



Director of
Central
Intelligence

(b) (1)
(b) (3)

~~Secret~~

** ACCOUNTABLE DOCUMENT **
RETURN TO O/ODI REGISTRY,

NIC File Copy

APPROVED FOR RELEASE
DATE: SEP 2006

Please return to EO/NIC

Dealing With Mexico in the 1980s

National Intelligence Estimate

~~Secret~~

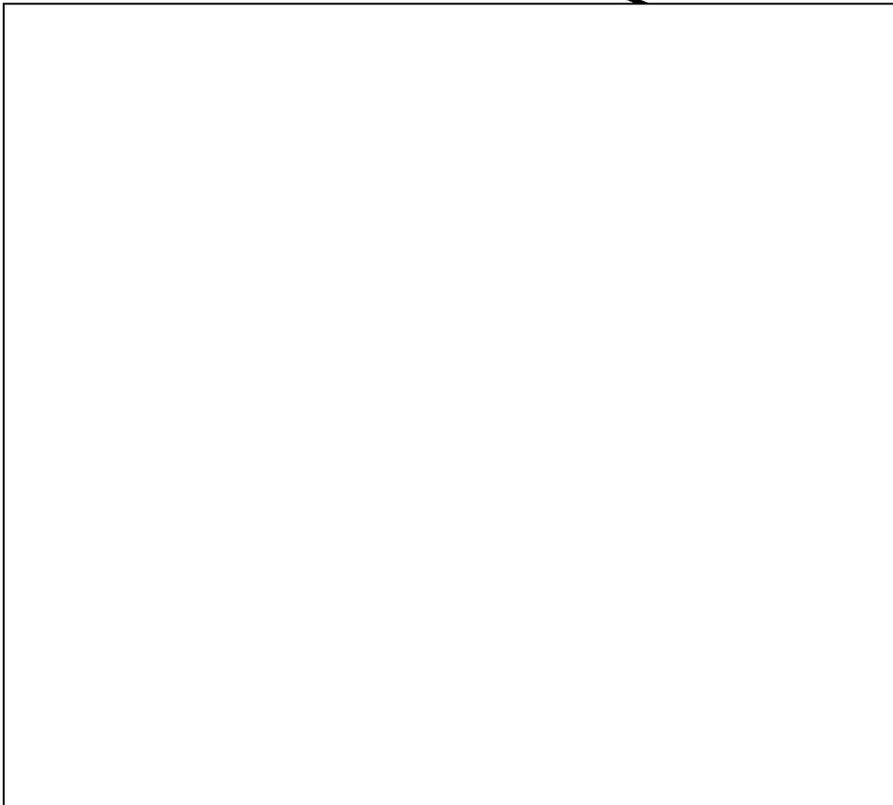
NIE 81-80
9 September 1980

Copy

355

~~Warning Notice
Sensitive Intelligence Sources and Methods Involved
(WNINTEL)~~

~~NATIONAL SECURITY INFORMATION
Unauthorized Disclosure Subject to Criminal Sanctions~~



~~SECRET~~



NIE 81-80

DEALING WITH MEXICO
IN THE 1980s

Information available as of 9 September 1980 was
used in the preparation of this Estimate.

~~SECRET~~

~~SECRET~~

THIS ESTIMATE IS ISSUED BY THE DIRECTOR OF CENTRAL INTELLIGENCE.

THE NATIONAL FOREIGN INTELLIGENCE BOARD CONCURS, EXCEPT AS NOTED IN THE TEXT.

The following intelligence organizations participated in the preparation of the Estimate:

The Central Intelligence Agency, the intelligence organizations of the Departments of State, Energy, and Treasury, the Defense Intelligence Agency, and the National Security Agency.

Also Participating:

The Assistant Chief of Staff for Intelligence, Department of the Army
The Director of Naval Intelligence, Department of the Navy
The Assistant Chief of Staff, Intelligence, Department of the Air Force
The Director of Intelligence, Headquarters, Marine Corps

~~SECRET~~

CONTENTS

	<i>Page</i>
EXECUTIVE SUMMARY	1
DISCUSSION	9
PART ONE — US-MEXICAN RELATIONS	9
Evolving Linkages	9
A. Oil and the New Trade Picture	9
B. Finance and the Dollarization of the Mexican Economy	10
C. Migration and the Blurring of the US-Mexican Border	11
D. The Increasing US Stake in Mexican Political Stability	13
Linkage and Leverage	13
A. Mexican Fears	13
D. Policy Issues	14
Dealing With Mexico	15
D. The Last Word	18
PART TWO — MEXICO IN THE 1980s	19
The Setting	19
A. Population Growth and Urbanization	19
B. Oil Prices and the World Economy	20
The Evolution of the Mexican Economy to 1990	20
A. What Oil Can and Cannot Do	20
B. Employment and Economic Mobility	21
C. The Rural Sector	22
D. Trade, Inflation, and the Exchange Rate	22
The Relationship Between Economics and Politics	23
The Evolution of the Mexican Political System to 1990	23
A. How the System Works—and Why	23
B. The Presidential Succession and the PRI	24
C. The Opposition—or Politics at the Fringe	25
D. Political Stagnation and Political Reform	26
E. Dangers	27
An Instability Checklist	28

EXECUTIVE SUMMARY

It is inevitable that Mexico will absorb an increasing share of US policymakers' attention in the 1980s. This Estimate attempts to set bases of judgment that will be as valid for dealing with future Mexican governments as with the present administration of Jose Lopez Portillo. As Mexican political stability is and will remain a major US concern, the Estimate also assesses the strengths and weaknesses of the Mexican political system and Mexico's economic outlook as it relates to political stability.

The System

By many criteria, Mexico ranks as the world's most successful developing nation. For half a century it has had stable governments and orderly and regular changes of government. This long period of political stability—unique for a major Third World country—has allowed economic growth to average between 6 and 7 percent since the mid-1930s—another unique achievement. The nation's political and economic success is largely a function of the Mexican political system.

The system, which was developed largely in the two decades following the Revolution of 1910, is highly authoritarian. All important power—including that of choosing his successor—rests with the president. Legislative officials, governors, and mayors of important cities, though nominally elected, are in fact designated by the president and their first loyalty is to him and not to their constituents. Unlike exclusive authoritarian systems, however, Mexico's inclusive system sets great store in bringing all Mexicans into the system in at least a symbolic way. In the preelection period the presidential candidate engages in several months of vigorous campaigning through even the smallest villages to "create a bond with the people." Once elected, the president—as well as his ministers, department heads, governors, and mayors—is amazingly accessible to delegations from all sectors of Mexican society.

The system makes use of, and reinforces, the vertical, patron-client structure of Mexican society. To the despair of Marxists, Mexican workers and peasants show little class consciousness; horizontal linkages with one's fellows are considered much less effective than vertical linkages with a patron in achieving economic or political success. It is these workers and peasants as well as the unemployed poor who form the

backbone of support for the official party. Members of the middle class have more options and their loyalty to the system is more conditional; thus, they receive most of the government's carrots and sticks. It is members of this class who are most likely to find themselves rewarded by good government jobs or thrown into jail.

A major strength of the system is the turnover of power that occurs every six years. Although the president has virtual dictatorial power during his term, he is expected to fade away and enjoy his wealth in modest seclusion at the end of his presidency. His last act is that of choosing his successor, over whom he will then have no control or influence. (It is a characteristic of the Mexican system that each president tends to be followed by a successor who corrects the exaggerations of the outgoing president's own policies and personality. Thus, the leftist Cardenas was followed by the rightist Avila Camacho, the unusually corrupt Aleman was followed by the unusually honest Ruiz Cortines, the erratic Echeverria was followed by the steady Lopez Portillo). The change of president is reflected in a massive turnover of personnel elsewhere in government. Thus, many politically ambitious Mexicans feel that they are never more than six years away from their golden opportunity; there is no need for revolution.

Dangers to the System

We see a number of possible dangers for Mexican political stability in the 1980s:

- *Growth of Mexico City.* If greater Mexico City, with something over 14 million people today, were to continue growing at recent rates, the population would exceed 25 million by 1990. Such an outcome is impossible; given water and land constraints, the Valley of Mexico can support only some 20 million people. Even if all migration to Mexico City were to cease this year, natural increase alone would push the city's population close to the 20 million mark by the end of the 1980s. This means that, by the early 1990s at the latest, the Mexican Government must find some combination of carrots and sticks to stop migration to Mexico City and to induce a part of the native-born population to leave the capital.
- *Size of the middle class.* The steady growth in both the relative and absolute size of this class is now being accelerated by the inflow of oil wealth. Although the middle class profits most from the Mexican political system, it is also the most dissatisfied with the hypocrisy inherent in the system and with the severe limitations that the system places on political choice. As the middle class becomes steadily stronger relative to such

sectors of government support as labor and the peasantry, the government will be faced with some hard choices. On the one hand, it must make enough reforms to dampen middle class discontent. On the other hand, it must avoid "reforming" itself into the kind of weakness that characterizes many Third World governments.

- *Presidential death or incompetence.* As there is no vice president in the Mexican system, the legislature has the duty under the constitution to appoint a replacement for a president unable to complete his term of office. In practice, this probably would lead to a severe crisis. The Mexican legislature is used to taking orders, not to making decisions on its own. Moreover, while certain members of the official party, the cabinet, the bureaucracy, and the labor unions have considerable influence, there are no "kingmakers" aside from the outgoing president himself.

Instability Indicators

On the brighter side, we have taken a hard look at a number of factors identified by other observers as containing the seeds of political instability—change in the rural sector, rising unemployment, and the Communist "menace" from Central America—and have concluded that these offer little threat to the Mexican system in the 1980s. Overall, we believe that the chance of regime-threatening political instability during the decade is less than one in ten. We recognize that, because of this low probability, experienced observers will tend to overlook signs of political instability if they do appear. To guard against this possibility, we have drawn up a detailed checklist of instability indicators tailored to the Mexican system. It is presented in paragraphs 107-113 at the end of this Estimate.

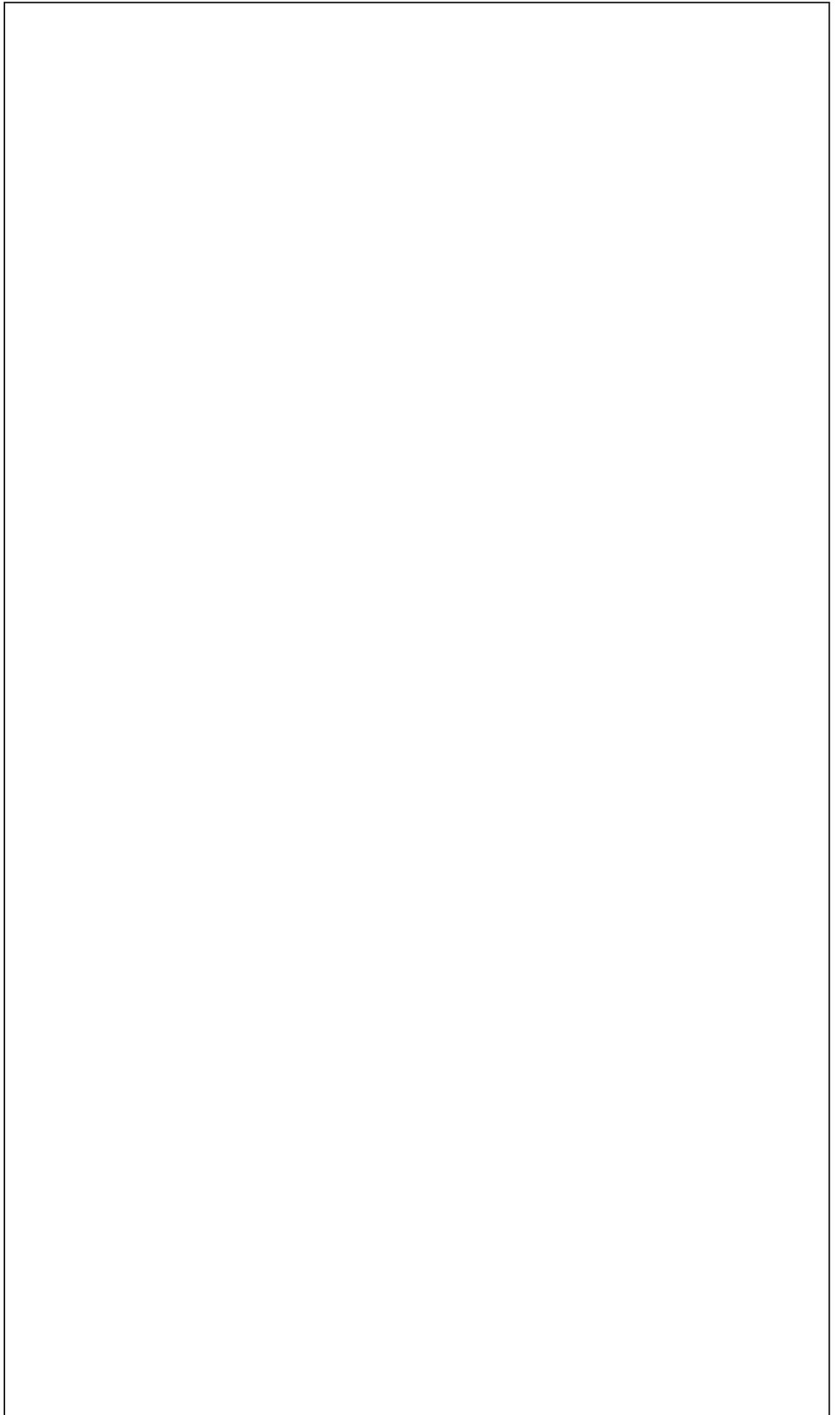
The US-Mexican Relationship

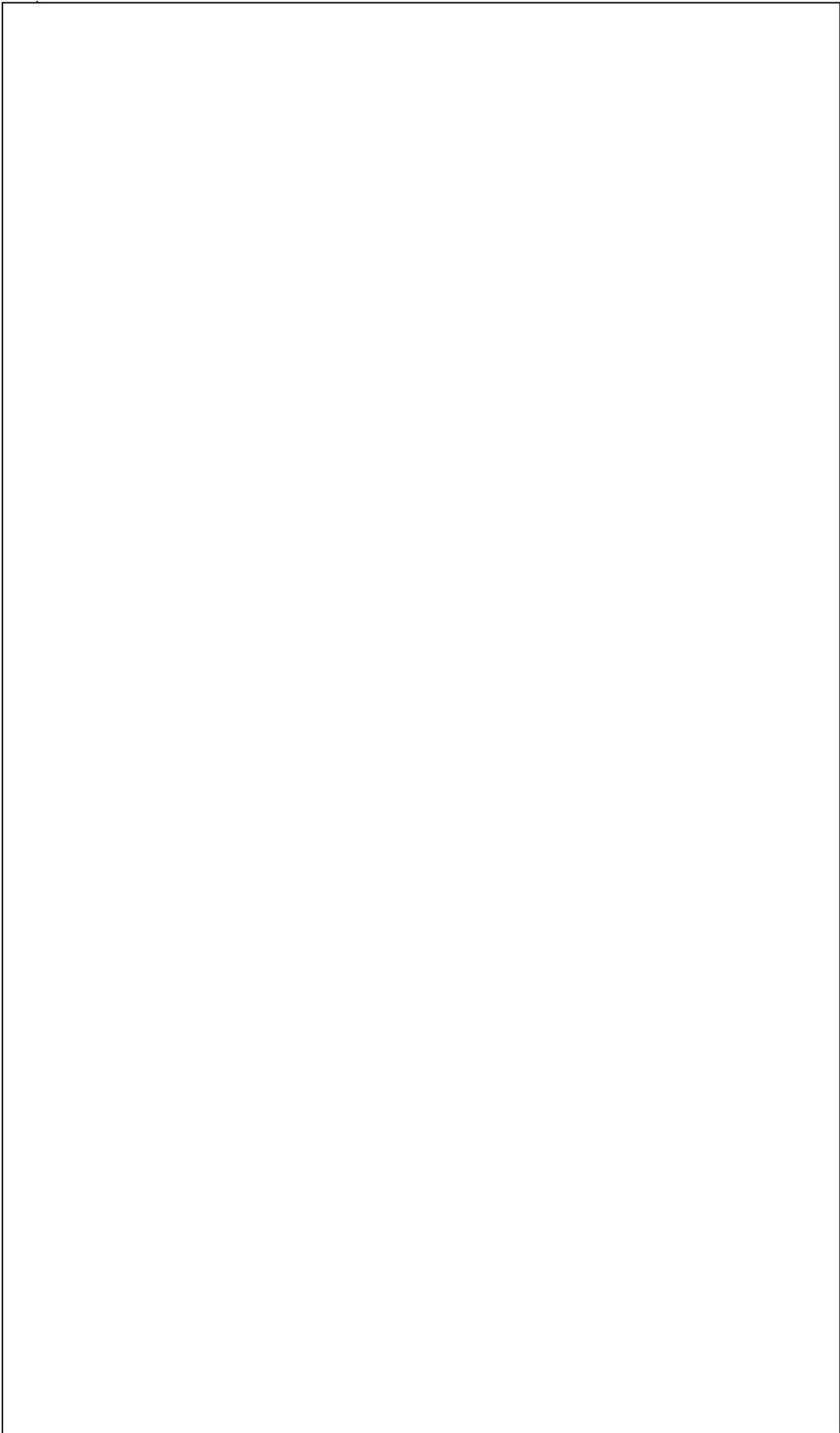
During the 1980s, the relationship between Mexico and the United States is destined to become much closer—probably closer than either country desires. Because of oil, Mexico's bilateral trade with the United States will run a surplus for the first time in recent history. This event is likely to fuel arguments in this country for restrictions on Mexico's nonoil exports (which are essential to Mexico City's strategy for coping with unemployment). "Dollarization" of the Mexican economy will proceed apace, as Mexicans continue the trend of holding funds and doing business in dollars rather than pesos. This will make an independent monetary policy extremely difficult if not impossible for Mexico City.

The blurring of the US-Mexican border will probably accelerate—to the consternation of both countries. The citizens of Mexico's border states are considered different by other Mexicans, and their ties to the Mexican system are suspect. The economies of the border cities are more closely linked to that of the United States than to that of Mexico, and border residents—alone among their countrymen—do not see Mexico City as the all-important center of power, excitement, and opportunity. Thus, the Mexican Government will be faced with a dilemma that will grow sharper as the decade progresses. At one unlikely extreme, it could seek to reclaim the alien north by cutting the border's economic links with the United States. Such action would result in an immediate and sharp reduction in the standard of living of border residents and would also anger US owners of border plants and US shopkeepers who depend heavily on cross-border business. On the other hand, to accept the increasing "gringoization" of the border would go very much against the Mexican's feelings of pride and national sovereignty.

In US eyes, the blurring of the border is seen largely in terms of illegal migration of Mexican workers to US labor markets. While the size and effects of this migration have been grossly exaggerated in the US popular mind, there is no doubt that the flow is large and increasing. Moreover, it appears to be changing in nature; whereas the typical Mexican illegal of the past was a rural laborer who spent only four to six months in the United States, the typical illegal of the future may well be an urban Mexican who will plan on spending several years north of the border. By the end of the 1980s, the United States may have reason to welcome an inflow of foreign labor despite the social pressures it may create. The US domestic labor force aged 16 through 34—the age group that includes most Mexican illegal migrants—is projected to grow only 1 percent during the 1980s, as compared with 34 percent during the 1970s. Thus, before the decade is over, US industry and agriculture may be in dire need of young foreign workers.

An additional link between the two countries is created by the increasing US stake in Mexican political stability. Some US observers now fear that political instability in Mexico could: (1) send a massive wave of illegal migrants across the border; (2) jeopardize US and world oil supplies; and (3) open the door to Communist penetration. This is having two effects, both bad. On the one hand, Mexican governments are tempted to use US concern as leverage—"Do what we want or we'll explode." On the other hand, US officials are tempted to give Mexico unsolicited advice on "how to solve your serious social problems."





~~SECRET~~

[REDACTED]

[REDACTED]

With regard to the Communist menace from Cuba and Central America, about which Mexico is insufficiently concerned in the opinion of many foreigners, the situation is much the same. Mexico, alone among Latin American nations, never broke relations with Castro's Cuba, and Mexico City has given aid and comfort to a number of other radical governments and movements in the hemisphere. On the other hand, it strictly controls the activities of domestic Communists and leftists—including those working out of Communist embassies—and brooks no interference in its internal affairs. In a sense, Mexico City has co-opted foreign radical movements in much the same way as it has domestic opposition forces. By and large this strategy has worked—no other Latin American nation has faced so little Communist-inspired subversion since World War II.

7
~~SECRET~~

DISCUSSION

1. During the decade of the 1980s, we expect profound changes in the relationship between Mexico and the United States. Many of these changes have long been in train and are largely outside the influence of policy decisions in both nations. Nonetheless, while the basic thrust of the changes may be immutable, the evolving situation will present policymakers with opportunities to be seized and dangers to be avoided.

2. This Estimate is divided into two parts. Part One considers the probable evolution of US-Mexican link-

ages over the next 10 years, assesses Mexican perceptions of these linkages, and suggests a number of considerations to be held in mind when dealing with Mexico. The second part—based on several years of research just completed by the Central Intelligence Agency—examines the probable course of Mexico's economy and political system through 1989, with emphasis on the outlook for political stability. Many of the conclusions of Part One depend upon the analysis in Part Two.

Part One—US-Mexican Relations

Evolving Linkages

A. Oil and the New Trade Picture

3. This year we expect a very basic alteration in the trade relationship between the United States and Mexico. Because of oil, Mexico's bilateral trade account with the United States will run a surplus for the first time in recent history. Moreover, at the option of the Mexican Government, this surplus can persist and grow as the decade progresses. Although Mexican oil sales will dominate the current account, other elements are likely to shift in ways favorable to the United States. The growth of nonoil exports to the United States will probably slow, while that of US exports to Mexico (including a large volume of smuggled goods) will accelerate. The number of Mexican tourists in the United States will increase, and they will spend more money than ever before. Debt service payments to the United States will remain high.

4. The United States has long dominated Mexico's foreign trade. Despite strenuous efforts by Mexico City to shift its exports and imports to other nations, in 1979 the United States still accounted for 70 percent of Mexican exports (as compared with 60 percent in 1969) and a little over 60 percent of Mexican imports (about the same as in 1969). If smuggled goods were included, the US share of Mexican imports would rise by several percentage points. Traditionally, Mexico's substantial trade deficits with the United States were offset in part by surpluses on the tourism account—

leaving large but manageable current account deficits, which were, in turn, covered by capital imports from the United States.

5. Despite the apparent benefits, the Mexican Government is not entirely happy with the new situation. It fears that the United States will become overly dependent on Mexican petroleum.

6. The Mexican Government is attacking the perceived danger in two ways: (1) by seeking to diversify its oil exports; and (2) by limiting the total amount of oil exports. Neither method is likely to be totally successful.

7. Early in the Lopez Portillo administration, the Mexican Government set itself the goal of reducing the US share of Mexican oil exports from 80 to 60 percent. So far it has not been successful in this effort—in the first quarter of 1980, exports to the United States (including Puerto Rico) were 80 percent of total oil exports. This is largely the result of geography. Because of the transportation differential, European and

(PAGE 8 BLANK)

Japanese buyers of Mexican oil must pay more than American buyers. Some of these countries are willing to overlook such cost differences in order to assure future access to Mexican supplies; others are not. For its part, Pemex (the Mexican state oil monopoly) has been unwilling to cut its prices in order to offset the transportation differential. Unless the Mexican Government gives greater priority to diversification, future progress toward reducing the US share of Mexican oil exports will probably hinge on complex barter-investment packages—which are proving very difficult to negotiate.

8. President Lopez Portillo has set an export ceiling of 1.1 million barrels a day, though this ceiling almost certainly will be revised upward before the end of his administration in December 1982. Conservation of national oil reserves is popular with all segments of Mexican society from the far left to the far right. Nonetheless, in order to meet other economic goals (for example, an 8-percent annual growth in gross domestic product), oil exports will almost certainly have to be expanded after 1982 if not before. How much will depend on the world price of oil. If the price of oil rises only as fast as world inflation and Mexico maintains a fixed exchange rate, almost 3 million b/d would have to be exported by 1985. On the other hand, if the real price of oil rises by 10 percent annually (to \$80 a barrel in 1985), exports could be held down to 1.6 million b/d. Beyond 1985, we would expect oil exports to continue to expand unless constrained by domestic requirements and/or technical factors.¹

9. Thus, despite the Mexican Government's preferences, it seems inevitable that the United States will be importing considerably more Mexican oil as the decade progresses. And Mexico will be using the dollars earned to buy ever greater quantities of US goods, including some foodstuffs. Mexico City will see evolving trade ties both as a restriction on its freedom of action and as an opportunity for leverage to expand nonoil exports to the United States. (Expanding nonoil export industries is considered one of Mexico's few good possibilities for increasing jobs and cutting into the serious unemployment problem. We expect most Mexican demands on the United States in the 1980s to concern nonoil exports.) To the extent that leverage

¹ For a detailed analysis of the economic factors that will be affecting Mexican oil export policy in the 1980s, see *Mexico: Economic Trade-Offs and Oil Exports Through 1985*, ER 80-10203, March 1980 (Confidential).

is successful, trade ties between the two countries will be increased, Mexican economic freedom of action will be further restricted, and the Mexican Government's paranoia will grow in step with the success of its leverage policies.

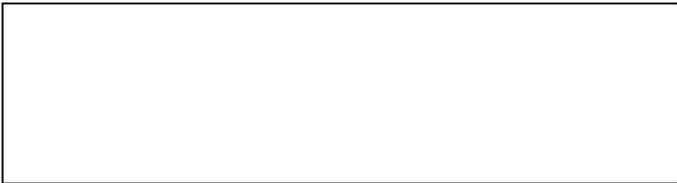
B. Finance and the Dollarization of the Mexican Economy

10. During the next decade, US investment in Mexico—both direct and financial—will be limited primarily by what the Mexican Government chooses to accept. As the oil-dependent “miracle economies” of the 1960s and 1970s—Brazil, South Korea, Taiwan—begin to lose some of their luster in an energy-constrained world, US investors will find Mexico increasingly attractive. Indeed, if US investors have their way, Mexico will pass Brazil to become the foremost site for US loans and direct investment in the Third World. On the other hand, the Mexican Government will probably use its oil earnings to stabilize foreign borrowing needs. (We believe that the Mexican Government will accept annual current account deficits on the order of \$3 billion; it could, of course, increase exports and thereby eliminate the need for foreign borrowing.) With regard to direct investment, the government may well decide to strengthen or more rigidly enforce Mexicanization or other laws that discriminate against foreign investment in the domestic economy. On balance, we would expect a moderate increase in US investment in Mexico.

11. Any increase in the flow of foreign funds into the country—including those dollars used to pay for oil—will increase the already extensive dollarization of the Mexican economy. The dollar has long been used in Mexico both as a store of value and a medium of exchange. The Mexican peso is freely convertible, savings and checking accounts in Mexican banks may be denominated in dollars, and many Mexican businessmen conduct purely domestic business through US banks. The 1976 devaluation of the peso (and the rumors that led up to it) was a powerful incentive to dollarization. Mexico had not had a devaluation since 1954, and during those 22 years Mexicans had come to regard their currency as reasonably secure. When rising inflation and the erratic economic policies of former President Echeverria put the future of the peso in doubt, a massive flow out of pesos into dollars made the devaluation inevitable. At present the peso is officially “floating” but unofficially “fixed.” Mexicans remain wary and prefer to keep their



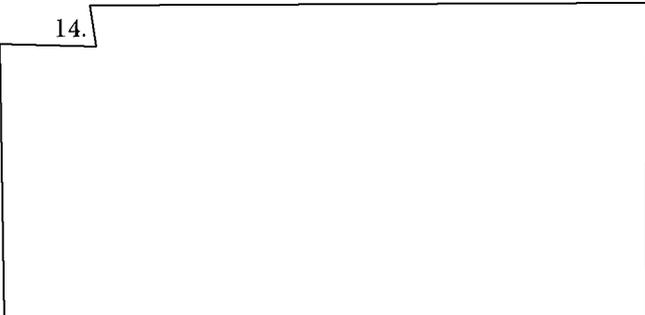
funds—and to make their deals—in dollars rather than risk getting burned by a new change in the value of the peso. Only a long period of stable exchange rates (backed up by low inflation rates) is likely to lessen the Mexican preference for holding dollars.



12. Almost any conceivable economic growth strategy for Mexico involves inflation rates in excess of those in the United States and other trading partners. Therefore an eventual devaluation will remain highly probable, and dollarization will continue and periodically accelerate. This means that an important part of the Mexican money supply will remain outside the control of the Mexican Government. Monetary policy and the stimulation of certain sectors of the economy through allocation of credit will become less effective. Many Mexicans, seeing the loss of monetary control over their own economy through dollarization, will assume (incorrectly) that the United States has somehow gained control.

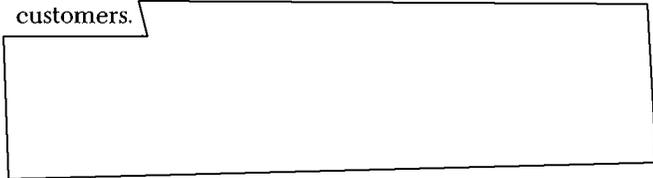
C. Migration and the Blurring of the US-Mexican Border

13. Mexicans from other parts of the country have never felt comfortable with the northern border area. In prehispanic times, Mexico—that is to say, the high Indian civilizations—never extended north of the present state of Sinaloa on the west and central Tamaulipas on the east. Beyond that was the “Great Chichimeca,” the home of the savage barbarians who periodically raided into the civilized south. Centuries later it was the home of the violent revolutionaries who took the nation by storm and, to a large extent, created modern Mexico. (All of the major figures in the Revolution of 1910, with the exception of Zapata, were from border states.) As revolutionary violence slowly gave way to order, the politicians of the south took over from the generals of the north and the politicians never again let go. Once more the conquering Chichimecs had been overcome by the civilizing center.

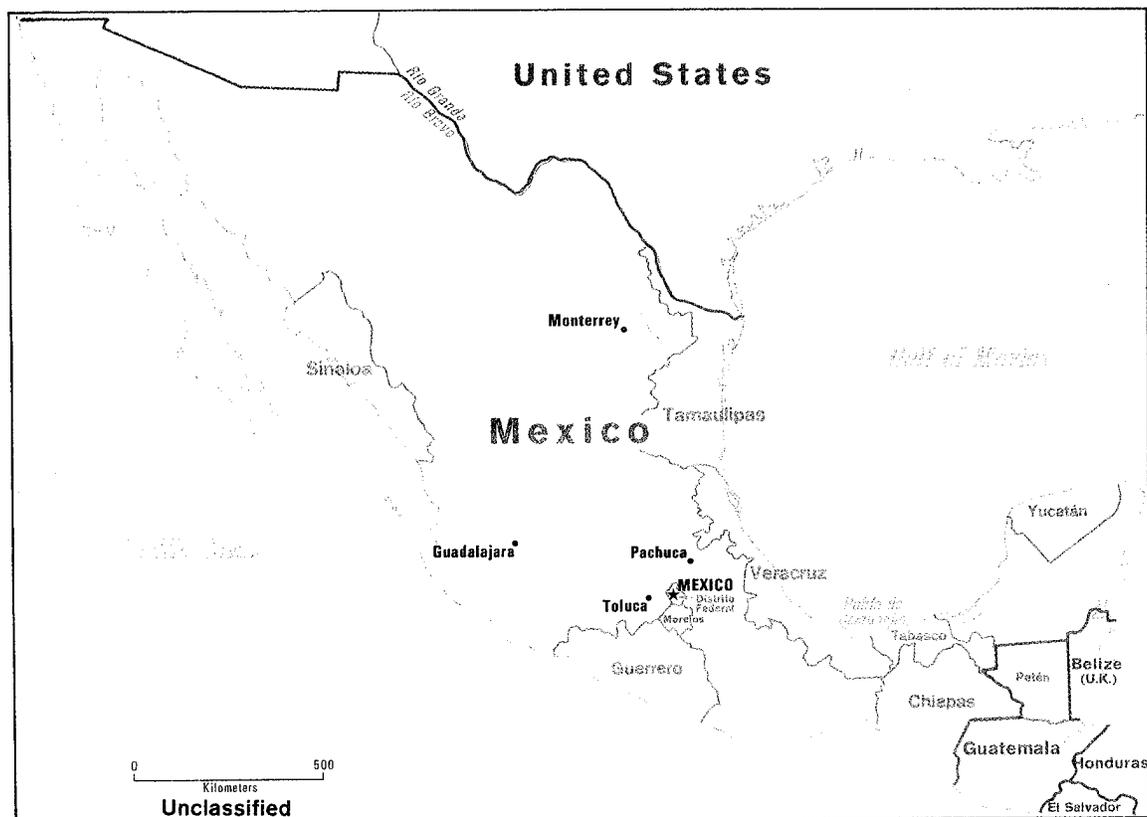


15. The Mexican authoritarian governmental system, probably the most successful in the Third World, places a very high value on control—and the border area has in many respects slipped out of Mexico City’s control. Many thousands of Mexican “commuters” live in Mexico and work across the border. Other thousands work in US-owned “border industry plants” which, though located in Mexico, use US raw materials to produce goods for the US market. According to a recent survey, more than 80 percent of border housewives cross into the United States to do their shopping. Border residents, alone among their countrymen, do not see Mexico City as the all-important center of power, excitement, and opportunity. They are often less concerned with Mexican politics than with those of the United States, and they are less inclined to support the official party than are other Mexicans. It is no coincidence that the “Monterrey Group” of powerful private businesses, the only important group in Mexican society largely outside of government control, arose in the north. Such an autonomous group could never have grown up in Mexico City or even Guadalajara.

16. Thus, Mexico City is faced with a dilemma which will grow sharper as the decade progresses. On the one hand, it could seek to reclaim the north. At an extreme, this would involve shutting down the Border Industry Program, closing the border to Mexican commuter-workers and to Mexican shoppers, and attempting to tie the border economy to the center. (Ex-President Echeverria at times seemed tempted to take such measures.) Such action would result in an immediate and massive reduction in the standard of living of the border residents. At the same time, it would anger the US owners of border plants and devastate those shopkeepers from California to Texas who depend almost entirely on Mexican customers.



17. On the other hand, the Mexican Government might choose to accept the inevitable and sit back and watch the steadily increasing “gringoization” of the



627865 9-80

border. This is what most administrations have done—somewhat unhappily—so far; the only major efforts to stem the tide have been the subsidization of supermarkets on the Mexican side of the border (to wean the Mexican shopper away from US merchants) and the establishment of some cultural and patriotic programs. The continuation of this course, while it would avoid political problems with northern Mexicans and with the United States, would go very much against the Mexican's feelings of pride and national sovereignty. Perhaps even more important in the eyes of Mexican leaders, it could undermine the complex system of vertical patron-client relationships that ties the government to the people and holds Mexican society together.

18. In non-Mexican eyes, the blurring of the border is seen largely in terms of illegal migration of Mexican workers to US labor markets—even though the migration is not basically a border phenomenon. Most illegal migrants have not been from the border states but from rural areas in central Mexico. While the size and effects of this migration have been grossly exaggerated

in the US popular mind,² there is no doubt that the flow is large and increasing. (We estimate that between 500,000 and 800,000 Mexicans enter the United States illegally each normal year. In the drought years 1979 and 1980 the numbers may prove considerably higher. However, at least two-thirds and perhaps as much as 80 percent of these migrants return to Mexico after only a few months.) Migrants generally make periodic trips to the United States in order to maintain an adequate standard of living for themselves and their families in their home villages. These migrants do not come from the poorest areas of Mexico, nor are they among the poorest in the areas from which they do come. Nonetheless, their migration (and the money they send back) helps reduce Mexican underemployment and thereby constitutes a political and social "safety valve" for the Mexican Government.

19. During the 1980s we expect to see a slow change in the nature, and possibly the size, of the il-

² For a complete discussion of Mexican illegal migration, see *Mexico: Sources of Illegal Migration*, ER 77-10805, December 1977 (Confidential).

legal flow. More urbanites will come, they will be better educated and more ambitious, and they will be planning to stay in the United States for several years rather than several months. Many will be "target workers," staying as long as necessary to earn the amount of money required to start a business (in many cases a taxicab) or build a home back in Mexico. Others will simply be earning money to raise living standards of the extended families to which they belong in their native cities. Although these urban workers, like their counterparts from rural Mexico, will initially be willing to take jobs that few US workers want, they will soon develop both the skills and the desire to compete for better paying, less arduous work. Many more than at present will bring their families. While the pool from which illegal migrants are drawn will grow substantially during the next decade, the actual flow will be greater or less, depending on developments in Mexico.³ The establishment of a new legal migration agreement between the United States and Mexico could also change the size and character of the illegal flow, depending on the exact nature of the agreement.

20. By the end of the 1980s, the United States may have reason to welcome a flow of Mexican workers (beyond the already existing substantial US interest in helping assure Mexican political stability through the safety-valve effect of illegal migration). According to projections by the US Bureau of Labor Statistics, the US labor force aged 16 through 34—the age group that includes most Mexican illegal migrants—will grow only 1 percent during the 1980s, as compared with 34 percent during the 1970s. The labor force aged 16 through 24, which expanded by 19 percent in the 1970s, will contract by 15 percent in the 1980s. Thus, before the decade is over, US industry and agriculture may be in dire need of young foreign workers. Some US interests may well be pressing for a new bracero program or even a broader temporary worker migration plan along the lines of West European guest-worker programs.

21. As a final note on border linkages, it should be remembered that economic events and decisions in either country can have more pronounced effects along the border than in the heartlands. US recessions, for example, often devastate Mexican border cities by reducing: (1) the demand for commuter labor, (2) the demand for the output of US-owned border industries in Mexico, and (3) US tourism along the border. On

³ See pages 23 and 24 of *Mexico: The Impact of Rapid Population Growth*, ER 78-10747, December 1978 (*Secret*).

the other hand, a Mexican devaluation (like that of 1976) makes US goods much more expensive to Mexicans and can cut Mexican shopping in the United States almost to zero. Moreover, the devaluation of late 1976—along with the generally poor condition of the Mexican economy during the last days of the Echeverria administration—sharply increased US-Mexican wage differentials and may have led to a doubling of the flow of illegal migrants in 1977. (We estimate that the illegal flow in 1977 may have gone as high as 1.5 million persons, or two to three times the normal flow.)

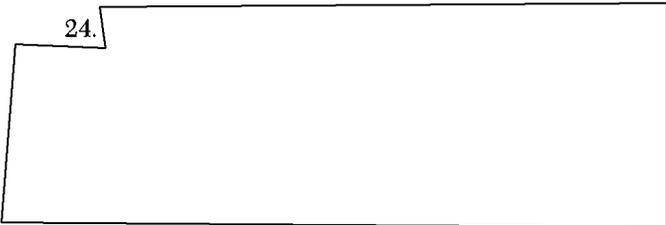
D. The Increasing US Stake in Mexican Political Stability

22. Not too long ago the prevailing view in the United States was that Mexican political and social stability was largely Mexico's own business—so long as no US lives or property were threatened. This attitude is rapidly changing. US opinion now fears that political instability in Mexico could: (1) send a massive wave of illegal migrants across the border; (2) jeopardize US and world oil supplies; and (3) open the door to Communist penetration. Mexicans have been quick to recognize the new US concern. Indeed, one Mexican intellectual commented with considerable exaggeration that the United States has more to lose from Mexican instability than does the average Mexican citizen.

23. In Part Two of this estimate we examine in depth the question of political and social stability in Mexico in the 1980s. Here, we would only point out that the increasing US stake in Mexican stability is another link between the two countries. We expect it to have two effects. First, Mexican administrations will be tempted to use US concern as leverage—"Do what we want or we'll explode." Second, US officials will be tempted to give Mexico unsolicited advice on how to solve its "serious social problems." It will be another unwanted tie that creates tension.

Linkage and Leverage

A. Mexican Fears

24. 

[Redacted]

[Redacted]

28.

25.

[Redacted]

[Redacted]

26.

[Redacted]

29.

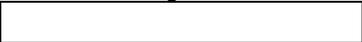
[Redacted]

D. Policy Issues

27.

[Redacted]

30. Beyond saying that most of the issues that will arise between the United States and Mexico during the 1980s will concern Mexico's nonoil exports, it is impossible to predict the changing content of these issues with any confidence. Their significance will depend largely upon the personalities and priorities of the leaders of both nations. The state of the world economy and events in the Middle East will, of course, influence Mexican needs for US markets and US needs



for Mexican oil. Purely chance events—a replay of the Ixtoc-1 blowout, an anti-Chicano riot in California, well-publicized mistreatment of a US citizen in a Mexican jail—could overshadow other issues for a period of months. It is safe to say, however, that in 1990, as in 1980, oil and gas exports, water sharing, narcotics, border pollution, Mexican agricultural exports, and Mexico's positions on international issues will continue to be important concerns.

34.

31. Whether or not Mexico continues to expand its role in international affairs will depend largely on the priorities of Lopez Portillo's successors. Mexican presidents have traditionally shown little interest in international affairs beyond relations with the United States. (Mexico's support of Castro's Cuba through four very different administrations is based both on a mutual affinity engendered by what many Mexicans consider to be a shared experience of defending Latin American sovereignty against US pressures and on a desire to mollify domestic leftists. It is not based on an urge to play a broad role in Latin American affairs.) Both Echeverria and Lopez Portillo—each for different reasons—have changed this tradition to some extent. Although the president who comes to power in 1982 is unlikely to return completely to the old inward-looking tradition (because of the importance of Mexican oil on the world scene, if for no other reason), he may choose to be less active than Lopez Portillo. The Mexican population in general does not identify with the Third World and has little interest in foreign affairs that do not involve the US-Mexican relationship.

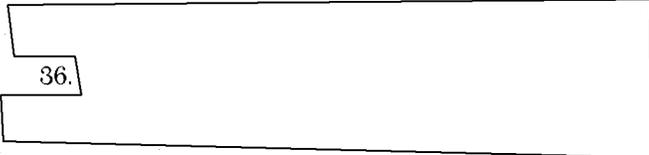
35.

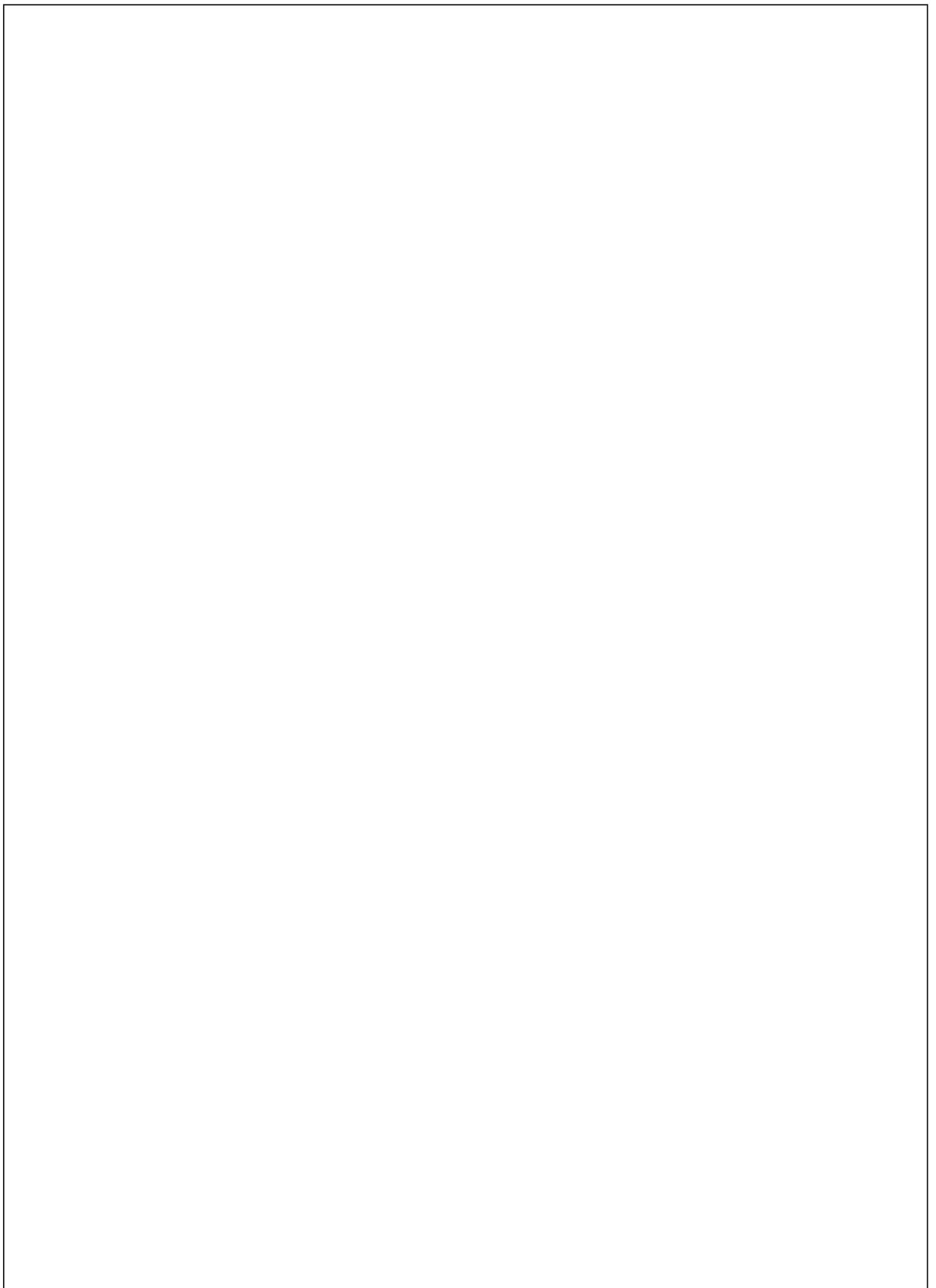
32. To the extent that future Mexican presidents do concern themselves with broad international issues, the United States is likely to lose more than it gains. Especially in the context of a domestic turn to the right, any Mexican administration would be tempted to take radical stands in international forums as a means of mollifying domestic leftists. Domestic advantage can always be gained by taking an opportunity to demonstrate that Mexico is not a US puppet. On the other hand, Mexican diplomats have often been helpful to US interests in private dealings with Third World figures. We would expect this to continue.

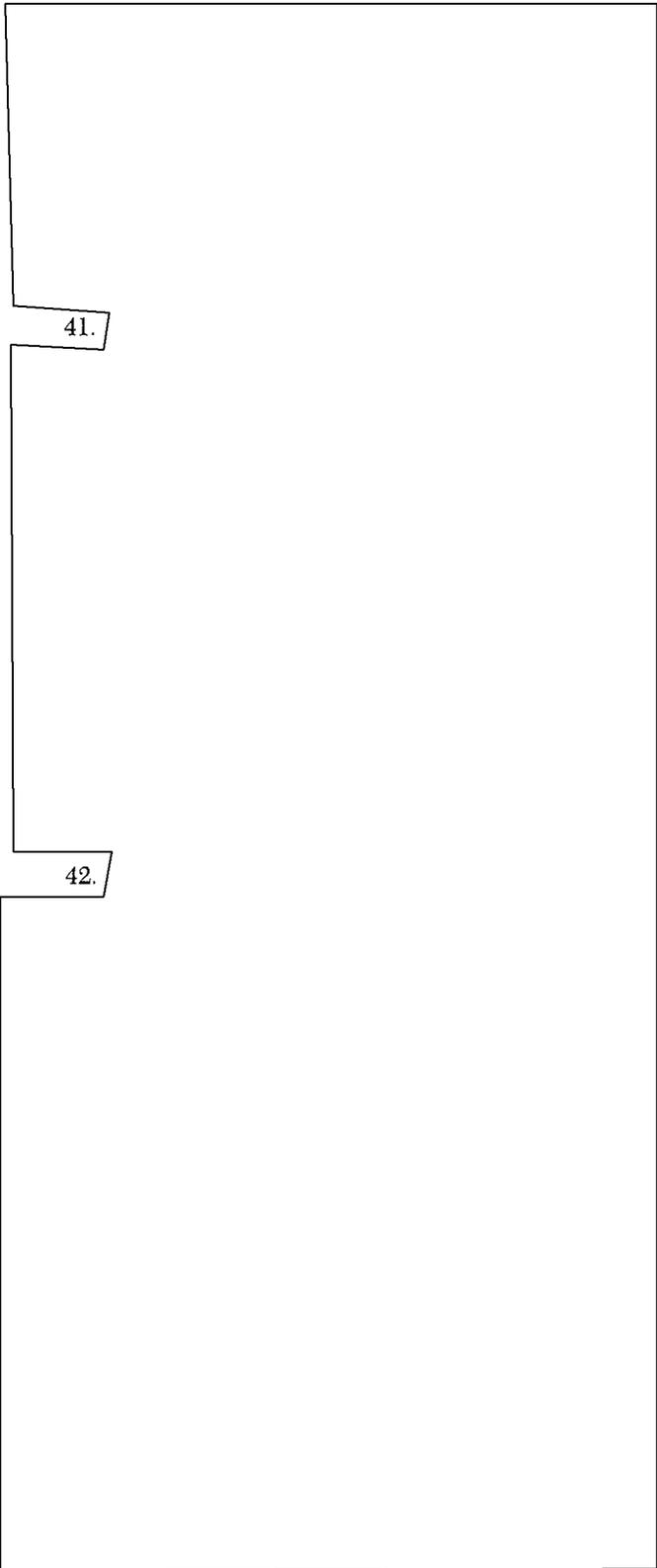
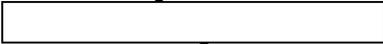
Dealing With Mexico



36.







41.

42.

combined rate of unemployment and underemployment that some authorities believe approaches 50 percent,⁴ the Mexican Government has consistently favored capital-intensive rather than labor-intensive development. To many foreign economists, this smacks of idiocy. Why then does the government pursue such a course? One reason is to keep Mexican industry near the forefront of modern technology. A second, more important, reason is that most labor-intensive jobs are very low paying and, despite the unemployment rate, there is little demand for low-paying factory jobs in Mexico. Mexico already has many labor-intensive industries—textiles, shoes, cigarettes, some food processing—but most of these industries have a poor record in attracting workers. (The US-owned assembly industries along the border, which pay well by Mexican standards and hire mostly women, are exceptions.) The average unskilled Mexican usually finds that he can make as much money through casual jobs in construction or the service sector as in a labor-intensive factory. And the work is more pleasant and less regimented.

44. A third reason for the Mexican Government's preference for capital-intensive industry is directly political. From the point of view of political stability, it is much more important to provide suitable jobs for Mexico's ever increasing number of high school and university graduates (who are politically very active) than for the masses of unskilled workers (who are already in the government's pocket). One of the virtues of capital-intensive industry is precisely that it can provide large numbers of good jobs for educated Mexicans. As long as the unemployment rate for educated Mexicans (including skilled workers) is virtually zero—which it is—the government feels that unemployment elsewhere in the economy is politically manageable. The reverse would not be true.

45. *Civil Service Reform.* Every six years, with the change of presidents, there is a great reshuffling of the government bureaucracy. One consequence of the wholesale changeover is that bureaucrats, despite often broad experience in government, do not have the time to develop true expertise and there is little continuity in government policy. Many people have concluded from this that a nonpolitical civil service should be

43. *Capital- Versus Labor-Intensive Development.* Despite a rapidly growing labor force and a

⁴ While we agree that the combined unemployment and underemployment rate is high and growing, we doubt that it is nearly so high as most observers, including those of the Mexican Government, believe. Our reasons are given on pages 4 and 5 of *Mexico: The Impact of Rapid Population Growth*, ER 78-10747, December 1978 (Secret).

established. Although the Mexican Government may be going in this direction—forced by the increasing complexity of government tasks—it realizes that it is treading on dangerous ground and is proceeding very slowly. The choice is between increasing efficiency and safeguarding opportunity.

46. Perhaps more than over any other issue, the Revolution of 1910 was fought over *continuismo*—the tendency of a president and his cronies to stay in office forever and not give anyone else a chance. For this reason, the Mexican president (who has almost complete dictatorial power during his six-year term, including the power to select his successor) is expected to disappear at the end of his administration and take his friends and clients with him. The new president, as befits a six-year Caesar, can and does make wholesale changes in policy and personnel. These changes reverberate through the entire government structure. Because of this system, the hopeful and politically ambitious Mexican is never more than six years away from his golden opportunity; there is no need for revolution. Indeed, the establishment of a truly effective civil service in Mexico might turn out to be revolutionary in more ways than one.

47. **Communism.** To many US observers, the Mexican Government seems dangerously unexcited about Cuba, Central America, and the Communist menace in general.

[REDACTED]

More importantly, this apparent lack of concern reflects two typically Mexican political tenets: (1) worry only about what directly affects Mexico, and (2) try to destroy the opposition only if it cannot be co-opted.⁵

48. Many years ago, in simpler times, a wise observer of the Mexican political scene was asked whether the Communist Party of Mexico (PCM) responded to Moscow or Peking. His answer was that it responded to Los Pinos (the Mexican White House)—in other words, the party, though part of the “illegal opposition,” had been co-opted. The recent legalization of the Communist Party may be seen as an

⁵For a detailed analysis of Mexican relations with Central America and the Caribbean, see *Mexico: New Activism in the Caribbean Basin*, PA 80-10264, June 1980 (Secret).

other step in its co-optation. In the 1979 elections (the first that the PCM has been allowed to enter), a PCM-led coalition of four leftist parties won a little more than 5 percent of the vote. Although we have no reason to believe that this was not an accurate count, the Communists know that, at the whim of the government, they could have gotten 10 percent or zero percent. Their “legality,” their nine deputies, a part of their funding, their ability to buy newsprint for their publications all depend on the government, and the PCM will not be allowed to forget those facts. Like other “opposition” parties, the PCM will be allowed to rant against the United States and even against some Mexican Government policies, but it will be required to support the government or at least keep quiet on the handful of issues that the government deems of vital importance.

49. The Mexican Government treats Communist and leftist governments much as it treats the PCM. As long as they toe the line with regard to major Mexican interests within Mexico, there is no problem. Their embassies (like others) can be spy nests, but only so long as their activities are directed against third countries. If they step over the line, the Mexican response can be swift and harsh. The Soviets found this out during the time of the great railroad strike in the late 1950s. The North Koreans learned the same lesson when they supported a Mexican rural guerrilla group. The Cubans, having received valuable diplomatic support from Mexico City, have scrupulously avoided messing in Mexican affairs.

[REDACTED] The Mexican Government feels no obligation to keep the world safe from Communism so long as it can avoid any Communist threat to itself. By and large this strategy has worked—no other Latin American country has faced so little Communist-inspired subversion since World War II.

D. The Last Word

50. During the decade of the 1980s, as in previous decades, the overriding goal of the Mexican Government will be the preservation of the Mexican political system; it will subordinate all other interests, including foreign and economic policy, to this end. To the extent that it sees political or economic reform as strengthening the system, it will opt for reform. To the extent that it sees reform as dangerous, it will avoid it. Similarly, Mexican foreign policy will veer to the left or right for purely domestic reasons. The average Mexi-

can, [redacted] has roughly the same priorities as government leaders. Even if he is too young to remember the violence of the revolutionary decades (when, according to some accounts, 3 million Mexicans lost their lives), he has only to look elsewhere in Latin America to appreciate the stability, opportunity, and relative lack of government oppression that the Mexican system offers.

51. Mexican presidents, though their record is excellent, are fallible. During the next 10 years, they may misread the situation, overlook developing tensions, take the wrong actions at the wrong times. If

they do, US as well as Mexican interests will suffer. Nonetheless, even if in a particular case US policymakers do know what is best for Mexico, they should recognize that advice from north of the Rio Bravo is not and never will be acceptable. Mexicans will keep their own house in order without US help—or not at all. However, if a US president has one or two specific requests to make of a Mexican president (in private) *for the US good*, the Mexican president will listen with respect and consideration. The United States is an important part of the Mexican environment, and no Mexican president will forget that.

Part Two—Mexico in the 1980s

The Setting

A. Population Growth and Urbanization

52. For the next decade, the course of population growth and urbanization will be the most important element in the Mexican setting—that is to say, in that complex of factors not under the direct control of the Mexican Government. During the past two or three years, the Mexican family planning program has had remarkable success in reducing the population growth rate—long one of the world's highest—to about 2.5 percent. If this reduction in the growth rate represents a trend, and most indications are that it does, then the country will probably follow rather closely the low-growth projection given in our Mexican population study.⁶ Total population, now roughly 68.5 million, will probably reach 78 million by 1985 and 88 million by 1990—well below the 81 million and 95 million of our high-growth projection.

53. Because most of the Mexicans who will join the labor force in the 1980s were already born before the trend toward lower population growth began, the beneficial effect on employment will be slight. Indeed, the labor force (currently about 19.7 million) will number only some 200,000 less in 1990 than it would have under our high population growth projection. In either case, roughly 1 million new jobs must be created each year during the 1980s if the unemployment rate is to remain constant. There is no way that this can be done; the only question is how much worse the unemployment rate will get.

⁶See *Mexico: The Impact of Rapid Population Growth*, ER 78-10747, December 1978 (~~Secret~~).

54. The urban explosion promises to be a greater headache for the Mexican Government in the 1980s than the growth of population and the labor force. Largely because of the substantial wage differential between rural and urban areas, which has led to heavy rural-urban migration, Mexico's urban population is growing much more rapidly than the population of the country as a whole. Most of this growth is centered in Mexico City. If greater Mexico City, with something over 14 million people today, were to continue growing at recent rates, the population would exceed 25 million by 1990. Such an outcome is impossible; given water and land constraints, the Valley of Mexico can support only some 20 million people. Even if all migration to greater Mexico City were to cease this year, natural increase alone would push the city's population close to the 20 million mark by the end of the decade. This means that, by the early 1990s at the latest, the Mexican Government must find some combination of carrots and sticks not only to stop migration to Mexico City but also to force a part of the native-born population out of the capital.

55. The redirection of national rural-urban migration, combined with substantial interurban out-migration from Mexico City, would place a tremendous additional burden on services in secondary urban areas. Under ordinary circumstances, we would expect the population of the eight major secondary cities to grow by two-thirds over the next 10 years. Under the redirection scenario, these eight secondary centers would have to grow by 150 percent. And the problem will worsen rapidly after 1990. Thus, even if redirection is successful, it will have spread rather than solved the problems of urbanization.

B. Oil Prices and the World Economy

56. To cope with the problems of population and unemployment in the 1980s, the Mexican Government must (1) make the best possible use of its oil revenues and (2) develop strong export industries. (Effective domestic demand is far from being strong enough to absorb the output of Mexican industry on the scale required to reduce unemployment. Thus, some production must be sold abroad.) Mexico City's success in these efforts will depend to a large extent on factors outside of its control—the world price of oil and the economic health of its major trading partners. These two factors will probably work against each other.

57. Despite occasional periods of slack, oil supplies will probably remain tight through the period. Thus, oil prices will rise at least in line with world inflation and probably somewhat more rapidly. How much more rapidly will make considerable difference to the Mexican economy. For example, if the real price of oil rises at an average annual rate of 5 percent through 1985, just a single foreign sale of 1 million barrels of oil in that year would earn Mexico \$14 million more than if the price of oil only kept pace with inflation. If, on the other hand, the real price of oil rises at a 10-percent annual rate through 1985, the same 1-million-barrel sale would earn \$33 million more. When we consider that Mexico could be in a position to export as much as 3 million barrels a day in 1985, the difference in earnings between zero real growth in oil prices and 5 and 10 percent in real growth would be \$15 billion and \$36 billion, respectively, in that year. Beyond 1985, the price will increase further. As world oil prices can be neither controlled nor predicted by Mexico City, the Mexican Government will need to revise its economic development strategy on a year-to-year if not a month-to-month basis.

58. High and rapidly rising oil prices will both hurt and help the Mexican economy. On the one hand, high prices will enable the country to avoid the foreign exchange constraint to development at a relatively low cost in terms of resource depletion. On the other hand, the continuing rise in oil prices will limit economic growth in the United States and other markets for Mexico's nonoil exports. Although Mexico will not need such exports to balance its trade account, it will need them for the jobs they provide. If the US economy grows by less than 3 percent annually for the next 10 years—a scenario that some economists believe likely—the value of Mexico's nonoil exports could easily stagnate in real terms. (In this case, Mexico City

would be tempted to link oil and nonoil exports—a move that would be strongly resisted by industrialized importers of Mexican oil.)

The Evolution of the Mexican Economy to 1990

A. What Oil Can and Cannot Do

59. Thoughtful Mexicans realize that oil is not and cannot be the deus ex machina that solves all the nation's social and economic problems. Indeed, many Mexicans (perhaps a majority) fear that the oil bonanza may turn out to be a curse disguised as a blessing. Venezuela and Iran are often mentioned as examples of the evils of oil in Mexico City conversation. In the Mexican view, Venezuela is essentially a backward, "one-crop" economy that will rapidly decline once the oil runs out. Iran is an example of the political chaos that ensues when wealth gets out of control. The Mexicans are not sure that it could not happen to them.

60. The economic dangers of the oil bonanza are as follows. First, the inflow of oil earnings could put upward pressure on the peso, thereby pricing Mexico's nonoil exports out of the international market. Second, oil earnings will increase the money supply (unless sterilized, which is almost impossible because of the dollarization of the Mexican economy) and thereby give rise to inflation. Third, if imports are greatly increased—a move that would help reduce domestic inflation as well as eliminate upward pressure on the peso—many domestic industries would be jeopardized by the flood of cheaper foreign goods. In any of these cases, job creation would falter and unemployment would increase.

61.

62. If the economic and political dangers are so great, why not leave the cursed stuff in the ground? This is, in fact, a major thread in Mexican oil policy. The present administration has gone on record as wanting to produce only the bare amount needed to finance the foreign-exchange costs of development. Indeed, the government appears content to allow current account deficits on the order of \$3 billion a year, believing that there are fewer dangers in continued foreign borrowing than in a headlong drive to produce and export vast amounts of petroleum.

63. The oil bonanza will not produce miracles but, properly used, it will allow 8-percent annual economic growth through the 1980s. Using our econometric model of the Mexican economy, we have examined oil/economic growth/inflation/balance of payments trade-offs in Mexico through 1985.⁷ We concluded that, under any reasonable assumptions about world oil prices, Mexico can achieve 8-percent economic growth in 1980-85 with oil exports of between 1 million and 2 million b/d. Beyond 1985, depending upon the pace of Mexican exploration and development, Mexico could have the reserve base and the facilities to export considerably more than the 2-million-b/d maximum that we project. Exports will also be influenced by the growth of domestic consumption. With 8-percent economic growth and no increase in conservation, the country would require almost 2 million b/d of oil for domestic use in 1985. By the mid-1980s, if not sooner, however, we expect the Mexican Government to introduce more realistic pricing for oil products sold on the domestic market as well as other measures to cut consumption growth. Such actions should allow some expansion in exports beyond 2 million b/d in the latter half of the decade, if necessary for adequate economic growth.

B. Employment and Economic Mobility

64. What does 8-percent economic growth mean for employment? New jobs will be created at a rate of about 3.5 percent a year during the decade—an average of a little over 700,000 new positions annually. During the same period the labor force will expand by almost 1 million workers annually. Thus, each year roughly 300,000 people will be added to the army of unemployed. The unemployment rate, currently between 10 and 12 percent, will rise to near 17 percent

⁷See *Mexico: Economic Trade-Offs and Oil Exports Through 1985*, ER 80-10203, March 1980 (Confidential).

in 1990. Underemployment, though difficult to define and quantify, could also be exacerbated. (We expect underemployment to decline in rural areas; it may, however, expand in the service sector.)

65. The high levels of unemployment that we foresee for the late 1980s do not necessarily mean an equivalent increase in human misery. Most of the unemployed and underemployed will be idle for only brief periods (for example, between crops in rural areas or between construction projects in urban areas). The real wage rate should steadily increase during the period, allowing employed relatives and spouses to uphold to some degree the living standards of the unemployed. Many of those counted as unemployed or underemployed will be earning decent livings in quasi-legal manufacturing and commercial ventures. Others will be living well on their earnings from a few months' illegal labor in the United States.

66. Even with the increase in overall unemployment, the demand for skilled labor will remain strong. The upshot will be a further increase in Mexico's income inequality, as the earnings of electricians, bricklayers, and assembly-line workers pull steadily away from those of street vendors, small farmers, and unskilled construction workers. Mexico, however, is not like Europe and the United States, where unions and apprentice systems restrict entry into the skilled labor force; the lines between skilled and unskilled labor are blurred in Mexico. The ambitious and talented urban Mexican youth can often work himself into a skilled job (especially in construction) with little more than quick wits, keen observation, and a willingness to lie about his qualifications until those qualifications become real. It is much more difficult for the rural Mexican—especially the Indian—to break into the skilled ranks.

67. In an economy such as that of Mexico where there is not enough wealth (even after oil) to give everyone the good life, economic and social mobility become extremely important. In post-Revolutionary Mexico, differences of class, race, and even education impose few limits on personal achievement. An ex-milkman can become one of the country's most important political figures. An Indian construction worker can become a multimillionaire contractor. These are, of course, exceptional people. The average Mexican, while his ambitions and abilities will not take him so far, does have a reasonable expectation of bettering himself. This is especially true of the high school or university graduate. The Mexican Government,

through a variety of means including spurring the development of capital-intensive industry, has been careful to assure that opportunities are plentiful for the always potentially dangerous educated elite.

C. The Rural Sector

68. Mexico is no longer a rural nation and the main problems it faces are no longer rural problems—a fact that seems to have escaped most foreign observers and even some Mexican officials. Indeed, Mexico today is in many important respects similar to the United States between the two world wars; the rural sector is declining rapidly in importance while prospects for agriculture remain good. The agricultural labor force has fallen from 65 percent of the total in 1940 to 35 percent at present, while the amount of developed cropland has increased by 60 percent. The share of agriculture in the gross domestic product has fallen from 20 percent to 9 percent, while the value of agricultural output (in constant pesos) has risen by 350 percent. In the 1980s, we expect Mexico to continue its evolution from a nation of many poor subsistence farmers toward a nation of relatively few prosperous commercial farmers.

69. Explaining the Mexican rural sector is essentially a process of breaking down myths.⁸ Myth number one: Mexico cannot feed itself. This is simply not true. Mexico's agricultural balance of trade has shown a surplus in every recent year except 1974. Although Mexico imports about 15 percent of its basic foods, it exports enough coffee, cotton, and vegetables to more than offset its imports of corn, wheat, and oilseeds. So, it is not a question of using oil earnings to pay for food imports; agricultural exports not only pay for food imports but generally earn a half billion dollars or so in additional foreign exchange. As the Mexican peasant upgrades his operation (through education, mechanization, or irrigation), he typically shifts out of corn into more valuable crops. Thus, as this process accelerates, Mexico will: (1) import more basic foods; (2) export more high-value farm products; (3) increase farm incomes; and (4) add variety to the Mexican diet.

70. Myth number two: Mexico is so poor in land and water that agricultural output cannot be greatly expanded in the future. Extensive undeveloped arable lands remain, and there are also untapped water re-

sources; the difficulty is that the distribution patterns of these resources do not always coincide, and much of the north remains vulnerable to drought. Utilizing much of this land and water would require extensive capital investments, which neither the Mexican Government nor private interests are likely to make until profitable markets for the increased output can be found either in Mexico or abroad. As these markets are found, this land will be put into use. With adequate capital and technical inputs and more efficient utilization of water resources, agricultural production should be able to expand significantly through the 1980s, although droughts will continue to restrain output in some years.

71. Myth number three: the Mexican rural sector is a social and political powder keg. Not so. Although the number of landless peasants has doubled to about 4 million persons since 1950, rural unrest has decreased. The peasant's strong desire to own his own land either directly or as one plot on a state-owned farm (*ejido*)—a potent factor only a few decades ago—has declined markedly. While random rural violence exists as it always has, it appears to have little ideological content. Nowadays, the dissatisfied peasant finds it more rewarding to head for Mexico City (permanently) or to California (for a few months) than to agitate for revolutionary change. (The land invasions during the latter days of the Echeverria administration apparently were instigated by elements in the federal government for political reasons and thus did not reflect widespread rural discontent. The present administration was able to cut them off virtually overnight.) In the 1980s, labor unrest by farm workers in prosperous areas of the north is more likely than peasant unrest in poorer areas of the nation. Neither is likely to be politically threatening.

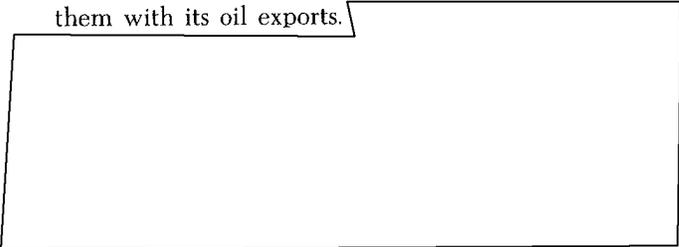
D. Trade, Inflation, and the Exchange Rate

72. As we indicated earlier, Mexico's strategy for creating employment hinges upon the expansion of nonoil exports, both industrial and agricultural. Such an expansion will undoubtedly prove difficult. Because of the energy problem, the developed nations will be growing very slowly and therefore will constitute only a limited market for Mexican exports. Even this limited market may be further restricted by protectionist measures. On the domestic side, Mexico may allow its goods to become uncompetitive in price if it is unwilling or unable to control inflation or to compensate for it through currency devaluation.

⁸ See *Mexican Agriculture: Myth and Reality*, ER 79-10266, May 1979 (Confidential).

73. Thus, Mexico City will be faced with some hard political choices. Because of large increases in the money supply (due to the inflow of oil dollars), efforts to curb inflation will probably hinge on some combination of: (1) restrictions on the growth of real wages; (2) reduced government spending; (3) price controls; and (4) increased imports. Each of these methods works against the interests of politically important elements in Mexican society. On the other hand, any attempt to "live with" inflation through frequent exchange rate adjustments (perhaps combined with Brazilian-style indexation) would also be politically costly. No economic statistic is more politically sensitive than the peso-dollar exchange rate. To your average Mexican cynic, statistics on inflation, employment, and economic growth are only as trustworthy as the government that publishes them; the exchange rate, however, can be verified by the man on the street. Thus, in popular opinion, the economic success of an administration is often judged by its ability to maintain the value of the peso.

74. With its oil earnings, Mexico City will have the option of maintaining an "unrealistic" exchange rate almost indefinitely. To the extent that it does so, it will be tempted to maintain employment either by subsidizing its nonoil exports or in some way linking them with its oil exports.



The Relationship Between Economics and Politics

75. A Mexican government will almost always subordinate economics to politics. The "best" economic policy will be adopted only insofar as it is also the best political policy. (This does not mean, however, that the president will subordinate long-term economic plans to short-term political pressures. Given the nature of the system, the Mexican president is under less pressure than leaders of most other nations to respond to short-term domestic political pressures. He can take the long view of both economics and politics.) The great extension of land reform during the Cardenas administration, for example, was intended to (1) secure the political support of the peasants and (2) destroy the political power of the large landowners of the north. Its effects, for better or worse, on ag-

ricultural production and on peasant living standards were secondary. The same sort of political considerations prevailed in other economic acts of Mexican governments such as the nationalization of oil, the establishment of profit sharing, and the creation of the Border Industry Program.

76. Mexico's economic success—probably the most spectacular in the Third World, if the entire period from the mid-1930s to the present is considered—is in itself a source of legitimacy for the Mexican political system. For this reason alone, the Mexican president must always appear to be on top of the economic situation. Beyond the direct political effects of economic ills such as unemployment or inflation is the indirect political effect that these ills have on the appearance of presidential competence. In the Mexican case, it is at least arguable that the indirect effect is of greater importance for political stability than the direct effects.

The Evolution of the Mexican Political System to 1990

A. How the System Works—and Why

77. The flow of authority in Mexico is the reverse of that in a textbook democracy. All important power—including that of choosing his successor—rests with the president. Legislative officials, governors, and mayors of important cities, though nominally elected, are in fact designated by the president and their first loyalty is to him and not to their constituents. The voters, knowing in advance who will be elected in each important contest, usually turn out in impressive numbers to demonstrate their loyalty to the system and to the chosen candidates. (Indeed, some writers have described voting in Mexico as more akin to saluting the flag than to making a choice.) The voters know that the benefits they receive from the system are at least roughly proportional to the manner in which they support the chosen candidates.

78. If the flow of authority is downward from the president, the flow of "legitimacy" is upward from the people. Unlike exclusive authoritarian systems, Mexico's inclusive system sets great store in bringing all Mexicans into the system in at least a symbolic way. In the preelection period the presidential candidate engages in several months of vigorous campaigning through even the smallest villages to "create a bond with the people." Once elected, the president, as well as his ministers, department heads, governors, and

mayors, is amazingly accessible to delegations from all sectors of Mexican society. In a large number of cases, action is taken in response to such "petitions from loyal Mexicans."

79. Paradoxically, one of the strengths of the system lies in the fact that resources are limited and not all demands can be satisfied. A delegation from, say, a squatter settlement in the Federal District asking for piped water knows that if their group receives the benefit some other settlement must wait. Furthermore, the delegation knows that troublemakers who demand rather than request, who do not turn out to march and vote for the official party, who are less than completely cooperative are likely to go to the bottom of the list. The system, which permeates Mexican society, breeds gratitude on the part of the winners and a determination to "do things right next time" on the part of the losers. As it is based on interlocking vertical patron-client relationships, the system also effectively discourages potentially dangerous horizontal linkages between members of the same class.

80. In those rare cases when the judicious distribution of favors is not enough to assure political control, the ruthless side of the Mexican system comes into play. Typically, a leader who cannot be bought (through a combination of benefits to himself and to the group he represents) first becomes a kind of nonperson on the Mexican scene; his followers go to the last of every line and soon he has no followers. If this is not sufficient to bring forth his cooperation, he is jailed, killed, or exiled. Once the government decides to act, it almost always errs on the side of overkill—perhaps reasoning that a wounded man (or group) is dangerous while a dead man (or thoroughly cowed group) is not. This spirit of no compromise accounts for the bloody persecution of Catholics during the Calles period (which effectively destroyed the Church as a political influence), the breaking of the northern landholders in the Cardenas period, and, more recently, the student massacres under Presidents Diaz Ordaz and Echeverria. The thinking of those who call the shots for the Brigada Blanca, the Halcones, and other government-controlled thugs seems to be: "A dozen dead students would be martyrs, while several hundred dead students will assure a decade of peace on the youth front."

B. The Presidential Succession and the PRI

81. The Revolution of 1910 was fought not so much against dictatorship as against *continuismo*, the seem-

ingly unending rule of a single man. Thus, after a few false starts in the Obregon and Calles periods, the revolutionary slogan of "no reelection" became a cornerstone of the political system. The Mexican president is given dictatorial powers—which most Mexicans believe are necessary for effective government—for a period of six years. At the end of his term, after "appointing" his successor, the outgoing president is expected to fade away and enjoy his wealth in modest seclusion. The amazing thing is that this is just what happens; no president since Calles (in the 1920s and early 1930s) has attempted to influence the policies of the man he chose to succeed him.

82. A second peculiarity of the Mexican system is that each president tends to be followed by a successor who corrects the exaggerations of the outgoing president's policies and personality. Thus, the leftist Cardenas was followed by the rightist Avila Camacho, the unusually corrupt Aleman was followed by the unusually honest Ruiz Cortines, the erratic Echeverria was followed by the steady Lopez Portillo. This characteristic is summed up by the common metaphor that "the Revolution walks with both a right foot and a left foot."

83. Presidents are chosen from among the members of the official party, the *Partido Revolucionario Institucional*, or PRI. The PRI is something like the US Democratic and Republican parties combined; it covers the full spectrum of tendencies and leaders from the extreme left to the extreme right. The only route to power for any serious politician is through the PRI; other parties exist, but they (much like minor parties in the United States) attract only those who are more interested in making a statement than in achieving power. Although the outgoing president may choose as his successor a technocrat who has not been greatly active in PRI affairs, it would be unthinkable for him not to choose a party member.

84. The Mexican political system—much more than its detractors would admit—is based solidly in the masses of peasants, workers, and "marginals,"⁹ largely because these groups are the most susceptible to government inducements and controls. Voting patterns and the surveys of sociologists and anthropologists consistently indicate that the government's strongest support comes from the poorest urban and rural areas. The PRI, which in nonelection years is more of a government bureaucracy than a party, has three tra-

⁹The unemployed and underemployed in urban and rural slums and in squatter settlements are usually designated as "marginals."

ditional legs: the agrarian sector, the labor sector, and the "popular" sector which includes professionals, shopkeepers, government workers, and marginals living in urban squatter settlements. All of these groups are highly organized in the typical vertical patron-client fashion.

85. The middle class, although technically part of the "popular" sector, is much less dependent on the government than are the poorer classes, and its loyalty is therefore more conditional. It is from this class that the greatest threats to the system have come, and it is to this class that the government distributes most of its carrots and sticks. This class, which is rapidly growing in both absolute and relative size, is receiving an ever greater share of the national income at the expense of both the poor and the very rich. It is the members of this class—professionals, journalists, students, union leaders—who are most likely to be found in good government jobs or in jail.

86. Big business, though not a part of the PRI because of its nonrevolutionary origins, is linked to the system in much the same way as the other sectors. The government has, and has used, the power to greatly help or to destroy individual firms, but it also depends on this sector to carry out much of its economic policy, especially in the area of job creation. Although big business generally toes the government line, it has a power base of its own and has on rare occasions been able to fight the government to a standstill on certain issues. Some observers believe that this power will increase over the next decade.

87. During the 1920s and the 1930s, the political influence of the Mexican military was steadily reduced under a series of revolutionary generals who, as presidents, feared the power of their comrades in arms. In 1946, when Mexico's first civilian president in over three decades took power, the military had largely ceased to be a threat and had become an important support of the ruling party. The major function of the military is to protect the system from its internal enemies; the Army has been used to put down peasant revolts and student riots as well as to hunt guerrillas, smugglers, and bandits and to intimidate opposition political parties. Army officers command the *Brigada Blanca* and similar groups of government thugs. The military also has a civic action function, doing everything from building bridges to running hospitals in many of the less accessible areas of the country. Moreover, in many states the zone commander serves as an alternative to the governor for

conveying the desires of local interest groups to the president.

88. As compared with the establishments of other Latin American nations, the Mexican military is small (about 110,000 men in all three branches), ill equipped (the Air Force, for example, has only 20 jets, all of which are old), and underfinanced (traditionally receiving only about 2 percent of the federal budget). It is well disciplined, apparently completely loyal to the system, and has almost none of the institutional egotism of most South American military establishments. High-ranking officers are encouraged to seek wealth rather than political influence or power.

89. Recently there have been some indications that the military is beginning to see a new role for itself. Many military men do not share the nonchalance of other government officials toward events in Central America. They feel that co-optation may not always do the trick and that they may be called upon to defend the nation's southern border against strong guerrilla forces. Moreover, these military men see the oil bonanza both as a resource that requires a high level of military protection and as the means of paying for that protection. The Lopez Portillo administration is responding to these new military concerns with a modest modernization program that envisions buying aircraft, small ships, and other equipment from the United States and other foreign countries. If this program is thwarted, it could lead to a somewhat greater activism of the armed forces as a pressure group.

C. The Opposition—or Politics at the Fringe

90. In the past, all of the serious threats to the government have come from inside the "Revolutionary Family." In the elections of 1940, 1946, and 1952, important PRI leaders, angry at being passed over in the presidential succession, left the PRI and formed their own personalist parties. Each of these ex-PRI candidates knew that the PRI would not allow a non-PRI candidate to win; what they hoped to do was to use the election to split the PRI and then settle the presidency by force of arms. (Two of these candidates happened to be generals.) Given the steady erosion of the strength and political power of the Army, this type of threat is not likely to reoccur in the 1980s.

91. The nonpersonalist opposition parties differ only as to the extent to which they have been co-opted. The *Partido Accion Nacional*, or PAN, is the oldest, strongest, and most independent of the opposition parties. Although generally considered conserv-

ative, it is not reactionary and has occasionally challenged PRI policies from a leftist perspective. The PAN is essentially a Christian Democratic party with the religious elements greatly downplayed because of Mexican law. It is the recipient of most anti-PRI protest votes and has often showed considerable strength in the northern states. In an absolutely free election, the PAN might win a governorship; it could not win the presidency.

92. The Communist Party (PCM), as we discussed in Part One, is more co-opted than the PAN but less than most of the other parties of the left. PCM deputies occasionally challenge government policy in the legislature and occasionally are allowed to carry the day on minor issues. Since legalization, the PCM has been weakened by divisions in the leadership and by an influx of hard-to-please new members who have never heard of Democratic Centralism. The other leftist parties—as well as the PARM on the right—are based on a mixture of personalism and ideology. Some have provocative ideas and attractive leaders; none are of any importance on the broad Mexican political scene.

93. Beyond the realm of elective politics, there are a number of small guerrilla or “social bandit” groups in the great tradition of Pancho Villa and other heroes of the Revolution of 1910. The most important of these, at present, is the 23rd of September Communist League. This urban guerrilla group, which has been able to rob a few banks, kill a few policemen, and kidnap or murder a few children of the powerful, was badly hurt by recent actions of the authorities and probably has no more than 50 members throughout the country. Rural guerrilla groups (led by Genaro Vazquez and Lucio Cabanas in the 1960s and 1970s in the state of Guerrero, and by Ruben Jaramillo off and on from the 1920s until he was killed in 1962 in Morelos) are one of the constants of Mexican life. They have little importance in modern, urban Mexico. (It is an interesting comment on the Mexican political mentality that many Mexicans believe that most or all of these armed opposition groups, which in many cases we know to be genuine, are controlled by the government.)

D. Political Stagnation and Political Reform

94. During the coming decade the most dangerous task that the Mexican Government faces is that of achieving the proper degree of political reform. Government leaders are well aware that, while the work-

ers and peasants are relatively satisfied with Mexican political institutions and processes, the educated middle class is becoming increasingly restive. Moreover, these leaders cannot have forgotten that thwarted middle class demands for limited political concessions from the Diaz dictatorship constituted the initial spark of the Revolution of 1910. The situation may well become more dangerous as the decade progresses and the relative and absolute size of the middle class grows.

95. The most important attempt at political reform since the 1930s took place early in the presidency of Diaz Ordaz (1964-70). The national president of the PRI, Carlos Madrazo, opened a campaign to create local party primaries in place of the usual system of having delegates and candidates imposed from above. Although the reform had obviously been cleared with Diaz Ordaz, the President did not publicly associate himself with it. When the initiative drew little support from the public and a great deal of condemnation from party members, Diaz Ordaz was able to fire Madrazo and back off from the proposal. (Madrazo died a few years later in an air crash—an event regarded with considerable cynicism by Mexican PRI watchers.)

96. The current President's efforts at political reform have been much more limited. They guarantee a certain number of seats in the lower house to opposition politicians and give slightly more power to the legislature but do not touch the internal workings of the PRI. Although the Lopez Portillo reforms will allow more currents of opinion to be voiced in the Chamber of Deputies, they will in no way jeopardize the PRI's total control over government. They have failed to catch on with the public—voting was unusually lackluster in the first elections held after the reform was instituted.

97. Thus, it seems that Mexico is in a situation where reform of the official party is considered too dangerous by party members and reform of the government is considered too meaningless by the general public. The government's response will probably amount to little more than “creative stagnation”—talking a lot about democracy while making a few cosmetic changes. This may be sufficient. Most Mexicans, including reform-minded middle class opponents of the PRI, recognize that the Mexican system works far better than the systems of most less developed countries. They fear that, if the system were to fall, it would be replaced with something much worse. On the other hand, there is little doubt that they are dis-

satisfied with the hypocrisy inherent in the system and with the severe limitations that the system places on political choice.

E. Dangers

98. The most predictable period of danger for the Mexican system will come in the latter half of the 1980s when the government will be forced to take strong measures to curb population growth in Mexico City. As we pointed out earlier, if greater Mexico City continues to grow at the present rate, it will contain 25 million inhabitants in 1990, while the Valley of Mexico does not have the land and water to support a population of more than about 20 million. As natural growth alone would put the city's population above the critical level by the end of the decade or soon after, the government will have to not only stop migration into Mexico City but also encourage native-born residents to leave the capital.

99. This will present an immense political problem. From prehispanic times on, Mexico City—or Tenochtitlan—has been the nation's center of culture, excitement, good living, power, and opportunity. Every Mexican considers it his right to go to the capital in order to better himself, to escape past failures, or simply to be part of the action. Mexico City is Rome, Jerusalem, and Mecca rolled into one. No government has ever made a serious attempt to restrict the Mexican citizen's freedom of movement; the extension of government authoritarianism into this area would be without precedent.

100. Some experts believe that, as population presses harder on resources, the quality of life in Mexico City will decline to such an extent that more people will be trying to leave than to enter the area. This seems doubtful. Despite the massive inflow of rural migrants to the squatter settlements around Mexico City, incomes are becoming more equal in the city even as inequality grows in the nation as a whole. This means that, on the average, one will still improve oneself economically by moving to the city. And most migrants beat the average—statistics indicate that, when other factors are held constant, migrants to Mexico City advance faster and achieve higher status than native residents. Moreover, the glamour of the capital will remain for years if not decades after economic opportunities disappear and living conditions deteriorate.

101. What then is the government to do? One solution, perhaps the only long-run solution, is to create

other poles of urban growth. This will be difficult. President Lopez Portillo's plan to establish new agro-industrial centers along the coasts will, under the best of circumstances, be only a drop in the bucket by the end of the decade. With regard to already established urban areas, only Monterrey, Guadalajara, and the border cities have been able to attract an appreciable number of rural-urban migrants. These areas already have serious problems, which would be exacerbated by higher population growth rates. The oil centers of Tabasco, Chiapas, and southern Veracruz as well as some resort areas on the Pacific coast and in Yucatan are currently attracting some migrants, but this flow is more likely to subside than expand as the decade goes on. The other major cities of Mexico, now spurned by migrants, will have to be made more attractive through tax advantages, establishment of industry that is both labor intensive and high paying, and decentralization of some government functions, if the problem is not to get completely out of control by the turn of the century.

102. The only viable interim solution for the 1980s is probably to expand the limits of greater Mexico City beyond the Valley of Mexico. Greatly increased tax rates and a crackdown on squatter settlements in the Federal District (both costly in political terms) could push even native-born residents beyond the Valley. At the same time the creation of high-speed transportation links could bring a greatly expanded area (including the cities of Toluca and Pachuca) into the new, greater Mexico City. The present administration is already thinking along these lines. Implementing even this partial and interim solution could put strains on the political system.

103. Another danger which is always present in the Mexican political system is that of presidential death or incompetence. There is no vice president in the Mexican system; the legislature has the duty under the constitution to appoint a replacement for a president unable to complete his term of office and, if enough time remains in the term, to hold new elections. The actual result would probably be a severe crisis. The Mexican legislature is used to taking orders, not to making decisions on its own. Moreover, while certain members of the PRI, the cabinet, the bureaucracy, and the labor unions have considerable influence, there are no "kingmakers" in the Mexican system apart from the outgoing president himself. Mexican presidents are usually relatively young and in good health—no Mexican president has died in office since the early days of the Revolution—but accidents or

assassination are always possible. Such an event would put a severe strain on the system.

104. Although when it comes to selecting presidents the Mexican system has at least as good a record as most democracies, the possibility always exists that an unsuitable or incompetent person might be chosen for the job. (Some Mexicans would say that this already happened in the case of Echeverria.) Such a president, given his key role in the system, would be dangerous. The system would probably survive if there were no other major strains. If, however, a number of other pressures converged, serious political instability could arise.

105. Unemployment, under the best of circumstances, will probably reach 17 percent by 1990. If unexpected economic difficulties arise, the rate could go still higher. This, in and of itself, should not severely strain the system as long as job opportunities for the educated and politically aware remain plentiful. However, high rates of unemployment in conjunction with other factors could prove dangerous.

Even more dangerous would be disarray in the government—caused perhaps by an incompetent president, a power struggle in the labor movement after the death of aging labor kingpin Fidel Velasquez, and/or a sharp increase in middle class criticism. Under these conditions, the patron-client relationships that encompass even the unemployed would be weakened and the unemployed might feel that they had nothing to lose from radical action.

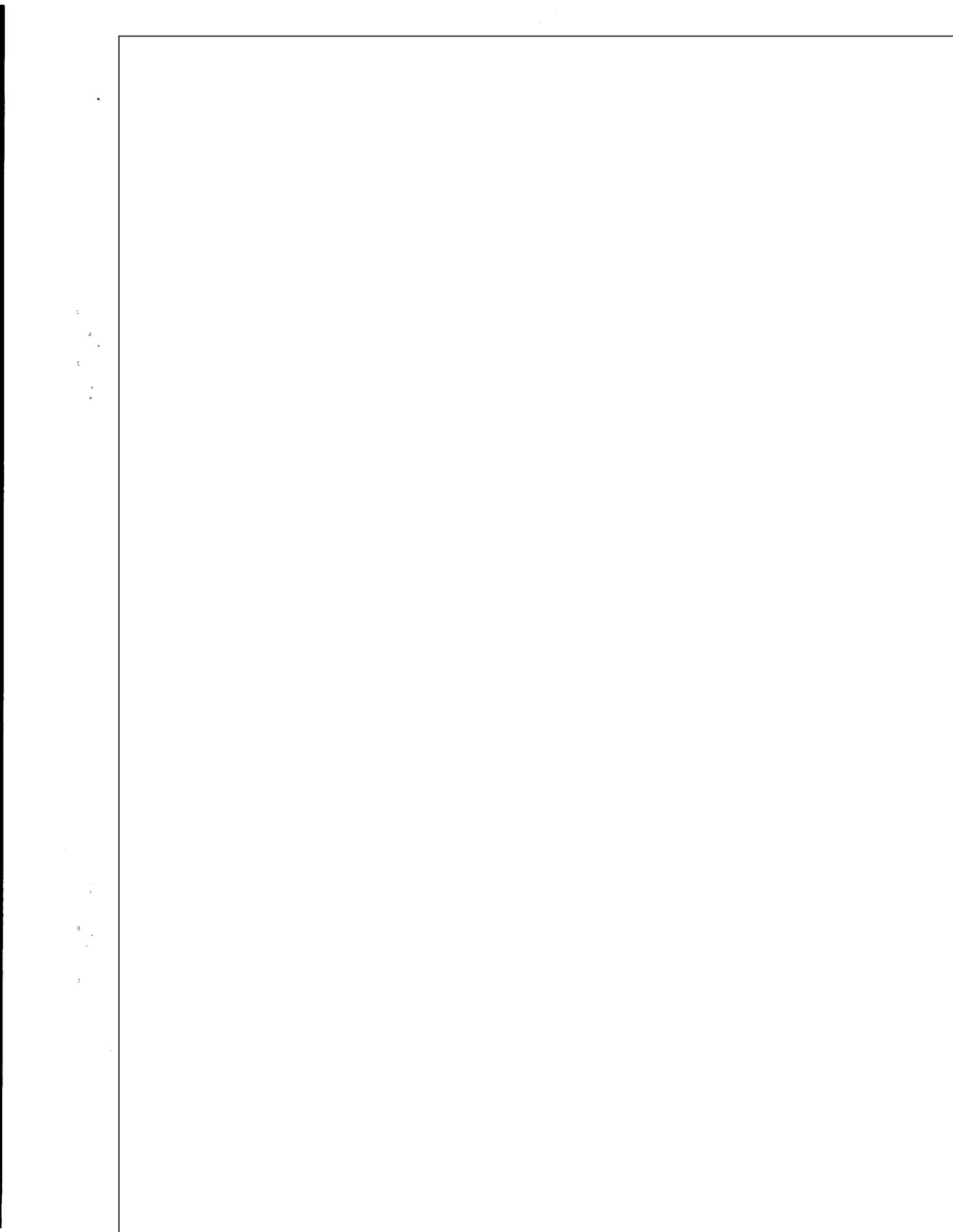
106. Some experts believe that, in a situation where most of Central America goes Communist, Mexico could fall prey to outside subversion. These experts point out that the Mexican oilfields are only 100 miles or so from the Guatemalan border and wonder if Mexico could become the "last domino" in a series (of one, so far) that began with the Sandinista victory in Nicaragua. We see very little likelihood that this will happen during the next 10 years—unless, of course, the country is already in severe trouble for purely domestic reasons. A Communist government in Guatemala (assuming that one comes to power) might well be no more dangerous to Mexico than the present Communist government in Cuba. Certainly, it would be easier to sabotage the Mexican oilfields (if anyone had a purpose for doing so) from Cuba by sea than by crossing the mountains and jungles of Peten and Chiapas. As for the demonstration effect of Central

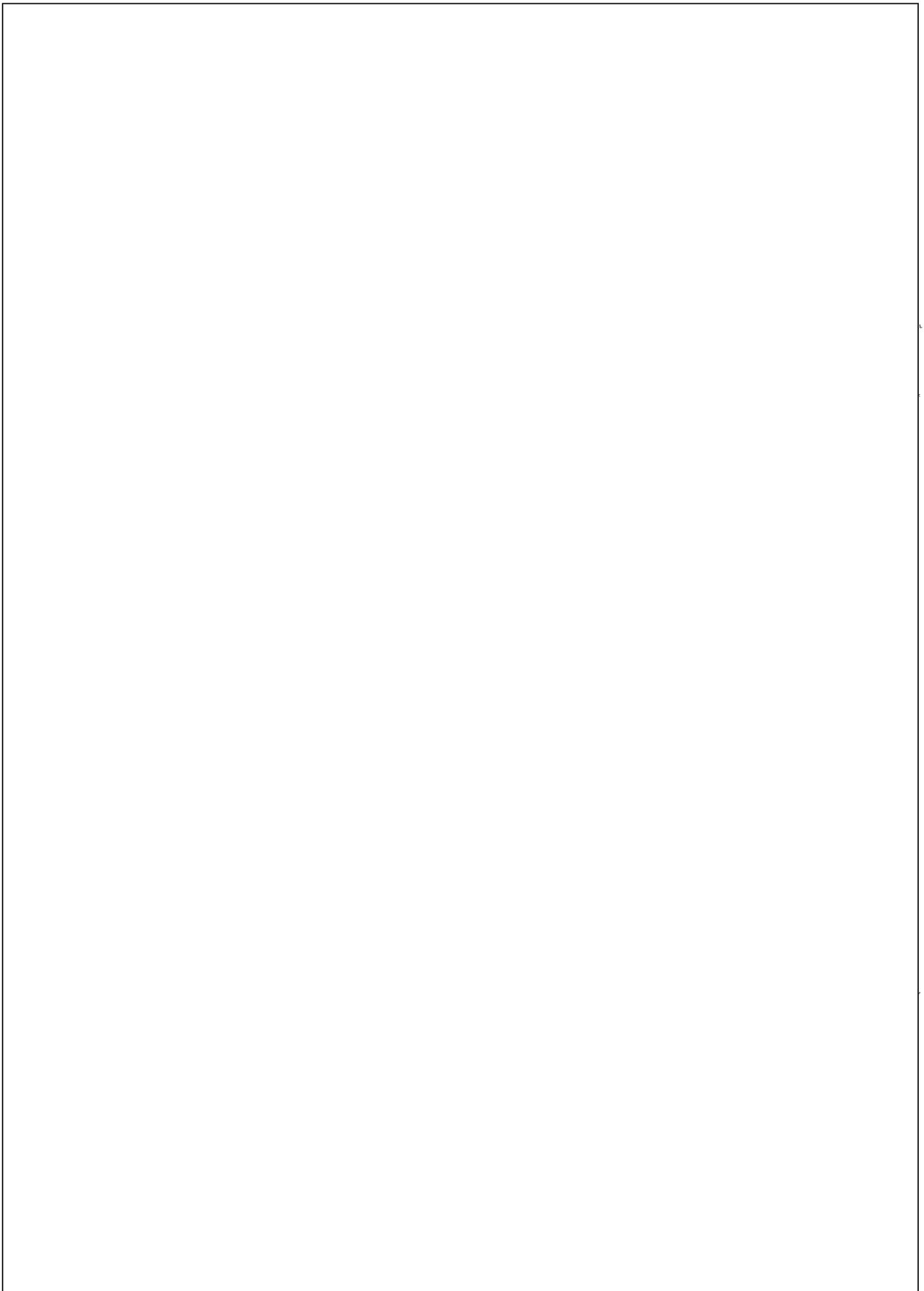
American revolution, it generally works the other way; Mexicans pride themselves on their differences from Central Americans.

An Instability Checklist

107. The chance that regime-threatening political instability will arise in Mexico in the 1980s is less than one in ten. Because of this low probability, observers will tend to overlook the signs of such instability if they should appear. This mind-set will be particularly strong among those observers with the most Mexican experience; no matter how bad the situation is, these experts can always remember how the Mexican Government overcame worse problems in 1968, or 1959, or whenever. By contrast, some journalists will continue to predict imminent revolution—as they have every year since the 1930s. The alarmism of the journalists will further harden the mind-set of the experts, and a real danger exists that the experts will ignore any signals of instability that might come up.

108.





~~SECRET~~

DISSEMINATION NOTICE

1. This document was disseminated by the National Foreign Assessment Center. This copy is for the information and use of the recipient and of persons under his or her jurisdiction on a need-to-know basis. Additional essential dissemination may be authorized by the following officials within their respective departments:

- a. Director of Intelligence and Research, for the Department of State
- b. Director, Defense Intelligence Agency, for the Office of the Secretary of Defense and the organization of the Joint Chiefs of Staff
- c. Assistant Chief of Staff for Intelligence, for the Department of the Army
- d. Director of Naval Intelligence, for the Department of the Navy
- e. Assistant Chief of Staff, Intelligence, for the Department of the Air Force
- f. Director of Intelligence, for Headquarters Marine Corps
- g. Deputy Assistant Administrator for National Security, for the Department of Energy
- h. Assistant Director, FBI, for the Federal Bureau of Investigation
- i. Director of NSA, for the National Security Agency
- j. Special Assistant to the Secretary for National Security, for the Department of the Treasury
- k. The Deputy Director for National Foreign Assessment for any other Department or Agency

2. This document may be retained, or destroyed by burning in accordance with applicable security regulations, or returned to the National Foreign Assessment Center.

3. When this document is disseminated overseas, the overseas recipients may retain it for a period not in excess of one year. At the end of this period, the document should be destroyed or returned to the forwarding agency, or permission should be requested of the forwarding agency to retain it in accordance with IAC-D-69/2, 22 June 1953.

4. The title of this document when used separately from the text should be unclassified.

~~SECRET~~