

R

NIE 81-84

THE OUTLOOK FOR MEXICO

Information available as of 25 April 1984 was  
used in the preparation of this Estimate.

CONTENTS

|   | <i>Page</i> |
|---|-------------|
| [REDACTED]                                    | 1           |
| DISCUSSION.....                               | 7           |
| I. KEY CHARACTERISTICS OF THE SYSTEM.....     | 9           |
| [REDACTED]                                    | 9           |
| [REDACTED]                                    | 9           |
| [REDACTED]                                    | 11          |
| [REDACTED]                                    | 11          |
| Revolutionary Ideology.....                   | 12          |
| [REDACTED]                                    | 13          |
| II. IMMEDIATE CHALLENGES TO THE SYSTEM.....   | 15          |
| A. Economic Stringencies and Constraints..... | 16          |
| Different Approaches.....                     | 17          |
| B. The Conservative Opposition.....           | 18          |
| The National Action Party.....                | 19          |
| C. The Slums.....                             | 21          |
| D. [REDACTED]                                 | 21          |
| E. [REDACTED]                                 | 23          |
| III. [REDACTED]                               | 23          |
| [REDACTED]                                    | 23          |
| [REDACTED]                                    | 24          |
| IV. [REDACTED]                                | 24          |
| A. De la Madrid.....                          | 26          |
| B. [REDACTED]                                 | 27          |
| C. [REDACTED]                                 | 28          |
| V. [REDACTED]                                 | 28          |
| VI. [REDACTED]                                | 30          |
| [REDACTED]                                    | 33          |
| [REDACTED]                                    | 35          |

PAGES 1-6 DENIED

## DISCUSSION

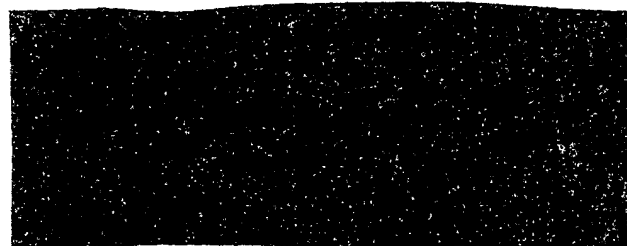
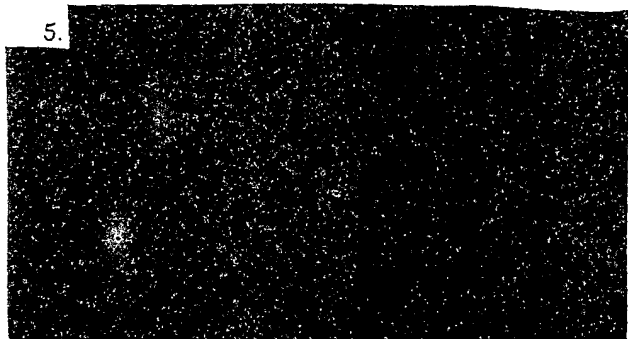
1. Until the foreign exchange crisis and economic collapse in 1982, Mexico was perhaps the most unqualified success story in the developing world. From its inception in the late 1920s and 1930s, the country's unique political system had provided over 50 years of relative social tranquillity, political stability, and economic growth. Since 1934, nine presidents have served in regular succession, wielding and yielding power according to elaborate constitutional and informal rules that are rooted in 150 years of the country's myth and history. Unlike most Latin American countries, furthermore, there have been no military interventions, serious coup plots, strong guerrilla or terrorist movements, or large outbursts of antiregime violence. Unlike all of them too, in Mexico the economy grew with few lean years and at impressive high rates for a half century until 1981. In fact, with an average annual growth rate of over 6 percent during those decades, cumulative material gains in Mexico were among the highest achieved anywhere in the developing world. The prospects for economic development and diversification were buoyed in the late 1970s, furthermore, when Mexico's extensive newly discovered oil reserves began to be exploited.
2. Pressures on former President Lopez Portillo to increase public spending became irresistible after Mexico became a net oil exporter, but the former President's tendency toward grandiose scheming contributed significantly to the disastrous boom and bust cycle that followed. Mexico pursued a development strategy in large part dependent on massive public investment of oil revenues. As public expenditures burgeoned, pushing growth rates to as high as 8 and 9 percent annually, the economy began to overheat in the late 1970s. Inflation mounted, the peso became highly overvalued, and the competitiveness of Mexico's nonoil exports was undermined. Foreign borrowing was stepped up to compensate for soaring current account deficits even as interest rates were rising. Lopez Portillo stubbornly refused to devalue the peso until 1982, and foreign exchange policies served as a positive inducement to capital flight. Billions of dollars were expatriated as Mexicans deposited, invested, and spent lavishly abroad. The foreign exchange and debt crisis that Lopez Portillo acknowledged in August 1982, and his nationalization of the country's private banks the following month, strongly undermined the private sector.
3. Inaugurated President in December 1982, Miguel de la Madrid inherited a crisis more encompassing than any since the late 1930s. Under conditions of harsh austerity, high unemployment and underemployment, double- or triple-digit inflation, widespread business failures, and a crippling shortage of capital, the economy contracted by about 6 percent in 1983. Virtually all social and economic groups have had to accept declining standards of living, scale down their expectations, and compete for benefits and opportunities in a negative sum economic environment. De la Madrid has struggled to preserve social equilibrium and to restore public confidence in the political system. In particular, he has endeavored to distance himself from the egregious corruption and failures of Lopez Portillo and other senior officials of the last government. By pursuing an anticorruption campaign that has included the imprisonment of at least one former high official and revelations of abuses by others, and by projecting an image of fairness, competence, and probity, the President so far has provided generally effective and popular leadership.
4. De la Madrid's most striking success has been in engineering a turnaround in Mexico's international economic accounts. In a little over a year, austerity has brought spending in line with available resources, inflation has begun to decline, and some confidence in the government's policies has been restored. By slashing imports and public-sector expenditures, raising the real costs of most goods, and making other tough adjustments the regime has met most of the stabilization requirements of the International Monetary Fund (IMF). Interest is being paid on the more than \$85 billion foreign debt, and by the end of 1983 the current account surplus reached about \$4 billion. With some flexibility to increase imports of badly needed capital and intermediate goods, Mexico probably will be able to stem the decline in economic activity and may begin recovery this year. This progress has been achieved, moreover, without engendering any serious

Figure 1  
Principal Cities and Administrative Units

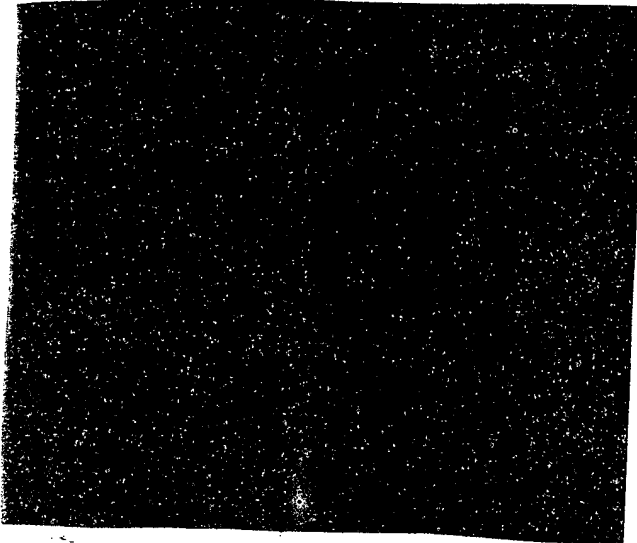


701880 (A02655) 4-84

social disruptions or ruptures in the "revolutionary family" of groups that support the regime.



sive force. Traditionally, the system has demonstrated resiliency and adaptability by adjusting to new circumstances, co-opting newly arising dissident factions, and claiming to represent and satisfy nearly all major interest groups. The regime's total control over patronage and the apportionment of material rewards has been perhaps its most powerful asset in preserving its monopoly of power.



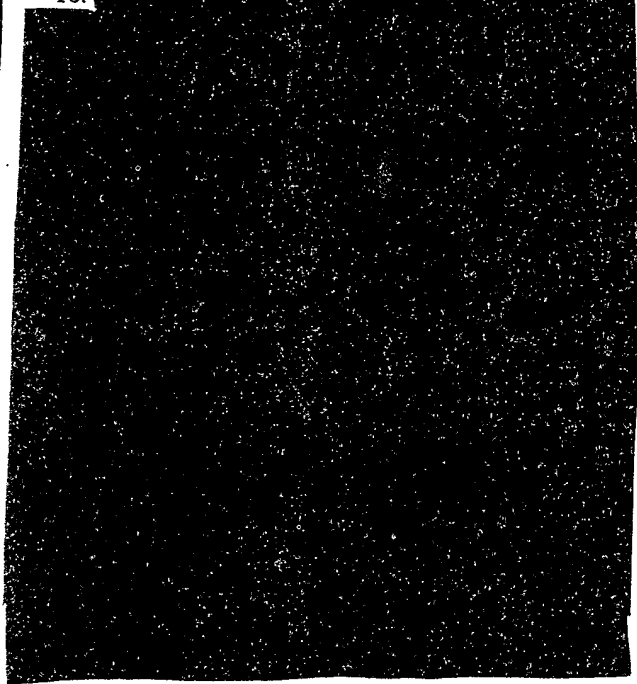
9.



7.



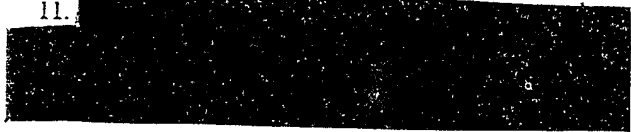
10.



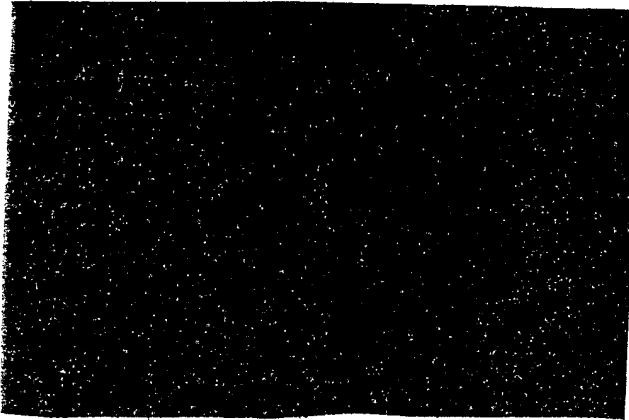
### I. KEY CHARACTERISTICS OF THE SYSTEM

8. Mexico's political system, one of the most complex and inscrutable in the developing world, has monopolized power for over five decades. Presidents serve for six years with enormous powers that are largely derived from their control of both the hegemonic PRI and the large federal bureaucracy. Government leaders and party bosses have been skilled in employing a pragmatic mix of policies and tactics: attacking as necessary in changing political winds; adjusting the balance of political power among elite groups; isolating dissidents; manipulating the media; upholding a high degree of secrecy and mystery in the system; maintaining a monopoly of repressive power; and exercising exclusive rights to the "revolutionary" ideals that provide the system legitimacy as a progres-

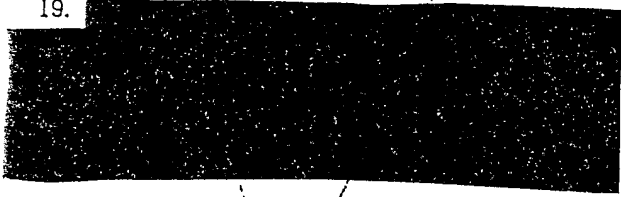
11.



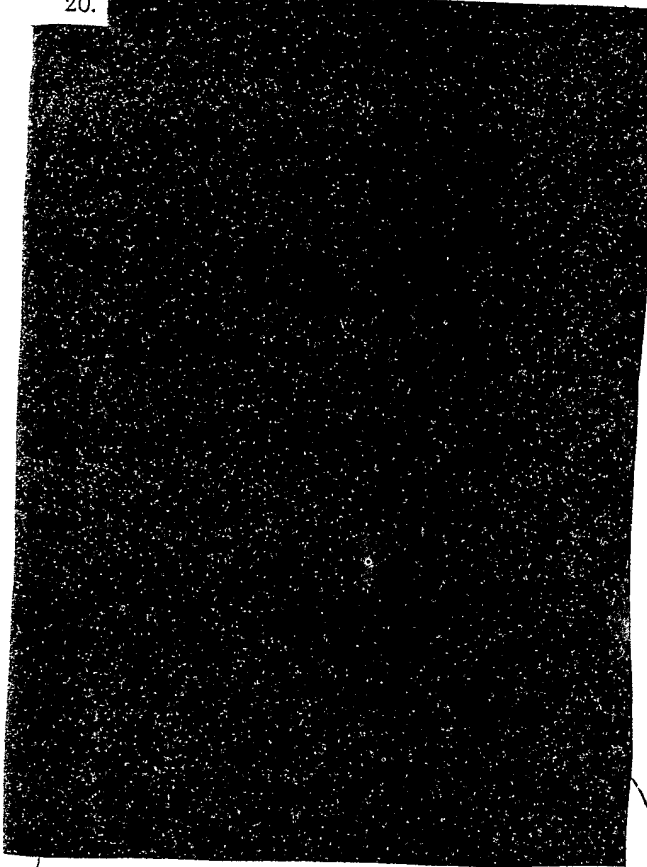
PAGES 10-12 DENIED



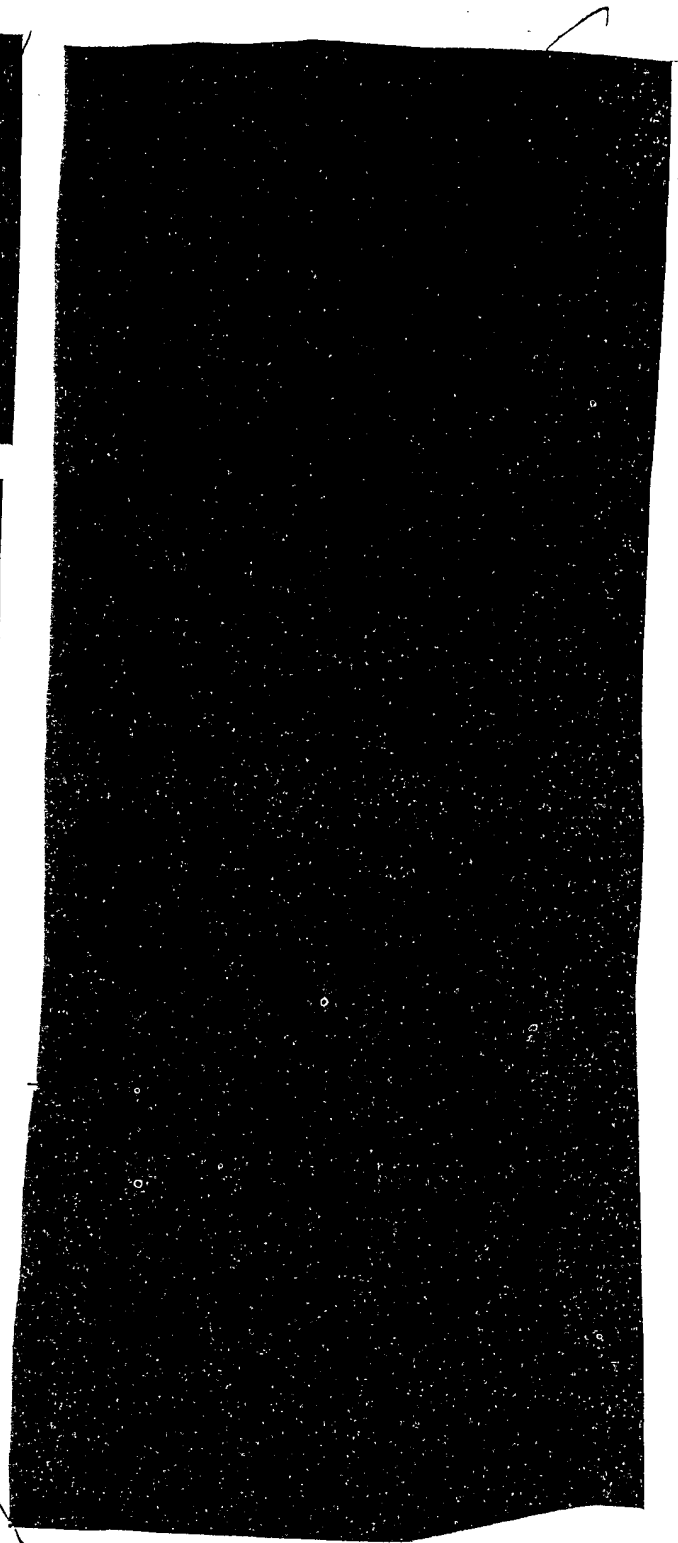
19.



20.



21.



Revolutionary Ideology

22. Revolutionary ideology has played an essential role in the political process and culture. Deriving from a panoply of myths and accomplishments associated

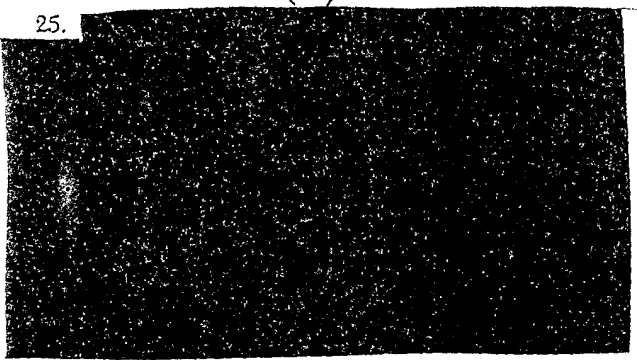


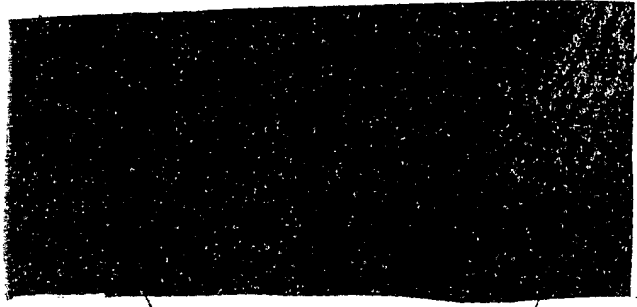
PAGE 14 DENIED

with the Revolution and its aftermath, this ideology provides a framework and a set of egalitarian standards that give legitimacy to the system. Fought in large part by and for Indians, peasants, and the working class generally, the Mexican Revolution gave impetus to decades of reforms that have realigned relationships among the country's social groups. For the first time since the Spanish conquest, the Indian peoples and their rich heritage were nourished officially as the very essence of the Mexican identity. Aztec heroes were lionized, Indian art and architecture exalted, and Indian characteristics and culture came to suffuse the national consciousness.

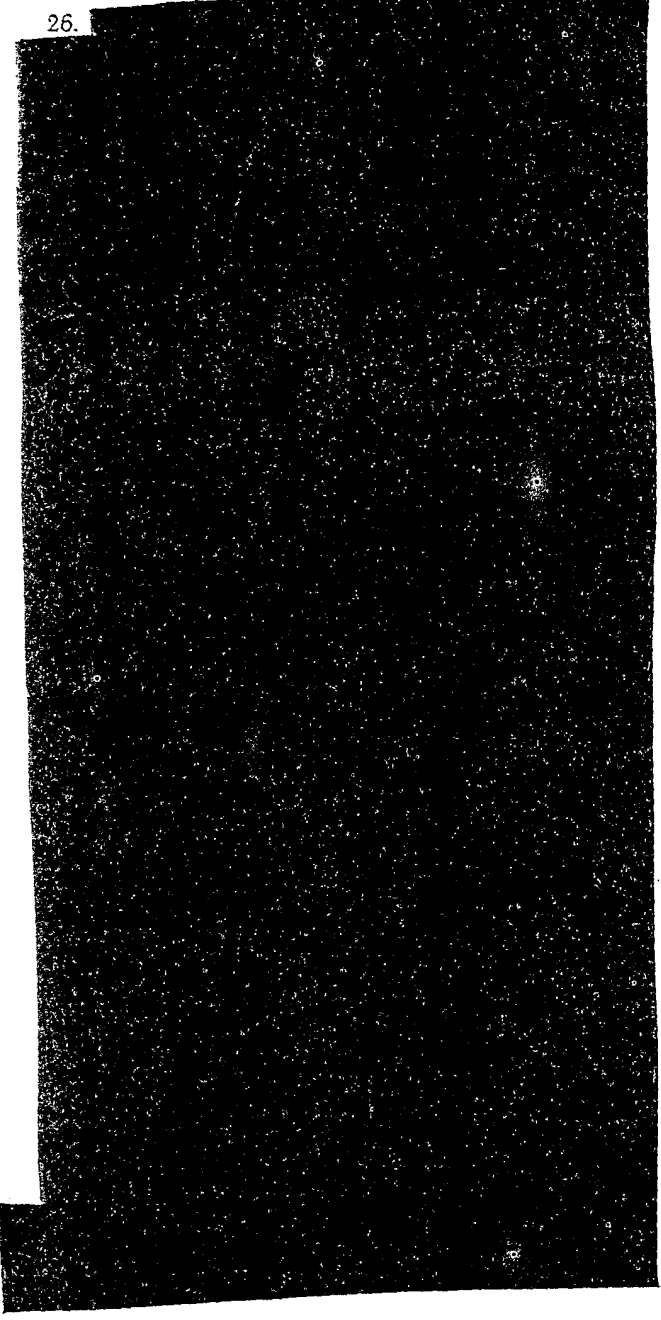
23. In contrast to this "revolutionary" hagiography are the many foreign intruders and enemies—Spanish conquistadors, French imperial pretenders, and assorted interlopers from the United States—all of whom are seen as having injured and exploited the rightful owners of Mexico's resources. Even more vilified than such "predatory" outsiders are the Mexican traitors who conspired with the foreigners. They are known specifically as *malinches* after the Indian woman who translated for Cortes. Lopez Portillo provided the most recent example of revolutionary demagoguery when he nationalized the private banks and imposed tough foreign exchange controls, arguing that *sacadolares*, unpatriotic Mexicans who removed capital from the country, had brought on the economic crisis.

24. 

25. 



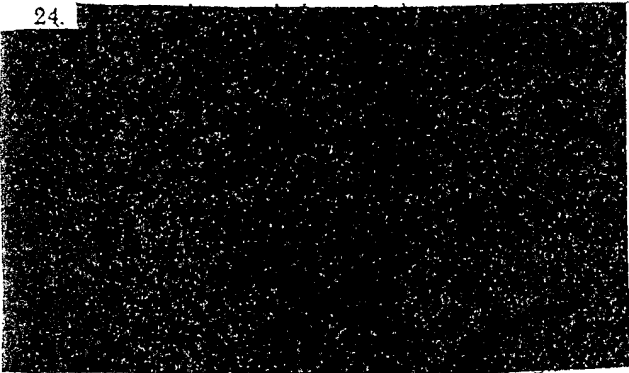
## II. IMMEDIATE CHALLENGES TO THE SYSTEM

26. 

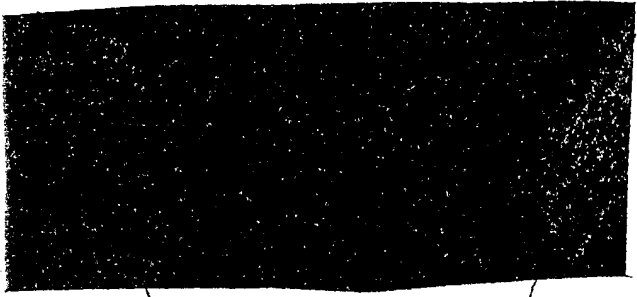
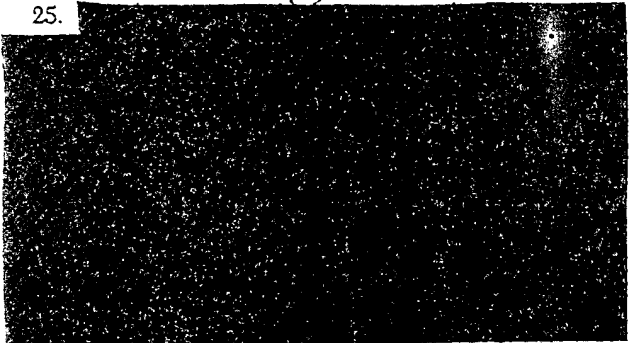
with the Revolution and its aftermath, this ideology provides a framework and a set of egalitarian standards that give legitimacy to the system. Fought in large part by and for Indians, peasants, and the working class generally, the Mexican Revolution gave impetus to decades of reforms that have realigned relationships among the country's social groups. For the first time since the Spanish conquest, the Indian peoples and their rich heritage were nourished officially as the very essence of the Mexican identity. Aztec heroes were lionized, Indian art and architecture exalted, and Indian characteristics and culture came to suffuse the national consciousness.

23. In contrast to this "revolutionary" hagiography are the many foreign intruders and enemies—Spanish conquistadors, French imperial pretenders, and assorted interlopers from the United States—all of whom are seen as having injured and exploited the rightful owners of Mexico's resources. Even more vilified than such "predatory" outsiders are the Mexican traitors who conspired with the foreigners. They are known specifically as *malinches* after the Indian woman who translated for Cortes. Lopez Portillo provided the most recent example of revolutionary demagoguery when he nationalized the private banks and imposed tough foreign exchange controls, arguing that *sacadolares*, unpatriotic Mexicans who removed capital from the country, had brought on the economic crisis.

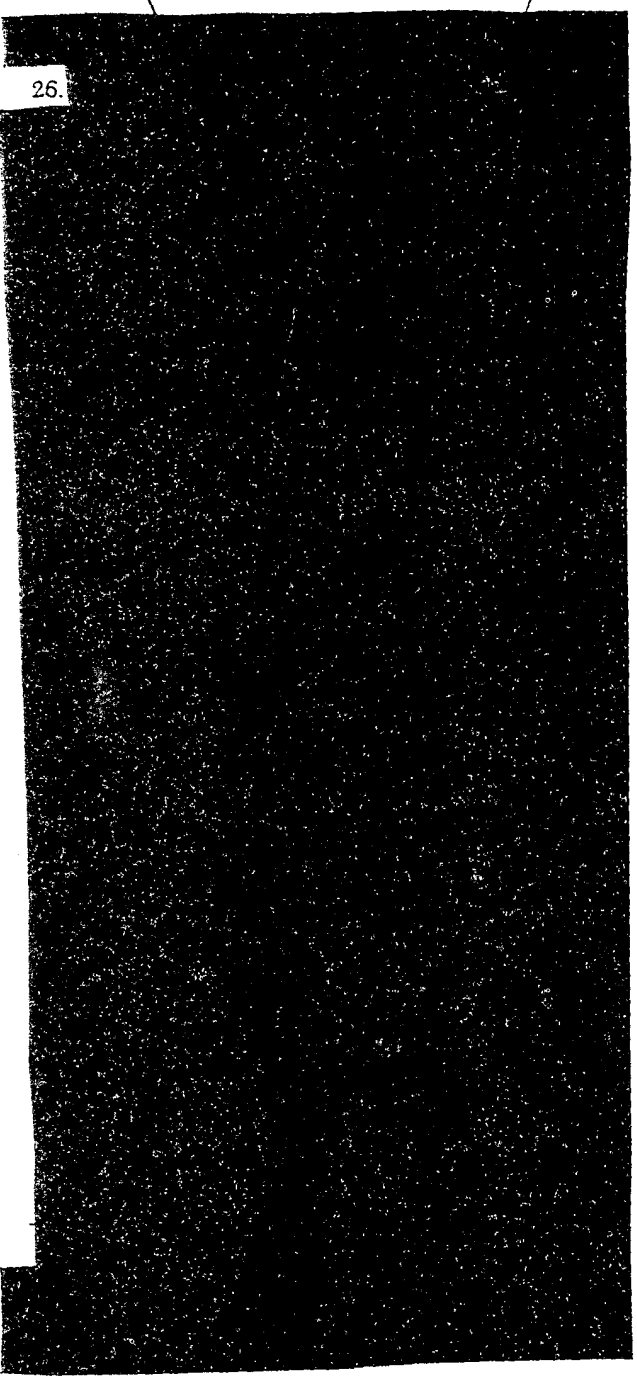
24.



25.



26.



## A. Economic Stringencies and Constraints

27. President de la Madrid's tough austerity measures have eased considerably the immediate financial crisis he inherited, but have not solved Mexico's deep structural problems. By bringing Mexico's foreign financial accounts largely into balance and by initiating some economic reforms, he has helped the country regain some access to foreign capital markets. But in the near term, these severe adjustments have been accompanied by a sharp decline in economic activity and sharply reduced living standards. Last year, GDP fell 6 percent as wages and government spending were slashed, consumer subsidies reduced, price controls relaxed, and the peso sharply devalued.

28. To continue making progress, de la Madrid will have to hold the economy on a relatively tight leash well into his administration. If he holds fast to austerity to lay a sound foundation for eventual economic recovery, inflation would be reduced, the foreign exchange rate would begin to stabilize, and financial independence would be partially regained through restraining the expansion of the debt service burden. Accompanying such a policy, however, would be further unemployment and a postponement in any improvement in living standards.

29. His task will not be easy. De la Madrid will be under pressure to attack unemployment through a faster rebound in industrial production even at the cost of continued high inflation and expanded foreign debt. He will also have to weigh demands for less restrictive investment and trade controls to reduce the number of bankruptcies of inefficient domestic firms and show he has not forfeited control of national decisionmaking authority.

30.



31. In attempting to steer through this maze of problems, de la Madrid and his advisers will be guided, we believe, by four basic economic objectives, each backed by various political elites and command-

ing wide support among the populace. These goals, however, cannot all be achieved simultaneously.

32. *Price and Exchange Stability.* The current priority concern of the government is to reestablish stable prices and to strengthen the peso. Traditionally, relatively stable prices and exchange rates facilitated rising consumption and living standards. Since 1982, however, hyperinflation has shaved off one-third of real wages and has led to a sharp drop in the peso. Lost foreign purchasing power has had an especially deleterious impact on middle-class groups who, during the years of oil-fueled growth, became accustomed to spending overvalued pesos for foreign luxury and consumer goods. De la Madrid's comment in a press conference last October that "inflation is the most serious problem facing the country" indicates his continuing commitment to this key objective.

33. *Financial Independence.* The second imperative of government economic policy is that of adjusting domestic spending to levels that can be supported by domestic resources. De la Madrid's current austerity policies are aimed at regaining financial independence by ending the need for "massive new loans" and honoring past commitments. This has led to a greatly reduced foreign borrowing program and delaying loan drawdowns when possible. De la Madrid is scaling back development projects and increasing local taxes in an effort to pay government debt and capital purchases out of domestic savings.

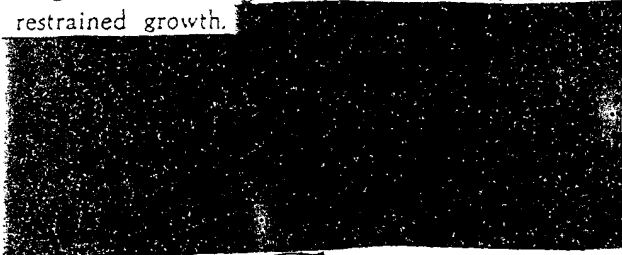
34. *Economic Recovery and New Jobs.* Mexican leaders realize that economic performance must begin to improve soon if key constituencies in the "revolutionary family" are to remain quiescent and if new employment opportunities are to be created. Only with economic recovery can the conditions be created for economic mobility and openings for ambitious Mexicans of all classes who might otherwise become threats to the system.

35. *Balanced Mixed Economy.* Mexican decision-makers are in many ways as concerned about how the economy grows as how fast it does. Development strategy has long reflected the overriding principle of economic nationalism, characterized by protectionism, restrictions on foreign investment, and conservation of natural—and especially oil—resources. These attitudes have resulted in the rapidly expanding role of government and large public enterprises in the economy. Nevertheless, Mexico's private sector continues to provide the bulk of employment and, under the strictures imposed by the IMF program, the private sector will

have to generate the jobs to satisfy rapid expansion of the labor force.

Different Approaches

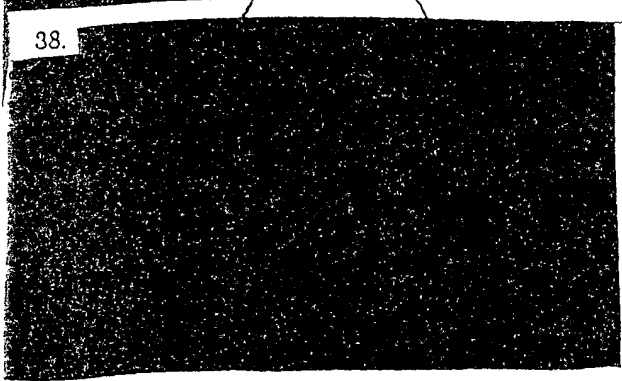
36. Economic trends and policies during the rest of the 1980s will be determined in large part by the compromises and trade-offs among the basic economic objectives made by de la Madrid and his successor. While we project two approaches, we believe actual policies and trends will fall somewhere between the two. In the first case, de la Madrid could relax austerity and reflate the economy soon in response to growing political pressures and social unrest, but this course would probably lead to recurrent financial crises. Alternatively, he could continue to follow a tough stabilization program, followed by years of restrained growth.



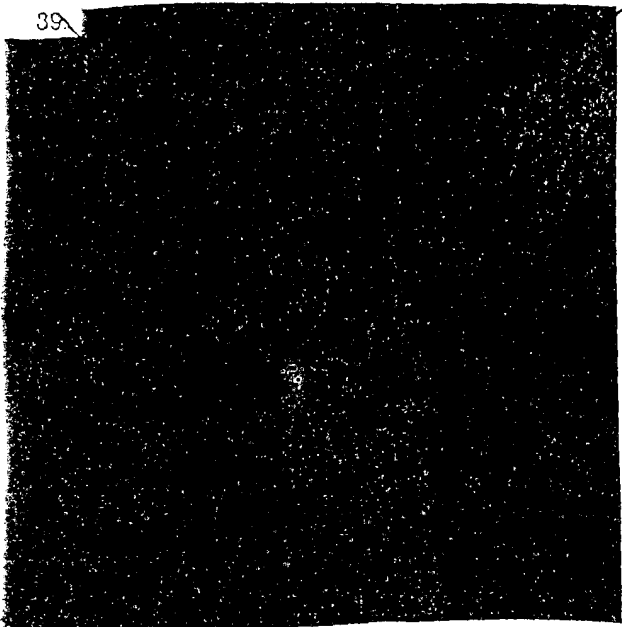
37



38.



39



40. To make tough decisions on macroeconomic issues even more complex for de la Madrid and his advisers, much will depend on factors beyond their control. A setback in the current world economic recovery, a fall in oil prices, or a deterioration in the international lending climate—perhaps brought on by a debt default in another country—could boost world interest rates, undermine demand for Mexican exports, and constrict credit availability. Under such circumstances Mexican policymakers' options would be severely restricted. On the other hand, a major disruption in world oil supplies—brought on by conflict in the Persian Gulf area, for instance—could temporarily boost Mexico's oil revenues and allow increased imports for a time without aggravating foreign payments problems.

41

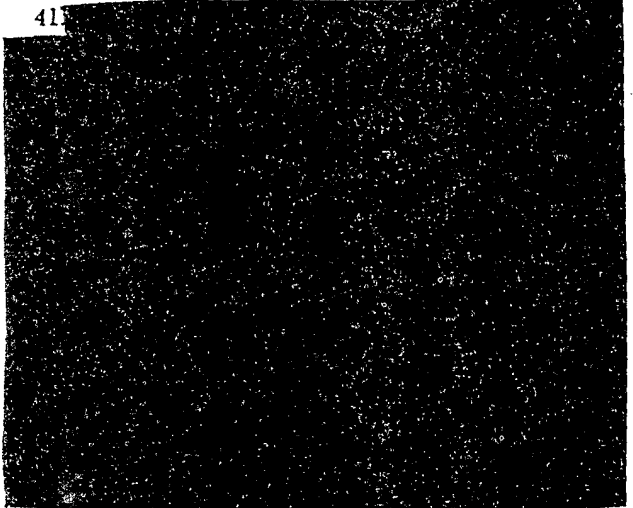
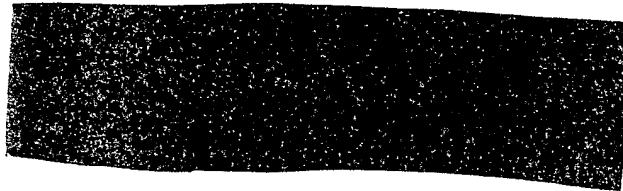
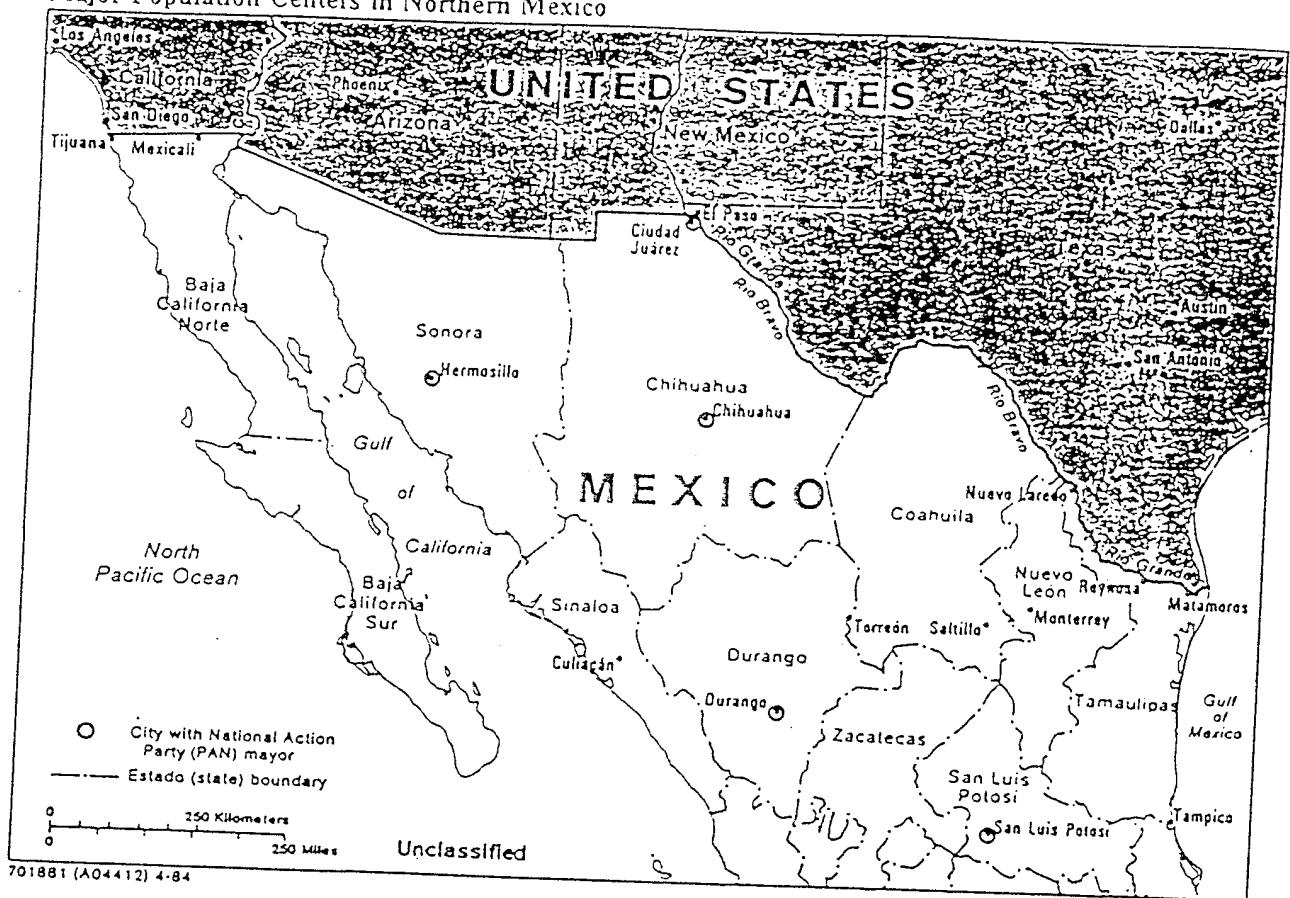


Figure 3  
Major Population Centers in Northern Mexico



### B. The Conservative Opposition

42. Although greater Mexico City has grown at rapid rates—and is now home to more than 15 million people—the two dozen next largest cities have expanded at similar and even higher rates. The most spectacular growth has been in the northern tier states, where 12 of the country's 25 largest cities are located within 260 miles of the US border (see figure 3 and table 2). By 1980 each of these cities had grown to over a quarter of a million people. During the 1970s their average rate of growth was about 12 percent higher than Mexico City's, and we estimate that together they now account for nearly 9 percent of the national population, a share that will increase to 12 percent by the end of the decade if recent high rates of expansion

persist. Six of the largest cities—from Tijuana on the Pacific to Matamoros on the Gulf of Mexico—are on the border with the United States, and all have doubled or nearly doubled in size since 1970 while becoming increasingly vibrant as commercial and industrial centers and funnels for contacts with the United States.

43. The flow of people and economic activity into the northern border regions has considerable political significance. Most of the growth has been the result of private-sector initiatives and of commerce and other exchange with the United States. With the exceptions of Hermosillo and Tampico, which have benefited considerably from national government efforts to decentralize economic activity in regional development zones, the northern tier cities have seemingly grown primarily as a result of "pull" forces from the United States rather than planning in Mexico City. Monterrey, Mexico's premier center of private-sector industrial activity, has grown rapidly, while major entrepôts like Ciudad Juárez, Mexicali, and Tijuana were trans-

Table 2  
Urbanization in Mexico

|                                  | Population of the 25 Largest Cities <sup>a</sup><br>(Thousands) |       |       |                                  | Annual Growth Rate<br>(Percent) |
|----------------------------------|---|-------|-------|----------------------------------|---------------------------------|
|                                  | 1960  | 1970  | 1980  | 1990<br>(estimated) <sup>b</sup> | 1970-80 <sup>c</sup>            |
| Federal District <sup>d</sup>    | 4,871   | 6,874 | 9,991 | 14,507                           | 3.8                             |
| Guadalajara, Jalisco             | 737   | 1,194 | 2,178 | 3,975                            | 6.2                             |
| Monterrey, Nuevo Leon            | 597   | 858   | 1,702 | 3,380                            | 7.1                             |
| Puebla, Puebla                   | 289   | 402   | 771   | 1,475                            | 6.7                             |
| Ciudad Juarez, Chihuahua         | 262   | 407   | 680   | 1,140                            | 5.3                             |
| Leon, Guanajuato                 | 210   | 365   | 596   | 971                              | 5.0                             |
| Tijuana, Baja California Norte   | 152   | 277   | 542   | 1,056                            | 6.9                             |
| Mexicali, Baja California Norte  | 175   | 267   | 495   | 920                              | 6.4                             |
| Tampico, Tamaulipas              | 123   | 180   | 428   | 1,013                            | 9.0                             |
| Torreón, Coahuila                | 180   | 223   | 416   | 774                              | 6.4                             |
| Chihuahua, Chihuahua             | 150   | 257   | 402   | 630                              | 4.6                             |
| Merida, Yucatan                  | 171   | 212   | 344   | 560                              | 5.0                             |
| San Luis Potosí, San Luis Potosí | 160   | 230   | 338   | 496                              | 3.9                             |
| Acapulco (De Juarez), Guerrero   | 85  | 174   | 335   | 647                              | 6.8                             |
| Veracruz, Veracruz               | 145   | 214   | 333   | 517                              | 4.5                             |
| Hermosillo, Sonora               | 96  | 176   | 304   | 788                              | 10.0                            |
| Cuernavaca, Morelos              | 37  | 134   | 295   | 649                              | 8.2                             |
| Culican, Sinaloa                 | 85  | 168   | 281   | 471                              | 5.3                             |
| Nuevo Laredo, Tamaulipas         | 93  | 149   | 272   | 496                              | 6.2                             |
| Matamoros, Tamaulipas            | 92  | 138   | 258   | 484                              | 6.5                             |
| Saltillo, Coahuila               | 99  | 161   | 243   | 367                              | 4.2                             |
| Reynosa, Tamaulipas              | 74  | 137   | 240   | 422                              | 5.8                             |
| Durango, Durango                 | 97  | 151   | 239   | 378                              | 4.7                             |
| Morelia, Michoacan               | 101   | 161   | 238   | 352                              | 4.0                             |
| Toluca, Mexico                   | 77  | 114   | 234   | 482                              | 7.5                             |

<sup>a</sup> Cities ranked on 1980 population.

<sup>b</sup> Based on 1970-80 annual growth rate.

<sup>c</sup> Average annual growth rate (1970-80), excluding Federal District, 6.0 percent.

<sup>d</sup> The population of the Mexico City metropolitan area is at least 50 percent larger than the Federal District; in the period 1970 to 1980, it grew much more rapidly.

This table is Unclassified.

formed from tawdry border towns into large and diversified entrepreneurial centers.

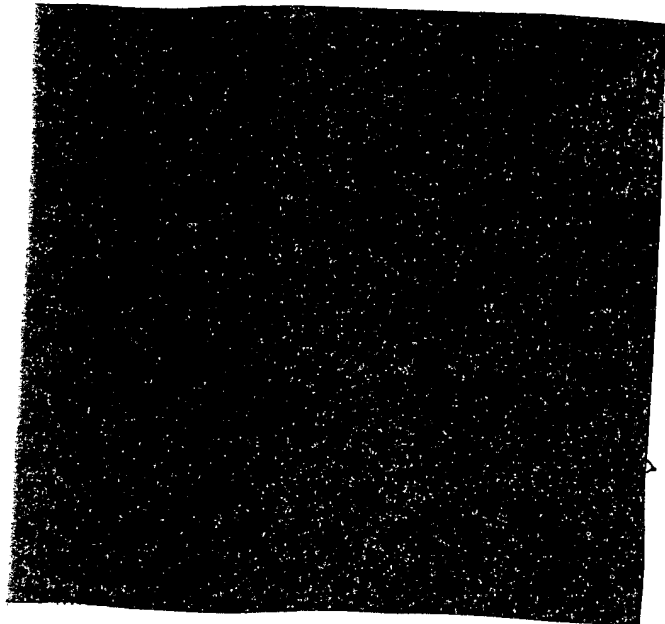
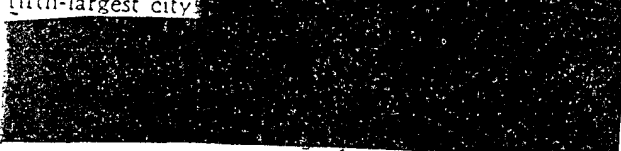
44. Long before the economic collapse in 1982, tensions between these border regions and Mexico City were multiplying. The former sought a larger share of political power, less restricted exchange with the United States, and a slice of the federal budget compatible with their increased importance. The economic crisis, moreover, exacerbated these tensions as the border economies were especially damaged by the

devaluations of the peso, foreign exchange controls, and the sharp drop in imports from the United States.

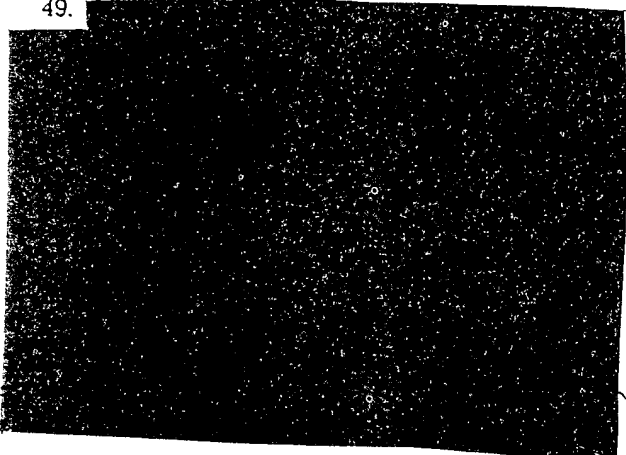
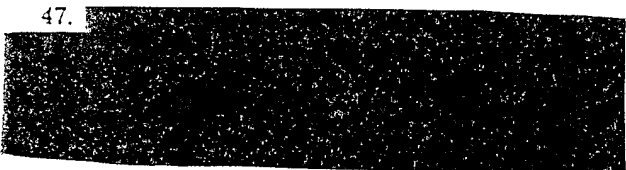
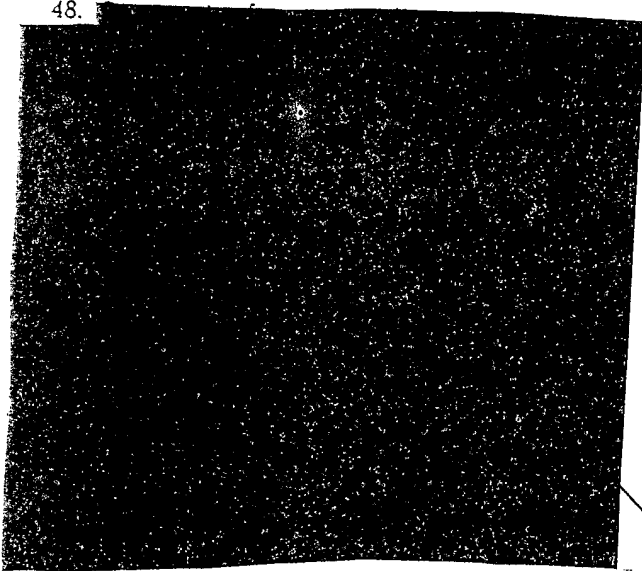
#### The National Action Party

45. The National Action Party (PAN—which means bread in Spanish) has been growing over the last 30 years as the leading alternative to the PRI, and its greatest gains have been in the northern border regions and in Yucatan. According to the government's count,


PAN captured 16 percent of the vote in the July 1982 presidential elections. That was more than all of the other opposition parties combined, and PAN's largest share ever. The PAN vote probably was larger, but we doubt it reached the 46 percent that the party's own official election postmortem claims. Since then, PAN has been victorious in an unprecedented series of local elections, and in some northern cities and regions it appears to be the de facto majority party. In September 1982 it won mayoral contests in the state capitals of Sonora and, in alliance with another conservative party, in San Luis Potosi. In July 1983, it won mayoralties in Durango, the capital of the state of the same name and, more important, in Chihuahua state where it took the three largest cities, including the state capital and Ciudad Juarez, which is the country's fifth-largest city.



46. A number of factors seem to explain the growth of PAN's support. The party traditionally has appealed primarily to wealthy, middle-class, business, and church-oriented constituencies. With modernization and urbanization, those sectors have become larger as a percentage of the total Mexican population over the last two decades, thus accounting in part for PAN's greater popularity. In addition to this growth by accretion of its natural constituency, the party has probably also succeeded in extending its appeal to some groups not previously inclined toward it. Presumably a large share of the ballots PAN candidates have won in recent elections have been protest votes rather than enduring expressions of support for the opposition. PAN probably has benefited from the widespread dissatisfaction resulting from the corruption and the disastrous economic policies of the last government. But, even with the added support of the many middle-class and other Mexicans now opposed to continued PRI hegemony, the PAN is handicapped by many serious problems: the paucity of leaders with national experience; the weakness of its infrastructure; its failure to come up with national political platforms; and a general perception that it is the party of wealthy elites.







### C. The Slums

50. Although urbanization has been widely dispersed, the most explosive growth has been in the *colonias populares*, the teeming slums and squatter settlements around the principal cities. One of these, Netzahualcoyotl, on the outskirts of the capital, has been burgeoning at an annual rate of more than 50 percent during the last 15 years or so. In 1970 it appeared for the first time in Mexican census data—as the fourth-largest “city” in the country. By 1980, with an estimated population of close to 3 million, it was no longer listed separately, perhaps because the government does not want to call attention to it. Many other huge new slum settlements like it have mushroomed on the outskirts of most of the other cities too, expanding in fact more rapidly in relative terms in the provinces than in the metropolitan capital area. The extraordinary rapidity of slum expansion has resulted in new arrivals coming to be known as *paracaidistas*—parachutists, who seemingly drop in silently and in such numbers as to transform completely the places where they alight. Even before the economic crisis, unemployment and underemployment rates in the slums were the highest in the country.

51. Despite such conditions, however, there have been no large riots like those that have occurred in some cities in the United States and other countries over the last 20 years. Rioting and bus burnings occurred in Netzahualcoyotl in 1981 following bus fare increases and levels of crime have increased notably as economic conditions have deteriorated. In contrast, during the decades when the economy was growing rapidly and creating many new jobs and opportunities, the realistic expectation of better times—steady work, material gains, the chance to move up on the economic ladder—attracted the migrants to the cities, sustained their hopes, and kept them quiescent.

52. 



53. 

54. 

PAGES 22-25 DENIED

During the period of this Estimate de la Madrid and other key leaders will have to make tough decisions involving:

Central Economic Dilemmas

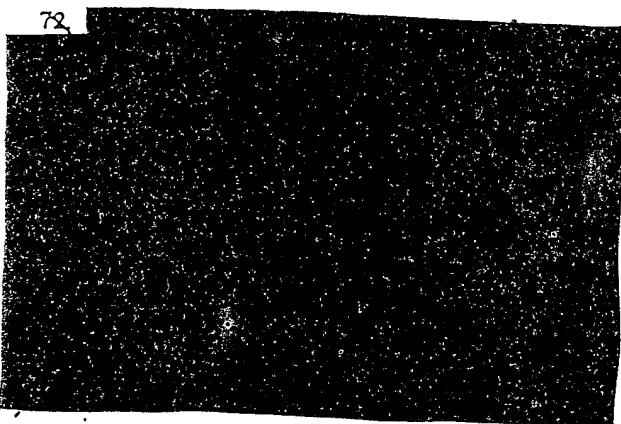
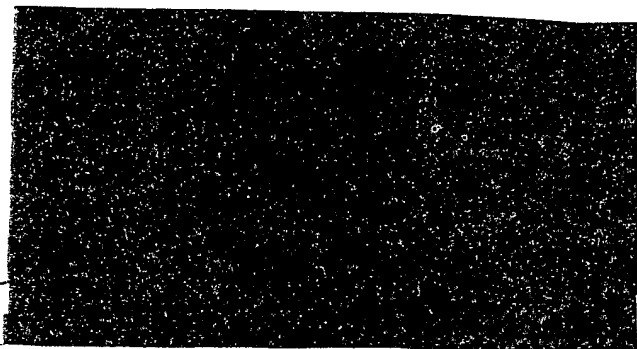
- The merits of alternative economic development strategies, including the role of the central government in guiding the economy, and improving the confidence and productivity of the private sector.
- How to relax nationalistic foreign trade and investment codes to help finance renewed economic growth while reducing trade barriers to enhance productivity and promote exports.
- How to service the foreign debt while increasing imports necessary for growth.

Political and Social Problems

- How to reform and revitalize the system and extend its reach into such relatively neglected areas as the slums and youth.
- Decisions on opening the system to opposition political parties without giving too much too quickly.
- How to stanch the growth of Mexico City and some other large cities.



73. Political power flows downward through hierarchically organized interest group structures—labor unions, peasant confederations, chambers of commerce—and only the president has the final authority and legitimacy to arbitrate disputes and apportion government favors among them. He can demand that groups comply with policies they oppose and has the power to coerce them into doing so if all else fails.



75. During the year or so he has been in office, de la Madrid's performance has been generally impressive and his record remains unblemished by any major failures or crises. He and his advisers have managed the economy ably, and he has pragmatically and decisively defused several potentially serious challenges to the regime. Confronted on two separate occasions by striking leftist government workers, de la Madrid stood firm, and without having to resort to public demonstrations of force, compelled the unions to back down. He also skillfully handled a protracted confrontation in Oaxaca state between PRI and government authorities on the one side and members of a radical new left group on the other. Thus, although prior to 1982 he had little experience outside of finance and public administration, de la Madrid obviously developed keen bureaucratic-political skills during the many years he spent rising through the federal hierarchy. Another view, however, is that de la Madrid has done little to consolidate his power, that he has lost opportunities to provide decisive leadership on key problems, and that he tends to vacillate under the conflicting counsel of different advisers.



PAGES 27-35 DENIED