
Mexico's Challenges: Sovereignty and National Autonomy under Interdependence

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Mexico's challenges: sovereignty and national autonomy under interdependence *

As Mexico struggles to emerge from an economic crisis already half a decade old, the terms of the debate on development strategy are changing. From the late 1940s until the late 1970s, it would have been accurate to characterise the development debate as one centred on how best to insulate the domestic political economy from the vagaries of the international political economy. There were disagreements about the specific policy options, but the advocates of each strategy shared an emphasis on insulation as the best means of defending national sovereignty. While such insulation meant foregoing some of the opportunities afforded by closer integration into world markets, the decreased risks and potential benefits resulting from internally-oriented growth and industrialisation promised to offset such potential losses.

Today, after some dramatic gains, that inward-orientation seems to offer Mexico little hope for future advances in growth or welfare. Dissatisfaction with the old strategy arises from the political and economic problems attendant on both its successes and failures. Among the most important results are the near completion of the easy stages of import substitution, its demonstrated inability to create sufficient employment opportunities, and the need to generate foreign exchange to service a large foreign debt, contracted in part to sustain the old development strategy. Consequently, the terms of the development debate in Mexico now increasingly revolve around the means by which closer integration into the liberal international economic order could be used to defend national sovereignty.

These political and economic debates over the often contradictory pulls of interdependence and national autonomy have both international and domestic implications. In the 1980s, the international

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division of labour seems to offer an opportunity for some developing countries to better their position within it. Brazil and South Korea appear poised to move up; the question is whether Mexico can join them. There are also important domestic concerns. How will the gains and losses of whatever development strategy chosen be distributed among social groups within, as well as outside, Mexico?

This article reflects this complexity of issues and alternatives. First, it examines the concepts of sovereignty, autonomy and interdependence, as well as the relationships between them. Then it analyses the political economy of Mexico's international and domestic response to the new international opportunities and constraints. Its conclusions fall short of the dramatic, because the relevant choices have not yet been made and, perhaps more importantly, neither of the present contenders seem to offer any answers.

Sovereignty, autonomy and interdependence

These three concepts play fundamental roles in the literature of political economy. *Sovereignty* is intimately linked with the legitimacy of central state authority *vis-à-vis* competing claimants in both the domestic and international arenas.¹ However, political leaders are not only concerned with recognition of their *right* to make decisions affecting their country's political economy, but are also interested in safeguarding their *ability* to do so. The question of this ability brings in the concept of *autonomy*. In the context of development policy, autonomy can be defined as the ability to manage the domestic economy in accordance with a pattern of growth and welfare which corresponds to policymakers' perceived requisites for remaining in power. This ability is tempered by the need to make domestic economic decisions in response to the demands of the external trade and capital accounts, which represent the constraints on national policy deriving from the international political economy.²

Defining sovereignty and autonomy in this manner enables us to see that there is no necessary one-to-one relationship between the two. From this perspective one can certainly argue that Mexico's current debt crisis represents not so much a challenge to its absolute right to

¹ John Gerard Ruggie, 'Continuity and transformation in the world polity: toward a neorealist synthesis', *World Politics* 35(1) 1982-3, p 276.

² Thomas L Ilgen, *Autonomy and Interdependence: US-Western European Monetary and Trade Relations, 1958-1984*, Totowa, New Jersey: Rowman and Allanheld, 1985, p 8.

make choices (sovereignty intact) as to development strategies, as a narrowing of those choices to take account only of external rather than internal needs (a decrease in autonomy).

Interdependence is the result of the increased integration of national markets into one international market. National economic policy can be seriously constrained by such integration because the behaviour of buyers and sellers in one country tends quickly and easily to equilibrate the prices of the same goods in the interdependent countries.³ This economic sensitivity leads to the key political issue: the vulnerability of states. The degree of vulnerability is best understood as reflecting the opportunity cost to an actor of foregoing the relationship,⁴ and thus can pose a threat to national autonomy. Interdependence can be asymmetric, with one country finding it easier to take advantage of the opportunities and manage the costs, of interdependence. North–South relations are conducted in such asymmetric terms, although many Northern analysts often attempt to mask the power relations in interdependence by portraying a certain equality of vulnerability.⁵

The concern with sovereignty, autonomy and interdependence is not peculiar to Third World countries. The difference between the general manner in which Southern and Northern countries attempt to develop a balance among the three which suits the domestic political economy, derives mainly from differences in the internal and external resources of each.⁶ Countries deal with the challenges of interdependence in three general fashions. Actual policy may combine the three, but with a clear bias towards one. Policy can be oriented towards submission to interdependence; insulation of key sectors of the domestic political economy from interdependence; or, acceptance of interdependence but with an effort to negotiate increased benefits and decreased costs.⁷

³ Richard N Cooper, *Economic Policy in an Interdependent World: Essays in World Economics*, Cambridge, Massachusetts: MIT Press, 1986, *passim*.

⁴ The interdependence literature, including its dependency variant, is examined in David A Baldwin, 'Interdependence and power: a conceptual analysis', *International Organization* (34) Autumn 1980, pp 471–506.

⁵ For an examination of this political use of interdependence in USA–Mexico relations, see Carlos Rico, 'Las relaciones mexicano-norteamericanas y los significados de la interdependencia', *Foro Internacional* (74) October–December 1978, pp 256–91.

⁶ This is the general argument presented in Stephen D Krasner, *Structural Conflict*, Berkeley: University of California Press, 1985. Krasner, however, plays down the tension between autonomy and interdependence in the North. For a better understanding of the complexity of, and concern over, this issue in the North, see Ilgen, *Autonomy and Interdependence*.

⁷ Some will argue that there is a fourth possibility, namely, rejection of the capitalist system and alliance with the socialist world led by the Soviet Union. In the case of Latin America, economics and politics both make such a route impractical, as Fidel Castro noted very early to the Sandinistas in Nicaragua.

A submissive response allows the international market to set the incentives which will determine the allocation of resources in the national economy and, consequently, how that national economy will be integrated into the international political economy. The greatest exponents of this development strategy have been the so-called 'Chicago boys', whose ideas dominated policymaking in Chile, Argentina and Uruguay in the 1970s, and Bela Belassa's World Bank group.⁸ Under this kind of response, sovereignty in the economic realm is given up, with perhaps a weakening of sovereignty in the politico-military realm. The effect on autonomy depends on yet another choice. If the international market is allowed to distribute the costs and benefits of interdependence, autonomy would be lost. But if political leaders intervene to alter such distribution, autonomy would survive, perhaps in an even stronger form than the autonomy preserved under failed programmes of insulation or negotiation.

Allowing the market free rein has three major problems for Southern countries. First, even if the international market itself were free of distortions, the cost to an individual country of change in response to international signals could be extremely high.⁹ Second, if they had followed international market signals, even the Newly Industrialising Countries (NICs such as Taiwan, South Korea, Brazil and Mexico) would probably have been prevented from attaining their present levels of industrialisation.¹⁰ Third, both international and national markets suffer from distortions. At the international level, Northern countries attempt to use their political and economic power to structure incentives to support Northern dominance. At the national level, markets in even the most developed countries of the Third World tend

⁸ On the 'Chicago Boys' and their experiments see, Rene Villarreal, *La contrarrevolucion monetaria*, Mexico, DF: Oceana, 1983; Alejandro Foxley, *Latin American Experiments in Neo-Conservative Economics*, Berkeley: University of California Press, 1983; and Joseph Ramos, *Neoconservative Economics in the Southern Cone of Latin America, 1973-1983*, Baltimore: Johns Hopkins University Press, 1986. For a collection of Belassa's writings see, Bela Belassa, *The Newly Industrializing Countries in the World Economy*, New York: Permamon Press, 1981.

⁹ Even an ideological free-marketer such as President Ronald Reagan of the USA has sanctioned intervention into foreign currency markets because he perceives that his administration and the American position in the international political economy are extremely vulnerable to continued record trade deficits.

¹⁰ For an argument about the role of the state in export-led growth, with examples from South Korea, see Stephen Haggard and Chung-in Moon, 'The South Korean state in the international economy: liberal, dependent, or mercantile?' in John Gerard Ruggie (ed), *The Antinomies of Interdependence*, New York: Columbia University Press, 1983, pp 131-89.

to be fragmented, and thus 'getting prices right' may not lead to the expected outcome.¹¹

Another means of addressing the challenge of interdependence is to seek to insulate those sectors of the national economy which are fundamental both to national standing in the international political economy and to the legitimacy of policymakers at home, from current international signals. This is not a policy of autarky. In its most popular Latin American variant it emphasises import-substitution industrialisation (ISI), financed by external links via primary sector exports, foreign loans and direct foreign investment. This response protects economic sovereignty, but its impact on national autonomy depends upon the success of the insulated sectors. If these sectors develop efficiently, autonomy is enhanced. But if protected sectors increasingly use resources inefficiently, a foreign exchange bottleneck and balance-of-payments crisis could undermine national autonomy.

The insulation strategy was fundamental to the industrialisation which allowed the NICs to exploit the workings of the product cycle in labour-intensive manufactures.¹² But the economic and political limits of ISI are well established,¹³ and the NICs may have moved beyond the point at which insulation's benefits outweigh its costs. South Korea and Taiwan abandoned that strategy in the early 1960s, before reaching its limits, although South Korea flirted briefly with import substitution in heavy industry during the 1970s. Brazil took steps in the late 1960s to diversify its strategy. In the 1970s Mexico vacillated between prolonging the life of ISI and following the diversification strategy. The recession in the early 1970s, the balance-of-payments crisis in 1976 and the debt crisis of 1982 were each followed by liberalisation and restructuring efforts, each more drastic than its predecessor.

A final, general orientation towards interdependence falls between the poles of submission and insulation. It accepts interdependence but stresses the need to negotiate with the major participants in the international political economy for a better deal than that offered by a

¹¹ Richard Cooper, 'Economic mobility and national economic policy', in his *Economic Policy in an Interdependent World*, p. 74; see the Villarreal, Foxley and Ramos citations in footnote 6 for examples.

¹² On the product cycle and the NICs see the collection of essays in Louis Turner and Neil McMullen, *The Newly Industrializing Countries: Trade and Adjustment*, London: George Allen & Unwin for the Royal Institute of International Affairs, 1982.

¹³ On the economic limits, see Ian Little, *et al.*, *Industry and Trade in Some Developing Countries*, London: Oxford University Press, 1970. Albert O Hirschman, 'The political economy of import-substituting industrialization in Latin America', *Quarterly Journal of Economics* (82) February 1968 pp 2-32, emphasises the socio-political obstacles to the continued success of ISI.

static view of comparative advantage. For those countries with the resources with which to bargain,¹⁴ the goal is to find a niche for their products in the international market, with the highest possible value added, while structuring incentives at the domestic level to induce the allocation of resources by the private and public sectors in support of the production of those goods and/or services. At the same time, such countries should negotiate mutual adjustment with external agents who control both national consumer markets, and the flow of capital and technology. In short, the strategy entails creating comparative advantage in products attracting higher levels of value added.¹⁵ This response defends both sovereignty and autonomy, although at the expense of a degree of autonomy. The degree of autonomy lost will depend upon the negotiating resources and skill of the country.

Each of these responses to interdependence has implications for the resultant distribution of costs and benefits, at both the international and national levels. Internationally, none of the strategies will bring fundamental changes in the general relationship between North and South, but they may make a difference for individual Third World countries. By the same token, adherence to a strategy after it has become dysfunctional may threaten the progress made and call for a shift in orientation. For example, if large numbers of Third World countries were to choose the negotiated path, Northern markets might prove politically incapable of adjusting, thereby increasing the attractiveness of the insulation route.

The different responses may also influence the distribution of costs and benefits within the national political economy. But here the causal path is more complex because it is conditional upon the political arrangements adopted to implement the strategy nationally. Despite attempts to tie the political and economic repression of labour in Latin America to export production, evidence suggests no causal link.¹⁶ Analysis of the politics of adjustment among small Northern countries demonstrates that social democratic forms of governing, distributing benefits and cushioning the costs of international competitiveness are

¹⁴ For a study which emphasises the possibilities of this strategy see, David B Yoffie, *Power and Protection*, New York: Columbia University Press, 1983; for a stress on its limits see, L N Rangarajan, *Commodity Conflict*, Ithaca: Cornell University Press, 1978.

¹⁵ Theoretical justification for this strategy and a model of how the components interact can be found in David R Mares, *Penetrating International Markets: Theoretical Considerations and a Mexican Agriculture Case*, New York: Columbia University Press, 1987.

¹⁶ David Collier (ed), *The New Authoritarianism in Latin America*, Princeton: Princeton University Press, 1979.

both politically and economically feasible.¹⁷ The failure in theoretical or empirical terms to make the link between production for export and repression suggests the importance of domestic politics in understanding how development strategies affect social classes.

In sum, Mexico faces two challenges at the moment. One is to review its strategy for dealing with the dilemmas of sovereignty and autonomy in an interdependent world. While interdependence among the capitalist nations has a logic of its own, policy choices can have a significant impact on its international distribution of benefits and costs. A second challenge lies in devising domestic political strategies to bring about structural change in the economy, at social and political costs which are at a level that will not undermine the chosen development strategy. How is Mexico addressing these twin challenges?

Mexico's political economy under transition

Brief historical overview

The modern Mexican state emerged after almost two decades of revolution, civil war, and military revolts (1910–29). Out of this turmoil was constructed an elite-centred consensus that allowed regional strongmen to dominate their areas in return for peace in national politics. Under the presidency of Lázaro Cárdenas (1934–40) this elite coalition was broadened to include labour and peasants. In addition, the representation of business and industry was formalised through mandatory membership in peak associations. These corporatist organisations not only serve as channels by which societal forces gain access to decision makers, they also permit representatives of the government to influence the content and presentation of societal demands.¹⁸

These broader alliances were constructed on the basis of material and ideological interests. Peasants were given land reform, and the urban industrial labour force the support of organisation and strikes. Entrepreneurs gained state subsidies for their enterprises in the form of import protection and below-cost sales of inputs produced by state-

¹⁷ Peter J Katzenstein, *Small States in World Markets*, Ithaca: Cornell University Press, 1985.

¹⁸ The English-language literature on Mexico's political economy is vast. Standard introductions include Raymond Vernon, *The Dilemma of Mexico's Development*, Cambridge: Harvard University Press, 1963; Clark Reynolds, *The Mexican Economy*, New Haven: Yale University Press, 1970; Roger D Hansen, *The Politics of Mexican Development*, Baltimore: Johns Hopkins University Press, 1971; Susan Kaufman Purcell and John F H Purcell, 'State and society: must a stable polity be institutionalized?' *World Politics* (32) January 1980; and *Latin American Perspectives*, Summer 1975, special issue.

owned enterprises. They also benefited from control over labour and peasant demands for a more equitable distribution of the benefits of economic growth. Among the ideological factors supporting the coalition have been social justice and national sovereignty.

Although the ruling coalition includes all important social groups, the distribution of influence and benefits within the coalition varies. This variation is determined by the need for the coalition to respond to the pressures that accumulate under the pattern of economic growth as well as the authoritarian nature of the political system. For example, when the reality of Mexico's skewed distribution of income (the top 10 per cent of the population receives 40.6 per cent of total national income while the bottom 20 per cent gets only 2.9 per cent¹⁹) threatened to diminish political support from the poor, extensive social welfare programmes were introduced.

The state-led ISI development strategy implemented after 1940 and defended until the late 1970s was used to meet the demands of the political coalition. Protection and subsidies were distributed to the private sector while labour was fragmented into two factions, one privileged and granted social welfare programmes in return for disciplined support to the political coalition and the other, disorganised, defenceless, and generally marginal to the welfare state. ISI itself promised to insulate the domestic economy from much of the international fluctuation to which developing countries were especially vulnerable. Its initial successes led policymakers to perceive autonomous national development as a goal which was not only desirable but, with the correct state policies, attainable.

To safeguard the states' ability to influence investment patterns, group mobilisation and inter-group conflicts, over time political institutions developed significant insulation from societal forces. For example, although the single-term limit on elected public office was a demand of the Mexican Revolution in response to electoral manipulation by the Porfirian dictatorship, it has also served to marginalise the electorate's ability to sanction individual office holders.

In addition, social forces have given great autonomy to the political system through two political bargains. These deals help to ensure that the leaders of each group will continue to identify their own interests in remaining within the coalition. The first bargain involves continued

¹⁹ 1977 figures cited from the World Bank, *World Development Report 1986* by Jorge G Castaneda in 'Mexico's coming challenges' *Foreign Policy* (64) Fall 1986, p 127. The economic crisis beginning in 1982 most certainly increased inequality in Mexico.

support for the system even in the face of short-run losses, because of the existence of a guarantee of compensation in the long run. The second bargain involves joining an alliance for economic growth to allow the peaceful distribution of an ever-expanding pie.²⁰

Partly as a result of these factors, presidential dominance over the political apparatus is virtually complete for a period of five years (once his successor is chosen, a year before taking office, the President becomes a 'lame duck'). Congress does the President's bidding (the rejection of presidential proposals is unheard of and even modification is rare); the judiciary generally follows the President's lead; and most major political posts (governorships and party offices) are selected by the President. The dominant party (PRI) uses the finances and other resources of the government. All major office holders are members of the party, and the electoral machinery is controlled from the centre. The result is that the President has many tools that increase his leeway to formulate and implement policy. His freedom of action is not absolute, but the constraints on his policymaking ability are severely limited.

The system was not perfect. There were major political clashes with labour in the late 1940s and 1950s, with landless peasants in 1958, and with the middle class in the 1952 presidential elections. There were also economic anxieties in the early 1950s and 1960s. But the overall level of political stability and economic growth was sufficient to lead many to marvel at Mexico's peaceful economic 'miracle', known as 'Stabilising Development'.

After 1968, however, serious challenges arose. The children of the middle class were massacred in the streets in 1968, the traditional high population growth rates and the capital intensive nature of the country's industrialisation led to significant underemployment in the urban areas and millions of landless peasants in the countryside. Sources of domestic capital became concerned about the slowdown in economic growth. In addition, the current account deficit now threatened to constrain domestic economic policy: its 1970 level of more than one billion US dollars represented a 50 per cent increase over 1969 and tripled that of 1966.²¹ The legitimacy of both the authoritarian

²⁰ Jorge I Domínguez, 'Introduction' in Domínguez (ed), *Mexico's Political Economy: Challenges at Home and Abroad*, Beverly Hills, California: Sage, 1982, pp 10–11; and Purcell and Purcell, 'State and Society . . .'

²¹ René Villarreal, *El desequilibrio externo en la industrialización de México (1929–1975)*, Mexico: Fondo de Cultura Económica, 1976, p 110.

corporatist political system and the ISI development strategy was under great stress.²²

Luis Echeverría (1970–76) sought to address these problems with a modification of the ISI strategy, dubbed ‘Shared Development’. It had four pillars: the use of public expenditure to stimulate demand and broaden the domestic market; the fuller use of existing productive capacity; the deepening of import substitution; and the expansion and diversification of exports to help to confront the foreign exchange bottleneck. On the political side, electoral reform was offered. These moves represented an effort to revitalise a strategy of insulation and to introduce a different domestic distribution of gains and losses.

Domestic capital, labour, peasants and opposition political parties threatened, however, non-participation in ‘official’ reform and Echeverría had to find other means to support ‘Shared Development’. The choice fell on an expansion of the public sector deficit (from an average annual rate of 2.5 per cent of GDP in 1965–70 to 9.5 per cent in 1976²³) and an increase in the external debt; by 1976 Mexico’s public foreign debt was US\$20 billion.²⁴ These alternative means of supporting ‘Shared Development’ proved unsustainable, however, and in 1976 the development strategy collapsed in the midst of domestic political and foreign debt crises. Ironically, this failure to revitalise ISI created domestic challenges to the state’s sovereignty and foreign constraints on its autonomy.

Jose Lopez Portillo (1976–82) began his administration with an International Monetary Fund (IMF) stabilisation programme, calls for structural change, an emphasis on anti-corruption and electoral reform. From 1977–79 some progress was achieved in stabilisation and structural change because there appeared to be no alternative but to accept interdependence. Once petroleum revenues finally began coming in (its export value was less than US\$1 billion in 1977²⁵) and transnational banks returned to offer new money, Mexican leaders’ calculations changed.

It was now believed that the foreign exchange bottleneck which had

²² I have dealt with the political economy of the period 1970–82 elsewhere, so here I present only a quick description of events. For a detailed analysis, see David R Mares, ‘Explaining choice of development strategies: suggestions from Mexico 1970–1982’, *International Organization* 39(4) Autumn 1985, pp 667–97 and the sources cited therein.

²³ Sidney Weintraub, ‘Case study of economic stabilization: Mexico’, in William R Cline and Sidney Weintraub, (eds), *Economic Stabilization in Developing Countries*, Washington DC: Brookings Institution, 1981, p 19.

²⁴ Figures taken from lecture by Jesus Silva Herzog, Stanford University, 15 Janury 1987.

²⁵ *ibid.*

caused ISI so many problems, was solved. Insulation of domestic industry could proceed (reflected in the decision not to join the GATT) and domestic distributional questions would be settled by giving everyone something. Foreign consumers of energy, in both the North and South, would finance this dramatic increase in Mexican autonomy. The currency was allowed to become overvalued, structural change became something to be achieved by tying non-petroleum exports to petroleum exports, corruption reached new heights, and electoral reform seemed less pressing in a booming economy. Mexican sovereignty and autonomy seemed assured and the country attained a status of respected spokesperson for the South in the eyes of the North.

But this second attempt in the 1970s to safeguard national autonomy created a dangerous contradiction. For the first time in half a century, economic growth came to depend upon two international markets over which Mexico had no control: energy and finance. When the USA decided in 1979 to assert its national autonomy and provoke a domestic recession, the world economy plunged into crisis and the energy and financial markets collapsed within three years. Mexico's increased vulnerability became evident as the interest payments on its foreign debt increased and the value of its petroleum exports decreased.

Lopez Portillo chose to respond to the developing economic crisis by contracting more international loans (public sector foreign debt increased by US\$19.2 billion in 1981²⁶). Priority was placed on sustaining the economic largesse that would, it was hoped, increase voter turnout and the PRI's margin of victory. Those results would demonstrate that the political system had finally overcome the legitimacy crisis which had haunted it since 1968.

Mexico's political elite probably did not appreciate the magnitude of the risks of such a strategy. They now increased the vulnerability of the state's autonomy to an internal group, in addition to the two international markets and US fiscal policy. Holders of wealth in Mexico, large and small, could see the end in sight and fled from pesos into dollars, thus aggravating (not causing) the development of the crisis.

Choosing a new strategy 1982–86

With the presidential election of 1982 over, policymakers turned to confront the economic crisis. Three economic tasks presented

²⁶ Rosario Green, 'Mexico: crisis financiera y deuda externa', *Comercio Exterior*, February 1983, p. 105.

themselves: finding a solution to the foreign debt; stabilising the crashing economy; and undertaking structural change to permit a growth free from addiction to foreign debt. On the political front, the state sought to regain its leadership through an anti-corruption campaign and a massive publicity effort (the *Consulta Popular*) in support of its economic recovery programme.

For almost two years Mexico followed a fairly typical stabilisation path, overseen by the IMF. It did so at a time when the IMF, the US government and the transnational banks were having difficulty persuading Argentina, Colombia, Venezuela and Peru to accept similar strategies. The results were fairly predictable: severe contraction in economic activity, decreases in the public sector deficit, an increase in the trade surplus, devaluations, and a plan to liberalise trade.

Mexico's choice of this route resulted from the conjunction of three major factors. First, the US government intervened quickly and with enough money to give Mexico time to reach an agreement with the IMF and its creditors and to demonstrate the benefits of playing by the rules. Second, domestic opposition to stabilisation was muted. Most people's attention was diverted elsewhere: the bank nationalisation of 1982 evoked a nationalistic euphoria, the exposure of corruption under Lopez Portillo diverted anger from the system to individuals, and individuals found direct ways to minimise the costs of stabilisation as an informal economic sector mushroomed, illegal migration to the USA increased, and capital flight continued. Finally, President de la Madrid surrounded himself with a cabinet which was largely united on economic policy. Not only did they agree that stabilisation was necessary but they also believed that it forced the kinds of structural changes that were difficult to make in normal times. It was a group which believed acceptance of interdependence was the only viable route. Consequently, Mexico would need to negotiate advantages in the international political economy and, for this, a more efficient economy was a necessary precondition.

However, structural change demands long-term policies and political decisions on the accommodation of winners and losers (including direct foreign investment and transnational banks) in the change. The political calendar in Mexico took precedence once again as important elections approached in 1985. Economic policy increasingly emphasised spurring growth and avoiding the hard political choices involved in structural change. The economy recovered in 1984 (GDP growth of 4 per cent²⁷) but

²⁷ Latin America Regional Reports, *Mexico and Central America Report*, 21 March 1986, p 7.

at significant cost to both short-run stabilisation and structural change. The public sector deficit increased, the trade surplus deteriorated, inflation resumed and liberalisation of trade was significantly slowed.²⁸

If Mexico had abandoned the stabilisation route because it believed it had found another which could provide sustainable growth, it would have been following Brazil's path. But the changes were undertaken without a long-run vision, and responded to changes in the domestic political situation which looked threatening to the PRI and beneficial to the opposition parties. Mexicans had reluctantly accepted recession because they expected things to improve. The corruption scandal threatened to go beyond individuals to an indictment of the system. The USA was also not being very helpful: advocates of immigration reform were stimulated by the increased flow of Mexicans to the USA and the Congress, the Press and Ambassador John Gavin became open advocates of cleaner elections in Mexico. Moreover, the transnational banks were not anxious to finance recovery beyond mere debt payments.

The Mexican government paid a high political and economic price for the PRI's electoral victories in 1985 and 1986. In political terms, the US Press was on hand to record electoral fraud, supporters of the rightist party, PAN, rioted, and parties of the right and left formed an anti-PRI publicity campaign.²⁹ Economic costs were also high. The economy began slipping back into recession once the government addressed the economic consequences of promoting renewed growth without changing the structural elements which made growth dependent upon fiscal deficits or foreign debt. In July 1985 austerity was renewed, the peso's rate of devaluation accelerated (in June 1985 it had reached its highest real value in two decades), trade liberalisation was speeded up (partly in response to acceptance of GATT membership), the public payroll was reduced by 30,000, and promises to sell more state firms were repeated.³⁰

Before the new stabilisation effort could make much of an impact Mexico was hit by two events over which it had no control. One was a devastating earthquake which killed and injured thousands and left many more homeless and without employment. The other was the

²⁸ *ibid.*, 12 July 1985, p 2; the Government's description and explanation, which leaves out politics, can be founded in Secretaria de Hacienda y Credito Publico, 'Carta de Intencion al FMI', *Comercio Exterior* 36(8) p 730.

²⁹ Latin America Regional Reports, *Mexico and Central America Report*, 25 September 1986, p 2.

³⁰ *ibid.*, 16 July 1985, p 2 and 25 September 1986, p 2; Gobierno de Mexico, 'La politica de comercio exterior', *Comercio Exterior*, 36(8) pp 735-41.

renewal of the dramatic decline in oil prices, which began in 1985 and cost Mexico US\$6–7 billion in 1986.³¹ The government was forced to make major borrowings from domestic savings, including 100 per cent of bank deposits in December 1985, in order to finance its own budget deficits. The private sector responded to the renewed squeeze on credit with sporadic and unorganised repayment strikes on their government loans, stimulation of a parallel private financial market, and threats to support the PAN opposition.³²

The government seemed at a loss for a response to the worsening situation in early 1986. A fissure began to appear in the strong consensus on taking the orthodox route to recovery, when Finance Minister, Jesus Silva Herzog, who had negotiated the previous packages with the IMF and transnational banks, began to advocate a harder line toward international creditors. The likelihood that the only Latin American showcase for orthodox stabilisation was on the verge of defecting (Argentina, Brazil, Venezuela, Colombia and Peru had all rejected IMF guidance while Chile's military government was an embarrassment to the USA) probably forced the US government's hand. The Federal Reserve Board chairman, Paul Volker, paid a secret visit to Mexico and promised to help Mexico to obtain a better deal from the international banks.³³

De la Madrid was now faced with a new choice. The decision had to be based not only on support for long-run change, but also on growth in 1987, when the presidential succession campaign would begin. He dismissed Silva Herzog and joined forces with Volker. In the process, he may also have gained politically, for Silva Herzog was believed to be such a strong candidate for the presidency that he would soon be threatening the President's prerogative to nominate his successor.³⁴

After months of strenuous negotiations, Mexico formed a new agreement with the IMF and the transnational banks. It is a remarkable agreement and clearly demonstrates that Mexico's negotiating power was made significant by its threatened collapse and defection. Nearly one-half of the public external debt was rescheduled, with a seven-year grace period and a twenty-year maturity. The spread of 0.8125 per cent Libor given to Mexico was the lowest of any debtor. The package of US\$12 billion is to be increased by \$1.7 billion if the price of oil falls

³¹ *Examen de las situaciones económicas de México*, 62(729) August 1986, pp 362–3.

³² Latin America Regional Reports, *Mexico and Central America Report*, 14 February 1986, p 1; 21 March 1986, p 7; and 2 May pp 2–3.

³³ *ibid.*, 17 July 1986, p 8.

³⁴ *ibid.*

below US\$9 per barrel or if the economy fails to grow by 3–4 per cent in 1987! The World Bank agreed to co-finance and guarantee part of these contingency funds. Finally, the IMF agreed to remove the impact of inflation on interest payments on internal debt in its calculations of Mexico's budget deficit. This accounting could shave 2 per cent of GDP off the figures.³⁵

This package is the envy of debtors; Brazil is already demanding similar terms.³⁶ But the question is, what can Mexico do with it? Mexico had problems before the current decline in petroleum revenues; its problems are structural and require structural answers. Those answers require difficult political choices, whether they are attempted under the auspices of the liberal international financial system or on its margins.

In 1987 there are two groups within the PRI vying for the right to make the necessary choices. Some observers see this split as an indication of the seriousness of the Mexican situation.³⁷ But that is a misreading of Mexican politics. In an election year, this is the time for different currents within the PRI, especially those which felt excluded from the outgoing administration, to surface, to mobilise their constituents and to try to have an impact on the policies of the successor, whoever it may be. This was true in 1958, 1964 and 1970, and while the severity of the political crises in 1976 muted disagreements, they surfaced again in 1982. This is democracy *à la mexicana*.

The 'Movimiento de Renovacion Democratica' represents the national populist coalition and is thus heir to the 'Shared Development' strategy which failed in the early 1970s. Its public leader, Porfirio Munoz Ledo, was Minister of Labour during that period. (Echeverria himself is rumoured to be behind this group.) Other prominent leaders include Carlos Tello, best known for leading the nationalisation of the banks in 1982, and Cuauhtemoc Cardenas, the son of the most radical of Mexican presidents, Lazaro Cardenas. For this group, national autonomy is achieved by seizing it and forcing outsiders to adjust. Its economic strategy consists in insulating industry and agriculture until it can compete on favourable terms in the international market. Its political programme is one of distribution in favour of labour, peasants and those national capitalists who follow the lead of the state; foreign capital is to be residual and tightly regulated. Its solution for the foreign debt problem consists in tying it to the country's capacity to pay

³⁵ *Wall Street Journal*, 9 January 1987, p 24.

³⁶ *ibid.*

³⁷ For example, Latin American Research Reports, *Mexico and Central America Report*, 30 October 1986, p 2.

without recession.³⁸ But its programme still faces the constraints encountered by Echeverría before Mexico had a debt crisis: how can Mexico finance import substitution in the capital goods sector, and distribute wealth to those at the bottom of society? The answer is to have foreigners pay (by lending at unprofitable rates, investing in unprofitable enterprises, and importing high-cost, low-quality goods) while refusing them a say in how the funds are spent. This strategy, while defending national autonomy, does not appear very viable.

However, the plans of the other group do not seem to offer a way out of the recurrent cycle of stabilisation, unstable growth, stabilisation. The de la Madrid faction in PRI (in fact, in the state bureaucracy), believes that autonomy is achieved by adjusting to outside forces. This demands restructuring and making the economy efficient in intermediate level manufactures (e.g. motor vehicle and electrical parts) and using direct foreign investment to gain technology and international markets. The state will attempt to do less in the economy, but still guide it. By maintaining this management role the state will be able to negotiate for better terms in its acceptance of interdependence. Labour, peasants and national capital have to make sacrifices now in order to gain later. This strategy also faces serious problems. The foreign sector does not appear to be committed to financing growth during a long period of adjustment, and this group will be incapable of making labour, peasants and national capital pay during election years.

Conclusion

The Mexican political system has demonstrated a capacity to survive, although it increasingly appears dependent for its success on *ad hoc* infusions of foreign funds. Ironically, however, this path to national sovereignty undermines national autonomy in the short run and threatens to question sovereignty itself. At this point, sovereignty and autonomy require taking the hard political decisions to alienate some domestic and international supporters, in order to embark on a path of sustained economic recovery and distribution of wealth. If this strategy is successful, the alienation of those supporters will prove to be temporary as they return to participate in the wealth. If unsuccessful, because the path chosen was the wrong one, or the political elite shied away from alienating its supporters, the support gained will be short-lived, as those who extended it seek answers elsewhere.

³⁸ *ibid.*, and extrapolation from other pronouncements by members of this tendency.