any provisions of Part II of the GATT (which covers non-tariff barriers) that are incompatible with existing Mexican legislation.[37]

These terms of entry were 'unusually flexible' and 'extremely liberal'. Under such conditions, the international community was making it virtually impossible for Mexico to refuse accession.

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[36]This is discussed at length in Chapter 4.

[37]Dale Story, *Industry, The State, And Public Policy in Mexico* (Austin, TX: University of Texas Press, Austin, 1986), p. 136.

President López Portillo was fully aware of the contentiousness of joining the multilateral trade organization. Within his own cabinet, his ministers were deeply divided over pursuing a nationalist versus internationalist development policy.[38] In an unusual move for a Mexican president, López Portillo called upon various sectors in society to debate the issue.[39] The national debate took place at the elite level involving the economic, intellectual and governmental elites. The proponents of the GATT argued on two fronts: the economic benefits and the advantages of multilateral participation.[40] The former included greater access to foreign markets and improved efficiency, productivity and quality through competitive incentives; the latter that with the members of the GATT representing 80 to 90 per cent of international trade, Mexico should not isolate itself from this international forum.

The opponents to GATT entry focused on the loss of sovereignty and the economic disadvantages. The first argument concerned the age-old problem of economic dependency on the United States. To many, Mexico's policy autonomy was of far greater importance than the benefits that could be accrued from a multilateral framework for trade. Mexico's sovereignty in economic decision making was considered the most important aspect of its bilateral relations with the United States. In addition, some feared that Mexico, as an advanced developing country, would not enjoy GATT privileges and would be targeted for 'graduation' from preferential treatment.[41] The second argument focused on the viability of the small and medium industrialists who would not be able to stand up to foreign competition.

[38]This division is discussed in Chapter 6.

[39]For an in-depth analysis, see D. Story, *op. cit.*, in footnote 37, Chapter 6; and Saul Escobar Toledo, 'Rifts in the Mexican Power Elite, 1976 - 1986', in S. Maxfield and R. Anzaldúa M., *Government and Private Sector in Contemporary Mexico* (San Diego, CA: Monograph Series 20, Center for US - Mexican Studies, University of California, San Diego, 1987).

[40]D. Story, *ibid*, p. 138.

[41]*Ibid*, p. 139.

In addition to internal pressures to join the GATT, external pressures came from the United States. Relations with its northern neighbour were not very good at this time.[42] With the new-found oil wealth and the idea that its economic dependence on the United States was decreasing, the Mexican government felt increasingly more powerful and therefore, in a better position to assert its independence *vis-à-vis* its neighbour. One such action was to refuse the request of the United States and other international actors to join the GATT. The debate was allowed to boil for four months until reaching its peak on 18 March 1980, when President López Portillo ended the national debate and announced that Mexico would 'postpone' accession.

The economic reasons given for not joining the GATT in 1980 were for the most part straightforward. The President argued that there were four principal trade policy motivations for the decision. First, with the then-overvalued Mexican *peso*, the GATT entry could have deleterious effects on the competitiveness of Mexico's production, particularly its non-traditional exports. Second, Mexico's problems in agriculture production could have required government intervention that might have clashed with GATT rules. Third, there was concern that as an oil-exporter, Mexico would not have been eligible to utilize the GATT balance of payments provisions for temporary protection. And finally, the fear pervaded that Mexico would lose flexibility in allocating its petroleum production.[43]

President López Portillo decided against the GATT based on the philosophy of the GATT instrument and the current development opportunity that the oil boom had provided. He stated at the time:

[42]The poor relations concerned primarily Mexico's independent foreign policy, (for example, President López Portillo's diplomatic and economic support for the Sandinista revolution in Nicaragua from 1979 through 1982) but also concerned diplomatic gaffs (President Carter's Monteczuma's Revenge comment on a trip to Mexico) and the general unfriendly relationship between the two presidents.

[43]'The GATT', *Business Mexico* (November 1985), p. 78.

> more liberalized norms for world trade are not enough to promote a more equitable (international) economic order. We prefer to work for the concept of a more equitable economic order, even though that means we have to continue with bilateral trade negotiations, outside of GATT, as we have been doing up to now.[44]

Silva Herzog, de la Madrid's Finance Minister, argues that Mexico did not join the GATT quite simply because of oil.[45] Mexico was in a powerful position for the first time in its history. The international community acknowledged this by knocking at Mexico's door for access to oil and to provide large amounts of international funds.

Dale Story notes additional domestic factors for this decision. President López Portillo was actually pro-GATT,[46] but reversed his decision after the debate. Story points out that under President Echeverría, López Portillo had led the delegation to the Tokyo Round. As president, he put forth plans to reduce the level of protectionism and after Mexico began negotiating GATT accession, he implied his support several times.[47] As President, López Portillo decided not to enter the GATT. Story maintains that domestic detractors of the GATT were the principal forces preventing accession.

The domestic actors were Canacintra (National Chamber of the Transformation Industry) and the CNE (the National College of Economists). The former, created in 1941, was a strong supporter of Mexico's right to control its own economy. Canacintra defended economic nationalism and opposed the free-trade provisions of the GATT as contradictory to Mexico's development model. The CNE was comprised of nationalists within the intellectual community and

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[44]'Mexico declines GATT', *Mexican-American Review* (April 1980), p. 1.

[45]Interview, Sr. Jesús Silva Herzog, 21 May 1992, Madrid, Spain.

[46]According to President López Portillo's memoirs, rather than being in strong favour of the GATT, he, in fact, had severe doubts about the GATT and organized the debate in order to resolve the question of membership. José López Portillo, *Mis Tiempos: Biografía y Testimonio Político*, Parte Segundo (México, DF: Fernández Editores, 1988), pp. 801-2.

[47]D. Story, *op. cit.*, in footnote 37, p. 139.

government planners. Story argues that whereas the opponents were quite forceful in their opposition, the supporters (Ministry of Commerce, the Central Bank and the Banco de Comercio Exterior - Bank of External Trade) were relatively unassertive.

Both Silva Herzog and Story point to important determinants in the GATT decision. Other variables, however, need to be emphasized as they are vital links to policy outcome. First, oil gave Mexico the feeling of strength *vis-à-vis* external actors. The high price of oil enabled the government to follow an economic policy that did not force Mexico to confront long-term structural problems or radically alter its post-Second World War development model. In addition, oil gave Mexico the perception that it could now be a regional power. The soaring oil revenues fuelled the pursuit of an independent stand *vis-à-vis* the United States. Yet, oil was not the only deciding factor in the decision.

Although domestic pressures were strong, it does not fully explain the decision not to enter the organization. The fact that President López Portillo called upon the elites to debate the issue indicated several things. First, it showed indecisiveness on the part of the president[48] - the president's policy process of 'nondecision' enabled established groups such as Canacintra and the CNE to take the offensive and block the GATT entry. But although Canacintra may have seemed important in influencing the policy outcome, interest groups in Mexico have traditionally been controlled and permitted to wield influence only when allowed to by the government. The anti-GATT stance was 'allowed' to be influential because it concurred with the opinions of important policymakers (members of the CNE) within the López Portillo cabinet.[49]

Second, the national debate exposed a chasm in the group of politicians responsible for economic policymaking. They were polarized into two camps: the

[48]One can only guess if this uncertainty derived from: 1) expected public pressure; 2) the inappropriateness of the GATT for a country like Mexico; 3) the increased prestige of his country - and himself - because of oil; and/or 4) just the lack of a sound knowledge of economic matters.

[49]The individuals of the López Portillo administration are discussed in Chapter 6.

populist structuralists and the neo-liberal monetarists. The decision not to join the GATT was a 'populist' victory for the structuralists in the Cabinet. These structuralists were the same government planners at the CNE who were so vocal against GATT entry.[50]

Rather than liberalizing the trade regime, the oil boom enabled the López Portillo administration to pursue expansionist and populist economic policies without making the much needed economic adjustments. The oil boom fed unrelenting expectations of government planners. The 1980 Global Development Plan proposed utilizing petroleum revenues to promote industrial growth and called for the achievement of sustained increases in employment and income for Mexico's rapidly expanding working-age population, along with improvements in the distribution of the benefits of growth. Importantly, the Plan had renewed an inward-looking development strategy. It reinforced the public sector's involvement in the economy, did not plan any fiscal reforms and still relied on oil revenues to finance the deepening of import substitution.

The Economic Crisis

The impressive performance of the oil boom years did not reflect the full economic reality of the period. Rather than severely adjusting its domestic expenditures, Mexico pursued sustained economic expansion in the mid-1970s and early 1980s which resulted in an overheated and increasingly inflationary economy. The country's economic development policy consisted of growth based on the expansive effects of domestic demand. A schism was developing, however, between domestic demand and economic growth. The policy held real growth at an average rate of 8.2 per cent from 1978 to 1981 despite long-term capacity growth

[50]Carlos Tello (Secretary of Programming and Budget) and José Andrés de Oteyza (Minister of Energy) - responsible for oil policy with the state oil company, PEMEX. The structuralists are discussed in Chapter 6.

of 6 per cent.[51] This expansion weakened due to exchange overvaluation and the deterioration of external markets caused by the deepening of the world recession. Mexico's GDP from 1978 to 1981 grew on average 8.2 per cent, but dropped to -0.5 percent in 1982.[52] The intensification of economic contraction produced a severe loss in terms of production and income with serious effects on employment and social well-being.

The López Portillo government assigned a leading role to the public sector. With the steep rise in oil prices in 1979, Mexico increased its public sector spending. Real government expenditures on economic projects rose at an average annual rate of 27.9 per cent during 1980 to 1981 as compared to a rate of 14.3 per cent during 1978 to 1979.[53] As a result of the higher rates of real government spending and lack of tax reform, the public deficit as a proportion of GDP grew appreciably from 7.4 per cent in 1978 to an all-time high of 17.9 per cent by the end of 1982.[54] Deficits were financed by monetization of the government debt and by borrowing heavily from both private and public foreign sources.

Inflation averaged 16.5 per cent during most of the 1970s, but it accelerated from 20.3 per cent in 1979 to 98.2 per cent by the end of President López Portillo's *sexenio*.[55] As the inflation differential between Mexico and the United States increased, the *peso* became overvalued which caused a stagnation in non-oil exports. With excess demand and import liberalization, the exchange rate

[51]W. R. Cline, *International Debt* (Washington, DC: Institute for International Economics, 1986), p. 258.

[52]Inter-American Development Bank, *External Debt and Economic Development in Latin America* (Washington, DC: IDB, 1984), p. 24.

[53]D. Story, *op. cit.*, in footnote 37, p. 4.

[54]Inter-American Development Bank, *op. cit.*, in footnote 52, pp. 29-30.

[55]ECLAC, 'Statistics on Mexico', *Statistical Yearbook for Latin America and the Caribbean* (Santiago, Chile: ECLAC, 1988), pp. 94-5.

prompted imports to rise from US$6 billion in 1977 to US$23 billion in 1981, outstripping even the once 'seemingly limitless bonanza of new oil exports'.[56]

Another key economic variable overlooked was the increasing dependence of Mexico on foreign exchange earnings derived from oil, particularly from 1979 onwards. Between 1979 and 1981 the value of oil exports rose from US$3.9 to US$14.5 billion dollars.[57] In addition, the oil share in total exports increased from 43.9 per cent in 1979 to approximately 75 per cent in 1981.[58] The external account became even more dependent on oil exports as the performance results for non-oil trade deteriorated.

The private sector grew increasingly disillusioned. The overvalued exchange rate prompted capital flight of over US$8 billion in 1981. As inflation continued to soar, the public frantically converted *pesos* into dollars. In the first part of 1982, capital flight intensified to a transfer of more than US$20 billion in only an 18-month period.[59] Six months later in an attempt (rather late in the day) to try to eliminate continued massive transfers of foreign currency, the government declared all dollar deposits in banks redeemable only in *pesos*. As confidence dwindled, however, external credit diminished. Capital flight and payments for short-term debts caused foreign exchange reserves to decrease to such an extent that by August 1982, Mexico declared that it could no longer meet its external debt repayments. Total external debt rose from US$33 billion in 1978 to US$87 billion in 1982.[60]

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[56]W. Cline, *op. cit.*, in footnote 51, p. 259.

[57]*Ibid.*

[58]M. Ramírez, *op. cit.*, in footnote 21, p. 88.

[59]J. Ros, 'Mexico from the Oil Boom to the Debt Crisis', in R. Thorpe and L. Whitehead (eds), *Latin American Debt and the Adjustment Crisis* (Oxford: Oxford University Press, 1987), p. 77.

[60]ECLAC, *op. cit.*, in footnote 55, pp. 500-1.

Although domestic mismanagement of the economy was an important cause of the financial crisis, three international factors were particularly crucial.[61] First, there was the sharp rise in oil prices in 1973 to 1975 and 1979 to 1980. In late 1973, OPEC announced a quadrupling of the price of oil, only to increase oil prices again by 50 per cent in 1979.[62] Until 1975 Mexico was a net importer of petroleum. As a consequence, Mexico borrowed heavily to develop oil production; the promise of oil exports was the main basis for its ability to borrow large amounts. Mexico's build up of debt was almost certainly accelerated rather than deterred by higher oil prices in the 1970s. The expectation that this trend would continue into the 1980s was not realized. In 1981 oil exports were only US$14 billion rather than the US$20 billion expected.[63] The weakening of the world oil market after 1981 precipitated a crisis in Mexico, as oil constituted three-fourths of its exports.

Second, the large increases in nominal and real interest rates contributed greatly to Mexican balance of payments deficit. The increase both in interest rates and the value of the US dollar adversely affected the balance of payments since a high proportion of the external debt had been contracted at variable interest rates (introduced after 1974) and denominated in US dollars. The sharp rise in interest rates in the early 1980s stunned borrowers as they had become accustomed to low real interest rates. Between 1961 and 1970, the London Interbank Offer Rate (LIBOR) produced an average real interest rate of 4.1 per cent and between 1971 and 1980, this average dropped to an incredible -0.8 per cent.[64] After twenty years of relatively low real interest rates, it is no wonder that debtor countries

[61] A fourth factor was the world economic recessions of 1974 to 1975 and 1980 - discussed earlier in this chapter.

[62] Inter-American Development Bank, *op. cit.*, in footnote 52, p. 37.

[63] W. Cline, *op. cit.*, in footnote 51, p. 259.

[64] *Ibid*, p. 11.

were shocked by the 1981 rate of 7.4 percent and the 1982 rate of 10.95 percent.[65] The remarkable upsurge of interest rates that started in 1978 sharply exacerbated the expanding balance of payments deficit and thereby became one of the major precipitating factors of Mexico's financial crisis in 1982.

Finally, there was the pronounced decline in the net inflow of capital to Mexico in 1982 and again in 1983. The net inflow had been steadily increasing over most of the 1970s reaching a record figure of nearly US$38 billion in 1981. However, this amount fell to US$20 billion in 1982 and to a mere US$8 billion in 1983.[66] This radical drop in external financing was further aggravated by the fact that net payments for interest increased considerably at the same time. Beginning in 1982, the drastic reduction in the net inflows of capital meant that with the increase for interest, the Latin American region had to transfer to the exterior a considerable amount of real resources estimated at between US$10 billion and US$20 billion in 1982 and 1983 respectively.[67]

When the oil-led debt boom turned bust, financial speculation and capital flight brought Mexico to the brink of bankruptcy. The country declared in late August 1982 that it could no longer meet its external debt repayments. The country was now facing the worst economic crisis since the inter-war years half a century before. President López Portillo had become convinced that responsibility for the crisis had to be accepted by someone.[68] According to the president, the 1982 crisis differed from the one in 1976. Whereas the 1976 crisis was a response to the failed post-Second World War ISI development model, the López Portillo growth strategy had been a success. Rather than placing the blame on his own mismanagement of the economy, President López Portillo placed the blame on

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[65]*Ibid*, p. 12.

[66]ECLAC, *External Debt in Latin America*, (Colorado: Lynne Reinner, 1985), pp. 12-13.

[67]*Ibid*, p. 13.

[68]Pedro-Pablo Kuczynski, *Latin American Debt*, A Twentieth Century Fund Book (London: Johns Hopkins University Press, 1988), p. 83.

external and domestic 'evils'.[69] President López Portillo justified his actions on the grounds that the banking community had betrayed Mexico by speculating against the *peso*.

> I can affirm that ... a group of Mexicans, led, counselled and supported by private banks, have taken more money out of the country than all the empires that have exploited us since the beginning of our history.[70]

On 1 September, President Jóse López Portillo took a dramatic step: in his last state-of-the-union address, he announced the state takeover of all Mexican commercial banks as well as the imposition of exchange controls.[71] Mexico was retreating into populism. The origin of the bank nationalization can be found six months earlier. The president requested information analyzing all of the economic policy options to deal with speculation and capital flight. The most important motivation, however, was political. The nationalization reinforced the legitimacy and increased the popularity of the administration in the midst of acute economic crisis. Although the bank nationalization was extremely popular with most of society, the move only served to accelerate further capital flight. The bank nationalization served to radicalize a certain faction in the business community.

The mixed-economy model had guided the development direction of Mexico for over thirty years. The political and economic turmoil of the late 1960s and 1970s, however, spurred a search for other development options. President Echeverría's 'shared development' strategy increased the role of the state in order

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[69]For more information on the bank nationalization in Mexico, see Jorge Basave, et al., 'La Nacionalización de la Banca', *Teoría y Política* (Nos. 7-8, diciembre 1982), pp. 47-63; Carlos Tello, *La Nacionalización de la Banca en México* (México, DF: Siglo Veintiuno Editores, 1984); and Russell N. White, *State, Class, and the Nationalization of the Mexican Banks*, (New York, NY: Taylor and Francis, 1992).

[70]*Excélsior* (Mexico City), 2 September 1982, p.1-A.

[71]The bank nationalization is discussed further in Chapter 6, section 6.4.2.

to attempt to redress the imbalances in the distribution of the spoils of the 'Mexican Miracle'. When this strategy failed, his successor, President López Portillo, after discovering vast reserves of oil, briefly experimented with a more open economy. The alliance for production, López Portillo's oil-led growth strategy, also was abandoned. Both attempts ignored deep-rooted structural problems in the Mexican economy. The 1982 economic crisis provided the catalyst that finally forced Mexico to confront the long-standing problems with its development model.

Although a new strategy was needed, there was little indication that one had been formulated. The outgoing president, López Portillo, had just made a radical shift back toward populism with the controversial nationalization of the banks. The president-elect, Miguel de la Madrid, was not scheduled to take office until December. Although de la Madrid's economic policy preferences were known, (working within the confines of the agreed upon IMF programme), the long-term development strategy to be chosen was not clear. It was not a foregone conclusion that the country would opt for economic liberalization. It was still possible to choose a policy that would provide Mexico with an outward-oriented economy with selective export promotion, rather than an open import regime.

The more likely scenario of the 1982 crisis was a policy reverting back to economic nationalism. *Both Presidents Echeverría and López Portillo had retreated into populism and an inward-looking direction when confronted with acute crisis.* Why would de la Madrid be different? Although de la Madrid was known to be a monetarist when in the Secretariat of Programming and Budget (he supported GATT membership in 1980), he was responsible for masterminding a long-term development strategy in 1980 that called for a renewed inward-looking economic model. During his campaign, de la Madrid published an outline of his views on the future of Mexico. He guaranteed the continuation of the constitutional ideals of nationalism, a plural democracy and a mixed economy. De la Madrid emphasized that the state would continue to direct the process of development and that the market would be subject to the public interest.[72] When de la Madrid finally assumed the presidency, however, he oversaw the beginning of the most radical change in Mexico's post-Second World War economic policy. It was during his *sexenio* that the Mexican economy underwent a fundamental restructuring as the doctrine of economic liberalization gained the upper hand over the post-Second World War belief in economic nationalism.[73]

[72]Miguel de la Madrid Hurtado, *Cien Tesis Sobre México* (México, DF: Editorial Grijalbo, S.A., 1982), p. 99.

[73]This new policy direction would finally settle the great debate over national development strategy that had been fought in the López Portillo administration. This struggle between the two models is discussed further in Chapter 6.

2.2 Economic Stabilization

2.2.1 *The Austerity Programme (1982 to 1985)*

The immediate task at hand for the new administration was to confront the principal economic problems revealed by the crisis. The de la Madrid administration tried to reverse the damage to government-business relations caused by the bank nationalization through an orthodox economic stabilization programme. When Mexico had difficulties in servicing its foreign debt, the IMF was used as the intermediary between the country and its creditors. In late August 1982, access to US$1 billion of a US$1.85 billion emergency credit was granted by the Bank for International Settlements conditional upon Mexico reaching an agreement with the IMF.[74] On 10 November 1982, the Mexican government announced it had reached a long-awaited agreement with the IMF on an austerity programme aimed at easing the crisis caused by the nation's huge foreign debt. Under the agreement Mexico would receive US$3.84 billion worth of credit from the IMF over the next three years.[75]

This three-year stabilization programme aimed to stem inflation and to cut public expenditure by lowering real wages, reducing subsidies and freezing investment. Further, short-term policy had to deal with the restructuring of external public debt, rescuing private enterprises with heavy foreign debt burdens, reversing a massive deficit on the current account in the balance of payments and managing a rapidly depreciating *peso*. On the external front, exports were to be encouraged and this was to be accompanied by a dynamic exchange rate policy and real positive interest rates.

The austerity measures put in place during 1983 initially produced some encouraging results. Mexico's 1983 adjustment programme focused on its fiscal

[74]Jesús Silva Herzog, The Finance Secretary, insists that the programme - and subsequent IMF-styled programmes - were designed by Mexican officials, and not imposed by the IMF. Interview, Silva Herzog, *op. cit.*, in footnote 45.

[75]Robert E. Looney, *Economic Policymaking in Mexico: Factors Underlying the 1982 Crisis* (Durham, NC: Duke University Press, 1985), pp. 261-2.

policy. Fiscal adjustment was considered the main policy instrument to eliminate excess demand caused by high inflation and external imbalance. In order to reduce its nominal deficit (PSBR), the government decreased expenditures and increased revenues. The reduction in total expenditures as a proportion of GDP fell from 28.2 per cent in 1983 to 26.9 per cent in 1984 and 25.0 per cent in 1985.[76] Public sector revenues were increased by indirect taxes with an upward adjustment of public sector relative prices including gasoline, food and transport. This caused revenues to increase as a proportion of GDP, from 29.9 per cent in 1982 to 32.9 per cent in 1983 and 33.2 per cent the following year.[77] These gains, however, were not accompanied by appreciable increases in income. Meanwhile, as Mexico began to experience renewed economic difficulties, even the ratio of returns to GDP tailed off to 31.7 per cent in 1985.

This decrease in spending and the increase in revenues resulted in a substantial reduction in the public sector deficit, which fell from 17.6 per cent of GDP in 1982 to 8.9 per cent in 1983 and 8.7 per cent in 1984. Public sector finances would, however, once again deteriorate as the public sector deficit climbed to 10 per cent of GDP in 1985 and 16.3 per cent the following year.[78] (See Table 2.3.)

Initially, the de la Madrid administration also adopted a plan called the Immediate Economic Rearrangement Program (PIRE) whose primary objectives were to reduce inflation, protect employment and resume economic growth.[79]

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[76]Economic Commission for Latin America and the Caribbean, *UN Survey of Latin America and the Caribbean* (Santiago, Chile: ECLAC, 1986, 1988, 1989), pp. 437, 479, 457, respectively.

[77]M. Ramírez, *op. cit.*, in footnote 21, p.100.

[78]The decrease in public sector spending was intended as a short-term measure to be followed by renewed economic growth. As section 2.2.2 will discuss, 1985 witnessed the renewal of economic crisis.

[79]Gobierno de México, *El Programa Inmediato de Reordenacion Economica y La Accion Economica Internacional de México* (Mexico, DF: Presidencia de la Republica, enero 1983).

Table 2.3
Economic Indicators, 1982 to 1986
(annual growth rates, in percentage)

Item	1982	1983	1984	1985	1986
Real GDP	-0.5	-5.3	3.7	2.8	-3.8
Public Sector Deficit (% of GDP)	17.6	8.9	8.7	10.0	16.3
Inflation[1]	98.8	80.8	59.2	63.7	105.7

[1] Percentage variation from December to December.

Sources: IDB, *Economic and Social Progress in Latin America*, 1987 Report (Washington, DC: IDB, 1987), p. 342 and CEPAL, *Notas Sobre la Economía y el Desarrollo*, No. 438/439 (Santiago, Chile: CEPAL, December 1986), p.15.

Table 2.4
External Indicators, 1982 to 1986
(billions of dollars)

Item	1982	1983	1984	1985	1986
Merchandise Exports	20.0	22.3	24.2	21.7	16.0
Merchandise Imports	13.5	8.5	11.3	13.2	11.4
Trade Balance	6.5	13.8	12.9	8.5	4.6
Current Account Balance	-5.7	5.3	4.2	1.2	-1.3

Source: IDB, *Economic and Social Progress in Latin America*, 1987 Report (Washington, DC: IDB, 1987), p. 342.

The rate of inflation was reduced from 98.8 per cent in 1982 to 80.8 per cent in 1983 and 59.2 per cent in 1984. The PIRE was at first successful in reducing the financial deficit and inflation. Within the next two years, however, this trend was reversed by the relaxation of the restrictive policy, a new 'overheating' of the economy and the uncontrolled acceleration of growth occurred in 1984. As Table 2.3 shows, the rate of inflation first climbed to 63.7 per cent in 1985 and then jumped to 105.7 per cent in 1986. This caused the gradual abandonment of the PIRE and the reappearance of the traditional economic imbalances.

Another short-term success of the stabilization programme was the performance of the current account during 1983. Due in part to the systematic devaluation of the *peso* and the global recovery that began in 1983, exports edged up to US$22.3 billion, but imports plunged to US$8.5 billion. This resulted in a trade surplus of US$13.8 billion and a current account surplus of US$5.3 billion. This was the first surplus since 1955. The improvement in the current account was, to a considerable degree, the result of a sizable drop in imports due to economic depression that hit the country that year. In 1983 alone, Mexico's gross domestic investment - the country's future source of growth and employment - fell by an unprecedented 24.7 per cent.[80] The external accounts - the main area of achievement of the stabilization programme during the preceding two years - suddenly reversed itself when the current account surplus fell from over US$4.2 billion in 1984 to US$1.2 billion in 1985. (See Table 2.4.)

Initially Mexico had been quite successful in meeting the IMF economic targets. In 1984, the government received high praise from the international financial community. By meeting its economic targets, Mexico was seen as representing the perfect example of a successful orthodox adjustment to the debt crisis in contrast to the other major debtor countries of Latin America. The administration shared this optimism, hoping that the 1983 to 1985 austerity

[80]M. Ramírez, *op. cit.*, in footnote 21, p. 100; and Armen Kouyoumdjian, 'The Miguel De La Madrid Sexenio: Major Reforms or foundation for disaster?', in George Philip (ed.), *The Mexican Economy* (London: Routledge, 1988), p. 81.

measures would stabilize the economy and facilitate the conditions necessary for an orderly rescheduling of the debt, a rapid resumption of access to new external credit and a resolution of the crisis. Yet the extent of outstanding public external debt stood at US$98.9 billion in 1986 - some US$12 billion higher than it had been in August 1982.[81]

When the crisis first hit the headlines, it could have been viewed either as a liquidity crisis or a solvency problem. The former maintains that the debt was a short-term interruption of cash flow, sound but merely illiquid with the solution lying in additional lending with rescheduling packages and temporary adjustments. The latter views debt as a long-term inability to repay debt with some attempt made to salvage some portion of the debt while accepting some loss on face value. At the time of the crisis, the majority of bankers, government officials and independent observers were inclined to view Mexico's situation as a liquidity problem.

Two basic assumptions were made regarding the liquidity crisis: 1) that the developing countries's balance of payments problem was short-term and could be resolved in a relatively short time period; and 2) that their economies were resilient and flexible and orthodox treatment such as deflationary policies could be achieved without undue strain on the developing countries's economies. From these basic assumptions, the international financial community believed that the developing countries would expand their exports and generate trade surpluses in order to service their debt. In the meantime, they would receive new loans to help carry out short-run adjustment policies. It was hoped that after this hurdle of temporary illiquidity was overcome, credit worthiness would be restored and lending would resume. As the following section illustrates, however, both internal mismanagement of the economy and unforseen external factors prevented Mexico from solving its 'liquidity' crisis.

[81]Mike Faber, 'Dissent on Debt: The Implications of Mexico's 1986 Rescheduling', *Development Policy Review* (Vol. 5, No. 3, September 1987), p. 231.

2.2.2 *The Watershed (1985 to 1986)*

Although the difficulties experienced by Mexico have their roots in the domestic mismanagement of the economy, the deepening of the problems during this time period was primarily attributable to circumstances in the international economy. The ability of Mexican policymakers to anticipate and adjust to adverse external developments was minimal. In addition, the scope for coping was squandered by a time-consuming bureaucratic squabble.

During the second quarter of 1984, the government began to loosen its economic policy and briefly implemented populist policies. The increase in public sector deficit was in part the result of the expansionary fiscal and credit policies which were in response to growing political pressure resulting from the deterioration of living standards of broad sectors of society. More importantly, the increase was in anticipation by the government of an electoral challenge from the PAN (The National Action Party - the leading opposition party) in the gubernatorial and chamber elections to be held in 1985.

Because of the inherently conflictual relationship between the Finance Ministry (responsible for income) and the Budget and Planning Ministry (responsible for expenditure), a bureaucratic squabble ensued. Jesús Silva Herzog (the Finance Minister) knew that Mexico would never reach its targets for 1985. The figures drawn up by Carlos Salinas de Gortari (the Budget Minister) were misleading. When the 1985 budget was proposed by Salinas in December 1984, Silva Herzog refused to sign it until expenditures were cut. This disagreement between the two men would be the first of many.

In 1985 Mexico was falling short of its economic policy targets. The overvalued *peso* led to a resurgence of capital flight,[82] reflecting society's and the

[82]The renewed capital flight was very important as a substantial amount had left the country in the past decade, damaging the government's effort to stabilize the economy. According to the World Bank, between 1970 and 1982, US$26.5 billion left the country. Morgan Guaranty Trust reported US$53 billion in flight capital between 1976 and 1986, with US$36 billion leaving between 1976 and 1982. Pamela S. Falk, 'Prólogo', in Blanca Torres y Pamela S. Falk (coordinadoras), *La Adhesión de México al GATT* (Mexico, DF: El Colegio de México, 1989), p. 15.

international community's perceptions that the adjustment programme was no longer working as it should. The de la Madrid administration had not been successful in mending its relationship with business. The diverse private sector interests, the ideological divisions over the preferred role of the state and the mobility of Mexican capital made renewed business confidence difficult.

In addition to domestic mismanagement of the economy, external factors were also affecting the Mexican economic recovery. As events changed in the international economy, it was realized that external factors seriously limit the extent to which domestic economies were able to adjust without changes in the international economic system. Mexico's adjustment programme, although initially successful, soon ran into difficulties. The rescue packages did not account for the problems in the international economic system, the effects of austerity programmes on domestic populations and the unwillingness of banks to provide new loans while increasing the costs to the debtor nations with rescheduling fees and higher interest rate spreads.

Much of what was happening in the international economic system was obviously out of Mexico's control. The industrialized countries were not performing as anticipated. During the 1983 to 1985 period, expected growth in international trade had not occurred. Industrialized nations were assumed to grow between 3 and 4 per cent a year, but in reality only grew around 2 per cent.[83] Concurrently, non-oil commodity prices continued to fall while real interest rates remained high. At the same time, Mexico's exports confronted mounting protectionism. As protectionism increased in the industrialized world (primarily because the comparative advantage in many standardized products had shifted toward the newly industrializing countries), competition between developing

[83]World Bank, *World Development Report* (Washington, DC: IBRD, 1983, 1987), pp. 27, 205.

countries like Mexico and the industrialized countries, especially the United States, increased.[84]

As Mexico was not a member of the GATT and there existed no bilateral trade agreement with the United States, the United States was in a position to retaliate against several Mexican subsidies by means of a countervailing duty. Particularly after 1982, the United States, feeling the effects of the world recession, initiated eighteen investigations into Mexican subsidies.[85] This, in effect restricted market access for many of Mexico's products. Hence, the country was having a harder time generating a trade surplus to service its debt. Instead Mexico had to resort to using domestic savings which were augmented by curbing imports.

The apparent loss of control of the economy on the part of the government was reflected in the tougher stance then adopted by Mexico's creditors. The country had fallen out of compliance with the IMF, which signalled its disapproval by withholding the final tranche of official finance in September 1985. Two additional events occurred - both of them beyond the control of policymakers - which compounded Mexico's problems. First, within days of the suspension of IMF lending, Mexico City was devastated by two earthquakes.[86] Approximately US$1 billion was added to Mexico's immediate external borrowing requirements.[87]

[84]The increase in protectionism in the United States is of vital importance to Mexico. Its trade with the United States accounted for approximately 60-70 per cent of its total trade. Mexican-United States trade relations is examined in Chapter 4.

[85]The issue of Mexican-United States trade relations and countervailing duties are discussed in Chapter 4.

[86]Sr. Silva Herzog says that Mexico was 'fortunate' to have had the earthquakes. Attention was drawn away from the mismanagement of the economy as the government was able to blame the economic deviations on this external occurrence. Interview, Silva Herzog, *op. cit.*, in footnote 45.

[87]Wayne A. Cornelius, *The Political Economy of Mexico Under de la Madrid: The Crisis Deepens, 1985 - 1986* (San Diego, CA: University of California, San Diego, Center for US - Mexican Studies, 1986), p. 35.

Second, before Mexico could identify where it would locate the extra foreign exchange needed for reconstruction, an even worse economic shock struck Mexico: the international price of oil collapsed.[88] Because oil had constituted about 70 per cent of Mexico's export revenues, the dramatic drop in prices was debilitating. It is estimated that US$8 billion was lost in export revenues - almost half Mexico's total foreign revenues.[89]

Many within the government thought that there were limits to what restrictions could be imposed. With the collapse of oil prices in January 1986, there was tremendous conflict within the cabinet on short-term policy. This indecision lasted for six months and involved the two ministries responsible for economic policy: the Finance Ministry and the Budget and Programming Ministry. Silva Herzog considered the collapse in oil price terrible, but acknowledged that the Mexican government had to continue to cut public expenditures by furthering the austerity measures. Silva Herzog, the Finance Minister, proposed (approximate figures) trimming US$2 billion from public expenditure, US$2 billion from foreign borrowing and US$2 billion in deficit.[90] The second group, led by the Programming Minister, Salinas, believed that the adjustment programme had been unreasonably strict. Public expenditures could not be cut any further as they had been 'cut to the bone'. Salinas called for adjustment to come from external sources.

It was the second group that eventually won the policy debate. Silva Herzog resigned in June 1986 and one month later, Mexico signed an agreement with the IMF. Silva Herzog's exit from the cabinet had political overtones (his exit

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[88]The price of oil plummeted from US$30.80 on 21 November 1985, to US$11.50 on 2 April 1986. Robert A. Pastor (ed.), *Latin America's Debt Crisis: Adjusting to the Past or Planning for the Future?* (London: Lynne Rienner, 1987), p. 13.

[89]Esperanza Duran, 'Mexico's 1986 Financial Rescue: Palliative or Cure?', in George Philip (ed.), *The Mexican Economy* (London: Routledge, 1988), p. 99.

[90]Interview, Silva Herzog, *op. cit.*, in footnote 45.

made Salinas the front-runner for the 1988 Presidencial race), but it also created a more harmonious cabinet united on short-term economic policy.[91]

The IMF agreement incorporated the terms of the Baker Plan, emphasized the need for growth over further austerity measures and linked debt service capability to the price of oil. The Baker Plan called for three essential and mutually reinforcing elements: 1) the adoption by debtor nations of comprehensive macroeconomic and structural policies, supported by the international financial institutions, to promote growth and balance of payments adjustment and to reduce inflation; 2) a continued role for the IMF, in conjunction with increased and more effective structural adjustment lending, both in support of and the adoption by debtor countries of market-oriented policies for growth; and 3) increased lending by private banks in support of comprehensive economic adjustment programmes.[92]

Mexico started its road to economic recovery as the international financial community began to acknowledge that the debt crisis was not just a liquidity crisis, but a problem of solvency. Mexico and the other major debtor countries, however, proved incapable of servicing their full obligations or restoring credit worthiness before the Brady Plan officially sanctioned debt forgiveness in 1989. Today, it is argued by the current Finance Minister, Pedro Aspe, that the Mexican experience has shown that macroeconomic stabilization can be successful only if it goes hand in hand with structural change and some measure of debt relief.[93]

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[91]Paradoxically, Sr. Silva Herzog, who considers himself a 'leftist', was advocating reduced public spending, while Sr. Salinas, seen as an orthodox economist, was attempting to build political support by relaxing austerity measures.

[92]James A. Baker III, 'Statement before the Joint Annual Meeting of the IMF and World Bank, October 8, Seoul, Korea', *Treasury News* (Washington, DC, 1985). A more in-depth analysis of IMF and US pressure on Mexican policymakers is addressed in Chapter 4.

[93]Lectures by Pedro Aspe, Finance Minister of Mexico, entitled 'Stabilization and Structural Change: The Mexican Experience', *The Lionel Robbins Memorial Lecture*, The London School of Economics, 20-22 January 1992.

Conclusions

This chapter traced Mexico's post-Second World War development strategy from 1940 to the mid-1980s. The ISI model emphasized a protected economy with strong state intervention and produced the so-called 'Mexican Miracle': high rates of growth, low annual inflation rates and the transformation into an industrializing nation. The strategy was inherently flawed, however, and led to gross distortions in the Mexican economy by the late 1960s. The following decade witnessed a period of socio-political as well as economic troubles. The administrations of Echeverría and López Portillo also reacted to the crises in distinctive ways. President Echeverría responded by radicalizing the nationalist development model, strengthening the role of the state and renewing an inward-looking economic policy. President López Portillo implemented an orthodox stabilization programme and started some trade liberalization. The discovery of oil in 1978 led to the abandonment of these policies. The oil-led strategy was terribly mismanaged and a true opportunity for Mexican development was effectively squandered. As the domestic economy overheated and the international economy continued to deteriorate, President López Portillo retreated into populism. *Both Presidents Echeverría and López Portillo shifted inward when confronted with economic crisis.*

With the administration of de la Madrid, the much needed structural changes and economic austerity measures were finally implemented. Although de la Madrid did resort to brief populist measures in 1985, they were short-term policies. It is important to stress that rather than retreating toward an inward-looking direction when the crisis intensified in 1985 to 1986, de la Madrid did the opposite. His administration cast aside the nationalist development strategy and implemented a radical opening of the economy.

The international and domestic economic conditions and the short-term policies employed by the new Mexican administration explained the setting for the trade liberalizing reforms of the early 1980s. The next chapter examines the first international variable - the 1982 economic crisis - and its role as a catalyst for policy change. The focus is on de la Madrid's long-term strategy of economic reordering and structural change, specifically on the implementation of trade liberalization measures. In light of the continuing financial crisis and the difficulties Mexico had in maintaining the orthodox programme, the decision to liberalize substantially the trade regime and join the GATT in 1985 is significant.

Chapter Three: Economic Crisis and Trade Liberalization

Introduction

This chapter explores the 1982 economic crisis and its effect on the liberalization of the trade regime in the de la Madrid administration. The central premise is that the economic crisis acted as a catalyst for fundamental policy change, but the exact content and direction of the reforms were determined by the Mexican individual policymakers. This chapter is divided into three parts. The first section discusses the international variable explaining policy change in Mexico: the 1982 economic crisis. It examines the Mexican policymakers' grasp of the crisis situation and addresses what role the crisis played in prompting economic policy reform. The second part explores the trade liberalizing measures pursued from the beginning of the de la Madrid *sexenio* to the 1985 watershed year when Mexico decided to join the GATT. The third section argues that despite the immense social welfare costs of the ongoing crisis, the de la Madrid administration did not retreat into populism, but rapidly speeded up trade liberalizing measures.

3.1 *The Crisis Situation*

When Miguel de la Madrid came to power in late 1982, he was confronted with the worst economic plight to beset his country for over half a century.[1] In this study of why Mexico decided to liberalize its trade regime, the economic crisis confronting the country is the first and foremost external variable - it is the key to the dramatic shift in Mexican economic policy in the early 1980s. Although the candidate, de la Madrid, had made the commitment to shift gradually toward an outward-oriented growth strategy before August 1982, the crisis situation propelled the new administration to speed up the liberalization process.

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[1]For more information on the debt crisis, see, for example, William Cline, *International Debt* (Washington, DC: Institute for International Economics, 1986); Pedro-Pablo Kuczynski, *Latin American Debt* (Baltimore, MD: Johns Hopkins University Press, 1988); and Robert Pastor (ed.), *Latin America's Debt Crisis: Adjusting to the Past or Planning for the Future?* (London: Lynne Rienner, 1987).

The nexus between crisis and policy change is central to the thesis. Yet determining the link between crisis and policy change can be difficult. Unless a clear measure of crisis is adopted, explanations can involve a sort of circular reasoning: fundamental policy changes are initiated because there is a crisis and therefore a crisis exists when major policy reforms are adopted. In order to avoid this, three criteria are put forward to define a crisis situation: 1) decision makers perceive that a crisis exists; 2) there is a general consensus among the policymakers that the crisis situation is real and of a threatening nature; and 3) decision makers believe that failure to act would lead to an even more ominous economic and political reality.[2]

Because of the international and domestic difficulties, Mexican policymakers were convinced that their country was facing an acute economic crisis. Not only did the decision makers perceive a real and threatening crisis, but they foresaw dire consequences occurring to the political and economic situation of the country if appropriate action was not taken. The importance and the greater implications of this juncture in Mexican history is evident from the words of Miguel de la Madrid. As president-elect, he emphasized that the crisis was of dimensions not seen since the great depression of the 1930s, extending to every facet of Mexican society: social, political, economic and ideological.[3] While he was president-elect (4 July to 1 December 1992), de la Madrid chose a select group of people to meet twice a week in order to decide what to do about the current economic crisis.[4] These meetings considered the various policy options that would be available to the new administration. These meetings discussed how

[2]Fen Hampson, *Forming Economic Policy: The Case of Energy in Canada and Mexico* (New York: St. Martin's Press, 1986), pp. 16-17.

[3]Miguel de la Madrid Hurtado, *Cien Días Contra La Crisis* (Mexico, DF: Dirección General de Comunicación Social de la Presidencia de la República, marzo, 1983), p. 17.

[4]The inner circle included, among others, Carlos Salinas de Gortari (soon-to-be the Minister of Programming and Budget); Jesús Silva Herzog (Minister of Finance); and Miguel Mancera (Director of the central bank). This group is discussed in Chapter 6.

fast and how far to open the Mexican economy and the general philosophy behind the Mexico's past development model.[5]

Six months after coming to office, when outlining the National Development Plan, the president commented on the magnitude of the crisis:

> ...We are facing a changing and challenging situation. There is widespread uncertainty...Mexico faces a decisive moment in its history. The Nation's destiny is at stake. Our future and that of the generations to come depend on what we do or stop doing today. We are not merely living a circumstantial crisis; if it were so, the solution would be relatively easy... Those of us who have the capacity to transform the crisis into an opportunity for change and improvement will continue advancing as a Nation, as a society and as individuals.[6]

The Finance Minister, Jesús Silva Herzog, further reiterated the perception of crisis felt by the policymakers: 'We were reacting to a very real crisis in Mexico, we felt like heroes coming to save our country from ruin.'[7] This feeling of crisis and the need to act propelled the economic cabinet to institute policies much faster and deeper than originally planned.

Crisis decision making provides the window of opportunity for policy reform. Not only is there a perceived threat, but policy decisions must be made in a short time period. The primary actors responsible are the president and his advisors excluding the Congress, bureaucracy and interest groups. It is argued that during such crises, there is not only strong pressure for reform, but decision makers are more likely to institute radical or innovative policies than when a crisis does not exist. Although institutions are prone to inertia, they become more

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[5]Interview, Sr. Jesus Silva Herzog, Finance Minister (1982 to 1986), Madrid, Spain, 21 May 1992.

[6]Miguel de la Madrid Hurtado, *National Development Plan 1983-88: Federal Executive Branch Summary* (Mexico, DF: Ministry of Planning and Budget, May 1983), p. 9.

[7]Interview, Silva Herzog, *op. cit.*, in footnote 5.

flexible in times of crisis. The environment becomes less of a policymaking constraint and new ideas and solutions are introduced.

The crisis situation introduced momentous changes in Mexico's economic policy. Although the crisis provided the opportunity to implement reforms, it did not necessarily stipulate what those reforms would entail. The exact content was determined by the domestic policymakers. In his inaugural speech, President de la Madrid stated that he would pursue a policy of 'reordering the economy'. This reordering process would include the reform of both Mexico's short-term macro-management of the economy and more importantly, its long-term development strategy.[8] The economic policies pursued during the *sexenio* of President de la Madrid had two objectives. The first objective was to manage the economic crisis by implementing a strict austerity programme through a tough IMF-backed package aimed at stabilizing the economy. The second objective was to restructure the economy in the long-term by shifting the development strategy from the traditional mixed-economy model toward neoliberalism.

When President de la Madrid outlined the National Development Plan (PND) after six months in office, he emphasized the feeling of crisis. The president knew that this was an important juncture in Mexican economic history and that bold decisions had to be taken. Rather than a temporary crisis calling for short-term solutions, Mexico had to find long-term, fundamentally different strategies to cope with its financial difficulties. President de la Madrid in effect declared his intention to break not only with the specific economic programme of his predecessor, but also from the development strategy which such a programme had essentially been built upon. López Portillo's Global Development Plan had renewed an inward-looking development strategy. It reinforced the public sector's involvement in the economy, did not plan any fiscal reforms and still relied on oil revenues to finance the deepening of import substitution industrialization (ISI).

[8]Miguel de la Madrid Hurtado, 'Mensaje de Toma de Posesión del Presidente Miguel de la Madrid', *op. cit.*, in footnote 3.

President de la Madrid's PND was based on the criticisms of these 'lessons of the past'. The Plan was the first of its kind. Whereas previous programmes planned for the *sexenio*, the president broke this unwritten rule of not compromising policy past one's own administration. The PND outlined what President de la Madrid and his economic team believed was necessary for the long-term development path of the country: the requirement of fundamentally restructuring the Mexican economy.[9] The Plan's objectives were to conserve and strengthen the democratic institutions, to conquer the crisis, to recover the capacity of growth and to initiate the *qualitative changes* that the country needed in its economic, political and social structures.[10]

De la Madrid's national development plan demonstrated a clear shift away from the Global Development Plan of the previous administration. Moreover, it would be the first of many policies to move away from the previous development strategy. The following section of the chapter examines the trade liberalizing measures implemented by the de la Madrid administration. It argues that opening up the economy was a policy objective from the beginning of the *sexenio*.

[9]Miguel de la Madrid Hurtado, *op. cit.*, in footnote 6. It should be noted that it is quite usual for a new administration at the beginning of a *sexenio* to claim that they are making a new departure. It is less usual, however, for them to make one.

[10]Gobierno de México, *Las Razones y Las Obras, Gobierno de Miguel de la Madrid: Crónica del Sexenio, 1982-88*, Primer Año, Dirección: Alejandra Lajous (Mexico, DF: Fondo de Cultura Económica, 1985), p. 160. My emphasis.

3.2 The Mexican Trade Regime

Since the 1950s when the ISI policies were firmly in place, Mexico had relied on three main elements for its import protection: 1) an *ad valorem* import tariff scheme, 2) official minimum prices for customs valuation and 3) a system of quantity restrictions either in the form of quotas or of licensing.[11] Import tariff rates have been on a scale of 0 to 100 per cent *ad valorem*. Official prices have changed over time neglecting to reflect transaction prices, thus, increasing the effective levels of the tariffs significantly above nominal rates. The most restrictive element of the Mexican import regime has been the system of quantity restrictions.

In the 1970s, however, the Mexican government recognized that this system of import protection needed to change for several reasons. First, as was shown in the previous chapter, the ISI model was exhausted, inefficient and caused long-term structural problems in the economy. Second, having followed an inward-looking strategy for over thirty years, Mexico had lost some of its competitiveness on the world market. When Mexico was hit by the financial crisis in 1982, the situation necessitated the earning of foreign exchange in a sustainable fashion. Mexico needed not only to increase its exports, but more importantly it had to reduce dependence on a single commodity - oil. In order to recover its economic health, import protection needed to be lowered in Mexico to reduce the existing bias against exports and to raise the levels of efficiency by exposing Mexican industry to foreign competition.

Although there existed compelling economic reasons to move away from the model of ISI and move toward a more outward-oriented policy, there was great domestic resistance to such a move. Moreover, the policy choice was not clear-cut. Such a policy could have taken two paths. The first is selective export promotion and the second is trade liberalization. The former utilizes export incentives to offset bias against exports without dismantling all of the country's barriers and without devaluing the currency. As Mexico came to find out in the

[11] Adriaan Ten Kate, 'Trade Liberalization and Economic Stabilization in Mexico: Lessons of Experience', *World Development* (Vol. 20, No. 5, May 1992), pp. 662-3.

1970s and early 1980s, however, subsidizing exports generates problems. Where the overvaluation of exchange rate caused by high import protection was large, the export subsidies required to offset the antiexport bias were simply too great. In addition, subsidies by Mexico became increasingly subject to countervailing duties from its principal trading partner, the United States. The latter, and riskier option (trade liberalization), recommends removal of existing trade barriers, devaluation and reliance on the price mechanism to allocate productive resources. The de la Madrid economic team eventually chose trade liberalization.

It is important to point out that the recognition of the need to export did not begin with the de la Madrid administration. It was in fact the López Portillo administration (1976 to 1982) that first introduced trade liberalizing measures. Weiss argues that only when foreign exchange was in abundance - as was the case during López Portillo's *sexenio* - could Mexico begin its trade liberalizing measures.[12] The discovery of substantial oil reserves and the great increase in petroleum exports after 1977, along with IMF funds and heavy private borrowing, eased the foreign exchange situation substantially. Because of this, Weiss argues, there occurred the partial relaxation of trade controls.

The López Portillo administration initiated trade liberalization measures between 1977 and 1980 when foreign exchange was more plentiful. By 1980, 76 per cent of the 7,776 items in the tariff code were exempted from an import license requirement.[13] In 1981, however, the fixed exchange rate was appreciating steadily in real terms coupled with higher international interest rates and declining oil prices creating new foreign exchange difficulties. Because of these financial problems, import licences were reinstated for 80 per cent of the total value of imports, thus signalling a return to protectionism.

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[12] Lecture by John Weiss, 'Trade Liberalization in Mexico in the 1980s', Institute of Latin American Studies, *Mexico Seminar*, 8 December 1992.

[13] Luis Bravo Aguilera, 'Mexico's Foreign Trade Policies and Commercial Relations with the United States', in William Glade and Cassio Luiselli (eds), *The Economics of Interdependence: Mexico and the United States*, Volume 2 (San Diego, CA: University of California, San Diego, Center for US - Mexican Studies, 1989), p. 83.

The next administration of Miguel de la Madrid would also initiate trade liberalizing measures but under very different economic conditions. Rather than liberalizing when there was an abundance of foreign exchange, the opposite occurred. When faced with mounting socio-political and economic troubles in 1985, Mexico did not retreat into protectionism. Rather, the lack of foreign exchange would be one of the factors leading the Mexican government to push for reform in the existing trade regime.

The next section examines the development policy changes proposed by the de la Madrid team during the election campaign. These proposed changes included plans to shift Mexico's growth model from an inward- to an export-oriented strategy. These proposed changes and the rhetoric advocating the liberalization of the economy was significant in a country that had experienced a nationalist development policy for over thirty years. It also demonstrates that the initiative for the change in trade policy emanated from domestic actors led by Miguel de la Madrid and his economic team.

3.2.1 *The Basic Plan and Electoral Programme*

Prior to the debt crisis in August 1982, the candidate for the presidency, Miguel de la Madrid, and his economic team realized the need for an outward-oriented growth strategy. This realization was partly due to the failed ISI policies of the post-Second World War era, but more importantly, it was tied to the realization (after the oil glut appeared in 1981) that oil-led growth could not be relied upon. Policy formulation of the outward strategy took place within the context of the electoral campaign of 1981 to 1982. By examining the PRI national campaign meetings (through publications by the ruling party - the PRI - and its think tank, the Institute for Political, Economic and Social Studies -IEPES), the de la Madrid economic team's commitment to change trade policy is evident.

'The Basic Plan and Electoral Programme', introduced in late 1981, called for the Mexican market to integrate into the world economy and the need to adopt an export-oriented growth strategy. The Basic Plan was outlined in more detail in

March 1982 at the Foreign Trade National Meeting. At the meeting, de la Madrid said that he did not believe in an autarkic or inward-oriented development policy, but rather that Mexico needed to integrate into the world economy. The presidential candidate called for the country to diversify its exports and emphasized the need to make foreign trade a priority in the national development strategy. This new position on trade included the rationalization of protectionism. De la Madrid pointed out the economic problems associated with Mexico's prolonged protectionism, especially the distortions in the allocation of resources and in income distribution.[14] In addition, at the meeting, Mexican industry was given notice that it would have to learn to compete on a global level. The Subdirector from the Treasury, Mauricio de María y Campos, emphasized that the 'fundamental problem' facing Mexican industry was the growing trade deficit in the manufacturing sector and the lack of diversified export capacity. Only through the injection of a strong dose of international competition could these problems be solved.[15] Only a few months later, the future president presented a detailed programme for a change in the course of the nation's economic development, which was much more ambitious and specific than is normal at this stage of the campaign. He declared that policy would not take the traditional form of subsidies, but rather it would

> create the conditions for modernisation. The principle of economic realism must be the starting point of any strategy. We reject the rhetoric of populism... [We will continue the] traditional mixed economy, but [with the] rationalisation of the existing trade policy and a gradual weaning away of industry from protectionism.[16]

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[14]Miguel de la Madrid, 'El Compromiso', *Consulta Popular* (Mexico, DF: PRI/IEPES, marzo 1982), pp. 5-10.

[15]PRI/IEPES, *Instrumentos de la Political Commercial* (Mexico, DF: PRI/IEPES, marzo 1982), pp. 29-30.

[16]'Mexico's Next President Spells out his policies', *Latin American Regional Reports: Mexico* (4 June 1982), pp. 1-2.

It could be argued that this election manifesto was only rhetoric; words are not necessarily evidence of proposed actions or intentions. After all, during a campaign, candidates and parties propose policies that they believe will get them elected to office. If the de la Madrid economic team had presented an inward-looking, populist programme for development, then this argument just might be convincing. But there are several problems with this line of reasoning. First, the ruling party has won every presidential race since the 1920s and it is hard to believe that they thought they might actually lose this one. The PRI has considerable policy autonomy from interest groups and classes in Mexican society (perhaps, because of this, they had the leeway to advocate a different policy path).

Second, the shift to an outward-oriented policy was not the obvious direction to take, rather the opposite was more likely. The campaign's proposal to integrate into the world economy was advanced only eighteen months after the hotly contested debate over GATT entry in 1980. This highly contentious issue demonstrated that the government (the dominant faction in the López Portillo administration), labour and business groups were against reducing protectionism and opening the economy to the outside world.

The significance of the outward-oriented policy proposals from the de la Madrid team cannot be understated. These proposals went against the more popular, nationalist development model supported by the 1982 López Portillo government. In addition, they came five months before the breaking of the debt crisis in August. Domestic and international factors, although responsible for the pace and intensity of reforms are not sufficient explanations for their genesis. The origins of the outward-oriented development policy can be traced to the individuals that made up the de la Madrid economic team.

Among those in favour of an outward-oriented development strategy, there emerged two groups that differed in their views on the speed and intensity of trade liberalizing measures. The first group advocated a slow and gradual approach, citing the failed attempts of Chile and Argentina in the 1970s to support their position of caution. The other group looked to Japan and South Korea to support their view that liberalization should be a quick process in order to renew economic growth. Miguel de la Madrid advocated the gradual approach for two reasons. First, he believed Mexico had to deal first with the short-term stabilization crisis and only then ease into trade liberalization. Second, the shift toward economic liberalization would go against thirty years of policy and the Mexican government had to proceed with caution.

3.2.2 *Trade Liberalization (1983 to 1984)*

Because of the anticipated resistance by important sectors of Mexican society to the idea of fundamentally altering the development strategy and the economic doctrine underlying it, de la Madrid's government was careful to disguise changes.[17] The first area to be re-structured was the trade regime. In the first six weeks after coming to power, the de la Madrid government started to introduce a different rhetoric alluding to the fundamental changes to come in the trade structure. The *Diario Oficial* announced reforms that would include 'studying, protecting and determining tariffs...to study the restrictions on imports and exports and to establish criteria to stimulate foreign trade as well as re-evaluate subsidies on import taxes'.[18] The government not only looked to promote exports in order to earn foreign exchange to service its foreign debt, but it also questioned the existing import regime and the level of protection that remained in the Mexican economy.

The new economic cabinet ministers emphasized the need for long-term changes. Silva Herzog, the Finance Minister, announced that the government was

[17]For example, when in 1983, the Finance Minister sold the first two parastatals he sold them to the CTM (the labor union associated with the PRI). According to Sr. Silva Herzog, he did this in order to test the waters for future privatizations. Interview, Sr. Silva Herzog, *op. cit.*, in footnote 5.

[18]*Diario Oficial*, Organo del Gobierno Constitutional de los Estados Unidos Mexicanos, Director: Lic. Rafael Murillo Vidal, el 29 diciembre de 1982, Tomo CCCLXXV, No. 23, pp. 323-4.

looking for a 'realistic' economic policy.[19] The 'realistic' policy called for long-term structural change. The Trade Minister, Héctor Hernández Cervantez, announced that although the government had no plans to enter GATT, that in or out of GATT, Mexico had to open gradually to external competition.[20] To say that Mexico would not enter GATT at this time had more to do with assuaging the fears of those who believed that the renewal of national debate (like the one in 1980) would hinder the state already trying to cope with an acute crisis. The Trade Minister, therefore, was careful with his rhetoric. Nevertheless, he pointed to the necessity of a more efficient and competitive Mexican economy that could stand up to competition in the international economy.[21]

The rhetoric from the very beginning of the de la Madrid administration foreshadowed the fundamental changes to come. In addition to the changing discourse, actual policy changes were occurring to test the political waters. Liberalizing measures, albeit quite limited, were carried out only weeks after de la Madrid became president. In January 1983, Mexico reduced tariff barriers on nearly 2,000 imported goods by 5-10 per cent to maintain supplies of raw materials and semi-manufactured goods to industry.[22] At this time, tariffs ranged from 0 for some basic foodstuffs and agricultural inputs to 100 per cent for luxury items. Throughout the year the Secretariat of Trade and Industrial Development

[19]Miguel de la Madrid Hurtado, 'Cronología, 11/12/82', *op. cit.*, in footnote 3, p. 93.

[20]M. de la Madrid Hurtado, 'Cronología, 16/1/83', *ibid*, p. 100.

[21]Hernández Cervantez, as Deputy Secretary of Trade (1976 to 1982) had already gone on record regarding the need to rationalize protection. In an article published in 1981, Hernández Cervantez argued for the rationalization of protection - liberalizing imports and reducing the overall level of tariffs - on the grounds that it would contribute to the reversal of the conditions that discourage exports and would create structural conditions that favour them. Héctor Hernández Cervantez, 'La Politica de Comercio Exterior de México', *El Economista Mexicano* (julio-agosto, 1981), p. 40.

[22]Ron Buchanan, *The Financial Times* (London), 19 January, 1983.

(SECOFI) announced it would liberalize import permits to varying degrees.[23] For the year, 1983, Banamex reports import permit requisites were removed from 3,777 categories on the import tariff schedules, bringing the total value of exempted imports to 47 per cent.[24] Although the first year of the new administration proceeded slowly with the trade liberalizing measures, they nonetheless occurred. Then in July 1984, stronger action was taken, bolstered by a more forceful rhetoric.

In July 1984, President de la Madrid presented the *National Programme for Industrial Promotion and Foreign Trade for 1984-1988* (Pronafice) and was a substantial step closer to liberalizing trade. Pronafice presented an outline for the restructuring of Mexico's industry necessary to make its growth compatible with the National Development Plan. It identified industrial sectors that have not contributed strongly to exports in the past or that had negative trade balances. In addition, it posited a design for an industrial structure that would be more efficient, better able to compete in international markets and less dependent on imported inputs and products. Selective promotion largely through fiscal incentives, was intended to re-orient many sectors toward greater export activity.[25]

This programme promoted an outward-oriented economy through export promotion rather than trade liberalization. It defended the system of a mixed-economy under the guidance of the state. It also promised to reject 'statism' along with 'free-market liberalism' and to strive for a parastatal industry that would be 'efficient' and 'competitive'. With regard to trade policy, a combination of both

[23]*Diario Oficial*, Organo del Gobierno Constitutional de los Estados Unidos Mexicanos, Director: Lic. Luis de la Hidalga (el 3 de mayo de 1983 and el 19 de mayo de 1983, Tomo CCCLXXXVII, Nos. 2 and 13), pp. 17 and 10; and Miguel de la Madrid Hurtado, 'Cronología, 3/2/83', *op. cit.*, in footnote 3, pp. 103-4.

[24]Francisco Gil Diaz, 'Opportunities Presented by the Opening of the Mexican Economy Through Trade', *Banamex: Review of the Economic Situation of Mexico* (Vol. LXII, No. 729, August 1986), p. 330.

[25]The Federal Executive Branch, *The National Program for Promoting Industry and Foreign Trade 1984-88* (Mexico, DF: Secretariat of Commerce and Industrial Promotion, 1984).

import substitution and export promotion, with neither dominant over the other, was proposed. In addition, international trade negotiations were discussed but only in general terms, with no mention of the GATT.[26]

At first glance, Pronafice resembles the previous development model. Yet, a closer look at Pronafice shows that the stage was being set for substantial changes. The programme explicitly stated that '... structural change in industry and foreign trade constitutes the catalyst for a *new development strategy.*' It proclaimed the process of change to be 'irreversible and necessary'. Although the programme acknowledged the state rectorship of the economy and the need for parastatals, it also asserted that those state enterprises must perform within the *market system.*[27] The programme was innovative, as it called for a new development strategy that would rely on market forces and introduce a process of change that was irreversible. The process of change was leading to a new development model based on economic liberalization. Pronafice, therefore, was to make qualitative changes not only in rhetoric, but also to the substance of trade policy in Mexico. Though concrete reform was still a year away, Pronafice called for substantive reforms, advocating the gradual opening of trade, rationalization and harmonization of protective and regulatory policies, and adjustment of The General Import Tax tariff structure (i.e., abolition of permits and transition toward tariffs as the main instrument). The gradual approach was speeded up only six months after the Pronafice programme. In December 1984, SECOFI announced the export sub-programme envisioning an acceleration of the substitution of import permits by tariffs, an expansion of financial incentives for exporters and more flexible treatment for foreign firms investing in exports and technology.

These initial reforms were carefully carried out despite complaints by both the 'right' and the 'left', which recognized that the reforms indicated a fundamental change. The right argued that such change came too soon, insisting

[26]*Ibid.*

[27]*Ibid*, pp. 10, 23. My emphasis.

that because of the extreme protectionism practised by past administrations, Mexican industry was quite uncompetitive. The left opposed any form of economic liberalization. Nevertheless, the Mexican government continued with its long-term changes to the country's trade regime.

Further evidence that the Mexican government as well as some sectors of the business community accepted that long-term structural change and the modification of the economic doctrine underlying it was needed showed in documents and various ministers' actions. Only eight months into office, the de la Madrid administration decided to commission a study on the state of small- and medium-size businesses. These businesses would be the firms most hurt by the liberalization of the economy. The United Nations Organization for Industrial Development (UNOID) would conduct a study to gather information and examine the experiences of other countries in a similar situation as Mexico - shifting from a protected to an open economy. In addition, the study would make recommendations for the development of small- and medium-size businesses in an increasingly competitive Mexican market.[28]

At a private sector meeting in Mexico City, one of the government's leading economic strategists and a deputy Trade and Industry Minister, René Villareal, spoke of the need for change. Villareal, known for his insistence that Mexico must develop a dynamic export sector, suggested that without profound structural changes the Mexican economy may never realize its international trade potential.[29] In addition, a deputy industrial development minister, Mauricio de Maria y Campos, said in November 1984 at an assembly of Mexican electronics manufactures - a group almost totally shielded from direct foreign competition - that they must soon begin investing the 'effort, investment and technological development that will give us international competitiveness'. Electronics

[28]José Alvarez, *The International Diffusion and Institutionalization of the New Entrepreneurship Movement*, PhD thesis (Cambridge, MA: Harvard University, 1990), p. 189.

[29]William A. Orme, Jr., 'Mexico needs structural changes to realize its export potential and growth', *International Herald Tribune*, 20 November 1984.

companies unable to survive without continued aid of subsidies and tough import barriers 'will have to get out of the market'.[30]

The use of language by the government such as 'market forces', 'reduced protectionism', 'promoting efficiency to compete with external competition' and 'the need to promote exports' probably shows that the political will[31] as well as economic necessity existed in the government from early on in the *sexenio*. Additional evidence exists in the form of trade liberalizing measures, albeit quite limited, which were carried out in 1983. The introduction of Pronafice in July 1984 further demonstrates the will of the policymakers to liberalize the trade regime. To argue that Mexico was forced to restructure because of external pressure underestimates the Mexican government's realization of the need to change economic policy and the political will of these policymakers to carry out the necessary reforms. It falsely assumes that the incremental application of liberating principles arose from less than full commitment to such principles rather than from astute politics. If the political will had not existed, there would have been far more resistance to economic liberalization as in the other major Latin American debtors.[32] The Mexican government chose to move gradually toward liberalizing the economy in order to allow those most likely to be hurt by such measures to adjust and also because the government had to deal with the short-term macro-management of the economy.

That the Mexican policymakers chose to start liberalizing the economy rather than being forced to make that decision is further evident in the lack of external pressure at this time. From 1983 to the beginning of 1985, Mexico pursued trade liberalization in a slow and gradual manner. Neither foreign governments nor international organizations were forcing Mexico to liberalize at this time. The United States was more interested in Mexico's Central American

[30] *Ibid.*

[31] Political will is defined here as the commitment or belief in a particular policy.

[32] Argentina, Brazil and Peru are discussed in the conclusion on this chapter.

policy than the liberalization of its economy. Although the first liberalizing measures were carried out only two months after Mexico signed its first IMF Letter of Intent in November 1982, the IMF did not, at this time, force liberalization.[33] The first explicit mention of the need for Mexico to liberalize trade came in April 1985 after Mexico proposed substantial liberalization programmes.

In addition to international pressures, systemic variables likewise were not determining factors. Mexico's economic stabilization record was upheld as the model for other debtor countries to emulate. The country did not run into renewed macroeconomic difficulties until well into 1985. The price of oil and the debilitating earthquakes were not a factor until the end of the year. If the IMF did not explicitly impose these changes and internally, liberalization met stiff resistance, then the reason for the shift lies within the governing ruling elite.[34]

Integral to President de la Madrid's first objective of stabilizing the economy was export diversification and trade liberalization. If the trade regime was changed to encourage exports, then foreign exchange - so desperately needed to service the foreign debt - would more readily be available. Instead of oil- and debt-led growth as followed by the previous administration, a diversified export system would play the critical role as the driving force in Mexican economic resuscitation. By the end of 1985, however, oil still accounted for over 70 per cent of Mexico's foreign currency earnings.[35] Because of the performance of non-oil exports, the de la Madrid administration was convinced of the need for substantial trade liberalization as a means of removing constraints and biases against exports.

[33]These issues are discussed in Chapter 4.

[34]The governing elite and their ability to change policy so radically is discussed in Chapter 6.

[35]William P. Glade, 'How Will Economic Recovery Be Managed?', in R. Camp (ed.), *Mexico's Political Stability: The Next Five Years* (London: Westview Press, 1986), p. 58.

In addition, the argument for trade liberalization was put forth by Jesús Silva Herzog (the Finance Minister), Miguel Mancera (the head of the central bank) and Héctor Hernández Cervantez (the Trade Minister), who saw a link between trade liberalization and inflation. In order to control inflation and make the economy more efficient, protectionism had to be reduced and the borders opened.[36]

The testimony of Mexico's own key economic managers provide further evidence that they had a particular set of reforms in mind, irrespective of external pressures. What the policymakers reject, however, is that such measures were embedded in, or drawn from a particular ideology that they commonly subscribed to. The Finance Minister maintains that the liberalizing measures were a response to the above described 'reality' of the economic situation rather than to 'ideology'. Rather than acting as ideologues, the de la Madrid economic team put forward an economic policy that had to face both internal and external constraints.

If there were no basis for the argument that the decision to liberalize Mexico's trade regime was formulated because of the policymakers' belief in the underlying doctrine, then it could be argued that the pace of reform taking place in Mexico in the latter half of the de la Madrid *sexenio* would not have been so frantic. In addition, when the Mexican economy improved toward the end of the decade, instead of slowing down the liberalization process, it was actually speeded up. Rather than responding to the 'economic reality' of the day, there was a fundamental shared belief in the doctrine of economic liberalization as the path to take to modernize Mexico. Although Mexican policymakers did not see themselves as ideologues, they were very much influenced by neoliberal ideas.[37]

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[36]Interview, Silva Herzog, *op. cit.*, in footnote 5.

[37]See Chapter 5 for a discussion of the role of ideas and the neoliberal resurgence.

3.3 The 1985 Watershed

The de la Madrid administration was not implementing radical policy reforms in a vacuum. It is important to emphasize that such policy changes did not come without its political and socio-economic costs. Politically, society's discontent with the economic situation led to the strengthening of opposition parties. For example, the 1985 mid-*sexenio* elections saw the first governorship from the PAN elected *and* allowed to take office - a first for any opposition party in twentieth century Mexico.[38] There were also important social interests, especially from the small- and medium-sized businesses, that were opposed to trade opening. The liberalization of the trade regime threatened to force many entrepreneurs into bankruptcy as they did not have the financial resources for industrial reconversion. Because of the divisive factors related to sector, size and geographic location,[39] private sector cohesion and influence over policymaking has been greatly

[38]More importantly, the 1988 Presidential election witnessed a left-wing faction of the PRI split from the party and form the National Democratic Front (FDN). This coalition party posed the most significant challenge to the PRI. The FDN campaigned against the economic liberalizing measures carried out during the previous six years and, instead, called for a return to the 'populist', nationalistic policies of the past. Even if one were to go by the official results, (the PRI with 50.3 per cent; the PAN, 17 per cent; and the FDN with 31.12 per cent) the outcome indicated that society was not happy with the economic policies pursued by President de la Madrid. This is explored in more detail in Chapter 7.

[39]The 'radical' faction of the private sector is concentrated primarily in the northeastern city of Monterrey. The group includes industrialists, merchants, agriculturalists, mining interests and bankers. The faction find their origins in the 19th century and were active beneficiaries of the Porfiriato regime in which an export-oriented model was pursued. The radicals were the strongest proponents of resistance to the state-led economic programme which emerged from the Mexican revolution. They disagreed with the government/PRI on fundamental issues including state intervention in the economy. Various business groups were formed by this group and such groups were instrumental in fostering the formation of political groups and organizations such as the PAN. The 'moderates', on the other hand, are concentrated in the Valley of Mexico, particularly Mexico City. Unlike the radicals, this group developed slowly in the 1920s and 1930s. They are overwhelmingly industrialists and are aware of their vulnerability to foreign competition. Hence, they are vehemently against the post-1982 economic direction and call for protection against foreign competition in exchange for their recognition of the hegemony of the political bureaucracy.

diminished. The PRI exploits and perpetuates these differences through policies that aim to 'divide and conquer' the business community.[40]

The socio-economic costs borne by the Mexican people were considerable. This *sexenio* saw the highest levels of inflation, public deficit and monetary speculation with the lowest economic growth, employment and productive investment. Just in the years, 1982 to 1985, the living standard in Mexico dropped by 25 per cent.[41] No new jobs were created, the population increased a couple million and open unemployment rose from 2.7 million in 1981 to 4.6 million in 1984.[42] Wages saw a dramatic decline throughout the entire *sexenio*. If we take the base year of 1980 as equal to 100, then we can see the dramatic decline in real average wages - 1982 stood at 104.4 and by 1985 had dropped to 76.6.[43] Despite the immense political and social costs of the crisis, the de la Madrid administration did not follow the path of his predecessors. When the crisis intensified in 1985, rather than retreating into populism, the de la Madrid government rapidly speeded up the process. The liberalizing measures taken in 1985 are examined below.

3.3.1 *The Dimex and Profiex Programmes*

Sweeping Mexican trade reforms began in 1985 with the Dimex (Import Rights for Exporters) programme. This programme, originally proposed in February, was introduced with the purpose of expediting the purchase of imported materials for the production of exports. It would benefit all exports having a minimum domestic

[40]Sylvia Maxfield, 'International Economic Opening and Government-Business Relations', in W. Cornelius, J. Gentleman, and P. Smith (eds), *Mexico's Alternative Political Futures*, Monograph Series 30 (San Diego, CA: Centre for US-Mexican Studies, University of California, San Diego, 1989), p. 226.

[41]Mike Faber, 'Dissent on Debt: The Implications of Mexico's 1986 Rescheduling', *Development Policy Review* (Vol. 5, No. 3, September 1987), p. 232.

[42]H. Dieguez, *Social Consequences of the Economic Crisis: Mexico* (Washington, DC: IBRD, 1985), p. 8.

[43]By 1988, it had dropped to 46.9. Economic Commission for Latin America and the Caribbean (ECLAC), *UN Survey of Latin America and the Caribbean* (Santiago, Chile: ECLA, 1991), p. 488.

value-added of 40 per cent and allowed exporters to import without a license an amount equivalent to 40 per cent of their foreign sales. Merchandise imports under this framework would be subject to an *ad valorem* tax of a minimum of 10 per cent depending on the import tariff.[44]

The reduction in the protectionism advocated by this programme met with strong opposition. Some argue that, with the controversy surrounding the 1980 GATT debate, the strength of those who would oppose the opening of the economy had been well established.[45] It was no surprise that nationalist politicians, local private businessmen who feared they could not withstand sharper foreign competition, the managers of a number of state-owned enterprises and even foreign enterprises that reaped extra profits from their protected Mexican markets were against any attempts by the de la Madrid government to liberalize trade. It would even seem that these groups played an influential role in policymaking in Mexico when Dimex was put on hold. Only four months later (in June 1985), however, the programme was reintroduced with the 40 per cent figure reduced to 30 per cent.

In April 1985, the government introduced the export side to its new trade liberalization measures. Profiex (Integral Program for Export Development) aimed to make Mexican export activities more profitable within internationally accepted norms. The programme defined a strategy to foster non-petroleum exports through the promotion and diversification of markets and products, adjustments in export credit lines, the organization of exportable supplies, incentives to import substitution and a better use of government financing and consulting services to support export sales.[46]

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[44]Banco de México, *The Mexican Economy 1986* (Mexico, DF: Banco de México, June 1986), p. 111.

[45]W. Glade, *op. cit.*, in footnote 35, p. 65.

[46]Banco de México, *op. cit.*, in footnote 44.

It is important to point out here that these programmes were not the beginning of the liberalization of imports and the rationalization of protection, but merely accelerated these processes. This new trade policy, oriented to promote exports instead of the traditional process of import substitution, demonstrated the substantial structural change occurring in the Mexican trade regime. It represented the break with the gradualist approach. By June 1985, import permits had been abolished on 3,555 items of the General Import Tariff, covering 24.5 per cent of total imports.[47]

3.3.2 *The July 1985 reform*

The July 1985 reforms accelerated the process of import liberalization. President de la Madrid declared the elimination of import permit mechanism for most goods, controlling them through a revised tariff structure.[48] This new import tariff structure introduced nine rates ranging from 0 to 50 per cent, with most subject to duties in the range of 25 to 40 per cent.

The July reforms removed most licensing requirements and rationalized tariffs on a wide-array of products. The Commission of Tariffs and Controls to Foreign Trade under the chairmanship of SECOFI introduced a new policy package that eliminated an additional 3,604 items of the General Import Tariff, accounting for 36.9 per cent of total imports. The total number of items exempted from import permits equalled 7,159 or the equivalent to 61.4 per cent of 1984 total imports. Licensing requirements were still used. Until June 1985, more than half (4,513) of the items of the Import Tariff Schedule were subject to import licenses, but with the July reforms only 909 items out of a total of 8,077 were subject to such licenses, accounting for 38.6 per cent of total imports.[49]

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[47]Banco de México, *The Mexican Economy 1985 - Supplement* (Mexico, DF: Banco de México, October, 1985), p. 23.

[48]'The New Economic Policy', *Banamex: Review of the Economic Situation in Mexico* (Vol. LXI, No. 717, August 1985), pp. 297-8.

[49]Banco de México, *op. cit.*, in footnote 44, p. 23.

Thus, in only 6 months, substantial and fundamental reforms were made to the trade regime. Only one obstacle remained for the de la Madrid government to overcome in order to demonstrate to domestic and foreign actors that Mexico was serious about trade liberalization and the transformation of the development strategy in the long-term. That obstacle was joining the GATT.

3.3.3 *The GATT decision*

The most significant outcome of the administration's push to liberalize the economy was its decision to seek and ultimately gain membership to the GATT in late November 1985. The GATT accession (August 1986) was a turning point in post-Second World War Mexican history because it marked the definitive shift toward trade liberalization, and the commitment to restructure not only the entire economy, but also to commit itself to a long-term shift in development strategy. With the ongoing economic crisis of the 1980s and the earthquakes of September 1985, President de la Madrid believed that entry into the GATT was necessary to help convince foreign investors and creditors that Mexico remained committed to its policies of economic austerity of the previous three years and to liberalizing and 'mainstreaming' its economy. This attitude was in direct contrast to other leaders in the region and only further demonstrates the political will on the part of the Mexican policymakers to follow a dramatically different development option.

Although it may seem, in hindsight, that joining the GATT was the next logical step to take, the decision, nevertheless, caught many observers by surprise for two reasons. First, this was not the first time the country had considered membership. As was discussed in the previous chapter, during the administration of López Portillo (1976 to 1982), Mexico's entry into the organization had been acrimoniously debated by both the 'left' and the 'right'. Second, the decision marked the definitive shift away from the post-Second World War development strategy. As its many critics pointed out, the government's decision was further evidence of its intention to internationalize the Mexican economy, abandon the nationalist policies forged during the 1930s and developed further in the 1970s, and more importantly, sacrifice Mexico's political autonomy.

As the debate of 1980 revealed, the decision to enter the GATT was economically significant and politically delicate. It was economically significant in that the decision was the turning point in trade policy toward long-term liberalization. Yet, import substitution policies of the past could not easily be abandoned. They had played a crucial role in promoting rapid growth for over thirty years. The growth of many firms in the private sector had been based on these policies. Hence, for them, entering into competition with foreign companies was seen as a threatening prospect, and one that had to be opposed vehemently. Politically, the Mexican government was interested in avoiding a repetition of the conflictive and debilitating exchange that ensued when the same issue was discussed in 1980.

The de la Madrid administration's task was twofold. First, it had to manage the political backlash and second, it had to cushion society to the extent possible. The government disguised its desire to liberalize trade early in the administration. The official policy was that Mexico would not enter the GATT. At the annual meeting of the ANIERM (Mexican Importers and Exporters Association) in 1983, the Secretary of Trade, Héctor Hernández Cervantes stated unequivocally that Mexico would not join the GATT. He denied that he was ever in favour of such a decision.[50] According to López Portillo's diary at the time, however, Héctor Hernández strongly defended GATT entry.[51] In *Excélsior*, a Mexico City daily, President de la Madrid stated definitely that Mexico would not enter the organization.[52] So while the public was lulled into believing that Mexico would

[50]Dale Story, *Industry, The State, And Public Policy in Mexico* (Austin, TX: University of Texas Press, Austin, 1986), p. 145.

[51]José López Portillo, *Mis Tiempos*, Parte Segundo, (México, DF: Fernández editores, 1988), p. 892.

[52]*Excélsior* (Mexico City), 21 May 1983, cited in Dale Story, *Industry, The State, And Public Policy in Mexico* (Austin, TX: University of Texas Press, Austin, 1986), p. 145.

stay out of the GATT, the government in a swift and effective manner had already decided to join without national debate.

As GATT entry threatened a system that had been in place for close to four decades, opposition to the 1985 decision was expected.[53] Those who were against accession were the majority of small- and medium-sized businesses who had enjoyed a high degree of protectionism under the old system. As was the case five years earlier, such businesses were represented by the organization Canacintra. The crucial issue was to avoid leaving small- and medium-sized industries unprotected from foreign competition, as well as to protect some large industries which could not compete efficiently in the international market. In addition to Canacintra, the labor union (the CTM) Foreign Relations Secretariat, as well as the intelligentsia were against GATT entry. Yet, eventually Canacintra and others in the anti-GATT group gradually changed their posture as Mexico's accession seemed inevitable. Whereas many business groups were either mildly supportive or non-committal in 1980, many were actively in favour in 1985. The business organizations insisted that, although opening Mexico to foreign commerce should be gradual so as not to cripple existing operations, the age of protectionism had come to its definitive end. In addition to the business organizations, the departments of the Presidency, the Treasury, the Budget and Programming and the central bank were in favour of GATT accession. It was this strong cohesion of those responsible for economic policymaking that is the key not only to Mexico's entry to the GATT, but also to the whole liberalization process.

From the economic reasoning of 1980, the de la Madrid government argued that the situation changed substantially in five years. First, whereas in 1980 Mexico was concerned that the overvaluation of its *peso* would be a disadvantage

[53]For more information on the 1985 GATT decision, see Saul Escobar Toledo, 'Rifts in the Mexican Power Elite, 1976 - 1986' and Matilde Luna, Ricardo Tirado and Francisco Valdés, 'Businessmen and Politics in Mexico, 1982 -1986', in S. Maxfield and R. Anzaldúa Montoya (eds), *Government and Private Sector in Contemporary Mexico* (San Diego, CA: Monograph Series 20, Center for US - Mexican Studies, University of California, San Diego, 1987). A comprehensive look at what the GATT means for Mexico, see Blanca Torres y Pamela S. Falk (coordinadoras), *La Adhesión de México al GATT* (Mexico, DF: El Colegio de México, 1989).

if it were a GATT member, in 1985 the *peso* had been devalued significantly. Second, with the credit crunch, high interest rates and declining petroleum prices, Mexico's payments position had been weakened. In such situations, GATT allows countries to reimpose temporary restrictions or delay liberalization. Mexico would have some flexibility within the GATT in dealing with short-term problems if it should need to resort to temporary protection. And finally, in 1980, the question of establishing rules for ensuring equitable access to supplies of commodities was an important issue in the GATT. Mexico was concerned that such rules would reduce its flexibility in the management of its petroleum resources. By the mid-1980s, this issue was no longer a preoccupation of the GATT.

As was pointed out in the section above, the GATT decision was not entirely unexpected by many since Mexico had already made considerable progress with trade liberalization. Mexico had a long history of protectionism and domestic critics would need some convincing. Reinforcing the government's view, Banamex implied that in 1985, Mexico had no alternative if it wanted to restructure fundamentally its economy, resume growth and thus increase the standard of living. This could be achieved by promoting exports through GATT membership. The advantages of Mexico's entry into GATT were stated to be:

> 1) The country cannot continue to protect inefficient commercial and industrial activities. Therefore entry into the GATT will force the nation's industrial sector to improve product quality, thus benefitting both the domestic and foreign consumer. The proposed opening will not affect small and medium-sized businesses, since the concessions granted represent only 10 per cent of the country's imports, Mexico will make concessions on 300 national products, receiving like treatment for 256 foreign ones.
>
> 2) The most-favored-nation clause will help maintain other countries' tariffs fixed.
>
> 3) Mexico will be designated a developing nation, permitting it to keep certain protectionist measures for periods from three to fifteen years.
>
> 4) Mexico already has exportable products available.

5) There will be an opportunity to penetrate the US market more efficiently and regularly, avoiding protectionism to a good degree.

6) Mexico could attract new foreign investments, which could prove both economically and socially beneficial.

7) There would be no problems of national sovereignty, as no country has veto powers. The agreement is not legally binding.

8) The country could strengthen its international bargaining power and thus expand its markets.

9) It might be easier for Mexico to defend its present and future markets and products from within the GATT.[54]

Mexico's accession, it was argued, would not hinder its position as a developing country nor its eligibility for tariff advantages. Mexico agreed to eliminate trade barriers over a period of eight years, with the possibility of being permitted an emergency assessment of 50 per cent over and above previously negotiated tariff levels. After this time, the maximum tariff rate would be set at 50 per cent. In view of their strategic importance, three sectors would be subject to special protection: agriculture, energy and certain industrial subsectors and some lines of capital goods.[55]

The 1986 GATT entry signalled the definitive shift toward trade liberalization. The dramatic shift in policy in only four years is evident in the statistics from Tables 3.1 and 3.2. Table 3.1 shows the process of trade liberalization from the beginning of the de la Madrid adminstration to the 1986 GATT entry. At the beginning of 1983, 100 per cent of imports were under import license requirements. By mid-1986, over 73 percent of license requirements had been liberalized. The percentage share of imports subjected to import licensing

[54]'Mexico and the GATT: Towards a New Horizon for Our Economy', *Banamex: Review of the Economic Situation of Mexico* (Vol. LXII, No. 722, January 1986), p. 22.

[55]'The State of the Economy', *Banamex: Review of the Economic Situation of Mexico* (Vol. LXII, No. 729, August 1986), p. 289.

Table 3.1
Import Trade Liberalization in Mexico, 1983 to 1986

	Financial Crisis: Import restrictions	Gradual opening	July 1985 reform	Deepening reform and entrance to GATT
Concept	Situation in December 1982	1 January 1983 to 24 July 1985	25 July 1985 to 31 December 1985	1 January 1986 to August 1986
Import license requirements	100% of imports brought under license requirements	Gradual liberalization begins, extended to 16.4% of imports by December 1984[1]	July 25, 1985 decree: liberalization extended to 64.1% of imports	Liberalization extended to 73.2% of imports
Imports Tariffs		Simplification of tariff schedule	July 25, 1985 decree: tariff increases to compensate reduction of license requirements	GATT tariff reductions

[1] This gradual liberalization process continued throughout the first half of 1985 (711 more items liberalized). The aim was to extend freedom from license requirements to 35-45 per cent of total.

Source: US International Trade Commission, *Review of Trade and Investment Liberalization Measures by Mexico and prospects for Future United States-Mexican Relations: Phase I: Recent Trade and Investment Reforms Undertaken by Mexico and Implications for the United States* Investigation No. 332-282 (Washington, DC: United States International Trade Commission, April 1990), p. 4-2.

Table 3.2
Import Licensing in Mexico, 1956 to 1988

Years	Total Import Value	Controlled Import Value	Percentage Share
1956	1,071.6	189.7	17.7
1960	1,186.4	448.4	37.8
1965	1,559.6	935.7	60.0
1970	2,328.3	1,590.2	68.3
1975	6,699.4	4,582.3	68.4
1978	7,917.5	6,041.1	90.0
1980	18,896.6	11,337.9	60.0
1982	14,437.0	14,437.0	100.0
1983	9,005.9	9,005.9	100.0
1984	11,245.3	9,397.3	83.5
1985	13,212.2	4,954.6	37.5
1986	11,432.4	3,532.6	30.9
1987	12,222.9	3,361.3	27.0
1988	18,777.0	3,699.1	19.7

Source: US International Trade Commission, *Review of Trade and Investment Liberalization Measures by Mexico and prospects for Future United States-Mexican Relations: Phase I: Recent Trade and Investment Reforms Undertaken by Mexico and Implications for the United States* Investigation No. 332-282 (Washington, DC: United States International Trade Commission, April 1990), p. 4-5.

is illustrated in Table 3.2. In 1956 the figure stood at 17.7 percentage share. This figure rose during the ISI years reaching 90 per cent in 1978 and 100 per cent in 1982. The liberalizing measures implemented by de la Madrid are especially evident from the change from 1984 to 1985. The share dropped from 83.5 per cent in 1984 to 37.5 percent in 1985.

GATT membership transformed the Mexican political economy and shifted it away from the post-Second World War development model based on protectionism. The policymakers of the de la Madrid economic team knew the significance of such a decision. They committed Mexico in the long-term not only to a new development model, but more importantly, to a new development doctrine based on economic liberalization. There seems to be no doubt about President Miguel de la Madrid's goal of opening up Mexico's economy to the outside world and thus forcing it to become more competitive. Right after the GATT entry, he emphasized,

> We cannot isolate ourselves in an increasingly interdependent world. To insert the Mexican economy in world trade on efficient and competitive terms has been one of the structural changes that I have been proposing to the nation since my inaugural message on December 1, 1982.[56]

Many of the same policymakers had pushed for GATT entry in 1980, but had been unsuccessful because of the lack of cohesion in the López Portillo cabinet. In addition, these policymakers had been unsuccessful because of the historical timing of the decision. The economic crisis of 1982 acted as the catalyst for change in policy and political leadership. It enabled a group of like-minded policymakers with a common vision for Mexico's future economic development to gain the political power and the policy space to implement radical reforms. If the crisis had not occurred, then the radically different development model pursued in post-1982 would most likely not have happened. The economic crisis was a

[56]Cited in Robert J. McCartney, 'Mexico to Lower Trade Barriers, Join GATT', *The Washington Post*, 26 November 1985, pp. E1, E3.

necessary international variable for Mexico's decision to shift toward trade liberalization in the early 1980s.

Conclusions

This chapter discussed the 1982 economic crisis and the trade liberalizing measures by the de la Madrid administration. The first section discussed the first international variable outlined in the introduction to the thesis: the economic crisis. It argued that the crisis situation was very much a reality to the newly elected de la Madrid team. The team believed that if they did not take radical action to try to solve the acute economic problems facing the country, then the alternative would be even worse. The proposed policy action was to change fundamentally the post-Second World War development model from an inward- to an outward-oriented strategy. This policy began with the liberalization of the trade regime.

The second part examined the trade liberalizing measures pursued from the beginning of the de la Madrid *sexenio* to the 1985 watershed year. Change in Mexican trade policy proceeded with caution as the newly implemented measures slowly chipped away at the substantially protected economy. The third section tracked the rapid liberalization process culminating in the 1985 decision to join the GATT. It was not until 1985, however, that the first substantial and long-lasting changes were implemented. The chapter argued that the Mexican policymakers were not forced to liberalize trade in 1985, but in fact made the choice to open up the economy gradually *before* the debt crisis hit in the summer of 1982 and before the renewed crisis in mid-1985. The external pressures from international actors and the internal economic difficulties accelerated the momentum and deepened the commitment, but did not force liberalization.

It could be argued that President de la Madrid was only instituting policies that were long overdue. The financial crisis of 1982 gave the international financial community additional leverage over Mexico to *force* it to follow the orthodox programme. This argument is flawed for two reasons. First, the leverage exerted by international actors only reinforced a policy direction already considered as the only option by the de la Madrid administration.[57] And second, Mexico was not the only country facing the inability to service its foreign debt. Many Latin American countries had defaulted on their loans. Yet Mexico, unlike other major debtors in the region, did not resist the IMF-backed policies. If the de la Madrid policymakers were not behind the orthodox policy changes, then there would have been far greater resistance to their implementation as was the case in other Latin American countries. In Argentina, Brazil and Peru there was a vacillation between compliance with the IMF in their respective stabilization policies and an aggressive stance against the international financial community regarding the debt issue.

In Argentina's newborn democracy, the Alfonsín government (elected in late 1983), lacked political muscle to carry out economic reform. As a result, there was no clear cut economic policy. The fight against inflation did not include any major effort at fiscal consolidation. It left untouched one of the main sources of macro-economic instability: the government used gradualist income policies and passive monetary management. Alfonsín thought he should be more assertive *vis-à-vis* foreign creditors and believed that Argentina, as a fledging democracy, qualified for special and more flexible treatment. After almost a year of tense negotiations with international financial institutions, the Alfonsín government moved reluctantly toward accepting an IMF-styled package. Argentina failed to comply with the terms and in mid-1985, a heterodox stabilization policy, called the Austral Plan, was introduced.

Like Argentina, Brazil's newborn democracy had to contend with bureaucratic politics and a weak political structure. President Sarney inherited a 'developmentalist' economic cabinet which followed expansionist and nationalist policies. Such actions brought Brazil into increasingly acrimonious confrontations with the IMF and other international creditors. For the first six months of Sarney's administration, the cabinet was divided between the developmentalists and the

[57]The use of leverage by the international financial community is discussed in Chapter 4.

neoclassical economists advocating an IMF-backed stabilization package. With the economy in recession and high rates of inflation, Brazil introduced its own heterodox policy in 1986 called the Cruzado Plan. The plan failed to control high inflation and the deteriorating economic conditions. Relations with the international financial community continued to decline and in February 1987, Brazil called a moratorium on its debt service.

Although Peru is not in the same league as Argentina, Brazil or Mexico, President García's stand on the debt issue provides another example of a reluctance to comply with orthodox IMF-styled policies. When elected to office in 1985, the García administration diagnosed the economy as being in a 'debt trap'. The country claimed that servicing the foreign debt was accelerating exchange rate devaluation and inflation, and that investment was being curtailed as net transfers of capital abroad eroded domestic savings. In an attempt to curtail capital flight and develop domestic industry, the economy was closed off from the rest of the world through a combination of import quotas and controlled exchange rates. Payments on the foreign debt were unilaterally restricted in an unsuccessful attempt to limit them to 10 per cent of export revenue.

In all three countries there was a lack of political strength and/or will to institute classical IMF-backed stabilization policies. Furthermore, their respective relations with the international financial community were acrimonious at the worst of times and strained at the best. The compliance with the IMF stabilization policies and the positive negotiations with the international financial community thus set Mexico apart from the rest of the region. The key to Mexico adhering to orthodox policies are the policymakers in the de la Madrid administration and the belief that economic liberalization was the only viable development doctrine. As stated by de la Madrid, 'I believe that the political economy is more political than economic. Above all in times of crisis.'[58] This is more a political decision; it is

[58]Interview by the representatives of the Texas Daily Newspapers Association, February 1984, Mexico City, Mexico in Javier López Moreno, *Miguel de la Madrid Hurtado un Presidente Ante La Prensa: Entrevistas 1982-87*, Tomo I (Mexico, DF: Miguel Angel Purrúa, 1987), p. 92.

not forced by economics. The next chapter addresses the second international factor - leverage by international actors - and argues that international actors reinforced Mexico's decision to liberalize trade, but did not force the country to implement such policies.

Chapter Four: International Leverage: Mexico - United States Trade Relations

Introduction

This chapter examines the leverage exerted by international actors on Mexican policymakers. The focus is primarily on the bilateral commercial relationship between Mexico and the United States; it also examines the link between Mexico and international financial institutions. It is argued that the policy prescriptions advocated by the United States and international institutions *coincided* with a preferred policy path of the de la Madrid economic team. As the previous chapter has shown, the decision by the de la Madrid government to liberalize trade gradually was made in the presidential campaign of 1981 to 1982. This chapter asserts that although international actors reinforced Mexico's neoliberal economic policies, they did not force domestic policymakers to implement trade liberalizing reforms. The overt pressure exerted by these actors actually came after important long-term structural changes had been initiated. However, the international leverage did affect the *pace* and *intensity* of the reforms.

This chapter is organized into three parts. The first section examines the asymmetrical interdependent relationship between Mexico and the United States and the changing dynamics of the 1980s. The second part of the chapter focuses on the bilateral trade relationship. In the post-Second World War era, Mexico and the United States relied on ad hoc measures to resolve trade disputes in the absence of any agreed upon commercial framework. It was not until the mid-1980s that the two countries finally signed a trade agreement. The final section of the chapter examines the international pressure on Mexico. It explores the leverage exerted on Mexico to liberalize its trade regime by the United States and the international financial institutions. Although US pressure was strong, policy toward Mexico was often inconsistent and lacked a coherent strategy because of the executive-legislative divergent policy objectives. Institutional pressure to liberalize trade existed, but the explicit demands came after important policy changes had been implemented.

4.1 Asymmetrical Interdependence

Historically, sensitivity to political and economic domination by foreign powers, especially the United States, has been strong in Mexico. Indeed, the Mexican-United States relationship has long been characterized by mutual distrust and misunderstanding, especially for the Mexicans.[1] Yet, Mexico and the United States are inextricably linked through geographical proximity and strong economic, political and cultural ties. In the economic sphere, Mexico is the United States's third largest trading partner and one of its most important oil suppliers. Mexicans comprise the largest national group of tourists and almost half of its foreign debt is with US banks. The United States is Mexico's principal source of foreign investment and number one trading partner as well as the primary source of tourism earnings. These strong links make Mexico more interdependent with the United States than any other country in the international system.[2]

Interdependence is not necessarily mutually beneficial nor evenly balanced and does not necessarily lead to co-operation. Interdependent relationships involve costs and restrict autonomy to a certain degree. The relationship between Mexico and the United States can best be described as asymmetrical interdependence. The United States is larger, stronger and richer than Mexico: it has three times the population, an overwhelming military superiority, close to twenty times the GNP

[1]For example, during the first half of the nineteenth century disputes over Texas led to the US invasion and subsequent war in which Mexico lost half of its land. The country continued to struggle against many predatory US ventures, such as the presence of US Marines in Veracruz in 1914 which resulted in hundreds of Mexican deaths. During the Mexican revolution, the US Ambassador to Mexico, Henry Lane Wilson, helped to instigate a rebellion against Madero. From the United States perspective, the country feared an exposed, 3,000 kilometre long southern border. An unstable Mexico could have considerable consequences for the United States. For example, during the Second World War, there was concern for Mexico's attempted alliance with Nazi Germany. See Michael C. Meyer and William L. Sherman, *The Course of Mexican History*, 4th ed. (New York, NY: Oxford University Press, 1991).

[2]Interdependence is defined here as mutual dependence characterized by reciprocal effects resulting from international transactions. These transactions can be money, goods, people or cultures across interstate borders. The international transactions increase the sensitivity and vulnerability of one country to developments in a second. Robert Keohane and Joseph Nye, *Power and Interdependence*, 2nd edition (London: Scott, Foresman and Company, 1989).

and eight times the GNP per capita.[3] The asymmetry is even more pronounced in trade relations where over two-thirds of Mexico's foreign trade is carried out with its northern neighbour.[4] In contrast, even as the United States's third largest trading partner,[5] the Mexican market accounts for only 9 per cent of the value of all US exports.[6] Mexico is over seven times more reliant on the US market for its foreign trade (see Table 4.1, page 115).

The asymmetry in power has been reflected in the disproportionate amount of attention paid by policymakers of each country to the other. No matter how much Mexico has broadened its formal relations in Latin America and elsewhere, the United States has been the centre of Mexico's international relations. In contrast, US policymakers have dealt with Mexico sporadically, mostly in times of crisis. Mexican officials have placed great stock in relations with the United States, while the United States has typically practised, to the great annoyance of Mexico, a form of 'benign neglect' toward its neighbour.

In the 1970s, two sets of developments altered the perceptions of US officials concerning the importance of the bilateral relationship, thereby changing the relationship itself. First, in the broader context of international relations, the East-West conflict between the United States and the Soviet Union took precedence over other relationships. But with the emergence of the period of détente in United States-Soviet relations, the East-West conflict was replaced by an emphasis on North-South issues.[7] Second, the period of détente coincided with the

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[3]*World Atlas & Review* (New York, NY: Rand McNally, 1993), pp. 312 and 345.

[4]IMF, *Direction of Trade Statistics Yearbook* (Washington, DC: IMF, 1992).

[5]Mexico has vacillated between the fifth and third largest trading partner to the United States in the 1980s. It is interesting to note, however, that by summer 1993, Mexico was the number two market for the United States, displacing Japan. *Latin American Weekly Report* (WR-93-21, 3 June 1993).

[6]In the 1980s, US exports averaged 6 per cent. By 1992, this figure had risen to 9.1 per cent. US Department of Commerce, International Trade Administration, statistics, various years.

[7]Susan Kaufman Purcell (ed.), *Mexico in Transition, Implications for US Policy: Essays from Both Sides of the Border* (New York, NY: Council on Foreign Relations, 1988), pp. 13-14.

discovery of large oil reserves in Mexico at a time of crisis in international energy markets. With these emerging international events, the United States came to view Mexico in a new light. Mexico suddenly mattered more than at any other time in the post-Second World War era.

The twin phenomena of oil crisis and oil discovery, ironically, meant one thing to the United States, but another to Mexico. To the United States, it meant a greater reliance on Mexico because of its oil wealth. In response to the oil discoveries, the Carter administration (1976 to 1980) developed elaborate institutions to improve ties with its southern neighbour.[8] Mexico viewed the sudden attention sceptically. This interest was too closely related to Mexico's discovery of oil and thus, increased Mexico's distrust of US motives.

To Mexico, the twin phenomena signified an opportunity to assert its independence. Mexico's 'role conception' (its enduring self-image of the appropriate relationship of itself *vis-à-vis* the external environment)[9] changed with the oil bonanza toward that of a regional leader. Oil was uniquely influential in Mexico's conception of its position in international affairs. The independent stand took two forms: political discourse and an active foreign policy in Central America. With the oil findings and the high international petroleum prices, Mexico now had both the status and the resources to end its perceived economic dependency on the United States and pursue an active foreign policy.[10] Beginning

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[8]In 1977, Carter created the bilateral Consultative Mechanism equipped with subgroups to deal with political, social and financial issues. This institution, however, was chaired by only the State Department and lacked well defined goals and strong leadership. The following year Carter put out the Presidential Review Memorandum 41 (PRM-41) to promote the 'special relationship' with Mexico, but this was vague and noncommittal.

[9]George Grayson, *Oil and Mexican Foreign Policy* (Pittsburgh, PA: University of Pitssburgh Press, 1988), Ch. 1.

[10]Mexico had departed from the US position on numerous occasions before the late 1970s. Cuba and Chile are excellent examples. Mexico's Cuba policy was perhaps the biggest thorn in the United States' side. Since Fidel Castro's revolution triumphed in 1959, Mexico has kept its diplomatic doors open to Cuba despite various anti-Castro embargoes and diplomatic pressures instituted by the United States. In the case of Chile, following the bloody coup there in 1973, Mexico again departed from the US lead by breaking ties and condemning the Pinochet regime and by welcoming Chilean exiles and former officials of the fallen Allende government.

with the administration of Luis Echeverría (1970 to 1976) and continued sporadically with José López Portillo (1976 to 1982), the Mexican government introduced strong anti-US rhetoric into its official political vocabulary and followed a different foreign policy agenda than that of the United States.[11]

The Central American region was the most important area in which Mexico increased its involvement in the late 1970s. President López Portillo withdrew recognition from Antonio Somoza's regime in Nicaragua and joined other Latin American countries in supporting the Sandinistas. In addition, the Mexican president shipped oil to revolutionary Nicaragua and joined French President Mitterand in recognizing the Salvadoran revolutionaries as a representative force. Moreover, López Portillo laid the groundwork for Mexico's subsequent leadership role in the Contadora peace process.[12] Mexico viewed Central America as a North-south issue, not an East-West concern. The reason the region was in crisis had more to do with poverty, unemployment and social injustice than from communist intervention.

In the early 1980s, three related developments narrowed the divergence between the United States and Mexico, in thinking and policy. First, détente had collapsed with the outbreak of the second Cold War.[13] Reagan's election to the US presidency restored East-West concerns to prominence on the US foreign policy agenda and the application of the 'Reagan Doctrine' to Central America. Second, there was a change of administration in Mexico that brought to power individuals with divergent policy goals than previous administrations. With the government of de la Madrid (1982 to 1988), Mexico's international activism had

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[11]For more information on this time period, see G. Grayson, *op. cit.*, in footnote 9, Chapters 2 and 3.

[12]Mexico, Venezuela, Colombia and Panama formed the Contadora Group to promote peace in Central America. Contadora's peacemaking efforts were frustrated largely by US opposition. Nevertheless, the independent stand of the Latin American nations would have been inconceivable twenty years before.

[13]For more information on this time period, see for example, Fred Halliday, *The Making of the Second Cold War*, 2nd edition (London: Verso, 1986).

begun to change. Mexico stopped oil shipments to Nicaragua and recognized the government of President Duarte in El Salvador. This change in Mexican international relations continued throughout the decade. More importantly, the Mexican view of the United States began to change in the latter 1980s. The country abstained from criticizing the United States on its bombing of Libya in 1986 and it broke with precedent and voted in favour of the resolution condemning Panama's Manuel Noriega for electoral fraud in 1989. This change in foreign policy stance by the Mexicans had a lot to do with the United States' change in position toward the country. Because of the troubled history between the two, Mexico had long complained that it was not treated with enough respect. When the United States began to view its neighbour as an important actor in light of oil, the debt and immigration issues, Mexico became more amenable to dealing with the United States.

Finally, with the debt crisis, the expectations of an oil-driven independence and the move to a more modern country was greatly reduced. This decrease in oil led to a change in Mexico's role conception from a regional leader to a responsible debtor. Mexico needed to foster foreign policy co-operation to nurture economic collaboration. Although Mexico would continue its independent foreign policy, the debt crisis would inevitably change the economic relationship between Mexico and the United States. President de la Madrid was unwilling to risk alienating the United States as it sought US co-operation in opening markets and rescheduling debt payments.

It seems like stating the obvious to argue that because of the asymmetrical interdependence between the United States and Mexico, the former had more power in influencing economic policy in the latter. When Mexico was economically strong (in the 1970s with the oil boom), the country made independent foreign policy decisions, many times contradicting US policies. When Mexico was economically vulnerable (most of the 1980s) however, the country's political stand against the United States was weakened substantially and hence, Mexico was more susceptible to external pressures for policy change. It follows that the United States was able to wield undue power, forcing Mexico to implement economic policies it would not have otherwise chosen during its financial crisis. This implies that Mexico was not in favour of liberalizing trade and did so only because of US pressure. This view is prominent among many Mexican academics. For example, political scientist Adolfo Aguilar Zinzer wrote:

> Since 1982, economic negotiations between Mexico and the United States have gradually moved toward a new framework *unilaterally* imposed by Washington. [In order] to normalize its economic relations with the United States and to get support of the US government in crucial debt negotiations, Mexico *has to* slash protectionism and subsidies, reverse the role of the state in the economy...[US officials] do not want the Mexican authorities to choose their economic strategies on their own...an autonomous solution by Mexico to its economic problems is unanimously considered unreliable and undesirable...*Mexico is trapped.*[14]

González Casanova also argued that Mexico had lost control of its fate. Due to the economic crisis, Mexico's autonomy *vis-à-vis* the United States had been undermined, not only subjecting Mexico to the IMF-imposed conditions on policy options, but depriving the country of the possibility of pursuing a nationalistic development policy.[15]

These arguments assert that Mexico had no choice but to liberalize trade and follow an economic model in which it did not agree. It could be argued that rather than implementing an economic policy foisted upon it because of the debt crisis, the Mexican policymakers, in fact, used the debt crisis as an opportunity to implement economic policies which they had already favoured but were otherwise

[14]Adolfo Aguilar Zinser,'Mexico and the United States: The Lost Path', in Susan Kaufman Purcell (ed.), *Mexico in Transition, Implications for US Policy: Essays from Both Sides of the Border* (New York, NY: Council on Foreign Relations, 1988), pp. 123-5. My emphasis.

[15]Pablo González Casanova, 'Prólogo a la crisis futura', in Pablo González Casanova and Hector Aguilar Camin, *México Ante la Crisis*, Vols. 1 & 2 (Mexico City, DF: Siglo Ventiuno Editores, 1985).

reluctant to pursue.[16] Writing in a recent article, ex-President Miguel de la Madrid stated, 'Mexicans realize that their country is relatively weak in comparison to the United States, mainly in economic ... matters', but this does not mean Mexico always does what the United States wants.[17]

It could be argued that in asymmetrical power relations, the less dependent state uses the interdependent relationship as a source of power in bargaining over an issue - such as Mexico's Central American policy - and perhaps affecting other issues - such as trade liberalization.[18] The power to influence policy is not always as obvious as the relative strengths would make it appear. As Keohane and Nye point out, political bargaining is usually the 'means of translating potential into effects, and a lot is often lost in the translation'.[19] There is considerable difference between power potential and power application. The United States might well have the capability to defeat Mexico militarily or cripple it economically, but it has not executed such policies in the last hundred years and is unlikely to do so in the foreseeable future. In the absence of such possible dangers Mexico acquires substantial room for manoeuvre.

The dynamics of this bilateral relationship have altered significantly in the 1980s. Not only have the two countries become increasingly interdependent, but the changes are more important for the United States than Mexico. The fate of Mexico has long been tied to that of its neighbour. What has changed in the last

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[16] This move toward economic liberalism was not only economically significant, but politically delicate. By opening the economy to the outside world and increasing its vulnerability to external economic and political influences (especially from the United States), the de la Madrid administration went against the very core of the post-Second World War model. The nationalist model was ingrained in the Mexican psyche and appealed to post-revolutionary ideals of nationalism and social welfare. It was not easy for the government to challenge the very foundations of the modern Mexican state and implement these radical reforms; such policies involved considerable political risks.

[17] Miguel de la Madrid, 'Cultural Relations between Mexico and the United States', *Voices of Mexico* (July-September, 1992), p. 23.

[18] Power here is defined as the ability of one state (the United States) to get another state (Mexico) to do something it otherwise would not do or to control outcomes.

[19] R. Keohane and J. Nye, *op. cit.*, in footnote 2, p. 11.

decade is the extent to which the United States now depends on Mexico. Because of its international debts, petroleum reserves and large immigration flows, Mexico has become increasingly important to the United States.

Asymmetrical interdependence cuts both ways. Bargaining power in asymmetrical relationships is not always as unbalanced as the capacities of the players might suggest. Mexico's weaknesses in the 1980s have ironically been turned into strengths to a certain degree. Although Mexico is militarily, politically and economically weaker than the United States, the country derived a certain amount of bargaining leverage in its relationship with the United States in the mid-1980s from several sources: trade, migration, drugs and the debt. Debt has provided the greatest source of leverage. Mexico, along with most of Latin America, had borrowed large sums of money in the late 1970s. The country found that it could not meet its foreign debt obligations in August 1982 and the rest of Latin America soon followed suit. The United States and its top financial institutions were faced with a growing economic crisis.

US policymakers recognized that the debt problem was not just a commercial crisis, but it was also a 'national security' issue. The US banking system was heavily exposed to Latin American debt. In Mexico, for example, the 12 largest US banks, including the Bank America Corporation, had more than 50 per cent of their capital invested in the country.[20] If Mexico decided to default, it was perceived in the United States that such action would have crippled the US banking community and would have jeopardized the entire international financial system. One Mexican debt negotiator was quick to point out, 'Mexico can make Bank of America disappear; Bank of America can't make Mexico disappear.'[21]

Because of the bilateral economic relations, there existed a delicate balance of financial interdependence. US Secretary of State, George Shultz stated:

[20]US Congress, *Twenty-Third Mexico-United States Interparliamentary Conference*, Puebla, Mexico, 8-10 July 1983 (Washington, DC: May 1984), p. 25.

[21]Quoted in Peter Truell, 'Nation in Jeopardy', *The Wall Street Journal* (1 October 1985), pp. 1 and 20.

> This intimate link between the developing countries and our own prosperity is financial as well as commercial. The lingering crisis of some heavily indebted developing countries can hurt our own financial institutions if not handled prudently.[22]

The most prominent financial institutions in the United States were in a vulnerable position.[23] Mexico had a certain amount of leverage when negotiating about economic policy in general, and trade policy in particular. The United States was not only concerned about more radical action from Mexico, but feared the possibility of several Latin American nations forming a debtors's cartel. The United States realized that it had to be subtle about promoting change in Mexico and also to be aware of the country's deep sensitivity to any hint of interference.

The asymmetrical interdependent relationship between Mexico and the United States took on new dimensions in the 1980s. As the following section on Mexican-US trade shows, Mexico's policy alignment with the United States in the 1980s came after more than a decade of US pressure. This pressure did not force Mexico to liberalize, but it did ensure their continuance. The reasons for trade policy reform are more subtle than pure power relations might suggest.

[22]George Shultz, 'Our Joint Stake in the World Economy', *Department of State Bulletin* (July 1983), p. 59.

[23]Total external debt for Latin America and the Caribbean in 1982 was US$328.5 billion. Of this amount, Mexico accounted for US$87.6 billion. See Economic Commission for Latin America and the Caribbean, *Economic Survey of Latin America and the Caribbean, 1986*, (Santiago, Chile: ECLAC, 1989), pp. 12 and 460.

4.2 Mexico-United States Trade Relations

This section examines the bilateral trade relationship between Mexico and the United States. The two countries relied on ad hoc measures for most of the post-Second World War era. In the 1970s, the commercial relationship changed with the *maquilas* and the GSP programme. Yet, Mexico maintained its independent stand with regards to bilateral and multilateral commercial agreements. With the economic crisis and the election of Miguel de la Madrid to the presidency in 1982, however, Mexico's stand on trade issues changed dramatically. By 1985, Mexico had agreed to a bilateral agreement with the United States and negotiated entry into the GATT.

Mexico has always been highly dependent on the US market. During the Second World War, almost 90 per cent of Mexico's exports were directed to the United States. This figure dipped to 65 per cent in the 1960s with the increase in exports to Latin American, Europe and Japan.[24] The figure rose steadily in the 1970s and 1980s and is currently over 70 per cent. (See Table 4.1.) With two-thirds of its foreign trade linked to the United States, Mexico has realized that it does not have a substitute for the US market and the connection is crucial to its economic development and modernization process.[25]

When examining the trade links between Mexico and the United States, one may wonder why the two nations did not have a trade agreement before the

[24] IMF, *Direction of Trade Statistics Yearbook* (Washington, DC: IMF, 1950, 1970, 1992).

[25] Mexico has been trying to increase trade relations with the Pacific Rim countries, the European Union and other countries in Latin America. For more information, see, for example, articles in Riordan Roett (ed.), *Mexico's External Relations in the 1990s* (London: Lynne Rienner, 1991) and Roberto Galvan, 'Mexico Looks East: The Hard Facts on the Rim', *Business Mexico* (March 1990).

Table 4.1
US-Mexican Bilateral Trade, 1977 to 1992
(percentage of total)

Year	US Exports	US Imports	Mexican Exports	Mexican Imports
1977	4.0	3.2	66	64
1978	4.6	3.5	68	60
1979	5.4	4.3	70	63
1980	6.7	5.1	65	62
1981	7.5	5.3	55	64
1982	5.5	6.4	53	60
1983	4.4	6.5	58	60
1984	5.4	5.4	58	62
1985	6.2	5.7	60	67
1986	5.5	4.7	65	66
1987	5.7	5.0	65	65
1988	6.4	5.3	65	65
1992	9.1	6.6	75	71

Source: US Department of Commerce, International Trade Administration and IMF, *Direction of Trade Statistics Yearbook*, 1993.

Table 4.2
US Trade with Mexico, 1977 to 1992
(US$ millions)

Year	US Exports	US Imports	Trade Balance
1977	4,822	4,694	128
1978	6,680	6,094	586
1979	9,847	8,813	1,034
1980	15,145	12,573	2,572
1981	17,789	13,799	3,990
1982	11,817	15,566	-3,749
1983	9,082	16,776	-7,694
1984	11,992	18,020	-6,028
1985	13,635	19,132	-5,497
1986	12,392	17,302	-4,910
1987	14,582	20,271	-5,689
1988	20,628	23,260	-2,632
1989	24,982	27,162	-2,180
1990	28,279	30,157	-1,878
1991	33,277	31,130	2,147
1992	40,598	35,189	5,409

Source: US Department of Commerce, International Trade Administration, 1993.

Table 4.3
Mexican Trade with the United States, 1977 to 1991
(US$ millions)

Year	Mexican Exports	Mexican Imports	Trade Balance
1977	2,738	3,493	-755
1978	4,057	4,564	-507
1979	6,252	7,563	-1,311
1980	10.072	11,979	-1,907
1981	10,716	15,398	-4,682
1982	11,129	8,188	2,941
1983	13,034	4,958	8,076
1984	14,130	6,440	7,690
1985	13,341	8,954	4,387
1986	10,424	7,574	2,850
1987	13,265	8,252	5,013
1988	13,419	12,102	1,317
1989	16,163	15,553	610
1990	18,837	18,160	677
1991	28,969	33,276	-4,307

Source: IMF, *Direction of Trade Statistics*, various years.

1980s.[26] The two countries did sign a bilateral trade agreement in 1942, but it was renounced by Mexico in 1956. Throughout the import substitution industrialization (ISI) years Mexico did not actively promote exports and thus did not feel the need for a trade agreement with the United States. When in the 1970s the ISI strategy was exhausted and Mexico came to realize that export promotion was necessary, another attempt was made. Nonetheless, the much-heralded agreement announced in the winter of 1976 was abandoned. In late 1977, Mexico and the United States signed their first trade agreement in 35 years. After the country decided not to join GATT in 1980, however, the United States cancelled the agreement.

The two countries had to rely on ad hoc measures to resolve trade disputes. With other trading partners, the United States could refer to the GATT as a

[26]Interestingly, by 1980 Mexico had bilateral agreements - to obtain scarce technology - with Japan, Spain, Switzerland, Canada and Brazil. See Laura R. Randall, 'Mexican Development and It's Effects Upon US Trade', in Robert McBride, *Mexico and the United States* (Englewood Cliffs, NJ: Prentice-Hall Inc., 1981), p. 50.

standard for trade policy and a guide to dispute settlement. In Mexico's case, the absence of such an agreed framework for trade caused uncertainty in both nations about the other's intentions and policies and their possible impact on business decisions. The lack of a trade agreement between the two countries could be attributed to two factors: the divergent philosophies regarding trade and the low absolute level of trade flows.

First, in the United States, at least in theory if not in practice, there is a commitment to a liberal world trading system with the emphasis on the international market-place and a multilateral trade regime. In Mexico, from 1940 to the mid-1970s, there had been a commitment to autonomous trade and investment decisions within the ISI framework. Mexico was not a member of the GATT because it believed (like most developing nations) that the multilateral trade regime did not serve Third World interests.[27] It was generally believed that the GATT was beneficial for industrialized countries, but opinions varied about its appropriateness for developing countries. For example, the bulk of developing countries' exports were and often are products (i.e., agricultural exports) that are still subject to protectionist policies in the industrialized nations. The developing countries asserted that one of the major impediments to accelerated economic growth and development was their inability to compete on an equal basis with developed countries in the international trading system. Through tariff preferences, the developing countries claimed, they could increase exports and foreign exchange earnings needed to diversify their economies and reduce dependence on foreign aid. The many trade and investment disputes that confronted the two countries stemmed from these different foundations for trade policy.

[27]The Haberler Report (*Trends in International Trade, Report by a Panel of Experts*), the first comprehensive study of the operation of the GATT with respect to the exports of developing countries, appeared in 1958. The report stated that the dilemma of the developing countries was due in no small measure to the trade policies of the industrialized nations. It was generally believed that the GATT benefitted the developed nations, but disregarded the developing countries. This idea was supported by the corresponding share in the value of world exports for developing countries declined from 35 per cent in 1950 to 20 per cent in 1973. Diana Tussie, *The Less Developed Countries and the World Trading System: A Challenge to the GATT* (London: Frances Pinter, 1987), pp. 2 and 26.

In spite of their different trade philosophies, there was little friction between the two countries. This was in large part due to the relatively low absolute level of trade flows. From the late 1970s, however, trade between the two countries increased substantially, primarily because of the discovery of large oil reserves in Mexico. Between 1977 and 1982, foreign trade rose from US$9.5 billion to US$27.4 billion.[28] Even throughout the economic crisis of the 1980s, exports to the United States rose steadily with imports only increasing substantially later in the decade. By 1992 total trade surpassed US$75 billion. (See Table 4.3.)

The substantial increase in bilateral trade in the late 1970s highlighted the lack of a commercial agreement between Mexico and the United States and underlined the differences in their trade philosophies. The introduction of the *maquiladora* and the General System of Preferences (GSP) programmes in the mid-1960s and the late 1970s would further integrate Mexico with its most important trading partner as well as undermine the foundations of its post-Second World War commercial policy. The following sections examine these programmes and its consequences on the bilateral commercial relationship and the principles of Mexican trade policy.

4.2.1 *The Maquiladoras*[29]

The post-Second World War Mexican development model was based on the inward-looking industrialization policy of ISI. Although exports generally were de-emphasized during this period, there was an important exception. The *maquiladoras* or In-bond programme was introduced by Mexico in 1965 to

[28]US Department of Commerce, International Trade Administration, official statistics, 1993.

[29]For more information on the maquila industry, see Leslie Sklair, *Assembling for Development: The Maquila Industry in Mexico and the United States* (London: Unwin Hyman, 1989); Haynes C. Goddard, 'Evaluating the Benefits and Costs of Mexico's Border Industrialization Program', in Lay James Gibson and Alfonso Corona Renteria, *The U.S. and Mexico: Borderland Development and the National Economies* (London: Westview Press, 1985); and Philip Mirowski and Susan Helper, 'Maquiladoras: Mexico's Tiger by the Tail?', *Challenge* (May-June, 1989).

encourage foreign firms to build factories along the Mexican-US border.[30] The *Maquiladoras* (primarily US firms operating on the Mexican side of the border), are export processing plants assembling products for the US market. They import duty-free the components for assembling and return the finished product to the United States, paying import duties only on the value added in Mexico.

The *maquiladora* programme, however, was not initiated in order to promote exports or change the trade policy from an inward- to an outward-oriented direction. Rather, the programme was started to create employment opportunities that were lost when the United States discontinued the bracero programme.[31] *Maquiladoras* were intended to alleviate the problem of workers' migrating to the US in search of jobs not found in Mexico by providing employment opportunities on the Mexican side of the border. In 1968 there were 112 plants employing 11,000 people. These figures rose in 1970 to 120 plants with a labour force of over 20,000 and in 1972, there were 339 plants and over 48,000 workers.[32]

The programme was broadened dramatically in 1972 when the Mexican government (ironically under the leadership of the nationalist president, Luis Echeverría) approved the establishment of these plants in other parts of the country. President Echeverría believed that the expansion of the programme was a 'temporary expedient to help Mexico through a difficult economic phase'. Instead of being temporary, the programme has grown considerably and occupies a small,

[30]The 1962 US tariff items 806.30 and 807.00 allowed US produced materials and components assembled abroad to reenter the country by paying duty only on non-US components and the overall value added abroad.

[31]In 1942, the United States instituted a labour programme as a means of bringing Mexican workers into agriculture during the wartime period of labour shortages. The 'bracero programme' was formalized by US legislation. Mexico was hesitant at first but then agreed to the programme after declaring war against the Axis powers. The programme legalized labour migration from Mexico and involved over 4 million workers 1964 when US labour unions pressures the US congress to unilaterally terminate the agreement. See Ernesto Galarza, *Merchants of Labour: The Mexican Bracero Story* (Charlotte, NC: McNally & Lofting, 1964).

[32]Leslie Sklair, 'Mexico's Maquiladora Programme: A Critical Evaluation', in George Philip (ed.), *The Mexican Economy* (London: Routledge, 1988), p. 292, Table 11.1.

though, significant place in Mexico's development strategy.[33] During the administration of Miguel de la Madrid, the number of plants rose from 585 in 1982 to 1058 in 1987. This period saw direct employment rise by more than 120 per cent, from 127,000 to over 290,000.[34]

The *maquiladoras* increased employment opportunities, but more importantly the In-bond programme oriented parts of the economy - with successful results - toward export-oriented industrialization. Even when Mexico was experiencing a renewed overall inward-looking development strategy in the early 1970s, the export-oriented programme was expanded to other parts of the country. This programme, along with the GSP, facilitated the integration of Mexico with the international economy and more specifically, with its northern neighbour.

4.2.2 *The Generalized System of Preferences*

In the mid-1960s, the industrialized nations started to acknowledge some of the developing countries' claims that they were unable to compete on an equal basis with developed nations. In the multilateral trade negotiations of the Kennedy Round (1963 to 1967), the first formal recognition of a preferential mechanism in favour of developing countries was introduced. It was embodied in Part IV of the General Agreement in which non-reciprocity on the part of the developing

[33]L. Sklair, *op. cit.*, in footnote 29, p. 195.

[34]L. Sklair, *op. cit.*, in footnote 32.

countries as well as the GATT-waiver of the most favoured nation (MFN)[35] principle was accepted.[36]

One of the most important results for the developing countries was a 1968 provision which provided for the GSP. Under the GSP, industrialized nations were subject to three provisions. First, they could not require reciprocal tariff benefits from developing nations in return for GSPs. Second, they could not offer the same benefits to other developed countries. Finally, the GSP programmes would continue at least 10 years and could be renewed after that period. The United States authorized a GSP programme under the Trade Act of 1974, effective on 1 January 1976.[37] This trade act authorized the President to grant duty-free treatment to over two thousand eligible articles imported from designated developing countries.[38]

The industrialized nations agreed to reduce tariffs to give infant industries in developing countries a competitive edge in the world market. Its purpose was to boost the economies of developing countries by encouraging exporters to find new markets for their products. The philosophy behind the programme was that if the developing countries could diversify their production and exports, they would be able to support themselves, rather than depend on foreign aid.[39] The most important point of the GSP programme was that *it was designed to integrate the*

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[35]The most favoured nation principle is one of the central provisions of the GATT. This principle requires that trade policy measures be applied without discrimination to all contracting parties. 'Any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties', (GATT, Article I, Paragraph I).

[36]K.A. Koekkoek, 'The Integration of Developing Countries in the GATT System', *World Development* (Vol. 16, No. 8, 1988), pp. 947-8.

[37]The Trade Act was originally to last 10 years, but it was amended through the Trade and Tariff Act of 1984 and the US GSP programme was extended to 4 July 1993.

[38]Congressman Kika de la Garza, 'GSP An Underused Tool', *Business Mexico* (June 1989), p. 55.

[39]Mark Fazlollah, 'Mexico and GSP', *Mexican-American Review* (August 1978), p. 4.

developing countries into the international trading system. This integration would seek to reverse years of autonomous, inward-oriented development in many developing countries. In the United States, the Assistant Secretary for Inter-American Affairs, quite blatantly stated that the programme aimed to use the GSP as '... powerful indirect incentives for economic policy reforms'.[40]

The US GSP got off to a slow start in Mexico because of political resistance and the lack of understanding of its economic benefits. This was largely due to President Echeverría's rejection of the programme. The qualifications for receiving US GSP benefits, such as not belonging to a cartel or to OPEC, seemed to run contrary to Echeverría's United Nations proposal of the Charter of Economic Rights and Duties of Nations.[41] The GSP was perceived by some key people in the Mexican government as a US attempt to divide Latin American countries. Yet, for a country like Mexico - interested in increasing its volume and diversity of exports - the US GSP programme was very important. The next administration of López Portillo saw an increased use of the GSP by Mexican businessmen. The dollar value of Mexican exports receiving US GSP benefits was 45 per cent higher in 1977 than 1976. Mexico was initially sceptical of its purpose and exported only US$245 million under GSP in 1976. Later, as benefits of GSP were better understood, exports rose to US$368 million in 1977, US$458 million in 1978, US$545 million in 1979. (See Table 4.4.) In 1980, Mexico ranked the fourth largest user of American GSP (out of 140 countries), trailing Taiwan, South Korea and Hong Kong.[42]

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[40]Langhorne A. Motley, 'Future Opportunities for U.S.-Latin American Trade: the U.S. Perspective', *Department of State Bulletin* (August 1984), p. 75. Ambassador Motley was the Assistant Secretary for Inter-American Affairs.

[41]This would serve as an alternative to war between industrialized and developing countries by bolstering each state's sovereignty, while overhauling an 'unjust system of world exploitation based on both a colonial view of the world and the stealing of natural resources and human effort of Third World countries'. G. Grayson, *op. cit.*, in footnote 9, p. 21.

[42]US Department of State, *U.S.-Mexican Relations* (Washington, DC: Government Printing Office), p. 2. By 1992, $US4.8 billion or 13.7 per cent of overall US imports from Mexico entered duty-free under the GSP. In January 1989, the four Asian countries were eliminated from the US

Table 4.4
US Imports under the Generalized System of Preferences, 1976 to 1992

Year	GSP imports from Mexico (US$ millions)	Share of total Mexican imports (percentage)	GSP imports from all countries (US$ millions)	GSP imports from Mexico (percentage of total)
1976	253	7.0	3,160	8.0
1977	368	7.8	3,878	9.5
1978	458	7.5	5,204	8.8
1979	546	6.2	6,280	8.8
1980	509	4.0	7,328	6.9
1981	633	4.5		
1982	599	3.8		
1983	725	4.3		
1984	1,092	6.1	13,000	8.4
1985	1,239	6.5	13,323	9.3
1986	1,301	7.5	13,840	9.4
1987	1,677	8.3		
1988	2,188	9.4		
1989	2,470	9.1		
1990	2,685	8.9		
1991	3,834	12.3		
1992	4,832	13.7		

Source: Office of the US Trade Representative, official statistics, various years.

The increased use of the US GSP programme intertwined the Mexican economy further with its northern neighbour. It enabled Mexico to substantially increase the volume and diversity of its exports with its most important trading partner. Most importantly, the programme undermined the post-Second World War Mexican commercial policy that sought to distance itself with the international economy. Instead, Mexico began the process of furthering its integration with the international trading system. The GSP programme also further skewed the bilateral connection, thus contributing to the growing asymmetrical power relationship between Mexico and the United States. Mexico felt that with the increased trade interdependence with the United States, it could become more vulnerable to its northern neighbour and therefore, more susceptible to its pressures. Encouraged

GSP programme. The termination of duty-free benefits profited Mexico greatly. By 1990, Mexico was the leading beneficiary country under the programme.

by its new found oil wealth possibilities, Mexico asserted its independence from its neighbour through not joining the GATT. The following section briefly discusses the issue.

4.2.3 *The 1980 GATT Decision*

The United States believed that Mexico was deriving enormous benefits from its commercial relationship, especially after it began to benefit from the GSP programme in the late 1970s. In May 1979, US Ambassador Patrick J. Lucey spoke before the American Chamber of Commerce of Mexico:

> I feel there is a disturbing lack of understanding within many sectors of the Mexican public on the extent to which the US has created and is maintaining access to its markets for the products of developing nations in general, and for Mexico in particular...the United States has always unilaterally and voluntarily extended MFN status to developing nations, even those that have not participated in the negotiations. These concessions have been an important boost to development...Mexico has shared in the benefits of this opening up of the world's markets, and particularly of the US market as a result of our unilateral extension of MFN treatment.[43]

Ambassador Lacey acknowledged Mexico's fear of US interference. At the same time, he asserted that, if Mexico wanted to continue to have unhindered access to its most significant trading partners, it must start playing by international trade rules:

> We have been gratified by the very serious participation of Mexico in the current round of trade negotiations in Geneva, and are, of course, aware of the significance of Mexico's decision to explore the possibility of accession to the GATT...The ability of the US to absorb an ever increasing flow of goods from Mexico will depend, in part, on Mexico's attitude towards imports from us.[44]

[43]Patrick J. Lucey, 'US Ambassador Patrick J. Lucey before the American Chamber of Commerce of Mexico, May 1979', *Mexican-American Review* (June 1979), pp. 24-6.

[44]*Ibid*, pp. 26-7.

In the midst of the economic troubles facing Mexico in the mid-1970s, the United States first proposed that its neighbour should join the GATT. In the hope of influencing Mexico to enter the organization, the United States signed a bilateral agreement with Mexico in 1977 and awarded the country MFN status in January 1978 for a three-year period. The United States, along with several European countries and the EEC itself, had strongly urged Mexico to join the multilateral trading organization.[45]

Nevertheless, this prodding combined with other subtle pressures, did not convince Mexico. In March 1980, the country decided to 'postpone' GATT entry. This decision had a significant affect on Mexican-US trade relations. In response, the United States cancelled the bilateral agreement negotiated with Mexico in the Tokyo Round (1973 to 1979) depriving the country of many trade benefits - Mexico was to lose approximately US$536 million in tariff concessions.[46]

The reason Mexico decided not to enter the GATT in 1980 was due to political resistance within the government and oil.[47] The Mexican government saw its relative international strength as a product of its oil revenues. Control over the country's internal economic and political decision making processes was vital to Mexico and some prominent government officials believed GATT accession would jeopardize these goals.[48] As a declaration of its independence from its dominant neighbour, Mexico decided in November 1980 not to sell more than 50 per cent of its petroleum exports to any one country.[49] As Mexico had been

[45]In meetings with both the US President Carter and French President Valery Giscard d'Estaing of France, López Portillo was encouraged to join the GATT. See Saul Escobar Toledo,'Rifts in the Mexican Power Elite, 1976 - 1986', in S. Maxfield and R. Anzaldúa Montoya, *Government and Private Sector in Contemporary Mexico*, Monograph Series 20, Center for US-Mexican Studies (San Diego, CA: University of California, San Diego, 1987), p. 68.

[46]'The Economy in Review', *Mexican-American Review* (April 1980), p. 3.

[47]The 1980 GATT debate is discussed in detail in Chapter 2, section 2.1.3.

[48]Interview, Sr. Jesús Silva Herzog, Minister of Finance (1982 to 1986), Madrid, Spain, 21 May 1992.

[49]Interview, Sr. Gustavo Mohar, Pemex London, London, 11 May 1992.

selling 80 per cent of its exports to the United States, this move was a way in which to send the message to the United States that Mexico would not bow to US influence.

With the economic crisis of the early 1980s, the trade relationship between Mexico and the United States underwent radical changes. Mexico's historical trade deficit with the United States was reversed so that the foreign exchange could help service the debt. Mexico's trade balance went from a deficit of US$4.6 billion in 1981 to a surplus of US$2.9 billion in 1982. (See Table 4.3.) In addition, Mexico diversified its export system to free itself from a reliance on a single product and promote its non-oil export capacity. With Mexico's drive to increase such exports in the mid-1980s, the country came to understand how highly interdependent it is with its neighbour.

With the de la Madrid administration, a new dimension was introduced to bilateral commercial relations. The differences in the underlying philosophies that characterized past relations were changed. Rather than the anti-US rhetoric and the desire to distance itself from its northern neighbour, Mexico, under President Miguel de la Madrid, embraced the international economy and emphasized the interdependent relationship with the international system. The use of the term 'interdependent' was first used by President de la Madrid when referring to the Mexican-United States relationship. Previously, Mexican rhetoric always referred to the 'dependent' relationship and the need for 'independence' from its northern neighbour.[50] Most importantly for the de la Madrid administration, the oil glut in early 1981 and the ensuing economic crisis caused Mexico to change its 'role conception'. Rather than acting as a regional leader, Mexico was now turning to the role of responsible debtor. Grayson argues that Mexico's 'ideologically inspired' assertiveness in the international arena gave way to pragmatism with

[50]For example, Carlos Rico F. stressed that Mexican acceptance of interdependence with the US would result in US domination. See Carlos Rico F. 'Las relaciones mexicano-norteamericanas y los significados de la "interdependencia"', *Foro Internacional* (Vol. 19, oct-dic, 1978), pp. 256-91.

President de la Madrid.[51] As the next chapter will argue, the role of ideas along with pragmatism did play into President de la Madrid's decision to work with the United States. This was not just a pragmatic response, but a change in the underlying philosophy. With the change in the philosophy of the de la Madrid administration, Mexico sought better commercial relations with the United States. Mexico realized that it was time to negotiate a trade agreement.

Despite its traditional advocacy of multilateralism, the United States took steps in the 1980s that revealed a willingness to negotiate regional or bilateral trade agreements.[52] The United States had made it quite clear in the interparliamentary meetings that it wanted some kind of trade agreement with its neighbour.[53] The de la Madrid government's first attempt to negotiate a bilateral agreement came only months after coming to power in 1983. The negotiations were done in private and concerned Mexico suspending its main export subsidy programme - the CEDI - and the promise not to introduce any new export subsidy programmes. In return the United States would not impose any countervailing duties on Mexican imports.[54] The bilateral agreement, however, was disclosed and greatly embarrassed the new government.[55] It would be another two years before a bilateral agreement was reached.

[51]G. Grayson, *op. cit.*, in footnote 9, pp. 8-9.

[52]In the 1980s the United States concluded bilateral free trade agreements with Israel, Canada and the Caribbean. The Caribbean Basin Initiative (CBI) sought to promote growth and stability in the Central American-Caribbean region. It gave preferential access to US markets for Caribbean products, to provide technical assistance for the development of export industries and to encourage private investment. *New York Times* (25 February 1982), p. 8.

[53]US Congress, *Twenty-First Mexico-United States Interparliamentary Conference*, Manzanillo, Colima, Mexico, 12-13 June 1981 (Washington, DC: Government Printing Office, May 1982), p. 17.

[54]The countervailing duty issue is discussed in section 4.3.1 of this chapter.

[55]As this was only three years since the 1980 GATT debate, many believed that the bilateral agreement with the United States would bring Mexico into the GATT through 'the back door'. The elimination of the CEDI programme in 1983 was too soon for the small and medium businesses that depended on these subsidies to survive. The new de la Madrid economic team had to proceed with more caution.

4.2.4 *The 1985 Framework Agreement*

The break-through came in April 1985 when the Mexican Secretary of Commerce, Héctor Hernández Cervantez, and U.S. Trade Representative, William E. Brock III, signed an intergovernmental agreement on subsidies and countervailing duties. The agreement was quite straight-forward: in exchange for a Mexican commitment to bring its general subsidy policies into line with those allowed to signatories of the international code, the United States government agreed that US interests which complained about Mexican subsidies must show that the allegedly subsidized imports caused or threatened to cause material injury to a US industry. In short, Mexico foreswore export subsidies and the United States provided the injury test.

This framework agreement was important for both countries. Ever since the United States pushed hard for Mexican accession to the GATT in 1980, it had been trying to get Mexico to open up its economy. In Washington, the fact that there existed no trade agreement with its third largest trading partner had been an anomaly. For Mexico, gaining the injury test for its exporters was an objective which would strengthen the country's existing capacity to export non-traditional products, encourage new entrants to international trade and put the country on a path leading away from the inefficiencies of its old development model.

The bilateral trade agreement between Mexico and the United States demonstrated the former's interest not only in improving trade relations with its most important partner, but also signalled to the United States the Mexican desire to further the liberalization process. With the substantial measures implemented in July 1985 in the Presidential Decree, President de la Madrid was paving the way for GATT entry. On 25 November 1985, the president approved negotiations leading toward Mexico's entry into the GATT - a watershed in post-Second World War Mexican development policy. The Mexican commitment for closer trade relations is evidenced by the flurry of trade negotiations that followed the 1985 bilateral agreement. The most significant move was President Carlos Salinas de

Gortari's (1988 to 1994) request for a free trade agreement with the United States.[56]

The asymmetry in Mexico-US relations is most important when analyzing the degree to which the United States pressured Mexico to liberalize its trade regime. Fundamental changes in bilateral commercial exchanges took place in the 1980s, especially after the debt crisis hit in 1982. The final section of the chapter examines the pressure exerted by the Reagan administration and the IMF. It argues that although Mexico was greatly influenced by these international actors, they did not *coerce* Mexico to initiate trade liberalizing measures. Rather, international leverage reinforced the Mexican decision and helped to quicken the pace and intensity of the liberalizing reforms.

[56]For a discussion of the bilateral trade negotiations and the Nafta, see Postscript.

4.3 US Pressure for Policy Change in Mexico

US Policy toward Mexico in the 1980s was often inconsistent and lacked a coherent strategy. One of the primary reasons for this was due to the decision making process that exists in the United States. Unlike Mexico, where policymaking is dominated by the presidency,[57] the situation in the United States is much more fragmented. This is due to the great number of government agencies,[58] each with its own perspective and constituency, taking part in the policy process. Each agency pursues its own particular interests with regard to Mexico, which may at times serve certain domestic constituent interests rather than an overall US strategy. When studying oil and US-Mexican relations, Grayson found that because of the US domestic pressures and broader multilateral objectives, especially in trade and financial matters, the State department is not central to US policy toward Mexico. Energy decisions, for example, involve the departments of State, Energy, Defense, Treasury, Commerce and Health and Human Resources as well as the Office of Management and Budget, the Central Intelligence Agency, the Export-Import Bank and the Office of the Special Trade Representative.[59]

There are roughly two perspectives that emerge from the United States on Mexico's trade policy.[60] The first is represented by those who seek an equitable or reciprocal relationship with Mexico. The second is put forth by those who place a greater importance on the overall bilateral relationship and emphasize the interdependence of economic and political issues. Although supporters of each

[57]Because of the political co-optation of the various sectors in Mexican society, the president is relatively free to make policy choices. The strength of the Mexican presidency is discussed in Chapter 6, section 6.1.1. See George Philip, *The Presidency in Mexican Politics* (Basingstoke: Macmillan, 1992).

[58]They included almost all departments of the executive branch plus both houses of Congress.

[59]George W. Grayson, *The Politics of Mexican Oil* (Pittsburgh, PA: University of Pittsburgh Press, 1980), p. 162.

[60]See Guy F. Erb, 'U.S.-Mexico Trade Relations', in Pamela S. Falk, *Petroleum and Mexico's Future* (London: Westview Press, 1987).

viewpoint are found in all constituencies that influence trade policy - the executive branch, the Congress and the business community - the legislative branch roughly represents the reciprocity position, the executive, better bilateral relations.

The recession in the United States, coupled with the escalation of trade flows between the two countries in the late 1970s and early 1980s, resulted in an increasing divergence between the two views. The public and congressional reaction to Mexican protectionism, especially after the 1980 decision not to join the GATT, illustrated the tension between those who sought a reciprocal relationship with Mexico and others who wanted to promote strong, stable and friendly bilateral relations. Despite the incoming Reagan administration's intentions toward Mexico, the US Congress asserted its own trade policy objectives, regardless of the consequences for bilateral relations. Hence, there occurred a rash of US legislation that affected Mexican trade.

4.3.1 *The Legislative Branch*

In the early 1980s, members of the US Senate and House of Representatives frequently came under domestic political pressure from their constituents for tougher trade legislation and reciprocal bargaining from the newly industrialized countries (NICs). There was specific concern about Mexican barriers to trade between the two countries and a common perception that Mexican protectionism was prolonged and increasing. (Mexico was particularly annoyed at such reactions in the United States. It seemed that the US institutional memory was far shorter than Mexico's - its northern neighbour did not seem to recall the impact on Mexico of the United States' 10 per cent import surcharge of 1971.) The United States (both the legislative and executive branches) was unhappy with Mexico's decision not to join GATT, particularly as the terms of entry negotiated were the most liberal ever granted. There followed a move in the country to get tougher with the highly protected Mexican economy. The US response took two forms: the application of countervailing duties (CVDs) and the exclusion and graduation of products from the GSP.

As Mexico was not a member of the GATT and there existed no bilateral trade agreement with the United States, the United States was in a position to retaliate against several Mexican subsidies by means of a countervailing duty.[61] Both the Subsidies Code[62] and United States law permit the imposition of a duty equal to the net amount of such bounty or grant only if investigation reveals that the subsidy has caused material injury to a domestic industry.[63] But as Mexico was not a member of GATT, any CVDs charges against the country would not have to demonstrate major injury to the US party making the charges.

In the 1980s as trade grew, complaints proliferated. Although Mexico benefitted under the US GSP programme, the absence of a framework for trade itself became a source of conflict. A flurry of complaints about Mexican subsidies resulted in a significant increase in the application of CVDs against the country's imports, particularly after 1982. In effect, once a Mexican subsidy was found to exist, the imposition of a duty was automatic, since no injury test was necessary. The imposition of CVDs - or even the threat of such action - had an immediate, negative impact on Mexican exports. Potential US buyers generally refused to place firm orders as soon as they learned that a request for such duties had been submitted on a Mexican product. Eighteen investigations were initiated in the early 1980s. In over half of these cases, a determination was reached that subsidies existed. In four cases, the Mexican exporters signed an agreement of suspensions; and in another four, the resolution was favourable to Mexico.[64] In 1982, the

[61]These subsidies would include government intervention in such matters as the granting of capital, or loans, inconsistent with commercial considerations; the provision of goods and services at preferential rates; and the redemption of loans or assumption of costs or expenses of production.

[62]The Subsidies Code is one of the agreements in the Tokyo Round of Multilateral Trade Negotiations in 1979.

[63]In order to implement US obligations under the Subsidies Code, the Trade Agreements Act of 1979 amended US trade law, imposing the requirement of an injury investigation on countervailing duty proceedings against a specific country.

[64]US Congress, *Twenty-Fourth Mexico-United States Interparliamentary Conference*, Washington, DC, 18-19 May 1984 (Washington, DC: Government Printing Office, December 1984), p. 27.

value of Mexican imports under investigation in the United States was US$181 million and rose to US$310 million in 1983.[65] US pressure on Mexican trade rose in 1984; the US Department of Commerce carried out 25 investigations on Mexican exports. In this year, Mexican merchandise worth more than US$500 million was submitted to investigation.[66]

The application of countervailing duties fuelled the common Mexican perception that the United States was a protectionist country determined to frustrate its efforts to overcome the economic crisis. In a survey conducted in Mexico City in 1983, six out of 10 people believed it was easier for the United States to export to Mexico than vice versa.[67] The US government, however, claimed that their actions were not protectionist.

> [T]hey are directed against the protectionist or unfair trade practices of other countries and thus are designed to correct rather than increase distortions in free trade. Countervailing duties are meant to balance the export subsidies of other governments...Our actions are consistent with international rules.[68]

Numerous countervailing duty cases hampered the efforts of Mexico's private sector exporters and those of the Mexican government to move the country toward greater non-traditional exports and away from the import substitution policies which had led to highly protected and generally inefficient Mexican industries. Ironically, as Mexico was attempting to shift to export promotion as the United States had always wanted, its efforts were thwarted by the US move toward protectionism.

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[65]*Ibid.*

[66]Luis Bravo Aguilera, 'Mexico's Foreign Trade Policies and Commercial Relations with the United States', in William Glade and Cassio Luiselli (eds), *The Economics of Interdependence: Mexico and the United States*, Volume 2, Center for US - Mexican Studies (San Diego, CA: University of California, San Diego, 1989), p. 95.

[67]US Congress, *op. cit.*, in footnote 64, p. 81.

[68]Cited in Stephen Lande, 'Opportunities for Improving U.S.-Mexico Trade Relations', *Business Mexico* (June 1989), p. 54.

The United States began to exert pressure on all trading partners from the late 1970s as a result of the interplay of three factors: unfavourable changes in the economic position of the United States in the world economy; intensification of public/lobby pressures on congress; and on the shift in the executive-legislative relationship generally, and on trade policy in particular. Pressure was a legislative-led assault on 'unfair traders'. Mexico was a target but by no means the main one. This assault was not a concerted effort to coerce Mexican liberalization per se. Mexican officials, in any case, were determined to resist such pressure.

From 1981, there was a strong call for reciprocity in the United States. Mexico had been singled out as a prime example of a country from which US negotiators should seek a more reciprocal relationship. With the recession of 1981 to 1982 and the strong dollar until 1986, many industrial sectors in the United States were under competitive pressure in both domestic and foreign markets. The CVDs that resulted, therefore, were more in response to the domestic economic climate than a coherent effort on the part of the US government to force Mexico to change its international trade policy.

The second concern of Mexican exporters was the US exclusion and graduation of products from the GSP. The United States started to impose stipulations on eligibility for its GSP programme only a few years after its inception. The GSP had always included a 'competitive need' disqualifier which was intended to prevent a GSP beneficiary from becoming a significant supplier, in percentage of dollar terms and of the US market. The Trade Agreement Act of 1979 allowed a presidential waiver if imports exceeded 50 per cent, but with a total value less than US$1 million.[69] The concept of 'graduation' referred to the phasing out and eventual elimination of special and differential trade treatment for advanced developing countries. The discretionary graduation was based on the country's general level of development, competitiveness in the particular product

[69]U.S. Congress, *op. cit.*, in footnote 64.

and overall US economic interests, including domestic import sensitivity.[70] According to the United States, Mexico belonged to this category of advanced developing nation. But despite its economic growth in 1980 and 1981, Mexico was still underdeveloped and could not be expected to conduct its trade policies on an equal footing with developed countries.[71] However, Mexican members to the Interparliamentary Conference expressed their concern about the US policy of graduating more advanced developing countries. The Mexican delegation emphasized that Mexico was still an underdeveloped country and could not be expected to conduct its trade policies on an equal footing with developed countries.[72]

These changes in the US GSP programme adversely affected Mexican trade initially, but to a limited extent. Beginning in 1980, Mexican products were removed from the US GSP. The graduation, however, eliminated GSP only on two Mexican items worth a mere US$14 million (out of US$509 million under the GSP programme).[73] According to a US government document, Mexico was compensated because it regained eligibility on more than US$14 million of previously ineligible products and received eligibility on 47 new items added to the list.[74] With the deepening of the world recession and the increase in protectionist sentiments in the United States, the pressure on Mexico became more extensive. By 1983, 55 Mexican products had been excluded from preferential treatment. The measure affected the Mexican government's economic policy and many

[70]James Smith, 'GATT Disputes and U.S. Trade Law', *Business Mexico* (March 1987), p. 37.

[71]These sentiments were strongly expressed by Mexican delegates to the Mexican-United States Interparliamentary meeting in 1982. See US Congress, *Twenty-Second Mexico-United States Interparliamentary Conference*, Santa Barbara, California, 28-29 May 1982 (Washington, DC: Government Printing Office, June 1983), p. 21.

[72]*Ibid.*

[73]United States Department of State, Bureau of Public Affairs, *U.S.-Mexican Relations* (Washington, DC: US Government Printing Office, 10 June 1981), p. 2.

[74]*Ibid.*

government officials feared that the countries annual revenues would be greatly reduced.[75]

The United States employed these measures in order to demonstrate to Mexico its displeasure with the country's protectionist policies. A recurring theme in US complaints about trade policy was that Mexico was a free rider and sought to remain so. This complaint was a familiar theme used by US policymakers at the time and by no means confined to Mexico. The United States had not only awarded Mexico GSP benefits on over US$1 billion of imports (see Table 4.4), but had also extended MFN status (though Mexico was the only main trading country that was not a member of the GATT). William Brock III, the US Trade Representative, wrote:

> If [high debt countries] refuse to open their market and fail to adopt more outward-looking economic policies, they will be stuck with lower growth rates and less efficient export production. At the same time, failure to institute reforms and to liberalize their trade regimes could undermine the industrialized nations' efforts to dampen protectionist pressures, ultimately leading to decreased access for the high-debt countries' exports.[76]

From the US perspective, it was faced with a recession in the early 1980s and its businesses were calling for protectionist measures. As trade had grown by spectacular rates - 260 per cent between 1976 and 1980[77] - the US firms were feeling the nonreciprocal trade effects. As there were no established rules of trade conduct between the United States and Mexico, it is no small wonder that there was a rise in countervailing duties.[78] For the Mexicans, however, many believed

[75]Foreign Broadcast Information Service, *US Restrictions on Imports Draws Reaction* (5 April 1983), p. M1 and *Officials Critical of US Import Taxes* (6 April 1983), p. M1.

[76]William E. Brock, III, 'Trade and Debt: The Vital Linkage', *Foreign Affairs* (Vol. 62, No. 5, Summer 1984), p. 1038.

[77]US Congress, *op. cit.*, in footnote 53, p. 14.

[78]Interview with Mr. Walter Bastian, Director of Latin America, The US Department of Commerce, Washington, DC, 15 April 1993.

that the use of countervailing duties and the elimination of products from the GSP programme was in retaliation for not entering the GATT in 1980.

Throughout the early 1980s, there were pressures for Mexico to liberalize - it was no secret that the United States would have preferred its third largest trading partner to be a member of the multilateral trading organization. In 1984, there were repeated calls from the US Senate for Mexico to end its protectionist policies and join the GATT. Oliver Farrez, director of economic relations of the Mexican Foreign Secretariat, noted that US calls for Mexico to join the GATT happened every four years during periods of electoral activity. He emphasized that Mexico has never accepted and never will accept pressures on its international trade policy. Farrez inferred that the calls from the Senate were more for domestic consumption and Mexican policymakers believed that when the elections were over, the United States would reduce its pressure.[79]

The rise in countervailing duties and the elimination of GSP products were significant pressures on Mexico in the early 1980s. They were not, however, the determining factor in the decision to liberalize trade. Had its policymakers genuinely opposed liberalization, Mexico could have resisted it as had other Latin American countries (e.g., Argentina or Brazil). Rather, these pressures were used by the Mexican government to convince a highly protected Mexican business community that there was no option but to compete in the international economy. Interestingly, it was domestic business pressures that fed the US government's push for liberalization. The converse was true in Mexico. Although some large businesses in Mexico were in favour of liberalization (but only in a gradual manner), the small- and medium-sized firms were against opening the economy. The US legislature acceded to domestic pressures while the Mexican government was able to co-opt and control their domestic influences.

Although there were periodic bursts of pressure from the legislative branch of the US government, the executive was sending out very different signals. In

[79]See Rogelio Hernandez, 'Officials Reacts to U.S. Senate Statements on GATT', *Excélsior* (Mexico City), 29 August 1984, pp. 1-9.

contrast to this view presented by the Congress for reciprocity in trade matters, the Reagan administration was far more interested in the overall bilateral relations. Rather than concentrating on specific trade cases, the executive branch was focused on 'high policy' issues such as Central America and its relation to the overall East-West balance. The following section examines the executive branch and its pursuit of broad policy objectives with Mexico in the 1980s.

4.3.2 *The Executive Branch*

Unlike the US Congress, the Reagan administration was far more concerned with overall bilateral relations. Two areas in particular preoccupied the executive branch in the early 1980s - the financial crisis and the strategic Cold War agenda. The Reagan administration was more concerned with alienating Mexico, prompting a debt moratorium and encouraging further ties with leftist governments in Central America than it was with reducing Mexican protectionism. Because of the lack of a legislative-executive consensus, the efficacy of US pressure was far less than might be assumed. This section of the chapter examines the executive branch's relationship with Mexico and highlights the two countries's different policy agendas in the 1980s.

Bilateral relations with Mexico had not been good under the Carter administration. Relations between the two countries grew to be acrimonious in the late 1970s and early 1980s.[80] With the arrival of the Reagan administration, there was a concerted effort to state consistently and publicly that the United States wanted a strong, stable and friendly relationship with Mexico.[81] As president-

[80]In addition to the bad personal relations between Presidents Carter and López Portillo, the 1979 natural gas deal, the Mexican refusal to accept the Shah of Iran after his operation in the United States, the decision not to join the GATT, the Ixtoc oil spill and the imposition of a US tuna embargo all served to further deteriorate Mexican-United States relations.

[81]President Reagan appointed John Gavin as ambassador to Mexico. At the time, Gavin seemed to be an ideal choice as he had a long experience in Mexico, extensive contacts there and fluency in Spanish. However, Ambassador Gavin's out-spoken, negative comments on Mexican policy in the 1980s meant that he was not well received by his host country and eventually resigned from his position.

elect, Reagan had highlighted the need for a special relationship with both Canada and Mexico and the desire to create some form of North American economic entity. The idea of an economic entity was not welcomed by President López Portillo and his administration. The announcement led immediately to denunciations in the Mexican press of this as 'another Yankee plot to keep Mexico subjugated'. The reasoning was that the economic disparity of the United States and the other two members would lead to US dominance. Not only that, but it was also put forth that this was somehow a means of guaranteeing Mexican oil exports to the United States. President López Portillo declared to the Canadian Parliament in May 1980 that 'proposals [along this line] are incompatible with the objectives of Mexico's social and economic developments in view of the great difference between the development levels of the three countries'.[82] Interestingly, only a decade later, it would be the Mexican president who would initiate similar plans.

In his attempt to improve bilateral relations, President Reagan invited the entire Mexican cabinet to Camp David to meet their US counterparts in June 1981. Two institutions were created to facilitate the 'special relationship'. The first was the Binational Commission (BNC) which would deal with broad issues and be chaired by the State Department. The second was the Joint Commission on Commerce and Trade (JCCT), to be chaired by the Commerce Department.[83]

With the change in the US administration came an even greater emphasis on laissez faire economic policy.[84] President Reagan's support for the free market can best be represented by the following:

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[82]See Robert H. McBride, *Mexico and the United States* (Englewood Cliffs, NJ: Prentice-Hall Inc., 1981), pp. 18-19.

[83]These institutions had no more success than President Carter's Consultative Mechanism. The JCCT was formed at the height of battle between the Commerce Department and the United States Trade Representative (USTR) for control over trade policy. The institution did not effectively co-ordinate US economic policy - almost all of the negotiations for the 1985 trade agreement and Mexico's 1986 entrance into the GATT took place outside the JCCT. By 1986, it had withered away.

[84]Chapter 5 discusses the change in economic ideology.

> Our trade policy rests firmly on the foundation of free and open markets - free trade ... the freer the flow of world trade, the stronger the tides for human progress and peace among nations ... Our commitment to free trade is undiminished. We will vigorously pursue our policy of promoting free and open markets in this country and around the world. We will insist that all nations face up to their responsibilities of preserving and enhancing free trade everywhere.[85]

The Reagan administration was especially enthusiastic about promoting a more open trading relationship with Mexico. Yet after 1982, it was also sensitive to Mexico's difficulties during its economic crisis. The United States realized from the 1980 GATT debate in Mexico, that it could not pressure the country to liberalize trade. In addition, the United States understood that there would be intense resistance to a US-enforced trade policy which could precipitate a unilateral Mexican decision to default on the international debt. To the new administration an improved overall relationship with its neighbour and the handling of the financial crisis was a more immediate concern than trade liberalization.[86] Even after the debt crisis, Central America was the number one concern to the Reagan administration. President Reagan viewed complaints by the Congress about reciprocity as a diversion from high policy issues.

4.3.3 *Different Agendas*

When determining whether the United States pressured Mexico to liberalize trade, it is vital to stress that the two countries had very different policy agendas. The de la Madrid administration experienced an 'economization' of foreign policy with trade policy at the heart of Mexican politics. For Mexico, trade policy was linked to its economic recovery and therefore, US protectionism was of primary concern. The reverse cannot be said to be true, however. Although Mexican protectionism

[85]Ronald Reagan, 'The President's Trade Policy Action Plan', *Department of State Bulletin* (November 1985), pp. 1 and 3.

[86]Interview, Mr. Walter Bastian, *op. cit.*, in footnote 78.

was an issue to the United States, it was of only minor importance compared to the issue of Central America. At every bilateral meeting, Mexico tried to resolve economic issues and the United States attempted to change Mexico's policy on Central America.

These differences in focus are clearly demonstrated by the meetings between Presidents Reagan and de la Madrid from 1983 to 1986. For example, at the Washington meeting in 1984, both Presidents presented different agendas. Although President Reagan acknowledged the economic difficulties that Mexico was facing and the significant trade matters that needed to be discussed, his focus was first and foremost Central America. Mexican trade liberalization was deliberately subordinated to fighting the Cold War (the Reagan Doctrine). President Reagan's opening speech was almost entirely on Central America:

> The conflagration in Central America appears too close to ignore. Like a fire in one's neighborhood, this threat should be of concern to every nation in the hemisphere... Complicating the situation and making it even more dangerous has been the intervention of a totalitarian coalition which has undermined what we had hoped would be a democratic revolution... this issue is of utmost importance.[87]

At the same meeting, President de la Madrid acknowledged the 'serious difficulties' in Central America, but concentrated on the economic crisis:

> Latin America is suffering the most severe economic crisis of modern times. Its peoples and governments have been obliged to implement harsh economic programs to cope with the situation ... The Mexican people are giving ample proof of their vigor and responsibility. Nonetheless, our determined efforts require international understanding and cooperation in the field of trade and finance ... We have already shown that we are both willing and able [to make the effort]. Now we ask the international community and essentially the industrialized countries to accept that. Since

[87]'Visit of Mexican President', *Department of State Bulletin* (July 1984), pp. 85-6.

> interdependence is an irreversible fact, the imperative of solidarity is a duty based not only on ethics but also on expedience.[88]

A pattern was set for the bilateral meetings. Every US policymaker would emphasize Central America and every Mexican would try to stress the importance of economic issues. When George Shultz met President de la Madrid at the end of 1984, he announced at the news conference that, 'a good proportion of the total amount of time was spent in discussing the Contadora process'.[89] And this was at the height of the financial crisis.

Even when Mexico announced on 22 July 1985 that it was to liberalize trade substantially, the United States although acknowledging the importance of the decision, still placed greater importance on the Central American issue. The presence of Clayton Yeutter and Bruce Smart (the US Trade Representative and Under Secretary of Commerce, respectively) demonstrated the importance the US attached to trade and investment issues between the two countries. Nevertheless, in Secretary Shultz's opening remarks, he devoted one paragraph to the trade relationship and waxed lyrical about Central America, drug trafficking and illegal migration.[90]

Although the executive branch was primarily focused on the Central American issue, there was concern about the solvency of the highly indebted countries and the effect the debt crisis was having on the international financial community. Those who would argue that Mexico was forced to liberalize its trade because of the asymmetry in power relationship with the United States would point to the conditionality of the funds the debtors sought. An examination of the IMF letters of intent, the Baker Plan and the 1986 Omnibus trade bill in the United

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[88]*Ibid*, p. 86.

[89]'News Conference, Mexico City, Oct. 11, 1984', *Department of State Bulletin* (December 1984), p. 89.

[90]'U.S.-Mexico Bilateral Commission Meets', *Department of State Bulletin* (October 1985), pp. 56-7.

States shows that Mexico had already made the fundamental steps toward trade liberalization when such pressures were exerted.

4.3.4 *The United States and the IMF*

As in most Third World governments in the late 1970s, there was strong anti-US and anti-IMF rhetoric in Mexico. When the debt crisis hit, the López Portillo government feared that, through an IMF agreement, the country would be pressured into selling more oil to its northern neighbour and so be used by Washington to undermine OPEC. Equally, the government was afraid that the IMF would push the country into joining the GATT by insisting that the highly protected economy be liberalized.[91] Some have argued that because of Latin America's financial difficulties in the early 1980s, many countries in the region were forced to follow the dictates of the United States and the international community. Closer examination of the conditions of the loans, however, shows that this was not the case.

The first two IMF letters of intent mentioned trade liberalization, but it was outlined in general terms with no specific targets agreed upon. When Mexico negotiated with the IMF in the autumn of 1982, the November letter of intent contained none of the elements that the government expected. There was no stipulation about free trade or GATT accession.[92] As the financial crisis continued, the 1984 letter still did not mention liberalization.[93] Only 1 in 11 policy proposals addressed the issue of structural reforms to the system of protectionism. This proposal called for the process of substituting import permits by tariffs but did not stipulate when or how this would be accomplished. At this early stage of the economic crisis, the international community was concerned with Mexico generating enough foreign exchange to service its debt. Rather than

[91]William Chislett, *The Financial Times* (London), 24 September 1982.

[92]Alan Robinson, *The Guardian* (London), 15 November 1982.

[93]Coral Young, *El Nacional* (Mexico City), 4 January 1984, p. 1.

forcing Mexico to liberalize trade, *the IMF was implicity encouraging import protection* to create income.

It was only in the spring of 1985 that new elements were introduced, recognizing the vital necessity of fundamentally improving Mexico's trade situation. Rather than just dealing with financial and fiscal policy targets, the 1985 letter of intent specified that the protection of the Mexican economy was to be reduced (but not eliminated), the 'anti-export' bias to be diminished and a clear timetable was set for trade liberalization. The 1985 letter was the third and final part of the 1982 negotiated agreement between the IMF and Mexico.

After substantial trade liberalizing measures were implemented and the Mexican economic situation deteriorated further, Mexico signed another agreement with the IMF. The 1986 agreement took eighteen months of negotiation before Mexico, rather than the international financial community, proposed conditions. As Duran found, such an agreement was the first time that new money was linked to economic performance, as opposed to economic perspectives and the adoption of agreed measures.[94] The Mexican deal included two conditions: 1) a petroleum-linked fund which would enter into force in the event that oil prices fell below US$9 per barrel and which would amount to an extra US$1.2 billion from the banks and be topped up by some US$600 million by the IMF. Equally, if the price of oil rose above US$14 per barrel, the country's repayment terms would be speeded up; 2) an additional US$500 million if Mexico failed to reach the economic growth target of 3 to 4 per cent agreed with the IMF. As part of this agreement, signed in the summer of 1986, the World Bank agreed to contribute US$1.9 billion towards the restructuring of the Mexican economy, with particular emphasis on opening up the economy through foreign trade.[95]

[94]Esperanza Duran, 'Mexico's 1986 Financial Rescue: Palliative or Cure?', in George Philip (ed.), *The Mexican Economy* (London: Routledge, 1988), pp. 102-3.

[95]'The State of the Economy', *Banamex: Review of the Economic Situation of Mexico* (Vol. LXII, No. 729, August 1986), p. 289.

Economic policymakers in Mexico had consistently stated that they would never agree to conditions that contradicted their own preferred policy paths.[96] Miguel Mancera, the director of the Mexican central bank, emphasized that the IMF had not imposed economic models nor pressured the country to follow a predetermined course:

> We are perfectly capable of choosing our destiny and of implementing measures which, although drastic, are proving to be correct and conducive to a better future.[97]

Silva Herzog, the Finance Minister, claims that Mexico already had plans to liberalize trade. Although there were external pressures from the US Treasury, the World Bank and the IMF, he maintains that he would have refused to sign the letter of intent if Mexico had not wanted to implement such policies.[98] Mexico implemented the IMF-backed programmes because it agreed that these were the necessary policies to follow. This commitment on the part of Mexico is consistent with Kahler's study of cross-national IMF programmes. He found that those countries most committed to policy reform would most likely undertake them and those that were opposed would resist their implementation.[99]

The United States worked with the IMF and the World Bank to urge reforms on Mexico. The changes the three favoured were generally congruent with the policies of the de la Madrid administration and therefore did not generated much conflict. The de la Madrid government not only believed that opening the Mexican economy was the appropriate policy path, but the country had already

[96] Interview, Silva Herzog, *op. cit.*, in footnote 48.

[97] 'Bank Director Discusses Economy', *Foreign Broadcast Information Service* (21 September 1983), p. M1.

[98] Interview, Silva Herzog, *op. cit.*, in footnote 48.

[99] Miles Kahler, 'External Influence, Conditionality and the Politics of Adjustment', in Stephen Haggard and Robert R. Kaufman (eds), *The Politics of Economic Adjustment* (Princeton, NJ: Princeton University Press, 1992).

made substantial moves to dismantle barriers to trade. The 1986 GATT accession *added momentum to trade reforms already underway in Mexico*. The latter part of the de la Madrid administration was characterized by a significant liberalization of the Mexican economy. Much of this was required by Mexico's GATT accession, but the country liberalized its import restrictions far sooner than required and by a much larger margin.[100] The international financial community still feared Mexico could return to its protectionist ways and therefore encouraged the liberalization process. After the July 1985 Presidential Decree[101] and the decision to enter the GATT, the international community was more willing to reward Mexico for its efforts. For example, the World Bank provided Mexico with a Trade Policy Loan for US$500 million in July 1986.[102] Although funding was scarce for highly indebted countries in the international system, Mexico was to benefit when the resources were there. This was the case with the Baker Plan.

4.3.5 *The Baker Plan*

The resolution of the debt crisis eluded both the international financial community and the indebted countries themselves. Three years after Mexico stated that it could not service its foreign debt, the problem seemed to be growing. Mexico's total external debt had risen from US$87.6 billion in 1982 to US$97.8 billion in 1985.[103] In other parts of Latin America, several countries either called a

[100]For example, in the 1986 GATT accession agreement, Mexico agreed to eliminate trade barriers over a period of eight years, with the possibility of being permitted an emergency assessment of 50 per cent over and above previously negotiated tariff levels. After this time, the maximum tariff rate would be set at 50 per cent. Mexico has unilaterally brought those tariff levels down to 20 per cent and within a few years rather than eight. 'The State of the Economy', *Banamex: Review of the Economic Situation of Mexico* (Vol. LXII, No. 729, August 1986), p. 289.

[101]See Chapter 3, section 3.2.3.

[102]Banco de México, *The Mexican Economy 1987* (Mexico, DF: Banco de México, 1987), p. 129.

[103]Economic Commission for Latin America and the Caribbean, *Economic Survey of Latin America and the Caribbean, 1986* (Santiago, Chile: ECLAC, 1989), p. 460.

moratorium on their debt repayments or else stated they would repay only a certain percentage of their export earning.

Although Mexico did not participate in such independent moves, the initiative taken on board by the debtors to solve the debt crisis prompted the industrialized nations to act. As the perceptions of Third World debt were changing, the industrialized countries attempted to retain the initiative and forestall unilateral actions by the debtors. In the United States, a policy programme was devised to take on the crisis management role of the debt problem. This policy was proposed by the US Treasury Secretary, Mr. James Baker, at the annual IMF-World Bank meeting in October 1985. The Baker Plan was a new international debt initiative directed at the most troubled middle-income debtor countries in order to refloat their stagnant economies.

The three proposals of the Baker Plan were as follows:

> 1) comprehensive macroeconomic and structural policies, supported by the international financial institutions, to promote growth and balance of payments adjustment, and to reduce inflation. In addition, the adoption by principal debtors of market-oriented policies for growth;
>
> 2) a continued central role for the IMF, in conjunction with increased and more effective structural adjustment lending by the development banks, equivalent to US$9 billion of additional resources between 1984 and 1986;
>
> 3) new lending by commercial bank of US$20 billion during the same period.[104]

[104]The Baker Plan did not meet with much success. It was inherently flawed in that it still assumed that the debt crisis was a liquidity rather than a solvency problem which an inflow of funds from the international financial community could resolve. There was resistance from banks to provide new lending as evident by the 9 months it took for them to provide money just for Mexico in their part of the agreement. Mexico finally reached an agreement with the IMF almost one year later. Although the Mexican government initially had sought some form of debt relief, and while public opinion in Mexico began to coalesce around the need for a debt moratorium, the long negotiations yielded additional loans totalling US$12.5 billion - half from the international development banks and half from the private banks. There were some new facets to this agreement, including an additional US$1.7 billion in loans, to be activated in the event of an unanticipated deterioration of the Mexican economy. See Robert A. Pastor (ed.), *Latin America's Debt Crisis:*

The Baker Plan called for structural changes in the debtor countries, that included market-opening measures to encourage foreign direct investment and capital inflows, as well as to liberalize trade, including the reduction of export subsidies.

Mexico had already begun the process of liberalizing trade and reducing export subsidies by the time of the Baker Plan in October 1985. The April 1985 bilateral agreement and the July 1985 Presidential Decree were in place months before the Baker Plan was proposed. In addition, Mexico had planned to announce its intention to join the GATT in late summer 1985, an announcement delayed by the major earthquakes that hit Mexico City in September.[105]

The Baker Plan as a pressure to force Mexico to liberalize was not effective, but it did reinforce Mexico's decision. Even when the Baker Plan was unveiled, it did not 'cause' liberalization to occur. Mexico was willing, not cajoled, to accede to elements of the Plan. Although Mexico was to be one of the few that 'benefitted' from such a programme, the international financial system was not a stable source of finance. Even though Mexico in its rescheduling of 1986 attempted to incorporate the Baker Plan, the reluctance of the banks to provide new lending was evident as it took 9 months for them to come up with the money in their part of the agreement.

4.3.6 *The 1986 Omnibus Trade Bill*

Those who argue that Mexico was forced to liberalize its trade regime because of US pressures would point to the 1986 Omnibus trade bill. In 1986 - the year Mexico acceded to the GATT - there occurred a powerful push from those seeking reciprocal concessions from Mexico. In the United States, there were concerns about the US trade deficit, overseas competition and persistent doubts about Mexico's trade and investment regime as well as intellectual property rights. These

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Adjusting to the Past or Planning for the Future? (London: Lynne Rienner, 1987), pp. 13-14.

[105]At the July 1985 Binational meeting, Mexican delegates told the United States that Mexico would soon announce its decision to join the GATT. Interview, Mr. Paul Dacher, US Department of Commerce, Office of Mexico, Washington, DC, 15 April 1993.

concerns overshadowed those representing the second view - improving overall bilateral relations. Neither Mexico's financial difficulties (the drop in oil prices, the consequent worsening of Mexico's external accounts and debt service capacity), nor its trade liberalizing measures - most notably, GATT membership[106] - offset the negative feelings about Mexico's trade and investment regimes. The argument was that it was difficult to credit Mexico for its liberalization, since much of it was mandated by Mexico's GATT accession agreement or represented unilateral tariff and nontariff measure concessions which could be withdrawn without notice.[107] The United States feared that Mexico could still return to its protectionist ways.[108]

Protectionist legislation before Congress (H.R. 4800 - A Bill to Enhance the Competitiveness of American Industry) called for liberalization of imports and investment policies. Moreover, it called for financial assistance to developing countries linked with liberalization.[109] Such a bill contradicted the Reagan administration's commercial philosophy of free trade. The administration labelled the bill defensive, protectionist and self-defeating.[110] Officials stated they would, without hesitation, recommend a presidential veto. If the Congress was attempting to force Mexico to liberalize its trade through such legislation, the Reagan administration not only disagreed with its basic premise, but seemed to be more sensitive to Mexico's economic situation.

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[106]The US response to Mexican trade liberalization during the de la Madrid period was disappointing. The US imposed barriers to Mexican exports of steel, maintained (although in a slightly liberalized form) textile quotas and removed selected products from GSP.

[107]S. Lande, *op. cit.*, in footnote 68, p. 53.

[108]US International Trade Commission, *Review of Trade and Investment Liberalization Measures by Mexico and prospects for Future United States-Mexican Relations: Phase I: Recent Trade and Investment Reforms Undertaken by Mexico and Implications for the United States*, Investigation No. 332-282 (Washington, DC: US International Trade Commission, April 1990), pp. 4-1, 4-3.

[109]S. Lande, *op. cit*, in footnote 68, p. 52.

[110]*Ibid.*

As Mexico had already made major inroads toward trade liberalization and decided to join GATT, the protectionist bill before Congress and its application to Mexico was perhaps more a result of the overall bad relations between the two countries. Instead of trade as the focus in 1986, other issues were more important and took precedence over the commercial considerations of the United States. These issues included debt, drugs, immigration and Mexican policies toward Central America.

In the mid-1980s, various factions in the United States - from both views - expressed concern over the specific economic troubles and the overall management of the Mexican economy and political system. In the area of debt, negotiations remained stalled with the failure of the Baker Plan and Washington expressed its desire for major changes in Mexico's foreign and domestic policies. These included restructuring of the Mexican economy along free-market lines and changing its policies on Central America. The issue of drug trafficking was a particular sore point. In 1985, a US Drug Enforcement Agency officer, Enrique Camarena, was murdered on Mexican soil and information was emerging about possible government involvement. In addition, the United States was becoming more aware of and concerned about the major drug problem in its society - the increased drug consumption of cocaine and 'crack'. There was increasing US public concern, especially as the drugs were entering the United States via Mexico. Also legislation was enacted by Congress and approved by the Reagan administration in late 1986 for sweeping changes in US immigration law and policy.[111]

Perhaps the most damaging event for Mexican-United States relations at this time were the Senate hearings chaired by Senator Jesse Helms in May and June of 1986. In the hearings, it was perceived by Mexico that the United States was attacking Mexico unjustly - for example, criticism of Mexico's foreign policy

[111]For more information, see, for example, Wayne A. Cornelius, *The Political Economy of Mexico Under de la Madrid: The Crisis Deepens, 1985 - 1986* (San Diego, CA: University of California, San Diego, Center for US - Mexican Studies, 1986), pp. 42-5.

regarding Nicaragua and its lack of effort to curb illegal drug production and trafficking.[112] The Mexicans were angered by the Helms hearings. They felt that they violated Mexico's sovereignty and was yet another example in a long historical line of US interference in their internal affairs. The Mexican Ambassador to the United States, Jorge Espinosa de los Reyes, presented an official protest to the US Department of State. The government run daily newspaper, *El Nacional*, called the hearings intolerable. The Mexican people also were outraged by the accusations. A molatov cocktail exploded outside the US consulate in Guadalajara and tens of thousands of demonstrators marched on the main square in Mexico City.[113] The overall bilateral relations between Mexico and the United States had reached a low point.

Mexicans had worried about linkages in US policy since the beginning of the debt crisis. After the spring 1983 visit by Secretary of State, George Shultz, the Mexico City dailies were accusing the United States of linking the Mexican foreign policy on Central America to the country's request for new loans.[114] The United States may have indeed wanted to link various policy issues, but as the US Ambassador to Mexico, Mr. John Gavin, said, '... linkages and cohesive policy were hard to develop.'[115] There are many difficulties in linking issues in Mexican-US relations: 1) the difficulty of assigning 'weights' to various issues to help calculate the feasibility trade-offs, such as with trade and Central America; 2) the problem of determining the individual or group in the United States responsible for bargaining once weights have been determined - i.e., State or Commerce Department; 3) the difficulty of delivering what it promises after weights have been determined and trade-offs concluded; and 4) the problem with US negotiating

[112]Committee on Foreign Relations, *Economic Development in Mexico* (Washington, DC: Government Printing Office, 1986).

[113]G. Grayson, *op. cit.*, in footnote 9, pp. 75-6.

[114]Angel Aguilar Perez, *El Día* (Mexico City), 7 April 1983.

[115]Quoted in Donald Lyman, 'US-Mexican Relations: Time for Change', in S. Purcell, *op. cit.*, in footnote 7, p. 142.

a bilateral agreement - such as trade - when it is a member of a multilateral organization - such as the GATT.[116]

US officials have noted that bilateral issues pertaining to Mexico were often 'piecemealed' or compartmentalized. With the many issues - debt, drugs, migration, trade and Central America - each with domestic as well as bilateral implications, and the myriad of US agencies involved in the policymaking process, Washington found it difficult to develop a cohesive and lucid policy toward Mexico. This lack of US policy cohesion does not lend itself to the argument that international actors *forced* Mexico to liberalize trade. Rather, Mexico's alignment with the United States on trade policy was more choice than compliance and Mexico's role in bargaining on specific issues more autonomous than dependent.

Conclusions

This chapter examined the leverage exerted by international actors on Mexican policymakers. The first section explored the asymmetrical interdependent relationship between Mexico and the United States and the changing dynamics of the 1980s. This section challenged the view that the United States, helped by the economic crisis, was able to force Mexico to implement trade liberalizing policies. Rather, Mexico's weaknesses in the 1980s were ironically turned into strengths, especially on the issue of debt. Debt provided Mexico with its greatest source of leverage when dealing with its northern neighbour. Mexico's possible default on debt repayments was perceived by the United States to have the ability to harm its financial interests and thus, become an issue of national security importance.

The second part of the chapter focused on the bilateral trade relationship. It showed that Mexico and the United States relied on ad hoc measures to resolve trade disputes in the absence of any agreed upon commercial framework. The lack of a bilateral trade agreement was due to the historic low levels of trade between the two countries and the differences in their underlying trade philosophies. With

[116]G. Grayson, *op. cit.*, in footnote 59, pp. 162-3.

the introduction of *maquiladora* and the GSP programmes, trade increased substantially between the United States and Mexico and integrated Mexico into the international trading system. Mexico was not ready to commit to bilateral or multilateral agreements. In 1980, it refused to join the GATT. With the economic crisis and the election of Miguel de la Madrid to the presidency in 1982, Mexico's stand on trade issues changed dramatically. By 1985, Mexico had agreed to a bilateral agreement with the United States and negotiated entry into the GATT.

The final section of the chapter addressed the heart of the argument. It examined the leverage exerted by the United States and the international financial institutions on Mexico to liberalize its trade regime. It found that the executive-legislative and bureaucratic struggle ensured that policy toward Mexico in general was somewhat incoherent and inconsistent. A myriad of government agencies and interests were involved in the policymaking process in the United States. Although the legislative branch pushed for trade liberalization, the executive branch was far more interested in the overall bilateral relationship and the East-West balance. In addition, other pressures from the IMF, the Baker Plan and US legislation came *after* Mexico had committed itself to trade liberalization.

The chapter concludes therefore that, although US and institutional support for liberal economic regimes acted as a *reinforcing* factor in Mexico's decision to open its economy, the decision to liberalize trade and accede to the GATT were initiatives taken by Mexican policymakers. Power relations are insufficient to explain international influence. Such influence was far more subtle than pure power relations would suggest. The next chapter explores this subtlety by looking at the transmission of ideas.

Chapter Five: The Transmission of Ideas: The Neoliberal Resurgence

Introduction

This chapter examines the factors contributing to the neoliberal revival and its influence on Mexico's decision to liberalize its trade regime. The 1980s witnessed the sudden and fundamental shift in the dominant development paradigm not only in Mexico, but throughout the developing world. The new model called for the restructuring of state intervention in the domestic economy, liberalizing trade and investment regimes and privatizing state-owned enterprises. What was so remarkable about this shift was the pace and intensity in which the neoliberal policies were implemented. Today, Latin American, Asian, African and, most recently, eastern European countries have been affected by this global resurgence of neoliberalism and have instituted free-market reforms.

The link between the global and domestic policymaking arena is vital for this analysis. The chapter, therefore, concentrates on why these economic policies have been extensively and concurrently pursued by developing countries; how neoliberal ideas were transferred from the global to the domestic level; and how Mexico, in particular, was influenced by these emerging global impulses. In order to address these questions, the chapter is divided into three parts. The first section examines the explanations for the global resurgence of neoliberalism and the role ideas play in domestic policymaking. The second part analyzes international regimes and transnational policy co-ordination. The third section identifies the transmission mechanisms through which these new ideas are carried (hegemonic states, the academic community and international organizations) and the carriers of the ideas (the epistemic community). The core argument of the chapter is that the resurgence of neoliberalism set the outer margins for domestic policy choice and proved to be a legitimizing factor in Mexico's decision to open up its economy.

5.1 The Influence of Ideas

The reasons for the global shift in the dominant development paradigm in the 1980s could be explained by: systemic, institutional, interest based and ideational explanations.[1] In theory, systemic factors - such as the deep global recession of the early 1980s and the debt crisis of 1982 - can act as catalysts for policy change. These shocks can break policy inertia and provide the opening for the diffusion of knowledge and new ideas. Systemic factors do provide insights into the external stimuli facing developing countries as a whole in the 1980s and why there was a need for some kind of policy response, but they do not adequately explain the precise content and direction of domestic economic policy. Previous chapters have demonstrated that the 1982 debt crisis was a determining factor for Mexican economic policy change.[2] Although this crisis signalled the need for policy reform, it did not stipulate what the changes would entail.

A second explanation for the global shift in paradigm points to international institutions and their effectiveness in propelling developing countries to adopt neoliberal economic policies. This argument implies a power relationship: the developing countries changed policy because of pressure from international institutions. Even though it has been shown in the previous chapter that international financial institutions merely reinforced a policy path already chosen by the Mexican government, this is not the case in many developing countries. The International Monetary Fund (IMF), for example, has had considerable influence in significant aspects of developing countries' economic policymaking after 1982.[3] Yet the ability of the Fund to force particular policy directions has

[1]For a discussion of these explanations, see Thomas J. Biersteker, 'The "Triumph" of Neoclassical Economics in the Developing World: Policy Convergence and Bases of Governance in the International Economic Order', in James Rosenau and Ernst-Otto Czempiel (eds), *Governance Without Government: Order and Change in World Politics* (Cambridge: Cambridge University Press, 1992), pp. 102-31.

[2]See Chapters 2 and 3.

[3]Margaret Garritsen de Vries, *Balance of Payments Adjustment, 1945 to 1986: The IMF Experience* (Washington, DC: IMF, 1987), pp. 207-42.

been limited. Haggard cites thirty adjustment programmes established under the Extended Fund Facility. Of these thirty, twenty-four were renegotiated, with sixteen of them eventually cancelled for noncompliance.[4] Remmer's study of IMF programmes in Latin American found that

> unsuccessful implementation of IMF recipes has been the norm in Latin America, not the exception... The power of the IMF remains a useful myth for governments seeking a scapegoat to explain difficult economic conditions associated with severe balance-of-payments disequilibria, but the ability of the IMF to impose programs from the outside is distinctly limited.[5]

In addition, this power relationship between the international institutions and the developing world does not explain the broad shift toward economic liberalization. Although the institutions had supported the application of neoliberal policies in the mid-1970s,[6] it was not until the next decade that they succeeded in winning adherents. When, in the 1980s - possibly as the result of the economic crisis - developing countries altered their policies, many of them implemented heterodox strategies rather than wholeheartedly embracing neoliberalism.[7] The influence from these international financial institutions was far more subtle than pure power relations would suggest. The 'conversion' to neoliberalism was not immediate, not universal and not unqualified. Notwithstanding the reluctance and resistance of the 'neoliberal formula', one should not underestimate the

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[4]See Stephan Haggard, 'The Politics of Adjustment: Lessons from the IMF's Extended Fund Facility', *International Organization* (Vol. 39, No. 3, Summer 1985), pp. 505-06.

[5]Karen Remmer, 'The Politics of Economic Stabilization: IMF Standby Programs in Latin America', *Comparative Politics* (October 1986), p. 21.

[6]During the 1970s, international financial institutions and the development field began to shift to policies based on neoliberalism. The new approach called for not only corrective macroeconomic policies, but also for longer-term structural reforms, including the shift towards outward-oriented trade policies, reductions in the role of the state and public sector reforms. See International Monetary Fund, *Theoretical Aspects of the Design of Fund-Supported Adjustment Programs*, Research Department Occasional Paper 55 (Washington, DC: IMF, September 1987).

[7]For example, in Argentina, Brazil and Peru.

institutional influence. For influence can consist not merely in the crude sense of 'power over', but in the sense of carrying ideas.

Another possible explanation for the shift toward neoliberalism could be the influence of interest groups. This argument contends that interests are more important than ideas. For example, Mancur Olson, in *The Rise and Decline of Nations*, argues that ideas are primarily tools that serve particular interests.[8] The growth of state intervention and the impairment of the market in this century can be traced not to the influence of general doctrines, but to vying interests as part of the political process in democratic states. The 'interests' argument is not sufficient to discount the role of ideas for several reasons. To begin with, the principal result of an idea is to give rise to others, most of which were not envisioned by the original formulators.[9] The 'second-generation' ideas will, in turn, develop in other ways, as has Keynesianism. Just because Keynes did not write about the policies which bear his name does not necessarily mean that his original ideas did not give root to the eventual outcome. In addition, ideas can be seen as animating interest groups, either by providing suggestions as to how groups' interests can best be promoted, or by providing suggestions as to how their interests might be threatened.

In a different vein, 'interests' cannot explain the concurrent move globally toward economic liberalization throughout the developed and developing world. The resurgence of neoliberalism did not arise in only a handful of countries responding to particular societal interest groups; it occurred on a global level. Further, although there may have been a demand for some kind of change in economic policy, the specific policy direction that emerged - economic liberalization - is not what well-established, entrenched interests would have wanted in most developing countries. Such groups benefitted tremendously from

[8]Mancur Olson, *The Rise and Decline of Nations* (London: Yale University Press, 1982).

[9]Albert O. Hirschman, 'How Keynesian Revolution Was Exported from The United States, and Other Comments', in Peter Hall (ed.), *The Political Power of Economic Ideas* (Princeton, NJ: Princeton University Press, 1989), p. 358.

the nationalist policies of state subsidies, overvalued exchange rates and high tariffs. Rather than supporting the move for economic reform, there was strong opposition to it; the stabilization and structural adjustment policies were routinely thwarted by domestic political forces.[10]

In the case of Mexico, the private sector was deeply divided over the government's moves to open the economy. The 'moderates', who were opposed to any form of liberalization whatsoever, vied with the 'radicals', who favoured opening the economy, but only in a selective and gradual manner.[11] Neither camp was sufficiently organized to push forward their interests effectively. Thus, the Mexican government rapidly liberalized the economy in the early 1980s *in spite of*, rather than because of, interest group pressures.

Instead of focusing on interests, an examination of the role of ideas on economic policymaking may prove more fruitful. Keynes argued in his *General Theory* that

> the ideas of economists and political philosophers ... are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.[12]

This oft-quoted statement points to ideas rather than interests as influencing policymakers. Although the importance of ideas is vital to understanding the global shift toward neoliberalism, there are problems with trying to prove how economic

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[10]See S. Haggard, *op. cit.*, in footnote 4, p. 506.

[11]M. Luna, R. Tirado and F. Valdes, 'Businessmen and Politics in Mexico, 1982 - 1986', in S. Maxfield and R. Anzaldúa Montoya (eds), *Government and Private Sector in Contemporary Mexico*, Monograph Series 20 (San Diego, CA: Center for US - Mexican Studies, University of California, San Diego, 1987), p. 23.

[12]J. M. Keynes, *The General Theory of Employment, Interest and Money* (London: Macmillan, 1936), p. 383.

ideas have been translated into economic policy. An economic idea is defined here as 'a conception or notion of something to be done or carried out; a plan of action'.[13] Hall writes,

> Any attempt to specify the conditions under which ideas acquire political influence inevitably teeters on the brink of reductionism, a large lacuna at the center of our understanding of public policy.[14]

Colander and Coats maintain that, 'studying the spread of ideas is like studying subatomic particles with half-lives of nanoseconds'.[15]

However difficult it is to prove ideas translate into policy, there exist strong links between the dissemination, influence and carriers of certain economic ideas and policy outcome. There have been cases where ideas have been translated into actual policy. The role of ideas and their influence on policymaking is evident in the case of Karl Marx. The 19th-century economist had considerable influence on the pattern of institutions and the policies of the Soviet Union and other communist states.[16] Marx's ideas were developed and disseminated by Lenin and Stalin to the domestic policymaking arena. A second example concerns the work of John M. Keynes. The ideas from the *General Theory* greatly influenced policymaking in the United States and Britain.[17] In these countries, Ikenberry argues, Keynesian-inspired policy ideas were embraced by influential policymakers and drawn upon to set up the post-Second World War international economic

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[13]David C. Colander and A. W. Coats (eds), *The Spread of Economic Ideas* (Cambridge: Cambridge University Press, 1989), p. 2.

[14]Peter Hall (ed.), *The Political Power of Economic Ideas: Keynesianism Across Nations* (Princeton, NJ: Princeton University Press, 1989), p. 4.

[15]D. Colander and A. W. Coats, *op. cit.*, in footnote 13, p. 1.

[16]Mancur Olson, 'How ideas Affect Societies: Is Britain the Wave of the Future?', in Andrew Gamble (ed.), *Ideas, Interests & Consequences* (London: Institute of Economic Affairs, 1989), p. 23.

[17]See Walter S. Salant, 'The Spread of Keynesian Doctrines and Practices in the United States', in P. Hall, *op. cit.*, in footnote 14, pp. 27-52.

order.[18] In addition, the post-Second World War development policies put forth by Raúl Prebisch, *et al.*, at the United Nations Economic Commission for Latin America (ECLA) could be interpreted as ideas influencing policy. The ECLA, criticizing the international trade regime, advocated import substitution industrialization (ISI) as a means of breaking economic and political dependence on the industrialized countries. This philosophy prompted the entire Latin American region to pursue import substitution policies for over thirty years.

The recent and concurrent move toward economic liberalization at the global level demonstrates further the importance of ideas. In the Latin American region, there occurred a rush to implement neoliberal policies in the late 1980s. This move is especially important, as it occurred in countries where there was a strong tradition of considerable state intervention in the economy. In the late 1980s, politicians, who had stood against neoliberal economic measures, actually implemented privatization and liberalization policies when in power. In Argentina, the Peronist president, Carlos Menem, rather than implementing the populist policies promised, introduced privatization and trade liberalization policies that radically departed from the tradition of the Peronist party. President Menem declared that his government would sell off the major parastatals, including the oil industry, and lower tariffs and other trade barriers.[19] In Venezuela, President Carlos Andres Pérez had been responsible for the expansion of the public sector in his first administration from 1974 to 1978. When he was re-elected in 1988, President Pérez announced policies to privatize and liberalize the Venezuelan economy.[20] Like his Argentine and Venezuelan counterparts, the new Peruvian president Alberto Fujimori campaigned and was elected for his stand against

[18]G. John Ikenberry, 'A World Economy Restored: Expert Consensus and the Anglo-American Postwar Settlement', *International Organization* (Vol. 46, No. 1, Winter 1992), p. 291.

[19]See 'Menem produces his super-shock', *Latin American Weekly Report* (20 July 1989), p. 2.

[20]See 'Talks under way on rescheduling', *Latin American Weekly Report* (19 January 1989), p. 2 and 'Union announce fight with Pérez', *Latin American Weekly Report* (19 January 1989), p. 11.

liberalizing the economy. Yet once in power, he too made promises to lower protection and rationalize the public sector.[21]

This globalization of neoliberalism was not confined to the Latin American region. The rush to privatize and liberalize the economy also occurred in eastern Europe in the late 1980s. Poland, like Mexico, instituted a shock treatment, rapidly implementing policies to move quickly to a market-based system. On 1 January 1990, Poland implemented a stabilization programme that included full price liberalization and tight monetary and fiscal policies.[22] Unlike Poland, Hungary employed a more gradualist approach, but since 1987, imposed greater fiscal and monetary discipline (though with mixed results). In addition, Czechoslovakia and Yugoslavia have implemented liberalization policies. Even the Soviet Union felt that long-term structural changes were needed as far back as 1985. In this year, Gorbachev called for reform which included *perestroika* (restructuring); *uskoreniye* (acceleration of growth) and *glasnost* (openness).[23]

To regard as coincidental the adoption of neoliberal policies by so many countries of such disparate characteristics ignores the obvious influence of ideas. Although domestic political and economic variables cannot be discounted, there can be no doubt that ideas have had a powerful impact on domestic policy. This leads the analysis to ask why certain ideas are more successful than others. Three explanations are offered: 1) the inherent logic of economic liberalization; 2) timing; and 3) epistemic communities. First, it could be argued that some ideas, such as neoliberalism, were successful and dispersed because of some inherent logic. This argument assumes that there exists a kind of 'perfect market-place' for ideas and the most 'valuable' of them will be bought by the consumers.

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[21]See 'Fujimori victory marks critical point in region's privatising, free-market drive', *Latin American Weekly Report* (21 June 1990), p. 1.

[22]Ishac Diwan and Fernando Saldanho, *Long Term Prospects in Eastern Europe* (Washington, DC: World bank, June 1991), pp. 7-8 and David Lipton and Jeffrey Sachs, 'Creating a Market Economy: The Case of Poland', *Brookings Papers on Economic Activity* (Vol. 1, 1990), pp. 75-147.

[23]World Bank, *World Development Report 1991* (Washington, DC: World Bank, 1991), p. 20.

Accordingly, the resurgence of neoliberal economic policies occurred because the developing countries realized that they were the 'right' or 'best' policies to pursue, especially after the alternatives had failed in the 1960s and 1970s. This position argues that even short-sighted political elites could not fail to see that only neoliberal policies would produce successful economic policies.

The second position asserts that the triumph of certain ideas could be explained by timing. Victor Hugo claimed that 'no army can withstand the strength of an idea whose time has come.'[24] The success of neoliberalism in the 1980s could be due to a particular juncture in the course of history: the resurgence of neoliberalism occurred because of the ideological vacuum of the 1970s and the search for alternative development models. Or, the resurgence could be explained by: the idea was at the right place at the right time. Albert O. Hirschman argues that the rise of certain ideas go through cycles.[25] The relative acceptance of neoliberal or economic nationalist ideas is subject to cycles that reflect the historical swings between the public oriented and private life. Both market and state solutions provoke expectations which they cannot satisfy as the goods and services which they deliver inevitably disappoint. As the failures accumulate, so the attractions of an alternative policy increases. In time, a major shift in policy is implemented.

A third argument, which is not mutually exclusive to either the first or second positions, asserts that the success of economic liberalization depended upon the acceptance of an ideology, a belief or a set of ideas by important domestic actors with political clout, such as an 'epistemic community'. An epistemic community is a network of knowledge-based experts with recognized specialization and ability in a particular field and an authoritative claim to policy-relevant knowledge within this sphere or issue-area. The epistemic community would

[24]Quoted in Cento Veljanovski, 'Foreword', in Andrew Gamble (ed.), *Ideas, Interests & Consequences* (London: Institute of Economic Affairs, 1989), p. ix.

[25]Albert O. Hirschman, *Shifting Involvements: Private Interest and Public Action* (Oxford: Basil Blackwell, 1982), p. 4.

legitimate and spread the ideas through their links or positions within the domestic policymaking structure. In the case of Mexico during the de la Madrid administration, the epistemic community did not have to press its policy advice on the political leadership - the community *was* the political leadership.[26]

This chapter maintains that ideas matter and policymakers make a difference. It is also acknowledged that ideas and policymakers function within certain constraints. In the case of Mexico, there was a synergy between timing (the crisis of the nationalist model and the 1982 debt crisis) and the epistemic community (the carriers and disseminators of new ideas). The next section discusses international regimes and transnational policy co-ordination in order to understand further the ideological crisis in the international economic system during the late 1970s and early 1980s.

[26]This is examined in later in this chapter and in Chapter 6.

5.2 International Regimes and Transnational Policy Co-ordination

The international economic order could be conceptualized as a cohesive system of ideas, norms, rules and decision making procedures that influence political and economic systems. These ideas and rules form international regimes and provide global institutional orders that promote regular operating patterns in foreign and domestic policy. The acceptance of a particular international regime facilitates the transnational convergence of foreign and domestic policy.

This section of the chapter briefly traces the ideas on which the post-Second World War international economic order was based. The dominant paradigm in the developed world was influenced by Keynesian economic doctrine. In Latin America, the paradigm drew from Keynesianism and put forth its own version, called structuralism. Yet, by the mid- to late 1970s, an ideological vacuum caused by international economic troubles led to the search for new ideas to solve domestic economic problems. This search provided the opportunity for the resurgence of neoliberalism, first in the developed, and then the developing world.

5.2.1 *The Keynesian Revolution*

Arising from the experience of 'market failure' in the 1930s and the necessity of reconstruction policies after the Second World War, state involvement in the economy drew widespread approval. The origins of this fundamental change in economic thinking can be found in the ideas of John M. Keynes, particularly in his work, *The General Theory of Employment, Interest and Money* (1936). The new discourse challenged the assumptions about a self-equilibrating market system and instead put forth the idea that the state had a positive role to play in correcting market failures. The changes in the climate of ideas was soon followed by a fundamental shift in policy. The post-Second World War international economic order went beyond Keynes's work in both its economic and political implications.

This economic doctrine challenged the classical or orthodox thinking in economic policymaking in several ways. First, Keynesianism challenged the assumption that full employment of labour and capital was the norm. Rather, the new doctrine asserted that there existed no natural tendency in capitalist market economies for the system to move towards equilibrium. Second, rather than viewing unemployment as a voluntary act on the part of the workforce, the new doctrine saw it as involuntary. Capitalist economies commonly experience general unemployment, and there exists no proclivity for natural forces to eliminate it. Third, the failure to maintain the workforce in full employment is mainly due to the lack of total spending. Fourth, these intermittent total spending failures were primarily due to the shortfall in private domestic capital formation.

Following from these four points, the Keynesians put forth a strong argument for government economic intervention. In addition, the doctrine introduced a series of variables such as income distribution, the interests of individuals, groups and nations, and market imperfections not previously considered part of conventional economic analysis. Furthermore, government budgetary policy was no longer to be confined to balancing the budget; instead, it would now be at the centre of national economic policy.

The Latin American structuralists were greatly influenced by the ideas from the developed world. They applied the Keynesian analysis to the Latin American situation and to the theory of economic development. The following section discusses briefly the structuralist position and how these ideas were translated into economic policy.

5.2.2 *The Structuralists and the State-led Development Model*

Confronted with the collapse of world trade and primary commodity markets in the 1930s, Latin American policymakers were forced into ad hoc policies to deal with the consequent shortages of foreign exchange and manufactured imports.[27] These external shocks generated heterodox policy experiments that prompted fundamental structural changes in the Latin American economies. Because it takes time for ideas to be produced and disseminated, the lessons of the 1930s were not

[27]For more information on this time period, see Rosemary Thorp (ed.), *Latin America in the 1930's: The Role of the Periphery in World Crisis* (London: Macmillan Press, 1984).

incorporated into a general doctrine for economic development until almost twenty years later.

Structuralism first came into use in Latin America in the 1950s in the form of a structuralist explanation of inflation. The structuralist school, originating in Chile and the ECLA, held that the basic cause of inflation lay in structural rigidity of one sort or another. Accordingly, structuralists viewed deflationary policies as attacking the symptoms rather than the causes. The structuralist school was not confined to the Latin American region, however.[28] The dominant view in development economics in the 1950s and 1960s was that markets frequently failed to work efficiently in the developing world. Furthermore, the structures of developing countries were significantly different from those of the industrialized countries.[29] According to this perspective, the problems of development and underdevelopment were caused by the historic integration of developing countries into the world economy, their continued dependence, the structural and institutional rigidities that were endemic to the domestic development process and other factors that perpetuate unbalanced growth and disequilibrium. Essentially, structuralists considered orthodox policies to be unrealistic, inadequate and politically biased in its orientation and conclusions. The state needed to intervene in order to help correct, but not replace, the market. This led to the expansion of the public enterprise sector and widespread adoption of economic planning.

The nucleus of the ECLA analysis was the critique of the neoclassical theory of international trade. Its aim was to show that the international division of labour which orthodox theory claimed was naturally produced by world trade was of much greater benefit to the advanced industrialized nations than to the developing countries. To illustrate this point, the world was divided into the centre

[28]For a review of the structuralist position, see H. W. Arndt, 'The Origins of Structuralism', *World Development* (Vol. 13, No. 2, February 1985).

[29]Christopher Colclough, 'Structuralism versus Neo-liberalism: An Introduction', in C. Colclough and J. Manor (eds), *States or Markets?: Neo-liberalism and the Development Policy Debate* (Oxford: Clarendon Press, 1991), p. 2.

and the periphery. The international economy was composed of a centre of highly industrialized countries and a large periphery comprised of underdeveloped countries which specialize in agricultural and other primary production.[30] Structuralists argued that the period from the late 19th-century until the middle of the 20th-century had been a period of outward-oriented development. An international division of labour had emerged in which Latin America specialized in the export of primary products (foodstuffs, industrial raw materials or minerals) while importing manufactured goods, especially capital goods required for development, from Europe and the United States. Whereas to the neoclassicalists, this situation would benefit both partners, to the structuralists such an assumption relied more or less on perfect markets. The latter stressed that developing countries possessed various institutional features and weaknesses (structures) that prevented the markets from operating efficiently. ECLA theorists argued that, as the factor markets were far from perfect, the system of international trade operated against the interests of the Latin American nations.[31]

ECLA argued that there was a spurt of industrial development every time the region's outward-oriented development was interrupted by war or world economic depression. But such spurts came to an end when economic ties between the centre and periphery were re-established and outward-oriented development was resumed.[32] The ECLA remedy proposed to solve the problem of underdevelopment by recommending rapid industrialization through the strategy of ISI. The ISI strategy would have a two-fold benefit: economically, it would be a prerequisite for halting the transfer of surplus from the periphery to the centre,

[30]Raúl Prebisch, 'Commercial Policy in the Underdeveloped Countries', *American Economic Review* (Vol. 49, No. 2, 1959).

[31]Ian Roxborough, *Theories of Underdevelopment* (London: Macmillan, 1979), p. 28.

[32]*Ibid*, p. 29.

and politically, ISI would provide greater self-sufficiency and independence from outside influences.[33]

The ECLA philosophy, based on the ISI model, fostered the transnational policy co-ordination of the Latin American economies. It was a development model designed by and for the southern countries, but with full support from international financial institutions and northern states as well as most multinationals that benefitted greatly from the protected domestic economies. Yet by the 1960s, the ISI model was exhausted and was associated with wide-spread inefficiencies and resource misallocation.[34] In the developed world, Keynesian economics was unable to explain or cure the seemingly contradictory problems of rising unemployment and inflation of the 1970s. With the intellectual disillusionment with Keynesian approaches to economic management, there was a shift toward the rehabilitation of the use of prices and markets as a mechanism for the allocation of resources.

The disillusionment with Keynesian approaches by the latter 1970s converged with the onset of adverse international and domestic conditions in the early 1980s. There was the deep economic shock of the recession, increasing protectionism in the industrialized nations and a reduction in international funds. The adverse developments in the trading system and the drying up of private sources of external finance reduced the resources available to domestic governments to pursue state-led development strategies.

For Mexico, the 1982 debt crisis exposed the political, economic and ideological crises of the Mexican regime. As a result of the abandonment of the revolutionary promises and of the withdrawal of social support for the regime,[35]

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[33]When the ISI strategy failed both economically and politically, many countries in the developing world moved toward a more assertive stance toward the 'North'. The 1970s witnessed the rise of 'North-South' issues and the increase in dialogue as southern states gained economic and political strength. For more information on this important period, see Charles A. Jones, *The North-South Dialogue: A Brief History* (London: Pinter Publishers, 1983).

[34]See Chapter 2, for more information on the problems of the ISI model.

[35]The socio-economic troubles of the late 1960s and early 1970s were discussed in Chapter 2.

the government became more dependent upon the legitimation derived from the continuation of economic development. Yet the failure of the oil boom made economic progress even more difficult to deliver. The 1982 economic crisis delivered a decisive blow to the foundations of the Mexican regime. The first casualty was the ideology of populism and nationalism - the underpinnings of the regime and to a considerable degree, the identity of the Mexican state. The shift towards economic liberalization was one of the reactions to the economic, political and ideological crisis in 1982.

International and domestic conditions coincided with the perceived failure of past ISI policies which led to an historic opening or policy vacuum. The need for an alternative development model was apparent not only in Mexico, but throughout the Latin American region. There were persistent calls for economic policy reform in all of the major debtor countries, clearing the way for neoliberal economic measures. Such policies sought to reduce budget deficits and tighten monetary policy, liberalize trade and exchange rate regimes and expand the role of market forces and the private sector. These new policy ideas contrasted sharply with over thirty years of the expansion of the public sector and the state's extensive regulation of the economy. The final section of the chapter discusses the reasons for the neoliberal resurgence in the 1980s. It identifies the transmission mechanisms and the carriers of ideas.

5.3 The Transmission Mechanisms

The 1980s ushered in a fundamental shift toward neoliberalism. The reasons for the shift are twofold. First, there was the ascendance of conservative governments in Britain and the United States in 1979 to 1980,[36] which greatly affected policy discourse. With the ascendance of neoliberalism in industrialized nations, there occurred a corresponding shift toward orthodoxy in most developing nations. In addition to the rise of such ideas in government circles, there was a long-term intellectual change within the economics profession and the development field. These factors greatly affected domestic policymaking in the developing world.

This section explores the transmission of ideas from the international system to the domestic arena by identifying the channels through which new ideas are carried. The channels identified in this chapter are hegemonic states, the academic community and international organizations. One of the most important carriers are the epistemic communities. It is argued that ideas influence domestic policy by transnational political and economic networks that link domestic and international actors.

5.3.1 *The Election of Conservative Governments*

The resurgence of conservative economic policy occurred in the 1970s. Toye considers the Nixon and Heath administrations (with their attempts to enforce wage and price 'guidelines' in 1971 to 1972 as a fundamental part of their macroeconomic strategies) to be the single most important factor that organized the right into an anti-Keynesian counter-revolution.[37] The opposition to 'big government' and the renewed interest in free-market forces and monetarism were assimilated into conservative parties in both the United States and Europe. The conservative return to government in the United Kingdom and the United States in 1979 to 1980 signalled new economic strategies to resolve tensions which followed

[36]This also occurred in the Federal Republic of Germany with the election of Chancellor Helmut Kohl.

[37]John Toye, *Dilemmas of Development* (Oxford: Basil Blackwell, 1987), p. 23.

the eclipse of Keynesianism and the welfare state. Under the leadership of Margaret Thatcher and Ronald Reagan, the United Kingdom and the United States departed from the norm of mainstream non-ideological governments and centrist policies.[38] They reversed decades of economic policies based on strong state involvement in their economies.[39]

The ideological changes in the industrialized nations, and most particularly the United States, influenced the rest of the countries in the international system. President Reagan addressed development issues at the last major global conference on development at Cancun, Mexico in 1981. President Reagan put forth the following principles for economic policy: 1) stimulating international trade by opening markets ...; 4) improving the climate in many developing countries for private investment and technology transfer; and 5) creating a political climate in which practical solutions can move forward rather than 'founder on the reef of government policies that interfere unnecessarily with the market place'.[40] President Reagan called for the developing world to get its 'house in order and allow the magic of the market to do its work'. In March 1983, President Reagan said in San Francisco:

> The United States will carry the banner for free trade and a responsible financial system... In trade with developing countries ... tariffs and quotas still play a significant role. Here, the task is to find a way to integrate the developing countries into the liberal trading order of lower tariffs and dismantled quotas. They must come to experience the full benefits and responsibilities of the

[38]Joel Krieger, *Reagan, Thatcher and the Politics of Decline* (Cambridge: Polity Press, 1986), p. 15.

[39]For a more detailed examination of these policies, see, for example, David Boaz, *Assessing the Reagan Years* (Washington, DC: The Cato Institute, 1988); Stephen Haseler, *The Battle for Britain: Thatcher and the New Liberals* (London: I.B. Tauris, 1989); Christopher Johnson, *The Economy Under Thatcher, 1979-1990* (London: Penguin Books, 1991); T.S. Langston, *Ideologues and Presidents* (London: Johns Hopkins University Press, 1992); and G. Smith, *Reagan and Thatcher* (London: Bodley Head, 1990).

[40]*1982 Economic Report of the President* (Washington, DC: Government Printing Office, 1982).

> system that has produced unprecedented prosperity among the industrial countries.[41]

The Reagan administration was, at least in rhetoric, firmly committed to free and open markets, '... the freer the flow of world trade, the stronger the tides for human progress and peace among nations'.[42] The US attitude towards the desired policy direction of developing countries is most candidly spelled out in a telegram by US Secretary of State, George Schultz, to the US Agency for International Development. The 1985 document states:

> Policy dialogue should be used to encourage LDCs to follow free market principles and to move away from government intervention in the economy. This allows the market to determine how economic resources are most productively allocated and how benefits should be distributed...To the maximum extent practical governments should rely on the market mechanism - on private enterprise and market forces - as the principal determinants of economic decisions.[43]

The rise of conservative governments in the United States and Europe greatly affected policy discourse. Policy changes included the reversal of Keynesian practices and the shift toward neoliberalism. The United States, in particular, played a crucial role in championing the new policy shift. In its capacity as a hegemonic power, the United States influenced policy dialogue with the developing countries. This dialogue emphasized the importance of a certain ideological position and a particular policy path for developing countries to pursue.

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[41]Cited in George Schultz, 'Our Joint Stake in the World Economy', *Department of State Bulletin*, July 1983, p. 59.

[42]'The President's Trade Policy Action Plan', *State Department Bulletin*, November 1985, pp. 1-3.

[43]Cited in Simon Commander and Tony Killick, 'Privatisation in Developing Countries: A Survey of the Issues', in P. Cook and C. Kirkpatrick (eds), *Privatisation in Less Developed Countries* (Brighton: Wheatsheaf Books, 1988), p. 95.

5.3.2 *The Academic Community*

By the 1970s, structuralism was subject to much criticism focused primarily on the school's de-emphasis on the importance of relative prices as a means of affecting both distributive and productive outcomes and the role visualized for the state.[44] The retreat of structuralism was reinforced by the growing evidence (and misinterpretation)[45] of the East Asian successes in the 1960s and 1970s. The lessons gleaned from the contrasting experiences of the export-oriented newly industrializing countries (NICs) of East Asia and their heavily indebted and economically-troubled Latin American counterparts were not lost. Economists and development specialists renewed their interest in neoclassical ideas. The failure of the ISI policies renewed interest in trade regimes and the significance of trade liberalization in spurring growth.

This counter-revolution was led by Bela Balassa, Peter Bauer, Anne O. Krueger, Deepak Lal and Ian Little, among others.[46] Although there exists sharp differences in their respective economic philosophies, they are united in their opposition to Keynesianism and structuralist theories of development and the use of economic planning for development purposes.[47] They subscribe to the view

[44]See C. Colclough, *op. cit.*, in footnote 29, pp. 3-5.

[45]The East Asian NICs did not, in fact, pursue free-market policies. Although their individual experiences differed substantially, many relied on interventionist policies (e.g., Singapore, Japan and South Korea). Already in the early 1980s there was some question about the applicability of the East Asian experience to other developing countries, see W. Cline, 'Can The East Asian Model of Development Be Generalised?', *World Development* (Vol. 10, No. 2, 1982). A recent publication examines in detail the East Asian experience and concludes that there does not exist one Asian model that can be replicated as a general format for developing countries to follow. See World Bank, *The East Asian Miracle* (Washington, DC: The World Bank, 1993).

[46]See Bela Balassa, and associates, *The Structure of Protection in Developing Countries* (Baltimore, MD: Johns Hopkins University Press for the IBRD and IDB, 1971); Peter Bauer, *Equality, The Third World, and Economic Delusion* (London: Weindenfeld and Nicolson, 1981); Anne O. Krueger, *Liberalization Attempts and Consequences* (Cambridge, MA: Ballinger for the National Bureau of Economic Research, 1978); Deepak Lal, *The Poverty of Development Economics* (London: Institute of Economic Affairs, 1983); and Ian Little, *Economic Development: Theory, Policy and International Relations* (New York, NY: Basic Books, 1982).

[47]J. Toye, *op. cit.*, in footnote 37, p. vii.

that the dilemmas of economic development can only be unravelled by freely operating markets and a minimalist government involvement in the economic system.

In the 1970s and early 1980s, a series of publications appeared that were highly critical of the dominant development paradigm. The first publication to introduce the new liberalism as a solution to the economic problems was in 1970 by Little, Scitovsky and Scott.[48] This work was highly critical of the ISI policies and advocated instead, export-oriented industrialization. The National Bureau of Economic Research (NBER) in the United States did studies on the advantages of liberal exchange regimes in the late 1970s.[49] The distorting effects of government policy intervention were addressed in the World Bank's 'Berg Report'.[50] Biersteker attributes the diffusion of these ideas to a 'trickle-up' process whereby ideas gain acceptance among academics who then press their policy preferences on political leadership.[51] This intellectual change in the development field was circulated to academics in the developing world through numerous linkages.

Transnational linkages facilitated the dissemination of the intellectual community's neoliberal ideas. Such links include: colleges and universities; publishing houses and the press; research institutes and foundations. The widespread dissemination of neoliberal ideas has been facilitated by the relatively standardized textbooks, especially in economics; the growth and homogenizing tendencies in advanced graduate training; the worldwide readership of leading

[48]I. M. D. Little, T. Scitovsky and M. Scott, *Industry and Trade in Some Developing Countries* (Oxford: Oxford University Press, 1970).

[49]A. Krueger, *op. cit.*, in footnote 46 and Jagdish N. Bhagwati, *Anatomy and Consequences of Exchange Control Regimes* (Cambridge, MA: Ballinger, 1978).

[50]World Bank, *Accelerated Development in Sub-Saharan Africa: An Agenda for Action*, Report No. 3358, The Berg Report (Washington, DC: IBRD, 1981).

[51]T. Biersteker, *op. cit.*, in footnote 1, p. 120.

professional journals; and most importantly, the vastly expanded global mobility of students and professors.[52]

The increase in foreign graduate training, especially in economics, among developing country policymakers has been a particularly successful transnational linkage.[53] The foreign educational experience has acquainted the domestic policymaker not only with an international lifestyle and culture, but with specific knowledge provided within the paradigms acceptable in the industrial countries. This foreign-acquired knowledge, coupled with domestic socialization experiences, unites a group into an epistemic community. The community share not only a set of causal approaches and a consensual knowledge, but more importantly, they share *normative* commitments.[54] Each sub-group of economists, such as Keynesians, structuralists and monetarists, constitutes an epistemic community. Each systematically contributes to a concrete set of projects informed by its preferred views, beliefs and ideas.

According to the epistemic communities approach, there are three major dynamics for epistemic co-ordination: uncertainty, interpretation and institutionalization. The complex and technical nature of the wide range of issues confronting domestic policymakers causes a certain amount of uncertainty with regards to policy formulation, especially in times of crisis. With the increasing economic interdependence of nation-states and the globalization of the economy,

[52]A. W. Coats, 'Economic Ideas and Economists in Government: Accomplishments and Frustrations', in D. Colander and A. W. Coats, *op. cit.*, in footnote 13, p. 113.

[53]Influence of foreign ideas on domestic policymaking was apparent in Mexico in the 1930s. Eduardo Suárez, Cárdenas's (1934-1940) Secretary of the Treasury, was strongly influenced by the ideas of Keynes. J. M. Keynes, at the height of his renunciation against neoclassical trade theory, maintained that 'national self-sufficiency' was much preferable to the subjection of a nation to the arbitrary swings of an international economy. See John M. Cypher, *State and Capital in Mexico: Development Policy Since 1940* (Oxford: Westview Press, 1990), p. 15. The most extreme case is the Chicago Boys and their influence in Chile. The Pinochet economists trained at the University of Chicago on an exchange programme with the Catholic University in Santiago. See Arturo Fontaine, *Los economistas y el presidente Pinochet* (Santiago: Zig-Zag, 1988).

[54]Peter M. Haas, 'Introduction: Epistemic Communities and International Policy Coordination', *International Organization* (Vol. 46, No.1, Winter 1992).

the domestic and international agendas have become increasingly linked. Understanding these complex linkages is vital for domestic policy formulation. In times of uncertainty, policy elites may not be sure what strategies will most likely keep them in power. Also, poorly understood conditions create enough disorder that standard operating procedures may break down, making institutions unworkable. Assuming that 'specialist' are better at uncertainty than politicians, the epistemic community approach asserts that when confronting conditions of uncertainty, policymakers have reasons to look to specialists for help. In the case of Mexico, the turbulent times favoured the 'specialist policymaker'.

Because of the epistemic communities' acknowledged expertise, they are accorded access to the political system by policy elites who legitimize their activities. Whether the ideas of these communities influence policy choice depends upon the group's access to the decision making process. One way this is done is through the political infiltration of an epistemic community into governing institutions. This access enables the community to lay the groundwork for a broader acceptance of their ideas and beliefs. Once part of the bureaucracy, the community may vie for key positions, thus increasing their influence over policy decisions.

Although there have been foreign educated policymakers in positions of power in developing countries throughout the post-Second World War era, these technocrats increased dramatically in number with the financial crisis of the early 1980s. The uncertainty of the times led to the ascendance of the epistemic community and their interpretation of the crisis. Drawing from their ideas on economic policy reform, the community recommended neoliberal policies. Throughout the Latin American region, foreign educated technocrats have assumed positions of power (some have even been elected president) and implemented policies based on the ideas of neoliberalism. The transnational epistemic community, advocating the shift toward free-market policies, has been effective in building a 'winning coalition' of support behind its preferred policy choice.[55] This choice has included selling off state enterprises, deregulating financial markets and liberalizing trade barriers. In addition, many of these policymakers maintain their connections with colleagues and professors from their foreign educational experiences.[56]

In the case of Mexico, these transnational linkages have been especially strong. Not only has the Mexican ruling elite become more technocratic in the post-Second World War era, but also there has been a homogenization of background and training of the policymaker since the 1980s. Table 5.1 outlines the Mexican economic cabinet members and the place of their foreign education. These epistemic communities transmitted ideas from the international arena to their domestic policymaking agendas through their positions in government. The first epistemic community in this study, the Cambridge Group,[57] influenced policy for a short time period. The second community, the Internationalists, were far more successful in implementing their policy preferences.

The Cambridge group gained influence in Mexican policymaking circles during the administration of President Echeverría (1970 to 1976) and reached their peak of influence towards the end of the López Portillo administration (1976 to 1982). Two individuals especially associated with this group were the Cambridge trained economists José Andrés de Oteyza, Minister of Energy, Mines and Parastatal Industry (SEMIP), and Carlos Tello, first Minister of Programming and Budget (SPP) and then Director of the central bank. The two studied for Master's degrees in Economics at Kings College, Cambridge under the 'statist' economists, Joan Robinson and Anjit Singh. When the economic crisis began to worsen in

[55]See James Sebenius, 'Bargainers with Shared Beliefs', *International Organization* (Vol. 46, No. 1, Winter 1992).

[56]In Mexico, there have been cases during the administration of Carlos Salinas (1988 to 1994) where the Finance Minister, Pedro Aspe (a PhD from MIT) has called in the help of former professors (e.g., Rudiger Dornbusch) for advice on policy questions.

[57]They argued that growth and income redistribution were compatible. These policies might be defined as 'hyper-Keynesianism'.

Table 5.1
Epistemic Communities: The Economic Cabinets of the López Portillo and de la Madrid Administrations

Epistemic Community	Name/Position	Postgraduate Degree
The López Portillo Administration		
Cambridge Group	Carlos Tello Secretary of SPP (1977) & Director General of the Bank of Mexico (1982)	MA Econ., Kings College, Cambridge, 1961-63
Cambridge Group	José Andrés de Oteyza Secretary of Patrimony & SEMIP (1976-82)	MA Econ., Kings College, Cambridge, 1966-68
The de la Madrid Administration		
Internationalist	Miguel de la Madrid President of Mexico (1982-88)	MA Public Administration, Harvard, 1964-65
Internationalist	Jesús Silva Herzog Secretary of SHCP (1982-86)	MS Econ., Yale, 1960-62
Internationalist	Carlos Salinas Secretary of SPP (1982-88)	MA Public Administration, 1973; MS Political Economy, 1976; PhD Political Economy & Government, 1978, all at Harvard
Internationalist	Miguel Mancera Director General of the Bank of Mexico (1982-88)	MS Econ., Yale, 1959-60

Sources: Roderic A. Camp, *Who's Who In Mexico Today* Boulder, CO: Westview Press, 1988 and Presidencia de la Republica, *Diccionario Biografico del Gobierno Mexicano* Mexico, D.F.: Unidad de la Cronica Presidential, 1989.

SEMIP - Secretariat of Energy, Mines and Parastatal Industry
SHCP - Secretariat of the Treasury
SPP - Secretariat of Programming and Budget

Mexico in the early 1980s, the two policymakers called on their transnational links and invited the Cambridge group to Mexico. Led by Dr. Ajit Singh, a group from Cambridge moved to Mexico by mid-1982 to advise Carlos Tello.[58] This Cambridge linkage served to reinforce the already existent statist position originating from the structuralist school dominant in the region.

The influence of the Cambridge Group did not last very long. Although both de Oteyza and Tello were influential policymakers, they did not represent the unified views of the López Portillo administration. Within the economic cabinet, a very different epistemic community - the Internationalists - struggled to put forth their policy preferences.[59] In addition, the policy choices of the Cambridge group went against international currents that pressed for a shift towards neoliberalism. When the administration changed in 1982, a new epistemic community came to power.

As Table 5.1 shows, the Internationalists were a far more numerous and homogenous group. The linkage with foreign educational establishments was more diverse and the direct influence far more subtle. Not only were many of the cabinet officials members of this epistemic community, but also the president himself was very much a supporter of the Internationalist position. De la Madrid virtually eliminated structuralists and neo-Keynesian economists from top levels of the government. The president, who received a Master's in Public Administration at Harvard, chose technocrats like himself who subscribed to the same ideas and values. He filled the three main command centres of the economic bureaucracy with powerful figures with strong commitments to liberal economic policies. The Treasury went to Jesús Silva Herzog, a Yale Master's graduate in economics, who had initially been appointed in the last months of the López Portillo administration. Miguel Mancera, another prominent orthodox economist educated at Yale, was

[58]Alan Robinson, 'Portillo Pockets the Banks', *Euromoney* (October 1982), p. 41.

[59]This is examined in more detail in Chapter 6.

Table 5.2
The Internationalist Epistemic Community:
Linkage between Government, Academics and Foreign Education

Name/Position	Postgraduate Degree	Academic Position
Miguel de la Madrid President of Mexico (1982-88)	MA Public Administration, Harvard, 1964-65	Professor of Constitutional Law, UNAM, 1965 - 1968
Jesús Silva Herzog Secretary of SHCP (1982-86)	MS Econ., Yale, 1960-62	Professor of Theory and Monetary Fiscal Policy at Colégio de México; Professor of International Economic Cooperation at UNAM
Carlos Salinas Secretary of SPP (1982-88)	MA Public Administration, 1973; MS Political Economy, 1976; PhD Political Economy & Government, 1978, all at Harvard	Professor Public Finance, ITAM, 1976
Miguel Mancera Director General of the Bank of Mexico (1982-88)	MS Econ., Yale, 1959-60	Professor Political Economy, Free Law School, 1957; Professor of International Trade, ITAM, 1958-64
Pedro Aspe Armella Undersecretary of SPP (1985-1987) Secretary of SHCP (1988-94)	Ph.D. in Economics at MIT, 1978	Director of the Msc Economics, ITAM, 1978-82
Jaime Serra Puche Adviser and Under- Secretary of SHCP (1979-1986) Secretary of SECOFI (1988-1994)	Doctorate in Economics at Yale (1975-79)	Professor El Colegio

Sources: Roderic A. Camp, *Who's Who In Mexico Today* Boulder, CO: Westview Press, 1988 and Presidencia de la Republica, *Diccionario Biografico del Gobierno Mexicano* Mexico, D.F.: Unidad de la Cronica Presidential, 1989.

ITAM - Autonomous Technological Institute of Mexico
SECOFI - Secretariat of Trade
SHCP - Secretariat of the Treasury
SPP - Secretariat of Programming and Budget
UNAM - National Autonomous University of Mexico

reappointed as head of the Central Bank. Finally, Carlos Salinas, who received a Master's and PhD from Harvard, was appointed head of the SPP. De la Madrid's original cabinet included seventeen members with graduate degrees, 12 of them in foreign institutions.[60]

The internationalist-oriented epistemic community in Mexico has sought to strengthen its future influence over the policymaking process in Mexico. Table 5.2 shows the top Mexican policymakers and their links with the academic community in Mexico. All of the top economic cabinet members, including President de la Madrid, have held professorships at the leading universities. This has meant that the policymakers have had access to the best and brightest students whom they have then recruited into government service. For example, Pedro Aspe (undersecretary at SPP during the de la Madrid administration and Minister of Fiance from 1988-1994) in his capacity as Professor at the private university, the Autonomous Technological Institute of Mexico (ITAM), brings his best students to work at the various government ministries.[61] He then obtains government scholarships to send some of them to Master's and PhD programmes in the United States. Upon completion of their degrees, these new members of the transnational internationalist epistemic community then return to Mexico to take up mid-level positions in the government bureaucracy. In 1992, 42 government scholarship students returned from the United States with PhDs from leading universities, such as Chicago, MIT, Harvard and Stanford to take up government posts.[62]

In addition to hegemonic states and the academic community, international organizations have acted as transmission mechanisms through which ideas are carried. The following examines the role of the international development institutions and policy-based lending.

[60]C.H. Oppenheim, 'Six Years of Change', *Mexico Journal* (5 December 1988), p. 13.

[61]Confidential Interview 1, The Ministry of Trade, Mexico City, July 1992. The interviewee and fellow ITAM economics students worked at the Ministries of Trade and Finance.

[62]See 'Latin America: The Big Move to Free Markets', *Business Week* (15 June 1992), pp. 50-5.

5.3.3 *International Organizations*

International organizations act as mechanisms through which international norms, rules and behaviour are expressed. The post-Second World War international economic order was set forth in the Bretton Woods Agreement in 1944. The Bretton Woods system established the rules for commercial and financial relations and provided for a system of fixed exchange rates. This new economic order was to be administered by two international organizations, the International Monetary Fund (IMF) and the World Bank. These institutions are involved in the channelling of neoliberal ideas from the international to the domestic arena.[63]

The economic crisis of the early 1980s increased the influence of these organizations in the economically vulnerable developing countries. With the market-oriented perspective gaining the hegemonic position in the industrialized world and within the major international institutions, the developing nations became more susceptible to the resurgence of neoliberalism. An examination of the international organizations' policies in the post-Second World War era, and especially in the 1980s, better explains their influence as neoliberal transmission mechanisms.

The International Monetary Fund

Since its creation, the IMF has played the role of 'lender of last resort', providing short-term finance to countries with balance of payments problems. Central to the Fund's perception on how to establish balance of payments equilibrium and stabilize price levels was the reduction in fiscal deficit, controls on domestic credit expansion and credit extended to the public sector and establishment of realistic exchange rates. Contrary to many of the criticisms of the Fund, the institution's analysis was not based on theories derived from the industrialized world and applied indiscriminately to developing countries. Much of the key research at the IMF was based on detailed studies of developing country

[63]The Inter-American Development Bank, established in 1958, is also an international institution that is influential in Latin America.

experience after 1945, especially the stabilization programmes in Latin America.[64] Particularly important was the Fund's work with Latin American central banks. A major building block of the Fund's theory was based on Mexico's devaluations of the late 1940s and early 1950s.[65]

The IMF assistance comes primarily in the form of Stand-by Arrangements with the developing world as the main user of these funds. From 1976 to 1981, 108 of 114 Stand-bys were with developing countries.[66] In exchange for short-term loans, specific terms of agreement are attached to the funds. Performance criteria are written into letters of intent and finance could be discontinued if agreed upon targets are not met. IMF conditionality calls for policy changes in exchange for external financing. The orthodox policies supported by the IMF stress the imposition of a short-term strategy of demand management. Domestic mismanagement is seen as the primary cause of payments difficulties. Serious payments problems are believed to be caused by an excess of aggregate domestic demand resulting from overly large increases in the supply of money and credit.

From the 1970s, the IMF was subject to increased criticism from the dependency and structuralist schools. They accused the Fund of sponsoring recessionary programmes that punished developing countries for trade problems that were endemic to the development process and the result of external and uncontrollable factors.[67] The influence of the IMF on economic policies in Latin America was increasingly limited. The percentage of countries in the region

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[64]See M. Garritsen de Vries, *op. cit.*, in footnote 3, pp. 9-30; and M. Khan, P. Montiel and N. Haque, *Adjustment with Growth: Relating the Analytical Approaches of the World Bank and the IMF* (Washington, DC: World Bank, 1986), pp. 7-21.

[65]Miles Kahler, 'Orthodoxy and Its Alternatives: Explaining Approaches to Stabilization and Adjustment', in Joan M. Nelson (ed.), *Economic Crisis and Policy Change: The Politics of Adjustment in the Third World* (Princeton, NJ: Princeton University Press, 1990), p. 37.

[66]Mary Sutton, 'Introduction and Summary', in T. Killick (ed.), *The IMF and Stabilisation: Developing Country Experiences* (London: Overseas Development Institute, 1984), p. 3.

[67]For example, see Cheryl Payer, *The Debt Trap: The IMF and the Third World* (Harmondsworth: Penguin, 1974).

functioning under the Fund's programmes fell from approximately two-thirds between 1966-1970 to one-third by 1979-1981.[68] IMF officials were actually complaining that Fund resources were 'underutilized'.[69] The IMF was responsive, to a certain degree, to these criticisms; in 1974, it created the Extended Fund Facility (EFF). It was the first time the Fund mentioned developing countries specifically. The EFF was regarded as a concession to developing countries, offering longer terms of adjustment (three years instead of one) for programmes which attacked structural defects.[70] With the concessions, however, came an infusion of the neoliberal orthodoxy, greatly influenced by the change in the intellectual community.[71] These policies emphasized trade liberalization and public sector prices and subsidies. By 1980, over half the Fund-supported programmes included public enterprise rationalization and 38 per cent included trade liberalization.[72]

With the debt crisis in 1982, the decline in Fund influence was reversed. The Latin American countries were actively seeking short-term help and the IMF's assistance in renegotiating long-term loans. By 1983, three-fourths of the Latin American countries were functioning under either a Stand-by Arrangement or the EFF.[73] As the 1980s progressed, the remaining quarter also fell under IMF policy supervision. IMF conditionality was relatively low until the economic crisis of the 1980s, at which time the programmes acquired a high degree of conditionality. In Mexico, for example, the first few years of the debt crisis were

[68]Manuel Pastor, Jr., 'Latin America, the Debt Crisis, and the IMF', *Latin American Perspectives* (Vol. 16, No.1, 1989), p. 88.

[69]*Ibid*, p. 86.

[70]M. Garritsen de Vries, *op. cit.*, in footnote 3, p. 135.

[71]M. Kahler, *op. cit.*, in footnote 65, p. 42.

[72]Morris Goldstein, *The Global Effects of Fund-Supported Adjustment Programs* (Washington, DC: IMF, 1986), Table 5, p. 9.

[73]M. Pastor, Jr. *op. cit.*, in footnote 68, p. 90.

spent trying to deal with the more immediate crisis management through demand restraint measures. In the IMF's third letter of intent in March 1985, the institution's policy proposals took on a new dimension. The IMF disbursed funds in exchange for long-term structural adjustments, including export promotion and trade liberalization.[74] The significance of the explicit change in IMF policy prescriptions was to have a considerable effect on the developing world. As early as March 1984, the IMF advised that the inward-looking policy had to be abandoned; the institution stressed the developing countries' need to export their way out of debt.[75] The World Bank, like the IMF, was influenced by the resurgence of neoliberalism in the 1970s. The following outlines the evolution of the Bank's lending policies and the significant changes from the late 1970s onwards.

The World Bank

The World Bank was set up at the Bretton Woods conference to make long-term loans at commerical rates to finance infrastructure development projects in economically disadvantaged countries. From the end of the Second World War to the 1980s, the Bank endorsed long-term, project-based loans. The 1970s was a time of expansion for the Bank. In addition to its traditional infrastructure projects, the Bank began to focus on the issues of poverty and made loans for basic human needs projects.[76] From the late 1970s, however, the Bank began to move its focus away from project-specific policies to the entire macroeconomic, trade and industrial policies of developing countries. The Bank launched structural adjustment lending which was a form of medium-term balance of payments

[74]It was demonstrated in the previous two chapters that Mexico had already committed itself to trade liberalization and export promotion by March 1985. The influence of the IMF in the case of Mexico was to reinforce, but not cause the shift in policy.

[75]IMF, 'Stability and Sustainable Growth Need Coordinated Worldwide Effort and a Liberal Trading Environment', *IMF Survey* (26 March 1984), p. 82.

[76]See Paul Streeten, 'From Growth to Basic Needs', *Finance and Development* (Vol. 16, No. 3, September 1979), pp. 28-31.

support. These policy-based, structural adjustment loans attacked the state's role in the economy and generally advocated an open international trade regime. Policy-based lending rose from around 6 per cent to 20 per cent of the Bank's disbursements between 1979 and 1986.[77] In the 1980s there occurred a merging of policies between the World Bank and the IMF. The Bank and the Fund both introduced 'cross-conditionality' to its lending practices. These institutions would only continue lending if the conditions under which the others' funds were lent were fulfilled.

The fundamental economic principals on which the Bank's policies were based began to change in the 1980s. One reason could be the change in the Bank's presidency in 1981. A. W. Clausen, who succeeded Robert McNamara as the President of the international financial institution, was President-elect Reagan's choice. Clausen focused on the private sector and conditionality of loans. He reiterated the importance of the private sector in development and the ways in which the developing world could better utilize this sector and emphasized 'macroconditionality' - packages of projects that would be tied to the developing countries' policies.[78] In the annual *World Bank Development Report* the shift in policy orientation became more apparent. Whereas in 1983 the Bank was calling for a balance between the state and private sector, in 1987 there were declarations for an outward-oriented trade policy with substantial liberalization for developing countries.[79] By 1991, the Bank was blatantly saying, 'Let markets work', adopt a 'market-friendly approach' to development and privatize state-owned enterprises.[80]

Even though the World Bank did not pressure the Mexican state to the same extent as the IMF, its academic studies of the East Asian development

[77]S. Commander and T. Killick, *op. cit.*, in footnote 43, p. 129.

[78]See Robert Ayres, *Banking on the Poor* (London: MIT Press, 1983), p. 237.

[79]World Bank, *World Development Report* (Washington, DC: 1983 and 1987).

[80]World Bank, *op. cit.*, in footnote 23, pp. 5-6 and 9.

experience were nevertheless widely used by policymakers to justify the acceleration of economic liberalization. The Mexican policymakers in the 1980s were greatly influenced by the Bank's greater emphasis on laissez-faire economic policies.[81] In addition to the Bank's 'Berg Report' criticising the strong state role in the economy, a World Bank study on the East Asian NICs highlighted the advantages of a free trade regime.[82]

Policy-based lending has been the main vehicle by which both the IMF and the World Bank have attempted to put forth their ideas for policy reform. Whether or not the IMF stabilization programmes or World Bank structural adjustment loans in the developing countries met their respective targets or even out-right failed, *the fact that they were applied is important*. The introduction of neoliberal policies by the international organizations brought about a different approach to policymaking in the developing world: a shift from an interventionist to a reliance on the free-market approach.

5.3.4 *The Hegemony of Ideas*

According to Cox's interpretation of Gramscian hegemony, the reasons for the dissemination of ideas is due to four features of international organizations: 1) they embody the rules which facilitate the expansion of hegemonic world orders; 2) they are themselves the product of the hegemonic world order; 3) they ideologically legitimate the norms of the world order; and 4) they co-opt the elites from peripheral countries.[83] The rules are first initiated by the dominant or

[81]Hobbs found that at the BANCOMEXT/CEMAI conference both officials from the foreign Trade Institute and BANCOMEXT (Foreign Trade bank) were greatly influenced by the Bank-sponsored study by Yung Whee Rhee, *A Framework for Export Policy and Administration: Lessons from the East Asian Experiences*. Jeremy Hobbs, *The Role of Business Organisations in the Transition from an Import Substituting to an Export-oriented Model of Growth in Mexico After 1982*, PhD thesis (Colchester: University of Essex, 1991), p. 345.

[82]Yung Whee Rhee, *A Framework for Export Policy and Administration: Lessons from the East Asian Experiences* (Washington, DC: World Bank, 1984).

[83]Robert W. Cox, 'Gramsci, Hegemony and International Relations: An Essay in Method', *Millennium: Journal of International Studies* (Vol. 12, No. 2, Summer 1983), p. 172.

'hegemonic' state(s) that maintain the power to secure the compliance of other states according to a hierarchy of powers within the international economy. In the case of the spread of neoliberalism in the 1980s, the conservative governments in Europe and the United States are the dominant, hegemonic states. These countries implemented particular neoliberal policies in their respective countries and by endorsing their policy preferences and prescriptions at the international level, greatly influenced the policy programmes of the international organizations. The policy goals are assigned to these organizations by their most powerful members.

These institutions in turn, perform the ideological role of defining policy guidelines and legitimate institutions and practices at the national level. This is most apparent with conditionality of the loans from the IMF and World Bank - the conditionality is an exchange of policy changes for external financing.[84] In addition to ideas being diffused through policy-based lending, another feature concerns elite actors from the developing countries and their co-optation in the international organizations through a process of *transformiso*.[85] The IMF in the early 1960s, for example, established an IMF institute to help train officials from the developing countries in order to help these members 'develop better techniques for managing their domestic economies...'.[86]

In her research on economic crisis and policy change, Nelson found that

> By the 1980s, in almost all developing countries some senior economic officials (and/or influential private economists) had spent some time as staff members of the IMF, the World Bank, or regional international development banks... Often, alumni of the international financial institutions played key roles in the dual political game of adjustment. They interpreted external pressures and attempted to persuade their colleagues in domestic decision-

[84]For more information on conditionality, see Andrew Crockett, 'Issues in the Use of Fund Resources', *Finance and Development* (June 1982), pp. 10-15 and Manuel Guitián, *Fund Conditionality: Evolution of Principles and Practices*, Pamphlet No. 38 (Washington, DC: IMF, 1981).

[85]R. Cox, *op. cit.*, in footnote 83, p. 173.

[86]M. Garritsen de Vries, *op. cit.*, in footnote 3, p. 102.

> making circles, and they interpreted internal constraints and attempted to persuade their former associates in dialogue with external agencies.[87]

The individuals who come to the international organization with the intention of working within the system to change it are 'condemned to work within the structures of passive revolution'.[88] The result is that these elite actors return to their countries and help transfer elements of 'modernization'.

In Mexico, a growing number of the elite actors have served as staff members of the IMF, the World bank and the Inter-American Development Bank. It could be argued that these elite actors have a broader understanding of, if not sympathy for, orthodox policy prescriptions, as well as some comparative knowledge of the adjustment experiences of other countries. These officials were frequently thrust into positions of substantial authority in Mexico, often acting as the go-between in negotiations with the international financial institutions.

Linkages between the international institutions and Mexican policymakers was evident throughout the post-Second World War era. From 1958 to 1970, two men dominated the policymaking process: Rodrigo Góme z and Antonio Ortiz Mena.[89] The first, Rodrigo Gómez, held the position of Executive Director of the IMF for Mexico and Central America, from 1946 to 1948. He was also prominent in the Mexican movement to join the Latin American Free Trade Area in 1960. In Mexico, Gómez held the position of Director General of Bank of Mexico for eighteen years, from 1952 to 1970. The second man, Antonio Ortiz Mena, held the post of Governor of the IMF from 1959 to 1970 while concurrently holding the Secretary of the Treasury from 1958 to 1970. In 1971, Ortiz Mena became President of the IDB and held the post until 1988.

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[87] Joan Nelson, 'Conclusions', in J. Nelson (ed.), *Economic Crisis and Policy Change: The Politics of Adjustment in the Third World* (Princeton, NJ: Princeton University Press, 1990), pp. 330-1.

[88] R. Cox, *op. cit.*, in footnote 83, p. 173.

[89] The background of these men is discussed in more detail in Chapter 6.

More recent linkages include Silva Herzog, the Finance Minister at the end of the López Portillo Administration and for the first 4 years of the de la Madrid administration, was the crucial link between Mexico and the IMF in the 1982 debt negotiations. Silva Herzog had worked as an economist for the Inter-American Development Bank from 1962 to 1963. In addition, Francisco Suárez Dávila, subsecretary at the Treasury from 1982 to 1988, was executive director for Mexico at the IMF from 1974 to 1976. Francisco Alejo López, a director general at the Treasury from 1982 to 1984, was vice president of Promotion and Development at the International Finance Corporation at the World Bank from 1985 to 1987. Julio Genel Garcia,[90] also a director general at the Treasury from 1982 to 1986, was a finance and economics advisor to the Organization of American States in Washington, DC from 1972 to 1976. Alfredo Phillips Olmedo, director general off the Foreign Trade Bank from 1982 to 1988, was executive director of the IMF from 1968 to 1970 and a member of various comittees of the IMF and the World Bank from 1968 to 1982.[91]

In negotiating and implementing adjustment programmes, the key to success lies with these transnational epistemic communities. Because of these academic and institutional links, there is an international network of officials sharing a common body of economic knowledge and broadly similar economic policy prescriptions. These links are helping to shape future intergovernmental and transnational co-operation on world trade, monetary, investment and economic development affairs.

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[90]Mr. Genel Garcia received his master's and doctorate in Economics from the University of Chicago.

[91]Presidencia de la República, *Diccionario Biográfico del Gobierno Mexicano*, Unidad de la Crónica Presidencial (Mexico, DF: Fondo de Cultura Económica, 1989).

Conclusions

This chapter examined four explanations for the global resurgence of neoliberalism. It argued that although systemic crises provided insights into the external stimuli facing developing countries as a whole and why there was a need for some kind of policy response, they did not adequately explain the precise content and direction of domestic economic policy. In addition, the influence of international institutions was not as obvious as many believe. Rather, the leverage exerted on developing countries was far more subtle than pure power relations would suggest. The interests argument also cannot explain the concurrent move globally toward economic liberalization. Rather than responding to powerful interest groups in domestic society, it was *in spite of* such interests that neoliberal policies were applied. It was asserted that there exists strong links between the dissemination, influence and carriers of certain economic ideas and policy outcome.

The second part analyzed international regimes and transnational policy co-ordination. This section tracked the ideas on which the post-Second World War international economic order was based. It concentrated on the dominant paradigm in the developed world - Keynesianism - and the philosophy in Latin America derived from Keynesianism - structuralism. It was argued that by the mid- to late 1970s, international economic troubles exposed an ideological vacuum. This led to the search for new ideas to solve domestic economic problems. This search provided the opportunity for the resurgence of neoliberalism first in the developed, and then in the developing world. The reasons for the shift were the ascendance of conservative governments in the United States and Europe and the long-term intellectual change within the economics profession and the development field.

The third section identified the transmission mechanisms through which these new ideas were carried - hegemonic states, the academic community and international organizations. It also discussed the carriers of the ideas - the epistemic community. It was argued that the United States, in particular, played a crucial role in championing the new policy shift. In its capacity as a hegemonic power, the United States influenced policy dialogue with the developing countries. A second transmission mechanism was the academic community. This community gleaned lessons from the contrasting experiences of the export-oriented NICs of East Asia and their heavily indebted and economically-troubled Latin American counterparts. This led to the renewal of interest in neoclassical ideas, especially about trade. The final transmission mechanism, international organizations, was shown to channel neoliberal ideas from the international to the domestic arena through policy-based lending. Although these organizations did not force the countries to implement policies, they nevertheless introduced market-oriented ideas. The ideas conveyed through these international transmission mechanisms were carried from the international to the domestic *via* the epistemic community. Examples of such communities were given in the case of Mexico.

The chapter has highlighted an important synergy of events that greatly helps to explain the reasons for trade liberalization in Mexico in the early 1980s. First, the timing of Mexico's decision to liberalize was very important. It was made when the country and the international community was experiencing an ideological vacuum. The Keynesian policies in the north and the nationalist development strategy in Mexico had failed and an alternative path was sought. Second, the policies chosen, based on the doctrine of economic liberalization, were similar to those that had been replaced in the 1930s by the Keynesian policies. Hence, there was an element of a shift from one policy extreme to another in times of crisis. Finally, there was a synergy of man and hour in Mexico. At this critical junction in post-Second World War Mexican history, a group of policymakers predisposed toward neoliberalism came to power in Mexico. The coinciding of the three factors above is important for this analysis.

The chapter has argued that the resurgence of neoliberalism set the outer margins for domestic policy choice and proved to be a legitimizing factor in Mexico's decision to open up its economy. But the globalization of economic liberalization only partly explains Mexican economic policymaking. It shows external influences, but does not explain the domestic political process. In order to be disseminated, ideas must have domestic viability. Hall found three necessary variables in his study of the spread of Keynesian ideas.[92] They are economic, administrative and political viability. First ideas must have economic viability. They must be able to solve the current economic problems facing policymakers. The neoliberal economic ideas seem to provide the solutions to the economic problems facing Mexico in the 1980s. As Chapters 2 and 3 have clearly pointed out, the exhausted ISI strategy and the expanding public sector deficit in the 1970s were dealt with by a dosage of neoliberal austerity measures. The domestic economic decisions taken by the de la Madrid government were reinforced by the acceptance of the new economic doctrine within the international community.

Second, ideas must have administrative viability. Ideas must be able to correspond with existing administrative institutions and must be feasible to implement. Administrative viability is more likely if the new ideas accord with long-standing administrative biases of the officials responsible for approving the new policies and if they seem feasible in light of the existing implementational capacities of the state. As the following chapter argues, there had been changes in the ideas and perceptions of individuals within the Mexican administrative structure. In addition to the change in personnel, the key to viability is the economic crisis. As institutions are prone to inertia, change is most likely to occur in periods of crisis as state structures become malleable. In the crisis situation, opportunities arise for new political coalitions to influence the direction of policy. In order for the existing structures to change, however, the people within them must have some alternative plan to overcome the problem at hand.

Finally, ideas must have political viability. Ideas are more likely to become policy if they also have some appeal in the broader political arena to which the politicians who ultimately make policy are oriented. Hall maintains that a new set of economic ideas must be seen to have a minimum level of viability on all three dimensions in order to be incorporated into policy. In periods of crisis, it seems

[92]Peter Hall, 'Conclusion: The Politics of Keynesian Ideas', in P. Hall, *op. cit.*, in footnote 14, pp. 370-5.

that political considerations may have become more important. Particularly in the case of the authoritarian Mexican state, the political viability of economic ideas is the most important variable. As Hall argues, 'if the Keynesian case demonstrates that ideas have real power in the political world ... it also confirms that they do not acquire force independently of the constellation of institutions and interests already present there.'[93] The key to the viability of neoliberal ideas and policies is the Mexican individual policymakers. As the following chapter argues, it is the emergence of the Internationalist epistemic community in the de la Madrid government that explains the domestic reasons for Mexican trade policy reform in the 1980s.

[93] *Ibid*, p. 390.

Chapter Six: The Domestic Factors: The Individual Policymakers

Introduction

As the previous three chapters have demonstrated, the international variables - the 1982 debt crisis, leverage by international actors and the transmission of ideas - were catalytic, reinforcing and setting the outer margins for Mexican economic policy reforms in the 1980s. These external factors are vital and necessary explanations, but they do not give specific insight into the important internal political process in Mexico. Hence, this chapter turns the analysis to the two domestic determinants for Mexican economic policy change in the 1980s: the institutional arrangements of the state - primarily the institution of the presidency - and the individual policymakers.

This chapter is divided into four sections. The first part briefly discusses the institutional arrangements of the state. It is vital to comprehend these arrangements and the capacities of the individual policymakers who occupy positions within the state. Economic policy decisions are functions of the domestic institutional relationships that have persisted over time and the ability of policymakers to realize their objectives in light of domestic constraints. Attention to the Mexican institutional arrangements reveal the enormous power and influence the executive branch wields, thereby enabling a small group to make relatively independent policy decisions.

The second part of the chapter focuses on individual policymakers within the powerful executive branch. The section discusses the emergence of the Mexican policymaker from the general *politico*[1] to the specialized *tecnico*[2] and the reasons for this change - the *tecnicos'* background and education. Beginning with the de la Madrid administration and consolidated with President Salinas

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[1]*Politico* is used to describe the old-style Mexican politician, who emerged after the 1917 Revolution.

[2]*Tecnico* is used here to mean 'political technocrat' rather than just technocrat. The political technocrat possess both specialized knowledge and political skill.

(1988 to 1994), there emerges a technocratic administration very different from previous Mexican governments. The reason for the emergence of the *tecnico* is important because it answers why Mexican policymakers in the 1980s were able and *willing* to change so fundamentally the post-Second World War development strategy. The third section discusses the two factors that contribute to the change in the perception, beliefs and values of the domestic decision maker in Mexico: domestic socialization and foreign educational experiences.

The final part of the chapter looks at the formation of two epistemic communities: the Cambridge and the Internationalist groups. The emphasis is on the goal oriented behaviour of these individuals as they respond to internal and external constraints in an effort to manipulate policy outcomes in accordance with their preferences. The section discusses the struggle between the 'nationalist-populists' and the 'liberal-rationalists' in the López Portillo administration. When the debt crisis hit in 1982, two policy positions emerged. First, the Cambridge or statist epistemic community advocated a renewed nationalist programme. The second group, however, came into office in December of that year and introduced their own neoliberal policies. It is argued that neoliberal economic policies had political viability with the de la Madrid administration because of the transformation the domestic socialization process of the individuals and their links to an epistemic community through foreign postgraduate education. The debt crisis serves as the catalyst for change while the transnational, neoliberal epistemic community provides the external support for the Internationalists to implement radical reforms.

6.1 The Institutional Arrangements of the State

The first domestic factor is the institutional arrangements of the Mexican state. As the first chapter outlined, these arrangements are important to explain who makes policy and what factors influence decision makers in their choices. It is not the purpose of this study to delve into the institutional arrangements of the state as there have been many indepth studies of this subject.[3] Rather, the purpose here is to identify these arrangements as important and vital factors contributing to Mexican economic policy change in the 1980s. The particular institutions of relevance for this thesis are statism and presidentialism. Statism as an institutional feature of the Mexican regime endows the state with considerable powers *vis-à-vis* social classes and interest groups and places the executive branch at the forefront of making policy choices.

As the rector of the economy, the Mexican state greatly influences the national unity and cohesion of society by the perceived pursuit and achievement of economic growth and development. In turn, the Mexican regime derives a large degree of legitimacy from this economic advancement. Prior to the mid-1980s, the Mexican state owned or controlled the most important industries - including the railroad, telegraph, telephone, electric power, steel, aviation, petroleum, natural gas and petrochemical industries. By 1982, there were an estimated 1,155 state owned entities.[4] In addition, the state played a significant role in credit and finance through its involvement in over thirty public credit institutions; it set tariff rates, granted tariff exemptions and allocated rights to import foreign-made light and heavy goods; and the state decided how and where to invest. All these actions had a considerable effect on empowering the state and reducing the influence of the strongest interest group - the private sector.

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[3]See, for example, John Bailey, *Governing Mexico: The Statecraft of Crisis Management* (London: Macmillan Press, 1988).

[4]IMF, 'Structural Reforms Lay Foundation For Medium-Term Growth in Mexico', *IMF Survey* (10 July 1989), p. 212.

The Mexican state has been successful in its pursuit of economic development in the post-Second World War era by insulating itself from group pressure. Through pacts and coalitions, the state has performed the critical function of regulating sociopolitical and economic interactions among the various social forces. The state creation of the peasant organization, CNC (National Peasant Confederation), the labour organization, CTM (Confederation of Mexican Workers) and the business organizations, Concamin (Confederation of Industrial Chambers) and Concanaco (Confederation of Chambers of Commerce of Mexico), enabled the regime to shape much of the interest-group life in the country. The symbolic integration of these organizations into various governmental structures and the apparatus of the dominant party, the PRI, secured their co-optation.[5]

When determining the domestic reasons for Mexican economic policy reform in the 1980s, it is important to focus on the institution and/or the individuals most responsible for making policy choices. In the Mexican political system, policy emanates from the executive branch. The institution of the presidency has evolved so that it is key to economic policy formulation and implementation.

6.1.1 *Presidentialism*

Philip describes the Mexican political system as

> indeed highly presidential...its dynamic involves an interaction - sometimes co-operative, sometimes creatively diverse, sometimes destructively confrontational - between state power and various forms of societal power... state power is more than anything else, the presidential institution.[6]

Theoretically, the 1917 Constitution provided for legislative and judicial branches to provide checks-and-balances powers, but in practice, power has rested with the

[5]Rose J. Spalding, 'State Power and its Limits: Corporatism in Mexico', *Comparative Political Studies* (Vol. 14, No. 2, July 1981), p. 141.

[6]George Philip, *The Presidency in Mexican Politics* (Basingstoke: Macmillan, 1992), pp. 3-4.

presidency.[7] In the post-Cold War international society, it would be difficult to find a political leader with greater personal power than a Mexican president. During his one, six-year term, the Mexican president is virtually omnipotent; he rules with near total authority. Both Mexican foreign policy and influencing economic policy direction are almost totally under the president's control. With no national or institutional check that control decisions, the president has been virtually free in the use of government resources. In addition, the Mexican president can choose whomever he likes for his cabinet - without meeting resistance from other governmental branches. Most significantly, the Institutional Revolutionary Party, the PRI, has won every presidential election since the revolution.[8] The PRI candidate is not selected by the party, but is hand picked by the outgoing president. The Mexican president has been generally immune from media criticism and opposition within the ruling party. Until recently, the congress and the bureaucracy all obeyed him unconditionally. The president makes all laws while the congress and the court function as rubber stamps.[9]

Importantly, it is the institution, however, rather than the man, that possesses the power. While in office, the president is all powerful, but when his six-year term ends, he relinquishes his personal power to his successor. The institution of the presidency is above the political system and its function is to incorporate and interpret political forces. As Meyer argues, the presidency is viewed as the very incarnate of the national interest and possesses all the best

[7]See *ibid*; John Bailey, *Governing Mexico: The Statecraft of Crisis Management* (London: Macmillan Press, 1988); and José Reyna and Richard S. Weinert (eds), *Authoritarianism in Mexico* (Philadelphia, PA: Institute for the Study of Human Issues, 1977).

[8]The Mexican political system has been undergoing considerable changes in the last twenty years. Since 1985 there has been electoral opposition to the long-ruling PRI. Not only has the party experienced more forceful opposition parties, but there has been discontent from within the party in the late 1980s. A particular faction within the ruling elite broke away and formed a rival force in the 1988 presidential elections, led by Cuauhtémoc Cárdenas.

[9]This almost total possession of power by the president is changing in today's Mexico. When examining the de la Madrid administration and the policymaking constraints of the early 1980s, however, the traditional view is still appropriate for this analysis.

qualities of leadership: wisdom, intelligence, honesty, patriotism and magnanimity. For these reasons, the president is perceived to be almost infallible.[10]

The Mexican public sector is part of a clientelist, political system. If the institution of the presidency can be envisioned as the tip of a political-power pyramid, the block below the president is the cabinet and other senior officers - all loyal to their chief. This group in turn appoints loyal subordinates, who in turn appoint their juniors. This process continues down to the base. With each new *sexenio*, the process starts again, causing a high turn over of government positions that goes far enough down to mid- and low-level positions. Thus, Mexican bureaucrats are loyal to their boss as opposed to loyal to a specific department. As Philip maintains, this system can generate inertia and inter-bureaucratic rivalries, but does not fit the classic bureaucratic politics paradigm as powerful 'bureaucratic interests' are not created.[11] In order to understand economic policymaking and particular policy choices, it is necessary then to examine these influential individuals.

6.1.2 *The Policymakers*

The institutional arrangements of the Mexican state have endowed a small group of policymakers with a considerable degree of autonomy in the policymaking process. These individuals are linked with external actors and play a vital role in mediating between international and domestic pressures. They seek to manoeuvre within these constraints and to design solutions that will be politically acceptable and seriously address public problems. This unique position in the policymaking process grants decision makers substantial power over the policy agenda to identify, articulate and propose policy reforms that coincide with the aims of the state and society.

[10]Lorenzo Meyer, 'Historical Roots of the Authoritarian State in Mexico', in J. Reyna and R. Weinert, *op, cit.*, in footnote 7, p. 12.

[11]G. Philip, *op. cit.*, in footnote 6, p. 7.

Why a specific policy decision is taken can best be understood by examining the origins of the perceptions, values and experiences of the individual decision makers. When determining the reasons for policy choices it makes a difference what values, experiences, training and commitments policymakers have when they are involved in discussions and debates about particular policy and organizational reform initiatives. The perceptions of policy problems and the perceived viable solutions are important determinants in policy reform. These perceptions are undoubtably influenced by ideological biases.

The perceptions and ideological beliefs of the individual policymakers are greatly influenced by professional expertise and training. Increasingly, individuals with technical training and experience in specific subjects are found among Mexican decision makers. Their specialization - in economics and public administration, for example - influences how they perceive problems and what solutions they believe ought to be applied. These domestic policymakers form epistemic communities with transnational, like-minded groups and influence the direction of policy reforms. The next section examines the evolution of the policymaker from the old-style politician to the new *tecnico*.

6.2 The Governing Elite

The stability of the Mexican regime is largely due to the cohesion of the governing elite.[12] The governing elite is defined as those leaders who directly or indirectly play a part in ruling society.[13] These leaders include the Mexican executive branch, primarily the president, his cabinet and bureaucracy. It does not include the military or commercial elite. This elite group, in spite of considerable factional rivalry within the national political leadership, has governed the modern Mexican state for over sixty years. Both stability and elite cohesion have fed on each other: the relative long-term stability in Mexico has ensured continuity in patterns of political recruitment that has increased elite cohesion. This stability was derived from the governing elite's ability to mediate intra-elite conflicts, to keep peasant and labour groups from potential mobilization and to sustain economic growth (from 1940 to 1981).

This elite consensus was due to the homogenous political socialization and recruitment process. In order to enter the top elite, an individual had to work his way up slowly through the ranks. During this long and rigorous recruitment process, there was ample opportunity to weed out individuals who were not properly deferential to authority. Those who succeeded were the ones willing to resolve conflicts privately and refrain from expanding the arena of conflict. Most importantly, they were able to master the intricacies of patron-client relationships. Only those who were both willing and able to play by the political rules reached the top of the power structure - a phenomenon that surely worked to limit the possibilities of serious elite disagreement.

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[12]It is not the aim of this chapter to trace the historical evolution of the governing elite. For more detailed information on the Mexican political elite, see, Merilee Grindle, 'Patrons and Clients in the Bureaucracy: Career Networks in Mexico', *Latin American Research Review* (Vol. 12, No. 1, 1977, pp. 37-66); Peter H. Smith, 'Does Mexico Have A Power Elite?', in J. Reyna and R. Weinert *op. cit.*, in footnote 7; Peter H. Smith, *Labyrinths of Power* (Princeton, NJ: Princeton University Press, 1979); and Roderic A. Camp, *Mexico's Leaders, Their Education and Recruitment* (Tucson, AZ: University of Arizona Press, 1980).

[13]V. Pareto, *The Mind and Society*, Vol. 3 (London: Cape, 1935), p. 1422-4, cited in P. Dunleavy and B. O'Leary, *Theories of the State: The Politics of Liberal Democracy* (Basingstoke: Macmillan, 1987), p. 136.

Over the past twenty years the type of person being recruited has changed as well as the recruitment process itself. A new faction of *tecnicos* have entered the policymaking arena, initially at lower levels, but with a few in prominent positions in the late 1970s.[14] The de la Madrid administration signalled the break with the old-style Mexican politician. This change in the governing elite has had repercussions not only for elite consensus and the stability of the regime, but also for the direction of economic policy. In order to understand the economic policy choices of the Mexican government over the last decade, it is necessary to study this new governing elite. They are the ones responsible for the shift in development policy in recent years. It is, therefore, important to know who they are and their background and education.

6.2.1 *The Shift to the Tecnico*

In order to understand why policy changed in the 1980s, it is important to outline the differences between the individual policymakers who came to power with the de la Madrid administration - the *tecnicos* - and the policymakers they displaced - the *politicos*. The classic *politico* differs from the *tecnico* in education, class background and career experience. In quite general terms, the classic politician would have come from a lower-middle-class background in a provincial city, attended local schools and was university educated, primarily in law at the Universidad Nacional Autónoma de México (UNAM) and had rarely studied abroad.[15] The political socialization of the elites and masses through public education enabled the Mexican government to put forth its economic and social policies and to help form the views of several generations of Mexicans. As

[14]Technocrats have long held prominent positions within the political leadership - some 47 per cent of all cabinet positions were held by political technocrats as early as the 1940 to 1946 period and this proportion has not dropped below two-thirds since then. Kevin J. Middlebrook, 'Dilemmas of Change in Mexican Politics', *World Politics* (Vol. 41, No. 1, 1988), p. 128. As the following sections highlight, the domestic socialization and foreign postgraduate education fundamentally alters the Mexican technocrats' values, beliefs and policy preferences.

[15]P. Smith, *Labyrinths of Power*, *op. cit.*, in footnote 12, pp. 66-87.

UNAM dominated higher education throughout most of this century, it contributed to a shared set of values and ideas that have been crucial for the elite in ruling the political system.[16]

After being socialized in a specific way through a distinctive educational experience, the typical Mexican *politico* would have then begun a long apprenticeship in the PRI and in 'elective' offices. Although spending a career at the national political level, he would have often held some positions outside the federal bureaucracy, including elective posts as federal deputy or senator or an appointive post in the PRI. As this ascendance to political prominence would have taken some time, *politicos* in national office tended to be older.[17] *Politicos* would make their claim that based on their social skills and accumulated contacts (their ability in negotiations and face-to-face bargaining and the structure of personal alliances), they were the most effective to run the country.[18]

The Mexican *tecnico* differs from the old-style *politico* in preparation, educationally and professionally, and in orientation. A likely *tecnico* would have grown up in an upper-middle-class family in Mexico City, attended the Instituto Politecnico Nacional and gone to UNAM in a field other than law (e.g., engineering or economics). The *tecnico* derives recognition and employment from the prestige and authority of this technical knowledge which is exemplified by a certificate of expertise, usually a university degree. Most significantly, the *tecnico*

[16]Daniel C. Levy, 'The Political Consequences of Changing Socialization Patterns', in R. Camp, *Mexico's Political Stability: The Next Five Years* (London: Westview Press, 1986), p. 21.

[17]Peter Smith, *Labyrinths of Power*, *op. cit.*, in footnote 12, p. 97.

[18]There has been some criticism that the *tecnico* does not possess the necessary political skills to run the country. However, with the relatively homogenous socioeconomic and educational background of Mexico's governing elite and the intensity of competition for high-level posts, *tecnicos* who rise to key decision making positions indicate considerable political skill. The Mexican regime offers aspiring leaders a number of structured opportunities through which to learn the established political 'rules of the game'.

would probably have completed (at the Master's or PhD level) postgraduate studies at a prestigious university abroad, most likely in the United States or England.[19]

After the educational experience, the *tecnico* would not have worked his way up through the party system, but would have immediately moved into a medium-to-high level position in the national bureaucracy, either in a ministry or in the semipublic sector. Hence, the *tecnico* would usually be much younger than the old-style politician. Unlike the *politico* building broad networks of political contacts outside the bureaucracy, his counterpart would have spent his entire career in the federal bureaucracy. The *tecnico*'s claim to prominence in leading the country derives from his 'scientific' knowledge and significantly from the membership to a specific transnational epistemic community. The former gives him the necessary skills and knowledge to settle particular policy problems and the latter the international legitimacy to implement such policies.

This change in the recruitment and socialization process over the past twenty years is evident with the de la Madrid administration. Potential Mexican presidents serve their most important apprenticeships in the cabinet, which has substantial policymaking responsibilities in addition to its role in the presidential succession process. In the time of the dominant *politico*, one cabinet ministry had been especially salient in producing the presidential candidate: the Secretary of the Interior - Alemán (1946 to 1952), Ruiz Cortines (1952 to 1958), Díaz Ordaz (1964 to 1970) and Echeverría (1970 to 1976). Although he was not a *tecnico*, the López Portillo presidency broke with a long-standing tradition which had stabilized the presidential succession process. Rather than coming from the Interior department, López Portillo (1976 to 1982) came from the Ministry of Treasury.[20] This shift from the political to the technocratic ministries began an alternative succession pattern. Beginning with the de la Madrid administration, the presidents have spent

[19]Presidencia de la República, *Diccionario Biográfico del Gobierno Mexicano*, Unidad de la Crónica Presidencial (Mexico, DF: Fondo de Cultura Económica, 1987, 1989).

[20]López Portillo is not a *tecnico*. Although he was the Finance Minister for a few years before becoming president, his understanding of economics was extremely limited.

almost all of their careers in economic or technocratic ministries - de la Madrid (1982 to 1988) and Salinas (1988 to 1994) both spent time at the Ministry of Treasury and came to the presidency from Budget and Planning.

6.2.2 *The Reasons for the Ascendance of the Tecnico*

As Chapter One argued, because of the epistemic communities' acknowledged expertise,[21] they are accorded access to the political system by policy elites who legitimize their activities. Whether the ideas of these communities influence policy choice depends upon the group's *access* to the decision making process. One way this is done is through the political infiltration of an epistemic community into governing institutions. This access enables the community to lay the groundwork for a broader acceptance of their ideas and beliefs. Once part of the bureaucracy, the community may vie for key positions, thus increasing their influence over policy decisions.

The change in the type of individual governing Mexico since the 1980s as well as the shift in their values and attitudes can be attributed to three factors: the recent growth of the bureaucracy, the generational distance from the Mexican Revolution and the increase in private and foreign education. The first two, it can be argued, allows the individual to enter the political elite and alter established post-revolutionary policy patterns, while the third influences values and attitudes through changes in the important socialization process.

Enlarged Bureaucracy

The federal bureaucracy is instrumental to national policymaking in Mexico. The bureaucracy has considerable potential to alter Mexico's development pattern in two ways. First, as Mexico's political system is dominated by the executive branch, the president and his advisors control the decision making

[21]An epistemic community is a network of knowledge-based experts with recognized specialization and ability in a particular field and an authoritative claim to policy-relevant knowledge within this sphere or issue-area.

process. As a result, the bureaucracy, which is structurally subordinate to the executive, accrues an important position in the policymaking process. Second, the Mexican state plays an important economic role through its direct activities in vital sectors, such as ownership and control of petroleum. In addition, the government makes an important contribution to capital formation and has provided the basic investment for industry, agriculture and manufacturing. Jurisdiction over these activities further enhances the bureaucracy's role in the policymaking process.

Two mutually reinforcing developments during President Echeverría's *sexenio* (1970 to 1976) expanded the intake of the *tecnico*'s at lower levels: new recruitment practices and augmenting public sector expenditure. With the Echeverría administration, the number of *tecnicos* in powerful positions increased in the political bureaucracy. Believing that young political technocrats (with their formal credentials) were more useful for bureaucratic decision making, President Echeverría bypassed an entire generation of Mexican *politicos*, by giving positions of responsibility to young, well-educated specialists who had almost no political experience.[22] Because of the enormous power wielded by the Mexican president, the control of the political opposition by the ruling party and the state, and the tradition of politicians 'playing by the rules' dictated by their superiors, the 'lost generation' had no recourse but to step aside for the newly emerging technocrats.

As part of his 'shared development' programme, President Echeverría enlarged the bureaucracy through the increase in public sector spending, ownership and employment. Total government spending increased from 13.1 per cent of GNP in 1970 to 39.6 per cent in 1976.[23] The national government expanded from approximately 782 agencies to over 1,000 with the federal work force doubling to

[22]Roderic A. Camp, 'The Political Technocrat in Mexico and the Survival of the Political System', *Latin American Research Review* (Vol. 20, No. 1, 1985), pp. 111-12.

[23]Roberto G. Newell and Luis Rubio F., *Mexico's Dilemma: The Political Origins of Economic Crisis* (Boulder, CO: Westview Press, 1984), pp. 125-126, 199.

more than 1 million.[24] The growth of the public sector bureaucracy reinforced the expansion of the *tecnico*'s political influence at lower levels and correspondingly began to lessen the influence of the *politicos*.

Generational Distance from the Mexican Revolution

The enlarged bureaucracy and the presidential recruitment practices explain the increased opportunity for *tecnicos* to enter political power, while the distance from the Mexican Revolution (1917) demonstrates the reason for the acceptability of the shift in established ways of thinking. For close to sixty years after the revolution, a specific doctrine of 'revolutionary nationalism' guided policy in Mexico and served as a potent symbol for many generations of Mexicans.[25] This doctrine followed the mainstream of modern social democratic ideology, positing a mixed-economy under state tutelage, central planning of the representative sort, increased social welfare and a fiercely independent stand against its northern neighbour - the United States.

The reason for the rise of the *tecnico* and the preference for a divergent policy direction is the decrease in the use of traditional nationalism and revolutionary rhetoric as the historical distance from 1917 increases. Camp argues that, as political recruitment shifts to an urban, middle class background, ties to rural, working class values based on the doctrine of revolutionary nationalism becomes more tenuous.[26]

The individuals rising to high political positions in the 1980s on the basis of their educational background and technical expertise are members of

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[24]Maria Guadalupe Acevedo de Silva, 'Crisis del desarrollismo y transformación del aparato estatal: Mexico 1970-75', *Revista Mexicana de Ciencias Politicas y Sociales* (Vol. 21, Num. 82, octubre - diciembre 1975), p.154 and Daniel Levy and Gabriel Székely, *Mexico: Paradoxes of Stability and Change* (Boulder, CO: Westview, 1983), p. 148.

[25]This doctrine waxed and waned over the years. Under President Echeverría, it was renewed with vigor.

[26]Roderic A. Camp, 'Overview', *Mexico's Political Stability: The Next Five Years* (London: Westview Press, 1986), p. 9.

generations far removed from the violent transformation that produced the *politicos*. The first generation that fought the revolution steered the process of rapid political, social and economic change and held major national positions from the 1930s through the 1950s. The ideas and concepts of the revolution continued to underpin the thinking of those individuals of the following generation as they began their careers at a time when recollections of the revolution, fears of instability and an appreciation of the role played by major post-revolutionary institutions were still fresh.

With the increasing distance from the revolution, however, new generations of political leaders, represented by the *tecnico*, have begun to question the usefulness of organizations and practices that have long served as major supports of the established regime. Traditional nationalism has been slipping away. President Salinas, for example, in his third state-of-the-union address (November 1991), prepared the way for radical reform of the agricultural and educational sectors. He challenged the post-revolutionary *ejido*[27] and restored ties with the Catholic Church.[28] Although President Salinas has called this a 'new nationalism', it would have been considered reactionary and a betrayal of Mexico's revolutionary past only a generation before. *It is this generational distance from the revolutionary nationalism of the past that plays one of the key roles in the tecnico's ability to deviate from established ways of thinking.*

Private and Foreign Education

The *tecnicos* in the de la Madrid administration have followed either of two educational paths, both of which diverge from that typically travelled by the *politicos*. The first is private higher education and the second is foreign postgraduate training. There has been a shift away from the dominance of public

[27]*Ejidos* are a co-operative form of agricultural organization designed to combine economies of scale with traditional communal practices.

[28]Damian Fraser, 'Salinas shares "new nationalism" dream', *The Financial Times*, (London) 4 November 1991.

educational institutions, such as UNAM, toward the private universities, such as the Instituto Tecnológico Autónomo de México (ITAM) and the Monterrey Technological Institute. According to Levy, since the late 1960s, leftist political disorder - increasingly involving university workers rather than just students - helps to explain the elite exodus to private universities.[29] As most of the post-revolutionary political socialization took place at UNAM, the exit of the elite from public to private universities has had considerable political implications. At the private universities, students are isolated from the participation, dissent, political bargaining and conflict of the public universities which have helped to shape the political values and ideas of the post-revolutionary governing elite. A key ingredient of Mexico's post-revolutionary political stability has been the homogenizing influence of this public educational experience. This universal process among present and future political leaders, however, is quickly disappearing.[30]

Nineteen-sixty-eight is a watershed in elite socialization. The most important aspect of the shift from the public to the private universities has been the change in academic subjects studied and the philosophical leanings of the courses. Instead of law, economics is the most commonly studied field for the rising *tecnico*. As the government is increasingly recruiting its better trained *tecnicos* from the private universities, it has eroded the virtual monopoly of the UNAM economics faculty. Rather than the Marxist-leaning economics courses at UNAM, the private universities, such as the prestigious ITAM, teach economic

[29]D. Levy, *op. cit.*, in footnote 16, p. 23.

[30]The conflict between the *politicos* and the new-style Mexican politicians reached a climax in the latter 1980s. A faction of the *politicos* broke away from the ruling party in 1987 and in the 1988 presidential election, challenged the PRI and the *tecnicos*. Although this faction was initially successful in drumming up societal support, the Mexican institutions of statism and presidentialism proved too strong. The issue is explored in more detail in the Postscript.

courses that are more US-oriented.[31] In fact, 93 per cent of ITAM students are enroled in business administration and economics.[32]

The increase in private higher education is linked with foreign postgraduate studies. Private university students, account for a greater proportional share of those Mexicans now gaining entrance to postgraduate study abroad.[33] As in the private universities, the foreign postgraduate study is undertaken in the fields of economics and public administration. Over the past couple of decades, there are more postgraduates in the government policymaking elite with a large proportion of these degrees obtained abroad. Two-thirds of de la Madrid's cabinet officers received postgraduate educations - compared to 11 per cent in the 1930s and 21 per cent in the 1950s.[34] According to the Secretariat of the Presidency's sample, 44 per cent of the top officials under President de la Madrid have a postgraduate education. UNAM accounts for only 18 per cent of postgraduate degrees as opposed to 56 per cent share of first degrees. In comparison, foreign universities account for 62 per cent of the postgraduate degrees compared with only 5 per cent of first degrees.[35]

Most significantly, a new set of political values, based on the infusion of liberal economic ideas, has begun to form. The core values and ideas of the students emerging from the private and foreign universities are expressed as a set of preferences: growth over distribution, technical efficiency over populism, economic leadership by business rather than by the state and, quite remarkably,

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[31]Gardner has gone so far as to assert that ITAM is 'a bastion of Chicago-trained economists'. See David Gardner, 'Contrast of styles in the Cabinet', *The Financial Times* (London), 4 June 1985.

[32]D. Levy, *op. cit.*, in footnote 16, p. 23.

[33]In postrevolutionary Mexico, the public and private sector has had divergent educational socialization patterns. With the governing elites' move toward private and foreign education, the two sectors have recently experienced a merging of values and policy prescriptions.

[34]Peter H. Smith, 'Leadership and Change, Intellectuals and Technocrats in Mexico', in R. Camp, *op. cit.*, in footnote 26.

[35]Cited in D. Levy, *op. cit.*, in footnote 16, p. 24.

support for US methods rather than the post-revolutionary nationalist policies.[36] The ingraining of the public sector with ideas and values usually associated with the private sector not only has enormous political impact, but helps to explain the shift in economic policy direction in the 1980s.

Now that the reasons for the ascendance of the *tecnico* in the Mexican policymaking elite has been discussed, the analysis now turns to the origins of their policy preferences. The following section examines the root of the perceptions and values of the individual policymaker through their domestic socialization and foreign educational experiences.

[36] *Ibid*, p. 23.

6.3 The Socialization of the Tecnico

The reason why Mexican policymakers chose to liberalize trade in the 1980s can best be understood by examining the origins of the perceptions and values of the individual decision makers. The perceptions of policy problems and the perceived viable solutions are important determinants in reform initiatives. These perceptions are undoubtably influenced by ideological biases. These biases are greatly influenced by professional expertise and training. The domestic socialization and foreign educational experiences are examined below.

6.3.1 *The Domestic Socialization Process*

In Mexico's political system where the institutional arrangements of the state invests the executive branch with a virtual monopoly of power, the president and his cabinet are the individuals most responsible for policy direction. Each president brings to power and influence his allies and friends. It can be argued that he ideally tries to bring individuals whose values and attitudes regarding policy direction are compatible with his own.[37] Accordingly, the following analysis concentrates on the president and the technocratic cabinet.

In order to determine how *tecnicos* formulate their ideas on economic policy, it is important to look at where these individuals received their domestic political socialization and training. As the de la Madrid administration is seen as the benchmark for the rise of the *tecnico* to prominent positions, a comparison between this government and the López Portillo administration is useful for the analysis. From Tables 6.1 and 6.2, it is possible to chart the domestic socialization process of the cabinet members responsible for economic policymaking in the López Portillo and de la Madrid administrations. In the López Portillo administration, both the president and his Trade Minister are not *tecnicos*.

[37]Mexican presidents have not historically chosen people who would challenge and compete with their own values and beliefs. There is no attempt to avoid the hazards of 'group think'.

Table 6.1
Domestic Socialization: The López Portillo Administration

Name	Cabinet Post	Institution	Technocratic Positions Held
López Portillo, Jóse	President of Mexico, 1976-82	SHCP:	Secretary of Treasury, 1973-75
Ibarra, David	Secretary of Finance (SHCP), 1976-82	Bank of Mexico: ECLA:	Auditor, 1951-53 Economist, 1958-59 Chief, Development, Mexico City, 1961-63 Coordinator Research, 1964-66 Asst. Director, 1966 Director, 1970-73
de la Vega, Jorge	Secretary of Trade (SECOFIN) 1976-82	SECOFIN:	Economist, 1951-55 Director, Mexican Institute of Foreign Trade, 1970-76
Madrid, Miguel de la	Secretary of Budget and Programming (SPP), 1979-82	Bank of Mexico: SHCP:	Adviser to the Administration, 1960-65 Subdirector General of Credit, 1965-70 Director General of Credit, 1972-75 Subsecretary of Credit, 1975-76 & 1976-79
Oteyza, José Andrés de	Secretary of Energy, Mines and Parastatals (SEMIP), 1976-82	Bank of Mexico:	Analyst, Dept. of Economic Studies, 1968-70
Tello, Carlos	Secretary of SPP, 1977 & Director of the Bank of Mexico, 1982	SHCP:	Subdirector General of Credit, 1970-75 Subsecretary of Revenues, 1975-76

Sources: Roderic A. Camp, *Who's Who In Mexico Today* (Boulder, CO: Westview Press, 1988) and Presidencia de la Republica, *Diccionario Biografico del Gobierno Mexicano* (Mexico, D.F.: Unidad de la Cronica Presidential, 1989).

Table 6.2
Domestic Socialization: The de la Madrid Administration

Name	Cabinet Post	Institution	Technocratic Positions Held
Madrid, Miguel de la	President of Mexico, 1982-88	See Table 6.1	
Silva Herzog, Jesús	Secretary of Finance SHCP, 1982 & 1982-86	Bank of Mexico:	Economist, Dept. of Economic Studies, 1956-60 Director of the Technical Office, 1964-68 Co-ordinator, 1969-70
		SHCP:	Director General of Credit, 1970-72 & 1978-79
Petricioli, Gustavo	Secretary of Finance SHCP, 1986-88	Bank of Mexico:	Assistant economist, 1948-51 Economist, National Price Commission, 1951-52 Economist, Bank of Commerce, 1952-55 Economist to Director, 1958 Director of Technical Office,
		SHCP:	Director General Treasury Studies, 1967-70 Subsecretary of Treasury, 1970-76
Hernández C., Héctor	Secretary of Trade SECOFI, 1982-88	Bank of Mexico:	Economist, 1946-47
		SECOFI:	Asst.to the Director, National Committee to Control Imports, 1947-48 Sec., Committee on Export Prices, 1951-52 Director General of Trade, 1961 Subsecretary of Trade, 1976 Subsecretary of Foreign Trade, 1976-82 Secretary of SECOFI, 1982-88
		SHCP:	Subdirector of Economic Studies, 1958 Director General, International Studies, 1970-76
Salinas, Carlos	Secretary of Programming and Budget (SPP), 1982-88	SHCP:	Subdirector of Public Finance, 1971-74 Director, Department of Financial Studies and International Affairs, 1974-77 Director General of Treasury Planning, 1978-79 Technical Secretary, Economic Cabinet, 1979-81
Mancera, Miguel	Director of the Bank of Mexico, 1982 & 1982-88	Bank of Mexico:	Economist 1958-62 Administrator, Fund for the Export of Manufactured Goods (FOMEX) 1962-67 Director, 1964-70 Manager of International Affairs, 1967-71 Subdirector General of International Affairs, 1971-73 Subdirector General, 1973-82

Sources: Roderic A. Camp, *Who's Who In Mexico Today* (Boulder, CO: Westview Press, 1988) and Presidencia de la Republica, *Diccionario Biografico del Gobierno Mexicano* (Mexico, D.F.: Unidad de la Cronica Presidential, 1989).

The president did serve as Finance Minister for a few years in the Echeverría administration, but his domestic socialization took place outside of the Treasury or the central bank and most importantly, his knowledge of economics was very limited. De la Vega, an economist, did work at a lower level position in the Trade Ministry in his formative years, but it must be emphasized that the early 1950s was the time of the import substitution industrialization (ISI) strategy in SECOFIN. Although David Ibarra is a *tecnico*, he spent 15 years at the United Nations Economic Commission for Latin America. This international organization was a bastion of the structuralist-nationalist economic development model.[38] Both de Oteyza and Tello are *tecnicos* of a sort, but as will be discussed in a following section, their foreign educational experience influenced them in a very different way than those *tecnicos* of the de la Madrid administration. Only de la Madrid as the Budget and Programming Minister was a *tecnico*, who spent his formative career years in the Treasury (SHCP) and the central bank.

When de la Madrid became president, he picked like-minded and similarly socialized *tecnicos*. Every one of them spent some portion of their careers in either the SHCP or the central bank. (See Table 6.2.) For example, de la Madrid spent five years at the central bank and 12 years at the Treasury. Silva Herzog worked at the central bank for 10 years and the SHCP for six. And Mancera spent his entire career, since 1958, at the central bank. This Treasury/central bank socialization went deeper than just the economic cabinet. This socialization accounted for thirteen of President de la Madrid's eighteen initial cabinet appointees and a large number of subsecretarial and gubernatorial appointees.[39] As these institutions played such a prominent role in the professional socialization experience of the de la Madrid team, it is therefore important to examine these two institutions and the individuals who headed them in order to determine the possible values and attitudes learned during training.

[38] See Chapter 5, section 5.2.2.

[39] G. Hinojosa, 'Banco de México y hacienda, manantiales de los hombres del presidente', *Proceso* (No. 507, 21 July 1986), pp. 6-11.

Historically, the Treasury and the central bank have been bastions of financial orthodoxy in the Mexican bureaucracy since the 1917 Revolution. Opinions within the Treasury and the central bank began to shift away from laissez-faire doctrines after 1929 toward the emerging post-Second World War consensus of ISI. However, both institutions remained strongholds of monetary conservatism.[40] In spite of the post-Second World War heterodox development policies of the Mexican state, the conservative economists in these two institutions have occupied distinctive positions in the Mexican decision making process. (This probably explains the coherence of the post-Second World War development strategy informed by structuralism and import substitution with macroeconomic policies that combined an orthodox fiscal and monetary stance with fixed exchange rates.) The change in presidential administration in 1952 opened the way not only for a policy shift in the direction of stabilization, but also for the consolidation of the position of the Treasury and central bank economists. Their power began to wane in the 1970s, but with the advent of President de la Madrid, their influence was renewed.

The formal powers of the SHCP were reinforced by institutional factors. With the legislative and judicial branches subordinate to the executive branch, Treasury administered monetary policy, income (both taxation and borrowing), allocation and audit in relation to the central secretariats. After 1964, formal and increasingly real budget control was extended to the principal parastatal agencies.[41] To simplify some policy implications of Treasury control, it advocated the orthodox goals of development with price stability, balance-of-payments equilibrium and manageable levels of foreign debt. The bulk of investment was to come from the private sector and government tailored policies

[40]Robert R. Kaufman, *The Politics of Debt in Argentina, Brazil, and Mexico: Economic Stabilization in the 1980s* (Berkeley, CA: Institute of International Studies, University of California Press, 1988), p. 63.

[41]John Bailey, 'Presidency, Bureaucracy, and Administrative Reform in Mexico: The Secretariat of Programming and Budget', *Inter-American Economic Affairs* (Vol. 34, No. 1, Summer 1980), p. 35.

to promote investor confidence: currency convertibility, light tax effort with generous investment incentives, subsidized energy and transportation and credit preferences for priority activities. Given the comparatively low levels of expenditure prior to the latter 1960s, the principal instruments in promoting development were monetary policy (whereby the central bank adjusted investment along preferred lines) and a protectionist trade policy.[42] Between 1958 to 1970, the Treasury formula worked; industry expanded rapidly and aggregate growth rates were among the highest in the world.[43]

The SHCP and the central bank recruited the best talent available from the universities and nurtured an elite career service marked by the highest rates of personnel continuity in the central government. Such continuity of tenure of such men was a measure of their power, and contrasted sharply with the high rates of turnover in most other government agencies. This longevity in the technocratic sectors of government provided a fertile ground for the domestic socialization and training of the emerging governing elite.

In a political system like Mexico's, many rising technocrats will look up to and try to emulate their superiors in order to advance through the system. The men who head the institutions, where these elites received their training, are an important key to formulating economic ideas. From 1958 to 1970, two men dominated the policymaking process: Antonio Ortiz Mena, head of the Treasury and Rodrigo Gómez, the head of the central bank. It is important, therefore, to outline briefly the educational backgrounds and professional experiences of these two men.

Antonio Ortiz Mena received a law degree in 1928 from UNAM where he had also studied philosophy and economics. During his tenure as the Secretary of Treasury from 1958 to 1970, Ortiz Mena was influential in masterminding the economic model of stabilizing development. At the same time as his tenure as

[42]*Ibid*, p. 38.

[43]See Chapter 2, section 2.1.1.

Secretary of SHCP, Ortiz Mena was Governor of the IMF. With the election of President Echeverría, who sought to reduce the power of the Treasury and the man heading the ministry, Ortiz Mena resigned from the SHCP and became the President of the Inter-American Development Bank. He held this position from 1971 to 1988.[44]

For 17 years Rodrigo Gómez was the Director of the Bank of Mexico. He only had high school accounting but his government career was at the Mexican central bank from 1947 to 1970. He was also executive director of the IMF for Mexico and Central America from 1946 to 1948, as well as prominent in the Mexican movement to join the Latin America Free Trade Association in 1960.[45]

Both Ortiz Mena and Rodrigo Gómez trained a whole cadre of policymakers who came to power during the late 1970s and 1980s. Both were economic and political mentors to the rising new technocrats which included Miguel de la Madrid and Jesús Silva Herzog.[46] In addition to the two above-mentioned men, another important mentor to the future president, de la Madrid, was his cousin, Ernesto Fernández Hurtado. This relationship was key to the young de la Madrid's intellectual, economic and political formation. In Mexico, the relationship between father and son is extremely close and with de la Madrid's own father having died when he was very young, Ernesto Fernández took on the role. Fernández received an economics degree from UNAM and then went on to Harvard in 1948 for an Master's in Public Administration - the degree that the future president would also read for almost twenty years later. Fernández spent most of his career at the central bank before assuming the Director General position during the Echeverría administration. Fernández was known to be a

[44]Roderic A. Camp, *Who's Who In Mexico Today* (Boulder, CO: Westview Press, 1988).

[45]*Ibid.*

[46]Interview, Sr. Gustavo Mohar, London, 11 May 1992. Sr. Mohar is the head of PEMEX London and was the personal assistant at the Treasury Ministry to Silva Herzog (1982 to 1986) and *ibid.*

liberal-internationalist who advocated the restructuring of the economy along free-market guidelines.[47]

As previously discussed in Chapter 5, the link between individual policymakers and international institutions has proved to be an important conduit through which foreign economic ideologies and values are transferred. Both Ortiz Mena and Gómez had strong links with international organizations and their domestic socialization was in economically liberal institutions. These men had great policymaking influence in two financial institutions where the current *tecnicos* received their training. It is argued here that at an important time when politicians formulate their political/economic ideas, the *tecnicos* in the de la Madrid administration were greatly influenced by the economic ideologies of these men and the institutions in which they served.

From 1970 to 1982, the Treasury/central bank technocrats remained extremely powerful players in the policy process, but under Presidents Echeverría and López Portillo they lost the hegemony they had previously enjoyed. It is not until the administration of de la Madrid that we see the reemergence of the Treasury and a return to more orthodox policies. As is discussed in later sections, the individuals and agencies associated with the state financial sector were major proponents of the Internationalist model of development. Their reemergence, combined with the crisis situation, led to a radical shift in policy in the 1980s.

6.3.2. *The Foreign Educational Experience*

In addition to the domestic socialization process, the experienced gained through foreign study and living abroad can greatly influence values and attitudes. Miguel de la Madrid acknowledges as much in a recent article on US cultural influence in Mexico,

[47]Ernest Fernández Hurtado (ed.), *Cincuenta Años de Banca Central: Ensayos Conmemorativos* (Mexico, DF: Fondo de Cultura Económica, 1976).

> Intercultural relations offer all manner of risks and opportunities for all participants [and have] their positive and negative influences[. There are] events perceived as favorable and those felt as threats.[48]

The ideas and methodologies learned abroad and/or experiences through numerous transmission mechanisms, such as books, the media or trends can be difficult to determine. Is it possible to argue that there is a high tendency among those educated privately and abroad, when in office, to introduce the methodologies learned through these experiences, especially in times of crises? With such a large number of Mexican political elites obtaining postgraduate degrees from abroad and especially in the United States, are foreign educational methodologies playing a more significant role in Mexican policymaking?

Camp writes that in contemporary Mexico, the 'man of ideas' and 'the man of action' are no longer separate. With the growing demand for specialized knowledge, intellectuals have been increasingly called upon to serve in government positions in Mexico. Because of their training and breadth of perception, intellectuals - especially those who studied economics, public policy or business administration - are perceived to be the best equipped to provide solutions to Mexico's economic problems.[49] An empirical study by Camp has found that the 'Mexicans who have studied abroad have been affected ideologically.'[50] In a study of Mexican intellectuals from 1920 to 1980, Camp found that 79 per cent of those with neoliberal ideas were more likely to have lived in the United States (where a corresponding philosophy was held by most politicians) than were their contemporaries - 36 per cent - who professed Marxist views.[51] Derived from the

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[48]Miguel de la Madrid, 'Cultural Relations between Mexico and the United States', *Voices of Mexico* (July-September, 1992), pp. 22-3.

[49]Roderic A. Camp, 'Intellectuals: Agents of Change in Mexico?', *Journal of Interamerican Studies* (Vol. 23, No. 3, August 1981), p. 301.

[50]R. Camp, *op. cit*, in footnote 22, p. 104.

[51]*Ibid.*

foreign educational experience in specialized subjects, the *tecnicos'* policy prescriptions tend to suggest that northern ideas can resolve most human and social problems in Mexico. This view is supported by the belief among this elite group that what Mexico needs is good administration and a more efficiently run state.[52]

The link between foreign study and entrance to bureaucratic positions is evident. Many of those reading for postgraduate degrees abroad are directly recruited into middle-level or higher positions by politicians with similar backgrounds, thus merging the intellectual and the political elite. Many of the top students from ITAM, for example, are recruited to work in the technocratic ministries by their lecturers who are also government officials (e.g., such as Pedro Aspe, the current Treasury Minister). After time spent in a specific ministry, the student will be sponsored to study economics, business administration or public policy primarily in the United States. Often the student will be given the topic of his/her research. During the summers, the student will return to Mexico to work at the ministry and will continue to work there after completion of his/her studies.[53] In 1992, at least 42 government scholarship students returned with PhDs from top US universities, such as Harvard, Chicago and Stanford. They went straight into top businesses and government ministries, spreading a 'new market mind-set'.[54]

Carlos Salinas, the present president of Mexico, had a similar socialization experience. Although he went to UNAM where he read economics, he studied under David Ibarra (López Portillo's Finance Minister), who brought Salinas into

[52]It is important to note that the application of foreign ideas may not be appropriate in a developing country. There are many within the country and outside of it, who believe that Mexican problems cannot be solved with universally applicable remedies, but can only be worked out with Mexican solutions.

[53]Interviews with Confidential Interview 1, The Ministry of Trade, Mexico City, 14 July 1992 - (BS in Economics at ITAM and studied under Pedro Aspe; Msc in Economics at Warwick University, U.K.) and Confidential Interview 6, NAFTA negotiator for the Mexican Ministry of Trade, Mexico City, 18 July 1992 - (Ph.D. in Economics, Stanford University, USA).

[54]'Latin America: The Big Move to Free Markets', *Business Week* (15 June 1992), p. 51.

the Ministry of Treasury to work while he was writing his BA thesis.[55] Salinas stayed on at SHCP until 1981 when he left to run the de la Madrid election campaign. Interestingly, Salinas served as subdirector of Public Finance, Director of the Department of Financial Studies and International Affairs and Director General of Treasury Planning all while completing three degrees at Harvard. (See Tables 6.2 and 6.4.)

Intellectuals are supplying real alternatives both in terms of leadership and ideas. In examining the shift in economic policy of the de la Madrid government, it is useful to look at the change in the individual policymaker in the previous administration. By looking at the individuals in the economic cabinet, we can see not only a shift towards private and foreign educational experiences, but the link with US educational institutions.

In the late 1970s, a few prominent *tecnicos* entered the top policymaking circles, but for the most part, the old-style politician still dominated. In the López Portillo administration, all the top economic cabinet members and the president followed the *politicos* common path and received their first degrees from UNAM, save Carlos Tello. At the postgraduate level, the president and de la Vega do not have a foreign or national postgraduate degree. David Ibarra earned a PhD in Economics from Stanford; de la Madrid received a Master's in Public Administration at Harvard; and both de Oteyza and Tello read for a Master's in Economics at Cambridge University. (See Table 6.3.)

The dominance of the *tecnico* is most evident in the de la Madrid administration. (See Table 6.4.) Although de la Madrid received his first degree in law at UNAM, he was Mexico's first president to earn a foreign postgraduate degree. All of President de la Madrid's economic cabinet members studied economics; two at the private university, ITAM. Silva Herzog, Mancera and Petriciolli read for a Master's in Economics at Yale; Hernández Cervantez

[55]See the acknowledgement page in Carlos Salinas de Gortari, *Agricultura, Industrialización y Empleo: El caso de México*, thesis for the BA in economics at UNAM, 1971.

Table 6.3
Educational Socialization: The López Portillo Administration

Name/Position	Date of Birth	First Degree	Postgraduate Degree
Jóse López Portillo President of Mexico (1976-82)	16 June 1920	Law, University of Santiago, Chile, 1942-45	LLD, UNAM, 1950
David Ibarra Secretary of SHCP (1977-82)	14 January 1930	Public Accounting, UNAM, 1947-51; Econ., UNAM, 1953-57	PhD Econ., Stanford, 1959-61
Carlos Tello Secretary of SPP (1977) & Director General of the Bank of Mexico (1982)	4 November 1938	BS Georgetown, 1955-58	MS Columbia University, 1958-59; MA Econ., Kings College, Cambridge, 1961-63
Miguel de la Madrid Secretary of SPP (1979-82)	12 December 1934	Law, UNAM, 1952-57	MA Public Administration, Harvard, 1964-65
Jorge de la Vega Secretary of SECOFIN (1976-82)	14 March 1931	Econ., UNAM, 1955-58	
José Andrés de Oteyza Secretary of SEMIP (1976-82)	21 November 1942	Econ., UNAM, 1961-65	MA Econ., Kings College, Cambridge, 1966-68

Sources: Roderic A. Camp, *Who's Who In Mexico Today* (Boulder, CO: Westview Press, 1988) and Presidencia de la Republica, *Diccionario Biografico del Gobierno Mexicano* (Mexico, D.F.: Unidad de la Cronica Presidential, 1989).

Table 6.4
Educational Socialization: The de la Madrid Administration

Name/Position	Date of Birth	First Degree	Postgraduate Degree
Miguel de la Madrid President of Mexico (1982-88)	12 December 1934	Law, UNAM, 1952-57	MA Public Administration, Harvard, 1964-65
Jesús Silva Herzog Secretary of SHCP (1982-86)	8 May 1935	Econ., UNAM, 1953-57	MS Econ., Yale, 1960-62
Gustavo Petricioli Secretary of SHCP (1986-88)	19 August 1928	Econ., ITAM, 1952	MS Econ., Yale, 1955-58
Carlos Salinas Secretary of SPP (1982-88)	3 April 1948	Econ., UNAM, 1966-69	MA Public Administration, 1973; MS Political Economy, 1976; PhD Political Economy & Government, 1978, all at Harvard
Héctor Hernández C. Secretary of SECOFI (1982-88)	31 December 1931	Econ., UNAM, 1941-45	MS Econ., University of Melbourne, 1949-50
Miguel Mancera Director General of the Bank of Mexico (1982-88)	18 December 1932	Econ., ITAM, 1951-56	MS Econ., Yale, 1959-60

Sources: Roderic A. Camp, *Who's Who In Mexico Today* (Boulder, CO: Westview Press, 1988) and Presidencia de la Republica, *Diccionario Biografico del Gobierno Mexicano* (Mexico, D.F.: Unidad de la Cronica Presidential, 1989).

received a Master's in Economics from Melbourne University; and Salinas received two Master's and a PhD in Public Administration, Political Economy and Government from Harvard. This transition to the *tecnico* goes deeper than just the economic cabinet. Eight of the cabinet heads had taken advanced degrees in universities outside of Mexico with ten of the sixteen ministers with technocratic degrees.[56] Two-thirds of all cabinet secretaries and over one-half of all cabinet undersecretaries in the de la Madrid administration had completed some postgraduate study before assuming office.[57]

Foreign postgraduate education is especially important to the change in the economic ideology of the elite. The Mexican governing elite, themselves, view free-market skills as vital to the modernization of Mexico. Accordingly, many of the up and coming policymakers are sent to the US specifically to be trained in economics or public administration. So convinced are the Mexicans that modernization of the state lies with market solutions that Pedro Aspe, Salinas' Treasury Secretary, said, 'thank god we didn't cut scholarships to the U.S. during the lean years.'[58] Today's policymakers themselves quite freely admit that they have been influenced by the free-market ideas taught in the United States. The foreign educated *tecnicos* are not afraid of having closer ties to the US; they welcome it. 'To cope with the new world situation, it's better to get together', said President Carlos Salinas.[59] This tie has not only taken place in Mexico, but is occurring all over Latin America.

Both the domestic socialization and the foreign educational experiences have greatly influenced the perceptions and policy preferences of the *tecnico* in Mexico. As Mexican political institutions are dynamic and constantly redefined by

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[56]John Bailey and Leopoldo Gómez, 'The PRI and Political Liberalization', *Journal of International Affairs* (Vol. 43, No. 2, Winter 1990), p. 129.

[57]Presidencia de la República, *op. cit.*, in footnote 19.

[58]*Op. cit.*, in footnote 54, p. 51.

[59]*Ibid*, pp. 51-2.

those in power, the changing socialization patterns of the *tecnicos* are important. The numerous incremental changes introduced in the political institutions ultimately have reinforced and institutionalized the polices learned elsewhere. These practices have become ingrained in the institutional fabric of the Mexican state and have now become part of the standard operating procedure.

The final part of the chapter examines two competing epistemic communities: the Cambridge and the Internationalists. Armed with the support of like-minded, transnational networks, the Mexican policymakers find the legitimacy of their policies and the political strength to carry them out.

6.4 The Economic Crisis and Transnational Epistemic Communities

The final part of the chapter looks at the economic crisis and its effect on the two rival factions within the governing elite in the López Portillo administration. Not only is it a struggle between the old-style *politico* and the new *tecnico*, but it is a struggle of ideologies between two transnational epistemic communities. The two factions were first, the more dominant nationalist-populists and their tie to a group of Cambridge, statist economists; and second, the liberal-rationalists and their link to a wider, transnational movement advocating economic liberalization. The next section discusses the struggle between the two groups in the late 1970s and early 1980s.

6.4.1 *The Nationalist-Populists versus the Liberal-Rationalists*

The López Portillo cabinet lacked cohesion on economic policy from the very beginning of the *sexenio* due to the infighting of two distinct, ideological groups: the nationalist-populists and the liberal-rationalists. The nationalist-populists, represented by Carlos Tello (Planning and Budget - SPP) and José Andres de Oteyza (Patrimony), advocated state intervention in a relatively closed economy. The liberal-rationalists, represented by Julio Moctezuma Cid (Treasury), endorsed market forces in an open economy with a strong private sector.[60] Almost from the beginning, there was conflict between the two factions: in 1977, over the depth of the cuts in spending required by the IMF programme; in 1978, over the advisability of oil and gas sales to the US; in 1979 to 1980, over the accession to the GATT discussed in Chapter 2; and over the contents of the 1980 Global Development Plan.

The conflict over the budget is a good example of this rivalry. Moctezuma Cid was the uncompromising supporter of the austerity programme, whereas Tello opposed the IMF programme and pursued reinflation of the

[60]See R. Newell and L. Rubio F., *op. cit.*, in footnote 23, pp. 207-8.

economy through Cambridge-type economics.[61] This policy struggle occurred not only because of the inherent conflict between SPP and the Treasury - the former was responsible for expenditure and the latter for revenue - but also because it highlighted the conflict between two individuals with divergent economic policy prescriptions. In formulating the budget, Moctezuma Cid called for a fiscal deficit in lines with the IMF guidelines. Carlos Tello supported a larger deficit to reactivate a lagging economy. Moctezuma Cid was a supporter of the Treasury/central bank network which abhorred inflation.[62] In addition, he drew upon the effective political symbol of associating the more statist position with the Echeverría administration, which had fallen into public disfavour since the devaluation.[63] Carlos Tello had been an advocate of a stronger public sector and more aggressive public spending. Tello's overall thrust implied a more active, statist orientation, with a greater role for public and mixed enterprise.

Compromise between the two positions proved impossible. In addition, the conflict became too public. The open struggle went against the first rule of the governing elite - keep infighting behind the scenes. López Portillo vacillated between the positions, but after a year of infighting he dismissed them both.[64]

As the nationalist-populists were to influence greatly President López Portillo, it is useful to outline their background and educational. José Andrés de Oteyza was the youngest member of the López Portillo cabinet. He worked briefly as an economists for the Secretariat of National Patrimony and then as an economic analyst at the central bank. De Oteyza had completed his first degree in economics at UNAM where he was a student of Horacio Flores de la Peña - a

[61]This programme is explained in a later section.

[62]Moctezuma Cid was not a *tecnico* nor a member of the liberal-internationalist epistemic community. He followed the *politicos* domestic socialization experience receiving a law degree from UNAM with no foreign postgraduate training. In addition, he spent most of his public sector career in the Secretariat of the Presidency not at the Treasury or central bank. Yet, he took the monetarist line in the inflation debate.

[63]J. Bailey, *op. cit.*, in footnote 41, p. 48.

[64]*Ibid.*

self-described socialist who believed in a strong state role in the economy. De la Peña was the political and economic mentor for a generation of young economists in López Portillo's government. De Oteyza had continued his education for an Master's in Economics at Kings College Cambridge under the 'statist' economists, Joan Robinson and Anjit Singh. He held the powerful post of Minister of Energy, Mines and Parastatal Industry (SEMIP), which had gained a new place of prominence as the country discovered huge oil reserves. From this powerful post, de Oteyza steadily gained influence within the administration, especially in the final months of the crisis.

Carlos Tello had a close working relationship with President López Portillo, first as an advisor, when the president had been subsecretary of the Presidency from 1965 to 1970, and later at the Secretariat of the Treasury. Even after his resignation from the Secretariat of SPP, Tello remained close to the president. The 1978 budget conflict with Moctezuma Cid radicalized Tello. He moved on to one of Mexico's top economic research institutions at El Colegio de México. From there he criticized the government's economic policies. As a joint author with Rolando Cordera from the Unified Socialist Party, Tello put forth a model for the future of Mexico's economy. The book called for government stimulus of industry through protectionism, nationalization of key industries, greater control of the private sector, *especially the banks*, low interest rates; strong exchange controls and heavy direct investment.[65] Tello received all of his university-level education outside Mexico. Most significantly, he earned an Master's in Economics at Kings College, Cambridge in 1963.

Throughout the López Portillo administration, the president wavered between relatively orthodox policies and the nationalist-populist approach, but the more radical position was to win the important policy debates on the 1980 GATT entry and renewing the inward-looking development strategy with the 1980 Global Development Plan. This triumph of the nationalist platform was largely due to the

[65]Rolando Cordera and Carlos Tello, *México, la disputa por la nación: perspectivas y opciones del desarrollo* (Mexico, DF: Siglo Ventiuno Editores, 1981).

president's lack of a solid understanding of economics and his distrust of the Treasury/central bank network.[66] Because of this apprehension of technocratic ministries, the nationalist-populists had the ear of the president.

For four years, the López Portillo government experienced an economic boom because of oil. As was discussed in Chapter Two, the government was trying to cope with their new 'role conception' and the economic abundance of this newly discovered answer to their future growth and development. As long as Mexico could sustain its development model based on the continuing high price of oil and large amounts of foreign borrowing, the country did not have to think about the much needed economic reordering and structural change. But the oil boom was not to last. The drop in oil prices had caused a rippling effect in the economy in 1981. The Mexican political system was to experience economic, political and ideological stress.[67]

In the midst of the deteriorating economic situation, Mexico was going through the selection process for a new president. Traditionally, the succession has depend on what kind of person the Mexican governing elite and the president consider is necessary to preserve the system and what type of problems are envisaged in the next presidency.[68] If the selection process works, someone suited to the needs of the following *sexenio* is selected.

Miguel de la Madrid's background in the central bank, the public sector, as Treasury undersecretary and then Planning Minister was clearly important in his being chosen. De la Madrid had succeeded in assembling a planning apparatus in SPP (the 1980 Global Development Plan), a priority in President López Portillo's eyes. De la Madrid was seen as an orthodox economist projecting an image of

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[66]When López Portillo had been appointed Finance Minister under Echeverría, the ex-director of the Treasury - Antonio Ortiz Mena, the ex-director of the central bank - Rodrigo Gómez and his predecessor as Minister of Treasury, Hugo Margain, let it be known that they had no confidence in his ability.

[67]See Chapter 2 for a discussion of the causes of the economic crisis.

[68]J. Bailey, *op. cit.*, in footnote 7, p. 57.

competence and moderation, who could buoy up international respect for an oil-based economy now flagging under depressed world oil prices.[69] Although it was apparent that de la Madrid was an economic liberal, he had been responsible for devising López Portillo's Global Development Plan which had advocated the deepening of the inward-looking development strategy (ISI) and reinforced the public sector's involvement in the economy. De la Madrid had kept his head low and did not get into the thick of the rivalry between the nationalist-populists and the liberal-rationalists, playing his cards right and not alienating either side. What Mexico needed at that particular juncture, thought President López Portillo, was a person who could unite the two factions and put forth a responsible economic development plan. He believed that de la Madrid was that person.[70] In addition, de la Madrid was most likely chosen because he had the support of President López Portillo's closest advisors - including Rosa Luz Alegria, his son, Ramon López Portillo and José Andres de Oteyza.

De la Madrid's selection as the PRI candidate (and subsequently the next Mexican president) did not put an end to the rivalry between the two groups. As the economic crisis intensified, there was an important victory for the nationalist-populists with the nationalization of the banks.[71] In his last state-of-the-union address, President Jóse López Portillo announced the state takeover of all Mexican commercial banks as well as the imposition of exchange controls. It was de Oteyza who, with the support of the economic arguments of Tello, convinced President López Portillo that the commercial banks had to assume responsibility for the crisis.[72] After all, the banks were highly concentrated in ownership and in turn

[69]Dial Togerson, *The Guardian* (London), 28 September 1981.

[70]José López Portillo, *Mis Tiempos*, Segundo parte (Mexico, DF: Fernández Editores, 1988), p. 1109.

[71]See Chapter 2, section 2.1.3.

[72]The close relationship between these two men and López Portillo cannot be understated. In López Portillo's memoirs published in 1988, the ex-president defends the nationalization of the banks and says he owes gratitude to first his son and then de Oteyza and Tello without mentioning any of the liberal-internationalists. See J. López Portillo, *op. cit.*, in footnote 70, p. 1249.

owned or controlled a large proportion of Mexican industry and services. The two men advocated exchange controls and above all called for the elimination of the root of the problem: the enormous economic power of the banks.

Just to illustrate the enormous power of the presidency, the decision was made without consultation with his cabinet or the president-elect. Both the new Treasury Minister, Jesús Silva Herzog,[73] and the president-elect, Miguel de la Madrid, were informed just prior to the announcement of the measures. The night before, President López Portillo had told his cabinet that he was going to order the seizure of the banks and he invited resignations from those not in agreement. Those who resigned were: The Director of the Bank of Mexico, Miguel Mancera and the head of the state owned Foreign Trade Bank, Adrian Lajous. Only a few months earlier, Miguel Mancera had written a well-publicized pamphlet, *On the Inconvenience of Exchange Control.* As a result of the September measures, he had no choice but to leave. President López Portillo replaced Mancera with Carlos Tello. Under Tello, the central bank was to become a decentralized government agency overseeing the nationalized banking system. Tello would command the biggest state agency and the heart of the private sector. When President López Portillo named Tello as Director General to the Bank of Mexico, he did not totally eliminate the liberal-internationalist view in his cabinet. The Finance Minister, Silva Herzog offered his resignation but President López Portillo refused.

Because of the delicate debt negotiations going on with the international financial community, the president refused to allow Jesús Silva Herzog resign from the Ministry of the Treasury. Silva was involved in delicate negotiations to roll over US$80 billion debt and about to leave for the IMF meeting in Toronto, Canada. Silva became indispensable to the international debt renegotiations: he was the conduit by which information passed to Washington and Mexico City; and

[73]When de la Madrid was selected as the next president of Mexico, López Portillo allowed him to put his own economic team into cabinet positions in 1982 to deal with the economic turmoil. Jesús Silva Herzog was appointed Minister of Treasury and Miguel Mancera, the Director General of the Bank of Mexico.

he enjoyed the trust of the uncertain international community. To have lost Silva at this time would have been disastrous for Mexico.

Two separate and opposed financial centers emerged: 1) the populist conception of Tello and other nationalist-populists; and 2) the orthodox financial philosophy of Silva Herzog and the liberal-rationalists. For three months, Silva Herzog had to balance pressures from President López Portillo, Tello at the central bank and de la Madrid, the President-elect. When the banks were nationalized, little or no notice were given to the inner most circles of government including de la Madrid. Silva had to appoint over 55 heads of the nationalized banks in less than 24 hours.

Silva fought to exclude the names of left-wing economists from the list of the new heads of the nationalized banks. He refused to leave for Toronto until a suitable list of names had been agreed. He was ready to resign on this issue.[74] Silva got rid of Muñoz Ledo (former Minister of Labour) and prevented Horacio Flores de la Peña taking over one of the big four private banks. Instead he was to head the Foreign Trade Bank. Silva included two former Finance Ministers: David Ibarra (to Banamex) and Antonio Carrillo Flores (to Bancomer). Most of the other 57 were men trained in the central bank or in NAFINSA - the State Development bank.[75]

Tello and de Oteyza were in the position to greatly influence the president. Soon after assuming the office, President López Portillo was riding a great wave of optimism and popularity, as the oil boom seemed to have answered Mexico's long-sought after development problems. The rapidly declining economy and the ensuing acute crisis had brought the country from an all time high to the depths of despair. President López Portillo, at the end of his *sexenio*, was looking for some answers to Mexico's economic ills. As a means of regaining some of the confidence lost in his government, the president listened to the nationalist-populists

[74]Interviews Sr. Silva Herzog, Madrid, Spain, 21 May 1992 and Sr. Mohar, London, 11 May 1992.

[75]Interview, Sr. Gustavo Mohar, *ibid.*

and made a radical shift toward populism with the nationalization of the banks. He seemed to achieve his goal; the move was perceived by many at home as a victory for the people of Mexico.

With the continuing drop in oil prices, the August 1982 debt crisis announcement and the nationalization of the banks, the opportunity arose for a more radical version of the nationalist-populists' policy agenda. With the help of a group of foreign economists, a more radicalized nationalist agenda was put forward. The next section discusses the arrival of the Cambridge economists to help guide the Mexican economy.

6.4.2 *The Nationalist-Populists and the Cambridge Group*

The nationalization of the banks was not an isolated move, but part of a larger economic development plan. The López Portillo government (between September and December 1982), influenced by Tello and de Oteyza, put forth a nationalist agenda. In addition to the nationalization of the banks, there were to be strict controls on imports, foreign exchange curbs and bigger budget deficits. These policies, although tried before in Mexican history, were being put forth in a more radical and comprehensive form because of the time constraint. Perhaps in the belief that the incoming administration of de la Madrid would be more orthodox, the measures were applied quickly so they could not be easily undone.[76]

The nationalist policies originated from and were implemented by Mexicans, but they also reflected the ideas of a group of economists at Cambridge University. After his resignation from SPP in 1978, Tello renewed his links with a group of Cambridge University economists who had been fellow students of the noted economist Joan Robinson, soliciting their views about Mexico. Led by Dr. Ajit Singh, a group from Cambridge moved to Mexico by mid-1982 to advise Tello.[77] Those linked to the foreign economists were Carlos Tello, a student of

[76]This was definitely a good point. It took the subsequent administrations 10 years to reprivatize the banks.

[77]Alan Robinson, 'Portillo Pockets the Banks', *Euromoney* (October 1982), p. 41.

Nicholas Kaldor, and newly appointed as Director General of the Bank of Mexico; José Andrés de Oteyza, the Minister of SEMIP; and Vladimiro Brilovsky, director-general of the Institute of Industrial Planning. The latter two studied under Joan Robinson and Anjit Singh.

The Cambridge economists had been advising Mexican officials for years.[78] Dr. Singh was initially contacted by Dr. Brailovsky, a PhD student of his until 1976, because the Mexican economist had become concerned about the restraint that was introduced into economic policy in Mexico following a financial crisis in the mid-1970s. Dr. Singh was a fellow at Queens College and was the most active of the Cambridge group involved in Mexico.

The Cambridge position objected to the orthodox policies of the IMF, especially to the institution's devotion to the free-market and to restrictive fiscal and monetary strategies. To the Cambridge group there was no substitute for heavy government intervention in economic matters. They advocated a form of nationalism that emphasized industrial growth, which for developing countries required protectionism and expansionary economic policies.

Regarding the trade regime in Mexico, the Cambridge economists believed that a country such as Mexico could not keep exports ahead of imports. Rather than open markets, they advised that Mexico should close them. 'If you simply open your borders, you simply get wiped out,' remarked Dr. Singh.[79] In addition, the group also rejected the economic orthodoxy that trade always makes the world better off. The constraint on growth in many countries was the fear of a balance of payments crisis - a fear they would eliminate by protectionism while growth goes ahead. But growth was more constrained by inflation, which would be exacerbated by import controls. In order to attack this threat, the Cambridge economists believed in wage and price controls.

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[78]Steven Rattner, 'Cambridge to Mexico: A Radical Connection', *International Herald Tribune*, 26 October 1982.

[79]Cited in *Ibid*.

It is important to point out that these nationalist policies were not imposed by the foreign economists. It was the Mexicans who were primarily responsible for the policies. The Cambridge group was part of a community which believed in these policies. The Mexican policymakers belonged to this transnational, statist, epistemic community. Thus, the advice solicited was advise which they were already predisposed to accept. The link with this transnational network added to the legitimacy of the nationalists' policies and gave the international backing to implement them.

The Mexican experiment, as long as it lasted, represented a broadly based test of the Cambridge group's statist theories. Nonetheless, they did not have total success. Times had changed and with it had come a shift in the dominant development paradigm in the international arena from the more statist-oriented development policy - such as that advocated by the Cambridge group and the ECLA economists[80] - toward one based on neoliberal economic policies, such as those advocated by the liberal-rationalists within the de la Madrid team. In times of economic crisis and with the uncertainty that ensues, policymakers most likely will look to specialists for help. Because of an epistemic community's acknowledged expertise and its access to the decision making process, it greatly influences policy direction through their ideas and beliefs. Three interacting factors contribute to the triumph of the liberal-rationalists - those belonging to the Internationalists epistemic community. They are first, the economic crisis that acted as the catalyst for change; second, the empowerment of the domestic epistemic community through the global resurgence of neoliberalism; and third, as was discussed earlier in this chapter, the domestic socialization and foreign postgraduate educational experiences. The next section outlines the formation of the Internationalist epistemic community in the de la Madrid administration.

[80]See Chapter 5.

6.4.3 *The Triumph of the Internationalists*

The de la Madrid accession to the presidency marked the significant change in the balance of forces within the governmental elite. So profound was the discontent with President López Portillo that de la Madrid entered office in December 1982 in a virtual power vacuum. The new president was free to hand-pick like-minded *tecnicos* to his governing team, with no links to the traditional political elites. Technical experts had been introduced to politics since the times of President Miguel Aleman in the 1940s and 1950s, but never before had they politically relegated the old guard - the PRI, the labor movement, and the elimination of structuralists and neo-Keynesian economists - to such an extent as under President de la Madrid.

In stark contrast to the López Portillo administration, President de la Madrid enjoyed a consensus on economic policy based on the ideological cohesion of the individuals appointed to his government. President de la Madrid sought competent personal confidants who were not discredited from the past disorder. The technocratic group might help reassure the business community, much battered by the wave of populism in 1981 to 1982.[81] President de la Madrid chose not only personal friends with the same career socialization pattern (from the Treasury, Bank of Mexico and SPP), but also individuals with similar postgraduate training. The most important appointments to the de la Madrid team were the men who filled the three main command centres of the economic bureaucracy, all powerful figures with strong commitments to liberal economic policies. The Treasury went to Jesús Silva Herzog, who held a Master's in Economics from Yale and had worked in the central bank from 1956 to 1970 and the Treasury during the Echeverría and López Portillo governments. Because of Silva's close personal relationship with President de la Madrid - formed when they worked together at the Bank of Mexico and Treasury - Silva had been appointed in

[81]The private sector's reaction to the nationalists policies is discussed in Chapter 2.

the last months of the López Portillo administration to the position of Treasury Minister.

Miguel Mancera, another prominent orthodox economist, was reappointed as head of the central bank after resigning in protest over the nationalization decree. Mancera also did an Master's in economics at Yale and was a classmate of Silva Herzog. His entire career (from 1958) had been spent at the central bank. And Carlos Salinas, who at 36 was the youngest cabinet member, was appointed head of SPP. Salinas received an MA in Public Administration, an MA in Political Economy and a PhD in Political Economy and Government all at Harvard from 1973 to 1978. He spent his career in the Treasury where he started in 1971. Salinas ran de la Madrid's election campaign and, most importantly, Salinas was in large part responsible for the Global Development Plan under the López Portillo administration while de la Madrid was SPP Minister.[82] Salinas is said to have been one of the most influential in convincing President de la Madrid for the need of radical policy changes.

By choosing men with similar domestic and educational socialization patterns, President de la Madrid assured the likelihood of economic policy cohesion. By ensuring that they belonged to the same epistemic community, President de la Madrid's development model based on economic liberalization was more actively pursued. De la Madrid worked out his administration's economic policy prescriptions while he was president-elect (4 July to 1 December 1982) with a select few who met twice a week.[83] This inner circle included, among others, Carlos Salinas de Gortari, Jesús Silva Herzog and Miguel Mancera. This coalition of economic policymakers believed that in this time of acute crisis, brave choices had to be made. The times called for unity in the face of diversity and empowered this small elite to make radical policy choices. A common goal of crisis management and long-term structural change was needed at this important

[82]D. Gardner, *op. cit.*, in footnote 31.

[83]Interview, Silva Herzog, *op. cit.*, in footnote 74.

crossroad in Mexican history. Through these twice weekly meetings, the inner circle worked out a 'recipe for economic recovery' that called for short-term macro-management and long-term economic reordering and structural change.

Almost immediately upon taking office in December 1982, the new administration took a number of steps that plainly revealed that it was prepared to reverse the nationalist measures while substituting in their place market-oriented policies. First, President de la Madrid replaced Carlos Tello as head of the Bank of Mexico by the more conservative Miguel Mancera. Rather than implement Tello's more nationalistic measures, the government proceeded to dismantle the exchange controls and reestablish the dual exchange rate system. The new administration of de la Madrid would overturn most of the nationalist-populist policies. The liberal-rationalists' strength in conviction of policy paths and support of the implementation was far more successful. This was due to a transnational link that went beyond the tenuous bond to a specific group of individuals at one university. Rather the Internationalist policy platform was supported by a truly transnational networks that was both politically empowered through their claims to exercise authoritative knowledge and motivated by shared causal and principled beliefs.

Conclusions

To complement the international analysis, this chapter concentrated on the domestic political process in Mexico. The focus was on the two domestic determinants for Mexican economic policy change in the 1980s: the institutional arrangements of the state - primarily the institution of the presidency - and the individual policymakers. It was argued that because of the authoritarian-corporatist state, the governing elite have considerable autonomy from social actors when making policy. The governing elite has changed substantially over the last twenty years due to the enlarged bureaucracy, the generational distance from the 1910 Revolution and a shift toward private and foreign postgraduate education.

The educational shift from public to private institutions and the increase in foreign postgraduate training in 'technical' fields constituted the shift in the educational socialization process among the ruling elite. In addition, the domestic socialization received at the Treasury and the central bank also greatly influenced the ideas and values of the newly emerging *tecnicos*. This has significant repercussions, as the individuals just now reaching the political elite are experiencing a fundamentally different socialization process. The process has resulted in a shift in values, ideas and policy prescriptions among the governing technocratic elite. The change in domestic socialization and foreign postgraduate education explains the reasons for the political viability of the economic liberalization policies of the de la Madrid government.

The domestic and educational socialization process is key to the shift in policy prescriptions, and the debt crisis proved to be the catalyst to bring about radical policy options. Some have argued that the nationalists economic measures implemented in the final months of the López Portillo administration were a pragmatic response brought on by the economic crisis. Interestingly, the same argument was used by some from the neoliberal view in the de la Madrid administration.[84] But two radically different policies - statist and neoliberal - in response to a crisis situation were not mere pragmatism. The policy choices reflected the ideological stance - born from career and educational socialization - of the respective individual policymakers. To argue that Tello and de Oteyza implemented a nationalist agenda because of pragmatism would ignore the important influence of their own well-documented, stated economic beliefs as well as the influence of prominent economic mentors such as Horacio de la Peña and contacts with the Cambridge economists.

Equally, the internationalists in the de la Madrid government were not just being pragmatic when they put forth a radically different development policy in Mexico. At least, the nationalist view was part of a strategy already attempted and

[84]Interview, Silva Herzog, *op. cit.*, in footnote 74.

viewed as a more extreme position within the post-Second World War development model. The model advocated by the de la Madrid team broke with over thirty years of policy. The decision was based on the individuals' belief that economic liberalization was the only viable policy prescription to solve not only the short-term economic crisis, but also the longer-term structural problems.

The economic prescriptions of the de la Madrid administration went against not only a development policy in place for over half a century, but also went against the very sense of nationalism which has been such a potent force in the Mexican psyche since the early part of this century. If the move to liberalize the economy was only a pragmatic response to an acute crisis, then there would have been a shift back towards the more populist economic policy when the crisis had subsided. It could be argued that a decision initially taken for pragmatic reasons might have generated successes and supporters, thereby creating a kind of momentum to perpetuate it. However, the extent that economic liberalization has been carried out in Mexico, especially in trade liberalization and the Mexican initiative to form a North American Free Trade Agreement, refutes this. Carlos Salinas has continued with fervour the economic liberalization policies begun by his predecessor.

This chapter has shown that the belief by the de la Madrid cabinet in economic liberalization policies for Mexico finds its origins from the specific career and educational socialization process: the Treasury/central bank network and the foreign postgraduate study, primarily in the United States. This tie to an epistemic community of transnational economists helped to empower the de la Madrid team, giving legitimacy to their actions and the international support to implement them.

Chapter Seven: Trade Policy Reform in Mexico: Some Conclusions

This thesis has examined the reasons why Mexico liberalized its trade regime during the administration of Miguel de la Madrid. In order to answer this question, the study emphasized five international and domestic variables: the impact of the 1982 economic crisis, the leverage by international actors, the transmission of ideas, the institutional arrangements of the Mexican state and the ideas, values and perceptions of the individual policymakers. The five determinants are reviewed in the first part of this chapter. Following this summary, the final section addresses the economic, political and ideological developments in post-1986 Mexico and the broader implications for the study of international relations.

7.1 International and Domestic Determinants

7.1.1 *The Economic Crisis*

The first international variable discussed in this thesis was the economic crisis of the early 1980s. The debt crisis as well as the deep global recession and Mexico's inability to manage its considerable budget deficit, proved to be the catalysts for policy change. These economic shocks not only affected the Mexican economy, but they greatly shook the political and ideological foundations of the Mexican state.

Throughout this study, it has been argued that during such crises, there is not only strong pressure for reform, but decision makers are more likely to institute radical or innovative policies than when a crisis does not exist. This certainly is the case with Mexico. The new de la Madrid administration not only perceived that a crisis existed and that it was of a real and threatening nature, but the policymakers believed that failure to act would lead to an even more dire economic and political reality. Their belief that the Mexican political and economic system might possibly collapse, compelled decision makers to implement radical reforms that corresponded to their perception of the realities of the day.

The crisis not only affected Mexican policymakers, but it influenced the government institutions responsible for economic policy. It was argued that although institutions can be prone to inertia, they become more flexible in the crisis situation and more receptive to new approaches to solve the economic problems at hand. Because crises demand immediate action in a short time period, standard operating procedures are pushed aside and new ideas and solutions are initiated. In the early 1980s, the Mexican policymaking environment became less of a constraint as new policies, such as trade liberalization, were introduced.

Ever since the ISI policy had failed in the late 1960s and more importantly, recognition that the oil-led growth strategy could not be sustained, Mexican policymakers recognized that an alternative strategy was needed. The nature of this alternative path depended to a large degree on the individuals who came to power in 1982. Even before the economic crisis intensified, the candidate de la Madrid and his economic team believed that Mexico had delayed the essential economic reordering and structural change of its economy. At the PRI national campaign meetings in early 1982 - before the onset of the crisis, the 'Basic Plan and Electoral Programme' called for the Mexican market to integrate into the world economy, support an outward-oriented growth strategy and pursue the gradual liberalization of the trade regime. What the crisis did was to serve as the catalyst for policy reform. If there had not been a crisis, Mexico still would have implemented some form of trade liberalization but in a slower and less fundamental form. The crisis enabled the decision makers to take the bold decision.

7.1.2 *International Leverage*

The second external factor explaining Mexican trade policy reform is the leverage of international actors - the United States and the international financial institutions. The analysis focused primarily on the bilateral commercial relations between Mexico and the United States. The leverage argument maintains that because of the asymmetrical interdependence between the United States and

Mexico, the former had more power in influencing economic policy in the latter. This view posits that the United States was able to wield undue power, forcing Mexico to implement economic policies it would not have otherwise chosen during its financial crisis. This implies that Mexico was not in favour of liberalizing trade and did so largely because of US pressure. Yet, the power to influence policy is not as obvious as the relative strengths make it appear. The above position fails to recognize the leverage held by Mexico. It was argued in this thesis that Mexico derived a certain amount of bargaining leverage in its relationship with the United States from several sources: debt, trade, migration and drugs. The United States saw the debt problem, for example, not only as a financial crisis, but also a matter of national security. It feared that any overt pressure would compel Mexico to call a moratorium on debt repayments. This gave Mexico a certain amount of room for manoeuvre in its negotiations with the United States.

The thesis has maintained that the United States and the international financial institutions - primarily the IMF and the World Bank - did not force Mexico to liberalize its trade regime, but rather the policy prescriptions coincided with a preferred policy path of the de la Madrid government. In contrast to the other major debtors in the region at the time, Mexico had decided to liberalize trade, albeit only gradually, during the 1982 presidential campaign. Just announcing the commitment of opening the economy was important for Mexico, but it did not guarantee such policies would be implemented. Where the international actors played a role was in reinforcing Mexico's commitment to the process of liberalization and facilitated the *speeding up* of policy implementation. The most influential pressure came from the US legislative branch that sought a reciprocal trade relationship with Mexico. Before the substantial liberalizing measures were implemented by Mexico in 1985, the United States increased the application of countervailing duties and began to eliminate products from its GSP programme. These pressures could have been greater if the US executive branch co-ordinated on policy objectives. However, the Reagan administration was far more preoccupied with the financial crisis and the strategic Cold War agenda. At every bilateral meeting Mexico tried to resolve economic issues while the United States attempted to change Mexico's policy on Central America.

It cannot be denied that pressure from the United States and the international financial institutions reinforced and greatly influenced Mexico to stay the course, but it could equally be argued that Mexico could have chosen a more resistant path like the other Latin American countries. In the largest and third largest debtor countries in the region, Brazil and Argentina, domestic policymakers were resistant to neoliberal stabilization policies and these countries applied a variation of heterodox policies to deal with the economic crisis. In Mexico, on the other hand, orthodox stabilization policies were implemented and long-term structural reform, including trade liberalization, were policy objectives from the beginning of the de la Madrid administration. This difference in policy response in the face of similar external pressures demonstrates a different commitment on the part of Mexico.

7.1.3 *The Transmission of Ideas*

The third international variable that explains trade policy reform in Mexico was the transmission of ideas from the international system to the domestic political arena. This variable highlighted two important points. First, ideas do play a role in domestic policymaking. It was demonstrated that there existed strong links between the dissemination, influence and carriers of certain economic ideas and policy outcome. And second, neoliberalism in Mexico was due to the synergy of 'the man and the hour'. The study argued that the triumph of certain ideas could best be explained by timing. In the early 1980s, three interrelated factors occurred: the debt crisis and the world recession; the ideological vacuum left from the failure of Keynesian policies in the north and import substituting policies in the south; and the election of officials in both the industrialized countries and in Mexico who were either enthusiastic toward economic liberalism or were predisposed to accept the doctrine's policy prescriptions.

With the resurgence of neoliberalism in the industrialized nations in the 1970s and 1980s, came a corresponding change in policy in much of the developing world. A shift occurred in the global development paradigm ushered in by new ideas concerning the best way for states and markets to interact. The so-called 'Keynesian Revolution' that swept through the industrialized world from 1940 to 1975, with its emphasis on the state correcting market failures, had a correlating shift in economic policy - import substitution - in the Latin American and other developing countries. Likewise, with the ascendance of neoclassical economics in Britain and the United States in the late 1970s and early 1980s, there occurred a shift toward orthodoxy in most developing nations. This shift in global paradigm explains why policy changed so dramatically in the developing world in the 1980s.

In order to show how ideas were transferred from the international to the domestic policymaking arena, the thesis identified three mechanisms through which new ideas were carried. The first was through the hegemonic states. In 1979 to 1980 the ascendance of conservative governments in Britain and the United States greatly affected policy discourse. The United States played a crucial role in championing the new policy shift. The second mechanism was the academic community. The thesis argued that a 'counter-revolution' was led by a group of influential academics united in their opposition to Keynesianism, the structuralist theories of development and the use of economic planning for development purposes. These ideas carried through academic writing and foreign postgraduate training proved a particularly successful transnational linkage. The third mechanism was the international organizations such as the IMF and the World Bank. After the debt crisis in 1982, most Latin American countries actively sought help from the IMF (in renegotiating long-term loans) and the World Bank (through structural adjustment loans). Both institutions attacked the state's role in the economy and generally advocated an open international trade regime. Policy-based lending had been the main vehicle by which the organizations transferred their ideas for policy reform. In addition, it was shown that some influential

Mexican policymakers had spent time working for these international financial institutions. Through transnational links such as foreign study and work in the international organizations, new ideas were brought in by technical experts identified as an epistemic community. In Mexico, the epistemic community *was* the political leadership. President de la Madrid and his economic advisors were shown to belong to the neoliberal oriented, 'Internationalist' epistemic community.

Primarily because of the economic crisis, the new ideas and solutions were able to enter the policymaking process. This technical information was important in convincing decision makers in Mexico that a crisis existed, reform was needed and only certain options could solve the economic problems. Whereas the leverage of the international actors could explain why the Mexican government stayed the course in economic policy reform, it failed to account for the origins of the neoliberal policies. The transmission of ideas factor does reveal such origins.

7.1.4 *The Institutional Arrangements of the State*

The first domestic factor contributing to Mexico's liberalization of its trade regime, is the institutional arrangements of the state. Although there has been much written about the Mexican state, it was important to highlight briefly this variable because it explains why Mexican policymakers were able to change so fundamentally the development strategy without more social opposition. Because the Mexico is characterized by statism, presidentialism and one party domination of the Mexican political system, the Mexican state has considerable powers *vis-à-vis* social classes and interest groups and places the executive branch at the forefront of making policy choices. Through pacts and coalitions, the state has performed the critical function of regulating sociopolitical and economic interactions among the various social forces. The symbolic integration of peasant, labour and the popular sector into various governmental structures and the apparatus of the dominant party, the PRI, secured their co-optation. In addition, as the Mexican political system is highly presidential, the president rules with near total authority. Both Mexican foreign policy and economic policy direction are almost entirely under the president's control. With no national or institutional check that control decisions, the president has been virtually free in the use of government resources and in choosing whomever he likes for his cabinet. The implications of the combination of factors is that the individual policymakers themselves are important in determining policy choices.

7.1.5 *The Individual Policymakers*

Having established the key role of policymakers within the Mexican state, the final variable that explains Mexican economic policy choice is the individual policymaker. The thesis has argued that why specific policy decisions were taken can best be understood by examining the origins of the perceptions, values and experiences of the individual decision makers. Their beliefs are greatly influenced by professional expertise and training. Specialization in economics and public administration, for example, is likely to influence how they perceive problems and what solutions they believe ought to be applied. The study maintained that three reasons account for the change in type of policymaker in Mexico: the increase number of technocrats brought into the government bureaucracy from the early 1970s, the generational distance from the Mexican Revolution and the increasing numbers of individuals obtaining their education through private and foreign means.

This thesis has found evidence to show that the domestic socialization and foreign educational experiences of the Mexican policymakers explain the change in values, beliefs and perceptions of policy problems and the necessary solutions. It was shown that with the de la Madrid administration came a different type of policymaker and therefore policy outcome was affected. The new *tecnicos* had conducted a majority of their professional training in the Treasury/central bank network and their foreign postgraduate education in the United States.

The thesis argued that in response to the economic crisis Mexican policymakers relied on transnational links with like-minded groups or epistemic communities. The August 1982 economic crisis prompted radical policy change.

The national-populists in the López Portillo cabinet, allied to a group of like-minded Cambridge economists, nationalized the banks and tried to implement a populist policy agenda. But de la Madrid came to power four months after the August crisis. As the crisis continued, his government allied with an internationalist epistemic community and put forth orthodox policy reforms. This thesis has argued that there occurred a synergy between the economic crisis, the individuals and the resurgence of neoliberalism globally that explains Mexico's policy direction.

The international and domestic determinants outlined above were identified as the mutually reinforcing and necessary factors contributing to Mexico's trade liberalization in the 1980s. The crisis highlighted Mexico's desperate need for a new development strategy in light of the failed ISI development model and the unreliable oil-led growth strategy. Domestically, the crisis prompted the outgoing President López Portillo to choose a successor who had the technocratic credentials and the domestic and international legitimacy to deal with the economic problems facing the country. Without the crisis situation, a different man may have been selected as the PRI presidential candidate and it most likely would have been a populist. President de la Madrid brought to office a group of like-minded *tecnicos* with similar domestic socialization and foreign educational experience that served to reduce greatly policy discord. These individuals had formed transnational links with neoliberal epistemic communities that helped to legitimate and strengthen their resolve to implement trade liberalizing policies. Because of the institutional arrangements of the state and the crisis policymaking environment, de la Madrid and his economic cabinet had considerable autonomy in the policymaking process. The crisis coincided with an ideological vacuum in both the developed and developing world. With the move away from Keynesian policies and a strong interventionist role of the state, there occurred the resurgence of neoliberalism globally. These ideas were transferred to the domestic policymaking arena via international actors and institutions. In addition to the transmission of ideas, these actors - the United States, the IMF and the World Bank - reinforced the policy decisions already taken by the de la Madrid team.

The use of the five variables in a comparative analysis with other countries in Latin America, where historically a similar political and economic development has taken place, would be interesting for future research. Chile provides a similar case study to Mexico because of its failed attempts at economic liberalization in the 1970s and then the more successful implementation in the 1980s. Chile was also greatly affected by the economic crisis, international actors and the transmission of ideas. In addition, the military regime and later the authoritarian rule has ensured that social interests have been controlled. Further, the country has an abundance of US educated economists in top policymaking positions with close ties to a monetarist epistemic community.

Mexico and Chile could be contrasted with Argentina and Brazil. These countries resisted neoliberal policies for most of the 1980s and although they are implementing such policies now, are doing so in a slow and gradual manner. All three international factors were equally influential in Argentina and Brazil, but the difference is in their domestic political and economic situations. The economic crisis was not managed effectively and both suffered hyperinflation and experimented with heterodox stabilization policies. Brazil, for example, experienced in the 1980s the debilitating internal struggle between structuralists and neoliberals similar to that of Mexico in the late 1970s. Unlike Mexico and Chile, the governing elite lacks the cohesion and control over the government machinery and the commitment to neoliberalism. This internal political discord combined with strong social opposition made neoliberal policies difficult to implement. Social and political opposition to economic liberalization is still quite strong in the southern cone, yet trade liberalization and privatization is occurring. The answer to why this is happening could be found in the transmission of ideas and international pressure for policy change. Further research into the applicability of the five determinants in Latin America or other developing countries could advance the study of both of domestic policymaking and transnational policy co-ordination.

These five international and domestic determinants explain why Mexico decided to liberalize its trade regime from 1982 to 1986. But what significance, if any, do these factors have for economic policymaking in Mexico today? Were they only relevant for this particular juncture in Mexico's politico-economic history? Was the opening of its commercial relations only a momentary deviation in its post-Second World War development strategy? The following section addresses these questions and the significance of the economic, political and ideological developments in post-1986 Mexico for economic policymaking in the future.

7.2 The Post-1986 Developments

7.2.1 *The Economic Developments*

The rapid process of trade liberalization took off in the post-1986 period and has transformed Mexico's long-term development strategy. Since 1986, Mexico has undertaken a serious effort to open up and streamline its trade barriers.[1] In fact, Mexico liberalized much faster and further than what was agreed to in the GATT negotiations. Under the GATT agreement, Mexico was to bring down its maximum import duty from 100 per cent to no more than 50 per cent over a period of eight years. Instead within 16 months, the maximum tariff rate dropped from 100 to 20 per cent and the number of tariff categories was reduced from 16 to five.[2] Table 7.1 shows the decline of the average duty from 27.0 per cent in 1982 to 22.6 per cent in 1987 to 13.1 per cent in 1992. In addition, the table highlights the percentage drop of imports requiring import permits. The figure fell from 100 per cent in 1982 to 26.8 per cent in 1987 to 10.1 per cent in 1992. This transformation of the trade regime is quite remarkable. Whereas Mexico was one

Table 7.1
Trade Liberalization, 1982 to 1992

Year	Average Tariffs (percentages)	Value of Import Permits (percentages)
1982	27.0	100.0
1987	22.6	26.8
1992	13.1	10.1

Source: Department of Economic Research, Banamex, 1993.

[1]In addition, the structure of trade altered substantially during the de la Madrid *sexenio*. Non-oil exports as a percentage of total exports, rose from 22 per cent in 1982 to 62 per cent in 1990. Non-oil exports grew from US$5.6 billion in 1982 to nearly US$17 billion in 1990. The Mexican Government, *Mexican Agenda*, 12th edition (México, D.F.: Dirección de Publicaciones, July 1991), p. 26.

[2]*Ibid.*

of the most protected countries in the world in 1982, today it is one of the most open.

Since the 1985 US-Mexican bilateral trade agreement, there has been a flurry of trade agreements between the two countries. The most important bilateral development occurred in June 1990 when the free trade area talks were initiated. These negotiations were later expanded to include Canada. The Nafta will create an enormous market, encompassing some 360 million consumers and total output of more than US$6 trillion. This trade agreement would bring together more than 18 per cent of world trade.[3] It will work towards the progressive elimination of barriers to the flow of goods, services and investment, and strengthen protection of intellectual property rights. Interdependence between Mexico and the United States has fostered co-operation leading to Mexico's acceptance of the international regime of free and open markets. The Nafta and the idea of President George Bush's 'Enterprise for the Americas'[4] ensures the perpetuation of the international trade regime and its influence on domestic policymaking.

The fundamental changes to the Mexican development strategy since 1982 have been furthered and consolidated under the Salinas administration (1988 to 1994). The pace and intensity of the trade liberalizing measures implemented in the 1980s were, therefore, not a momentary deviation in Mexico's post-Second World War development strategy, but the beginning of the process of structurally transforming the Mexican economy. The underlying ideology of the Mexican development model has changed from that based on economic nationalism to the philosophy of economic liberalization. It could be argued that rather than demonstrating a commitment to the doctrine of economic liberalization, the much needed structural changes were implemented because the policymakers were responding to the realities of the day. But one could equally argue that other options existed for Mexican decision makers. Most importantly, the country did

[3]Stephen Fidler, 'Problems to be resolved', *Financial Times* (London), 12 May 1993, p. 31.

[4]A proposed free trade area encompassing the two continents of America.

not have to increase its commerical ties with North America. *The North American Free Trade Agreement was a Mexican-led initiative.* President Salinas went courting European foreign investment in the Spring of 1990. He was told by Chancellor Kohl of (West) Germany that his country's foreign investment, as well as most of the European Union, would be directed to eastern Europe. Apparently this is when President Salinas decided that he had no alternative but to seek a closer relationship with North America.[5]

The closer integration of the Mexican economy with North America accentuates the role of international actors and their influence on economic policymaking in post-1986 Mexico. As the trade interdependence between Mexico and the United States becomes stronger, other policy areas such as domestic political issues and foreign policy will most likely be affected. Most importantly for Mexico, the United States will continue to reinforce Mexico's policy choices in the future. What affect this US role will have on Mexican policymakers themselves and the Mexican population's attitude toward the United States has yet to be determined.

The concept of the Nafta is tremendously significant for a country that has historically defined its nationalism through anti-US rhetoric. Remarkably, the closer commercial relations with the United States has not produced what most Mexicanists would have predicted: large scale protest. A *Los Angeles Times* opinion poll found 79 per cent of Mexicans in favour of the Nafta in 1991. However, such overwhelming support has waned considerably in the intervening two years according to the Mexico City daily, *Excélsior*. The paper claims that

[5]Both Mexican and US officials concur that it was indeed Mexico that requested a Free Trade Agreement. President Salinas, in desperate need of foreign investment to continue his chosen economic development strategy, soon realized that his only option was to turn to the United States. Interviews, Walter Bastian, Director of Latin America, US Department of Commerce, Washington, DC, 15 April 1993; Paul Dacher, Office of Mexico, US Department of Commerce, Washington, DC, 15 April 1993; and Confidential Interview 2, Department of the President, Mexico City, Mexico, 22 July 1992.

only 47 per cent of Mexicans supported Nafta in March 1993.[6] Yet, the real question that could be addressed in future research is that in light of the historical relationship between the United States and Mexico, why is close to half the Mexican population in favour of such an agreement when, according to the opinion poll, only 14 per cent of Mexicans thought the Nafta would benefit Mexico.[7]

The economic reforms implemented over the past 12 years would be difficult to undo quickly. However, as the first international variable - the economic crisis - quite aptly demonstrates, systemic shocks can act as catalysts for fundamental policy changes. The Mexican economy today is struggling with a growing trade deficit[8] and the economy is predicted to grow only a little over 1 per cent in 1994.[9] Perhaps more important than these emerging economic difficulties, the Mexican political regime has not dealt effectively with the mounting socio-political changes and pressures. The challenges for the 1994 to 2000 administration will be how it addresses the socio-political changes that have been occurring along side the economic transformation of Mexico since 1982. These political developments and their relevance for future economic policymaking are discussed below.

7.2.2 *The Political Developments*

The institutional arrangements of the Mexican state have been undergoing considerable changes in the post-1986 period. One of the most important casualties of the changing political environment has been the cohesion of the governing elite.

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[6]'Poll', *Latin American Regional Report: Mexico & NAFTA Report* (25 March 1993), p. 2.

[7]*Ibid.*

[8]Mexico's non-*maquiladora* trade deficit grew from US$-0.6 billion in 1989 to US$-4.4 billion in 1990 to US$-11.3 billion in 1991 to US$-20.7 billion in 1992. 'Foreign Trade', *Country Profile: Mexico 1993-94* (London: The Economist Intelligence Unit, 1993), p. 6.

[9]'Outlook', *Country Profile: Mexico 4th Quarter* (London: The Economist Intelligence Unit, 1993), p. 5.

As was discussed in Chapter Six, the rise of the *tecnico* in Mexico's governing elite displaced a generation of *politicos* and cast aside others within the party who did not subscribe to the neoliberal economic vision for Mexico. In a move unprecedented in modern Mexico, a disaffected faction within the governing elite with more populist tendencies broke away from the PRI in 1987. Led by two influential men, the former PRI president, Porfirio Muñoz Ledo, and the former governor of Michoacán, Cuauhtémoc Cárdenas,[10] they formed the Corriente Democrática (the Democratic Current) to force a more democratic method for selecting the PRI's future leader. But the powers of tradition and patronage led to de la Madrid hand picking his successor (Carlos Salinas also a technocrat) and the newly formed group to be expelled from the party.

In the presidential election held on 6 July 1988, Cárdenas ran for president in a coalition of left-wing parties, the National Democratic Front (FDN). Although the PRI candidate, Carlos Salinas, was officially declared the winner, an important watershed was reached in Mexican political history. The official results gave Salinas a victory with only 50.4 per cent of the vote - the lowest ever recorded for the PRI which had traditionally received over 90 per cent. The right-wing party, the National Action Party (PAN), (historically the opposition party) obtained 17.07 per cent of the vote. And the FDN, which many believe actually won the election,[11] garnered 31.12 per cent - a tremendous result, nevertheless, considering that no opposition party in modern Mexico had received over 20 per cent.[12] Many analysts believed, at the time, that the 1988 presidential campaigned

[10]He is the son of the revered President Lázaro Cárdenas (1934 to 1940). The elder Cárdenas carried out extensive land reform, expropriated foreign oil companies in 1938 and had strong ties to labour. Lázaro Cárdenas was responsible for strengthening the presidency; bringing the military firmly under presidential control as an essentially apolitical, professional body; and strengthening the role of the state.

[11]An 'electrical failure' occurred and the computer system suspiciously went down during the tallying of the ballots. In addition, after the election there were calls for a recount, however, half of the ballots were mysteriously lost in a fire.

[12]'Reduced majority vote for Salinas', *Latin American Weekly Reports* (WR-88-29, 28 July 1988), p. 2.

signalled the beginning of the end for the seven-decade domination of the PRI. With almost half of its population at or below the poverty line, it could be argued that the reason for the strength of the FDN was due to the enormous additional social costs borne by the Mexican people because of the economic crisis and structural adjustment policies. The de la Madrid government may have indeed transformed the Mexican economy, but his *sexenio* witnessed the lowest growth rates in Mexico's history (0.1 per cent) and mounting socio-political tensions.

Traditionally Mexican presidents have been quite adept at crisis management and President Salinas was no exception. When Salinas took office on 1 December 1988, he promised a new era of pluralism, consultation and a clearer political system. Although protests of corruption and election manipulations still occurred throughout his administration, the opposition (primarily the right) were allowed to make some political gains. For the first time, governorships went to non-PRI candidates and in a few cases corrupt PRI officials were forced from office and the rightly elected official was allowed to take office.

In addition to the political openness, albeit quite small, Salinas instituted social reforms fully aware of the social costs created from the crisis and adjustment to the policy reforms. The president's call for 'social liberalism' has included the controversial reform of the agrarian laws, in particular the *ejido* system, redefining the relationship with the church, educational reforms and of course, the politically astute programme called *Solidaridad* (the National Solidarity Programme). It is through *Solidaridad* that Salinas has managed to recoup the loss suffered by the PRI in the 1988 elections. The programme was launched to deal with the urgent social needs of society. The programme deals mainly with job creation, productive projects, health care, education, nutrition, food distribution, public services and basic infrastructure. Priority attention is given to Indian communities, disadvantaged campesinos and low-income neighbourhoods. In a departure from previous Mexican administrations, the Solidarity programme was presented as neither a populist nor a paternalistic programme. The funds for the programme were in line with an orthodox economic policy. The programme has not been financed by printing more money or increasing the public expenditure, but rather by primarily making use of the funds unblocked following renegotiation of the foreign debt and those funds from the divestiture of public enterprises. Opinions differ as to whether or not the true intentions of this social programme was to alleviate the costs from the decade of negative socio-economic welfare factors, or whether it was an adept move by a regime well versed in the means of co-optation. Regardless, President Salinas envisions himself not merely as a *tecnico*, but as a man with the vision and courage to modernize Mexico - the Gorbachev or Thatcher of Mexico.[13]

The Solidarity programme seems to have recouped the PRI hold over the Mexican political system. The 1991 mid-*sexenio* elections were far more favourable toward the ruling party than had been the case in the 1988 Presidential elections. In addition, the PRI has successfully diminished the appeal of the parties on both the right and the left. The neoliberal economic programme of the PAN has been completely taken on board by the Salinas administration and all the PAN seems to call for now is further political liberalization.[14] The left-wing coalition, still led by the uncharismatic Cárdenas, is not only a varied and diverse group representing former PRI officials and ex-communists, but their appeal has considerably lessened in the last few years. Cárdenas' populist platform and, most remarkably, his anti-Nafta stand have been considerably watered down.

According to Mexican tradition, Salinas has hand picked his successor - Luis Donaldo Colosio, the Secretary for Social Policy (head of the *Solidaridad* programme). Just as López Portillo in selecting de la Madrid, chose a person he felt could address Mexico's future needs, Salinas has chosen a man who seems to bridge the gap between the *tecnicos* and *politicos*. Colosio is not only a *tecnico*, but he has held elective posts before (he was a Senator for the state of Sonora) and

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[13]Confidential Interview 2, Ministry of the Presidency, Mexico City, August 1992.

[14]Lecture given by Luis Alvarez, leader of the PAN, The London School of Economics, London, March 1992.

is on good terms with the *politicos* in the party. Thus, the outgoing president chooses an individual he perceives is good for the Mexican system and more importantly maintains the cohesion of the ruling party and its hold on Mexican political life. In this way, the institutional arrangements of the state have not changed much since the late 1920s.

In addition to the economic and political developments in post-1986 Mexico, ideological considerations are important. The cohesion of the neoliberal epistemic community and the global ideological trends present challenges to the future of Mexican economic policymaking. The ideological developments are discussed below.

7.2.3 *The Ideological Developments*

The thesis has argued that trade liberalization and the broader development strategy of economic liberalization depended to a large degree on 'the man and the hour'. The 'man' governing in post-1986 Mexico was a member of the neoliberal epistemic community. The de la Madrid administration shows a definitive shift toward a technocratic elite educated abroad, primarily in the US, with a concentration in economics. Significantly, this trend has continued and has been consolidated with an even more homogenous cabinet under President Salinas. Pedro Aspe, Secretary of Treasury, has a BA in Economics from ITAM (private) and a PhD in Economics from MIT; José Córdorba, Secretary of Presidency, has a first degree and Masters in engineering and philosophy from France and a PhD in Economics from Stanford; Jaime Serra Puche, Secretary of Trade, has a politics degree from UNAM, a Masters in Economics from El Colegio de México (private) and a PhD in Economics from Yale; Ernesto Zedillo, Secretary of Programming and Budget (before its dissolution), has an economics degree from the National Politechnical Institute (private) and a Masters and PhD in Economics from Yale; and Luis Donaldo Colosio, the Secretary for Social Policy (head of the Solidarity Programme), has a first degree in Economics at the Monterrey Technological Institute (private) and a PhD in Regional Development at the

University of Pennsylvania. With the Salinas administration, the transnational links have been strengthened. Two noted MIT economists, Rudiger Dornbusch and Paul Krugman, have constant contact with Salinas and his economic cabinet and frequently are consulted for economic policy advice.[15] The broader implications that these epistemic communities have for the study and practice of international relations are essential to understanding domestic policy reform and transnational policy co-ordination.

It is significant that the Internationalist epistemic community is still in power in Mexico. If all goes as tradition would dictate, Colosio will be elected president in the Summer 1994. But one can never predict what policies and who the new president will choose. Whether the next Mexican president continues the trend in choosing like-minded *tecnicos* will determine to a large degree the cohesion of the governing elite and the continuation of the neoliberal economic policies. Colosio will most likely continue with the same economic policy, but he will have to spend a great deal of time addressing the more urgent social issues.

If the 'man' is the same in Mexico, will the timing still be right? There has been increasing scepticism about neoliberalism. The neoliberal resurgence draws criticism on welfare costs, economic effectiveness and political implications. The triumph of neoliberalism is not so clear cut. Will the lacklustre economic results of many developing countries in the 1980s and 1990s, including Mexico, lead to a resurgence of alternative approaches? If as Hirschman[16] argued that policy shifts are explained in terms of cycles, is the pendulum now starting to swing toward the more public oriented life? If the dominant economic paradigm changes in the industrialized world, how long will it be before the majority of developing nations follow suit? Is the shift to economic liberalization merely an intellectual trend? If the change in economic policy is dependent to a certain degree on the 'man and

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[15]Confidential Interview 6, NAFTA negotiator for the Mexican Ministry of Trade, Mexico City, July 1992 and *Latin American Regional Report: Mexico & Nafta Report*.

[16]See Chapter 5, section 5.1.

hour', then what will happen to economic policy direction when the leaders change or the social groups are no longer co-opted to the same extent by the state? Will the next economic crisis act as a catalyst for an entirely new policy direction? All these questions could be addressed in future research.

This thesis has provided an investigation into the political economy of Mexican trade liberalization in the early 1980s by identifying five determinants for policy change. The international and domestic variables are essential and mutually reinforcing factors for Mexican trade policy reform. By analyzing international regimes, epistemic communities and the Mexican domestic political process, the study has contributed to both the practice and study of international political economy. In this way, this thesis has both sought to advance the knowledge of policymaking in Mexico and theoretical conceptualizing more generally.

Postscript

Beyond Trade Liberalization

Although trade liberalization was the most successful, progress was made in other areas of structural reform. The de la Madrid government started the programme of privatization which was far more politically sensitive than trade liberalization. Mexico's commitment to a strong state role in the economy was the oldest in Latin America dating back to the 1917 constitution. Mexicans, since the time of the nationalization of the oil companies in 1938, came to equate parastatals with the nation's patrimony and sovereignty. When López Portillo nationalized the banks in September 1982, the decision was met with overwhelming support from the public. Despite the popularity of the nationalization measure, almost immediately after resuming office, President de la Madrid went about reversing that decision. In late 1982, the government signed a bill that would eventually lead to the return of the nationalized banks into the private sector. By the end of his *sexenio*, President de la Madrid returned 34 per cent of the bank stocks to private hands.[1] President Salinas continued the important changes when, in May 1990, he introduced the constitutional reform to reestablish the private sector ownership of the commercial banking system. Out of the 18 commerical banks retained by the Mexican government since the 1982 nationalization, eight were sold between June and October 1991. The banks privatized amounted to more than 56 per cent of the country's entire banking system.[2]

Although the political and social pressure President de la Madrid encountered was immense, he followed through with his policies of divestiture. In a policy shift that would have been inconceivable under his two predecessors, President de la Madrid merged, liquidated or sold a considerable amount of state-

[1]'History on hold', *Mexico Journal*, (5 December 1988), p. 11.

[2]'Privatisation already half-complete', *Latin America Special Report* (SR-91-06, December 1991), p. 2.

owned entities. Of the 1,155 in existence in December 1982, 680 remained four years later and less than 500 remained at the end of de la Madrid's administration in 1988.[3] As part of his project of reforming the Mexican state, President Salinas has moved divestiture further and by April 1991, only 195 parastatals were still in government control. Most importantly, Salinas has targeted some of the biggest enterprises in the public sector. The most outstanding being iron and steel enterprises, Teléfonos de México, the commerical banking system and some would argue, Pemex. In July 1992, the Mexican government announced that in order to improve its efficiency and productivity, Pemex would be split into four semi-autonomous divisions. One of the divisions would be allowed to establish subsidiaries and enter into joint ventures with foreign companies.[4] Many observers have commented that this is the beginning of the privatization of Pemex.

Although very little progress on financial liberalization was achieved during the de la Madrid government, only months before transferring power, the authorities allowed commercial banks to receive resources through bankers' acceptances, which boosted the availability of bank credit to the private sector. This led to a reflow of resources into the banking sector by the end of 1988.[5] Only months after taking office, President Salinas adopted several measures to encourage banks to compete more effectively among themselves and with other financial intermediaries. The authorities eliminated controls on interest rates and maturities for most traditional bank instruments in order to encourage financial savings and improve the allocation of credit. Additionally, the former system of mandatory lending from banks to the public sector through reserve requirements was replaced by a simplified system of liquidity requirements, and the role of

[3]IMF, 'Structural Reforms Lay Foundation For Medium-Term Growth in Mexico', *IMF Survey*, (10 July, 1989), p. 212.

[4]'Pemex being split into four units', *Latin America Regional Reports: Mexico & Central America* (RM-92-06, 16 July 1992), p. 2.

[5]Eliot Kalter and Hoe Ee Khor, 'The Process of Structural Reform', *Finance & Development* (September 1990), p. 23.

open-market operations for monetary control was enhanced. In addition, legislation was passed that strengthened supervisory powers of the Bank of Mexico over the banking system.

Although President de la Madrid made allowances to *The 1973 Law for the Promotion of Mexican Investment and Regulation of Foreign Investment*,[6] it was not until the Salinas administration that foreign direct investment was liberalized. In May 1989, the government announced a substantial liberalization of foreign investment regulations: foreign investors could now own 100 percent of enterprises valued up to US$100 million, without prior approval from the National Foreign Investment Commission. The new regulations permitted foreigners to invest in the Mexican stock market through specially designed trust funds.[7] Recently, President Salinas has moved to eliminate all restrictions on foreign investment. All these liberalizing measures served to further the process of fundamental, structural change to Mexico's post-Second World War development strategy.

Mexico and Free Trade

Mexico has attempted to expand and improve bilateral trade relations with Latin America, the European Union, the Pacific Basin and the North American countries. Since 70 per cent of Mexico's trade is with the United States, this relationship is by far the most important. As was documented in Chapter Four, no bilateral trade agreement existed between Mexico and the United States until 1985. Since then, there has been a flurry of trade agreements. Table P.1 highlights the major developments in the bilateral relations. The 1985 Bilateral Agreement (Mexico foreswore export subsidies and the United States provided the injury test)

[6]According to the 1973 law, the majority interest - at least 51 per cent - in all firms had to be Mexican. President de la Madrid did make exceptions to this rule. The most publicized case is that of IBM in the mid-1980s.

[7]*Op. cit.*, in footnote 3.

Table P.1
Major developments in Mexico-US Bilateral Relations

Date	Agreement
April 1985	1985 Bilateral Agreement
November 1987	1987 Framework Understanding Framework of Principles and Procedures for Consultation Regarding Trade and Investment Relations.
December 1987	Sectoral accord on steel and alcoholic beverages reaches under the Framework Understanding.
February 1988	Sectoral accord on textiles and apparel under the Framework Understanding
January 1988-July 1989	Consultations and Plenary Sessions
October 1989	Trade and Investment Facilitation Talks (TIFTs)
June 1990	Free Trade Agreement talks initiated

Source: US International Trade Commission, *The Likely Impact on the United States of a Free Trade Agreement With Mexico*, USITC Publication 2353 (Washington, DC: United States International Trade Commission, February 1991), pp. 1-8 - 1-9.

was renewed for additional three-year periods in 1988 and 1991. Because of the agreement, the number of cases brought against Mexican exports declined considerably. Whereas 1980 to 1985 saw 27 cases filed, only two were filed between 1985 and 1990.[8]

In November 1987, the two counties concluded negotiations begun in 1985 with the 1987 Framework Understanding. This bilateral understanding was considered a landmark in economic relations between the two nations. The accord focused on Mexico's need for export earnings to repay its foreign debt and on the creation of a mechanism for trade consultation, dispute resolution and mutual reduction of trade and investment barriers. Prior to this understanding, Mexico and the United States had no formal bilateral mechanism in which to regulate trade relations. Under the terms of the understanding, consultations on trade-related

[8]Gobierno de México, *Mexican Agenda*, 12th edition (México, DF: Dirección de Publicaciones, July 1991), p. 30.

Table P.2
Major developments in the North American Free Trade Agreement, 1990 to 1994

Date	Development
10 June 1990	President Carlos Salinas from Mexico and President George Bush from the US sign declaration advocating the idea of free trade agreement.
21 August 1990	President Salinas writes to President Bush proposing that they negotiate a free trade agreement, as per US law.
5 February 1991	President Bush, President Salinas and Prime Minister Brian Mulroney from Canada announce the they advocate a free trade agreement.
1 March 1991	President Bush asks the US Congress for a two year 'Fast Track' agreement for NAFTA.
23 to 24 May 1991	Congress approves the fast track provision.
31 December 1991	The basic text of the agreement is agreed.
February to August 1992	Negotiations between Mexican and US Trade Ministries.
12 August 1992	President Bush and the three trade ministers announce the negotiations have been successfully concluded.
7 October 1992	The three countries' trade ministers sign the agreement in the presence of their political leaders.
17 December 1992	President Bush, President Salinas and Prime Minister Mulroney sign the NAFTA in their respective countries.
13 August 1993	Parallel agreements agreed.
14 September 1993	President Bill Clinton, President Salinas and Prime Minister Kim Campbell sign the parallel agreements in their respective countries.
3 November 1993	President Clinton sends the final text of the NAFTA to Congress for approval.
17 November 1993	US House of Representatives vote 234 to 200 in favour of the NAFTA.
1 January 1994	The North American Free Trade Agreement comes into effect.

Source: *Latin American Regional Report: Mexico & NAFTA Report* (RM-93-12, 2 December 1993), p. 4.

disputes are to commence 30 days after an initial request. If these discussions fail to resolve the dispute within 30 days, either country may resort to other means of dispute settlement, including the GATT procedures.[9]

The Trade and Investment Facilitation Talks (TIFTs)[10] represented a fundamental turning point in bilateral commercial relations. Negotiations under the earlier Framework Understanding were held only as part of a consultative and dispute settlement mechanism. The mandate of the TIFTS went further by providing for comprehensive trade and investment negotiations. In addition, previous attempts by the Mexican government to engage the United States in discussions on a sectoral basis had not been successful.[11]

Chapter Seven discussed Mexico's negotiations for a North American Free Trade Agreement (Nafta). Table P.2 chronicals the three and one-half years of negotiations for the Nafta. The agreement came into effect on 1 January 1994. It provides concrete tariffs and provisions for ensuring open borders within Canada, the United States and Mexico. What follows are the details of the agreement:[12]

1) *Market Access for Products* - Nafta will eliminate duties on all products immediately, or during five-, ten- or 15-year periods.

2) *Agriculture* - Nafta provides for immediate implementation of tariffs from non-tariff import barriers. It does not address aspects of the

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[9]US International Trade Commission, *Review of Trade and Investment Liberalization Measures by Mexico and prospects for Future United States-Mexican Relations: Phase I: Recent Trade and Investment Reforms Undertaken by Mexico and Implications for the United States*, Investigation No. 332-282 (Washington, DC: United States International Trade Commission, April 1990), p. 2-3.

[10]The mandate of the TIFTs goes beyond that of the 1987 Framework Understanding. TIFTs provides for comprehensive trade and investment negotiations which force the parties to focus on specific economic sectors as well as cross-sectoral issues. Under the TIFTs, the fact-finding and analysis in preparation of negotiations are performed by binational teams rather than based on exchanges between separate study groups on both sides.

[11]*Op. Cit.*, in footnote 9, pp. 2-6.

[12]The information is derived from Stephen Lande and Nellis Crigler, 'NAFTA & Uruguay Round Provisions', *Business Mexico* (Vol. 4, Nos. 1 and 2, Special Edition 1994), pp. 10-12.

agricultural programme such as levels of export subsidies and internal supports.

3) *Textiles and Clothing* - Nafta eliminates quantitative controls immediately.

4) *Safeguards* - A safeguard clause is where a country can impose temporary restrictions against surges in low-priced imports. Nafta does not exempt its members from all global safeguard actions but provides that such actions not be taken against a Nafta partner unless it counts among the five largest suppliers of a product and is found to contribute to serious injury.

5) *Antidumping* - Nafta did not address antidumping laws in member countries other than requiring Mexico to establish procedures equivalent to international norms.

6) *Subsidies and Countervailing Measures* - Nafta did not modify specific subsidy and countervailing duty practices, but did establish panels and requirements to review the operation of the law among member countries.

7) *Trade-Related Investment Measures* - Nafta bans local content requirements and trade balancing requirements after a transition period. Nafta requires the best of national or most-favoured-nation treatment for investors and private party-state arbitration for investment disputes.
8) *Services* - In trade negotiation, services include professions (accounting, architecture, engineering), other business services (computer services, rental and leasing, advertising, market research, consulting, telecommunications, courier services and audio visuals) construction, distribution (wholesale, retail, franchising) educational, environmental, financial (banking, securities, insurance), health and tourism. Nafta provides for comprehensive liberalization of services.

9) *Intellectual Property Rights* - Nafta established significantly improved standards for the protection of intellectual property rights: copyrights (including computer programmes, sound recordings, motion pictures) patents, trade secrets, integrated circuits and industrial designs. Nafta includes biological patents and, at least between Mexico and the United States, audio visual.

10) *Environment* - Nafta is the 'greenest' trade agreement yet negotiated. Nafta explicitly protects countries' environmental standards from challenges, as long as they are administered in a non-discriminatory fashion and are based on scientific evidence. Nafta allows for trade-sanction provisions in certain environmental agreements to take precedence over

Nafta provisions. Finally, Nafta side agreements establish for the first time an environmental commission.

11) *Labour* - The Nafta side accord on labour establishes for the first time a labour commission.

The de la Madrid administration proved to be the watershed for fundamental structural changes. Twelve years after Miguel de la Madrid came to power, Mexico had completely altered the course of its development strategy: it substantially opened its trade regime, cut by more than three-quarters the number of parastatals, liberalized the financial sector and removed most restrictions to foreign investment. Just as membership to the GATT had demonstrated a commitment to long-term structural change, the recent Nafta agreement indicates Mexico's serious intent to embrace the notion of free trade.

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