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Notes and explanation of symbols

The following symbols are used in tables in the *Review*:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A blank space in a table means that the item in question is not applicable.

A minus sign (-) indicates a deficit or decrease, unless otherwise specified.

A point (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1970/1971.

Use of a hyphen (-) between years, e.g., 1971-1973, indicates reference to the complete number of calendar years involved, including the beginning and end years.

Reference to "tons" mean metric tons, and to "dollars", United States dollars, unless otherwise stated.

Unless otherwise stated, references to annual rates of growth or variation signify compound annual rates.

Individual figures and percentages in tables do not necessarily add up to corresponding totals, because of rounding.

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Introduction

The global economy is in the midst of an intense process of change that affects economic relations among nations, the directions of commercial and financial flows, and the production structures resulting from the technological advances of the last 10 or 15 years. This set of transformations has led to changes in the dynamics and logic of post-war global economic growth and has consequently transformed development paradigms. This new situation calls into question the validity of conventional economic analyses as well as the efficiency of those economic policies that ignore the effects of interdependence among the still so-called "national economies".

The end of the period of inward-looking development in Latin America led to a situation of crisis of diverse content and varying intensity in each country of the region within which different policies have emerged to face it. This cycle of crises now faces new international conditions which would seem to oblige Latin American countries to renew their relationship with the international economy.

Mexico, having been one of the countries that pioneered debt renegotiation and because of its geographical position, seems more exposed than other countries of the region to global change. As the 1990s begin, government and diverse social sector efforts are centered on the search for ways to achieve economic recovery on the basis of a change in overseas relations, along with stabilization and internal corrective policies.

"The 1950s and 1960s were a period of global expansion of production and trade, one of the most pronounced and lasting periods of prosperity in world history, with full employment and low inflation in the industrialized countries. This was a favourable environment for the developing nations, including those which gained their independence at that time ...

In the context of economic theory, "disproportionate and almost exclusive importance was attached to the accumulation of physical capital. The Keynesian consensus reigned unopposed, and the neo-Keynesian development model, embodied in the Harrod-Domar formula, insisted on the accumulation of capital as the source of growth (the capital/output ratio, included in the denominator of the formula, was considered relatively constant)" (Slaper, 1989, p. 603).
I

The view of Raúl Prebisch and the mexican economy during the period of inward-looking growth

Prebisch began his analysis with an examination of the international post-war economic situation. As is known, Prebisch observed that the technical progress promoted by the countries that "created" capitalism had been the motor of their development. The consequences of the spread of that progress for Latin American economies could be seen in the way they came to be situated within the international division of labour: foreign demand for primary agricultural and mineral products was the determining factor for Latin American growth during that period. On this point, Prebisch noted:

"... the economic development of the peripheral countries is one more stage in the world-wide spread of the new forms of productive technique or, if preferred, in the organic development of world economy... Latin America has, therefore, entered a new stage in the world-wide spread of technique, though technical methods are still far from having been assimilated completely in primary production, for new productive methods tend to be adopted in activities connected in one way or another with the exportation of foodstuffs and raw materials rather than in other activities" (CEPAL, 1951, pp. 3 and 4).

Prebisch postulated that the initial forms of Latin American articulation with the world economy marked its subsequent development and, on that basis, defined the principal obstacles and limitations that would impede a process of development similar to that of advanced countries. The definition of these restrictions, which Prebisch discovered in the evolution of the Mexican economy of that time, still shed light on the current Latin American development process.

The first restriction has to do with the persistent scarcity of capital, i.e., the lack of capital of sufficient magnitude to allow for efficient use of the region's abundant human and natural resources and for financing the capitalization of the economy at the rate required by demographic growth. This chronic scarcity is explained by insufficient internal savings and low capitalization, arising in turn from the structure of imports and the transfer of resources overseas required by direct foreign investments.

The second limitation arose from the tendency toward external imbalances, derived both from a lack of dynamism in exports which depend on demand in advanced countries and from the high coefficient of imports which grow as total income increases but which cannot be financed with further exports. This produces the region's chronic payment imbalance.

The third factor is linked to the effects of technical progress on employment and its distribution across the spectrum of economic activities. Prebisch established that, in central countries, as technology spread from primary activities, displaced workers were absorbed into industrial and tertiary activities, a process that also allowed natural population growth to be absorbed into productive activity, thus eliminating problems of unemployment and sub-employment of those productive factors.

Together with these restrictions, the fact that this process did not occur in Latin America impeded the achievement of production levels comparable to those of advanced economies. Prebisch argued that, according to prevalent economic theory, the solution to this problem lay in making the productive factors truly mobile:

"It has already been seen that when technical progress is extended to primary production, it produces a surplus of gainfully employed population in that sector which can be absorbed by industry and other activities. If these other activities were not developed in the periphery, they would automatically have to develop in the centres which would consequently have to absorb the surplus manpower, in addition to that part of the natural increase in population which could not be absorbed in their own primary production.

"This presupposes complete mobility of population; in other words it would mean not only that the unemployable surplus of the population must be willing to emigrate from the periphery, overcoming a rooted unwillingness, but also that the countries of the centre must be prepared to admit large masses of immigrants who, accustomed to relatively low wages, would compete to advantage with the workers of the centre" (CEPAL, 1951, p. 13).
On this basis, in the chapter on Mexican economic development, Prebisch noted:

"For some time now, Mexico's balance of payments had been subjected to severe strains emphasizing once again the fundamental incompatibility of growth and equilibrium within the free play obtaining in the economy of a country in full development... Such an examination reveals that in Mexico, as in other Latin American countries, the effort made to speed up economic development and raise the standard of living of the population has been curbed from the start by a limited capacity to import" (CEPAL, 1951, p. 391).

It is worth recalling that, at that time, the Mexican economy achieved an average annual GDP growth rate of 6%, a rate that was maintained for nearly 20 years, although not without inflationary costs (an average of 9% annually) and monetary instability. In 1948-1949, it was necessary to devaluate the peso in order to absorb balance-of-payments disequilibria (Solís, 1972).

In his examination of 50 years of Mexican economic growth in this century, Prebisch underscored the decisive role played by the exportation of primary products -first petroleum and, later, industrial minerals- in order to finance the demands of capital.

Prebisch noted the existence of a kind of conflict between vigorous growth and the restrictions affecting importation:

"It is manifest that the country cannot maintain this rate of expansion and at the same time continue to import on such a large scale. Mexico is consequently confronted with a clear and conclusive choice of alternatives: either it must radically reduce the rate of development of its economy or else make a determined effort to modify the structure of its imports and adjust their coefficient in accordance with the rise in the national income, at the same time restricting foreign purchases to the limits set by the country's real capacity to pay for them" (CEPAL, 1951, p. 391).

Among the structural restrictions analysed, Prebisch underscored those relating to low levels of capitalization, due in part to the commercial deficit and the payment of incentives for foreign investment; the lack of infrastructure, especially railroads, which were nearly obsolete; and "precapitalist" farming, characterized by low productivity, excessive subdivision of the land with migration to the cities of great numbers of farm workers who could not all be absorbed into other economic activities. He also included as a structural limitation the impossibility of covering the need for capital goods to be used in modern farming and industry due to lack of resources. Prebisch proposed import substitution as a way to face these problems so that import capacity would be mainly used for capital goods and payment of foreign investment financial services, thus reducing disequilibrium pressures on the balance of payments.

However, he also pointed out:

"An intensive development of industrialization is of paramount urgency in order to relieve the pressure of population in the rural areas and provide, together with industry's related activities, new sources of employment for the natural increase of the urban population. The limited capacity to import is one of the greatest obstacles to industrial expansion. This capacity is determined primarily by exports and by the terms of trade, followed by foreign investments and receipts from tourism, the latter having been considerable in the past few years" (CEPAL, 1951, p. 397).

In one of his last public statements, Raúl Prebisch raised a number of questions about possible changes in the world economic environment arising from the re-emergence of policies that favour market mechanisms for resource allocation. At the same time, with reference to foreign debt, he expressed concern over the attitude of governments and creditor banks in developed countries, as well as over the recommendations of the International Monetary Fund for correcting the economies of developing countries.

It was foreseeable that, "given the inequality between centres and peripheries", Prebisch would not agree with the policy of opening the economy that, in his judgement, did not coincide with Latin American interests. He believed that the region could only form part of the world economy when it had acquired the economic and technological density necessary for participating in the unending creation of goods and services (Prebisch, 1987). His analysis was based on the observation that Latin America had only learned to export what he called "simple produce", demand for which grows slowly.

To what extent is this approach valid today? Clearly, there are new factors that change the terms of reference, such as: the tertiarization of the international economy, especially that of the United States; the growing weight of South-East Asian countries that produce high technology goods efficiently; the impossibility of maintaining the old
protectionist system with its high levels of State intervention and impossibly large public sector deficits; and, lastly, the emergence of economic blocs or of countries linked by free-trade treaties.

In the face of new pressures on developing countries to open up their economies to these new international trends, it is worth recalling that Prebisch noted that liberalization has very different meanings when used with respect to centres or peripheries, although it could also be said that this depends on the use of the term with respect to different areas of production or service.

II

Results of the 1983-1988 macroeconomic correction programme

Mexican development achieved on the basis of import substitution has been widely analysed by many foreign and national specialists both in terms of success (for example, growth of the domestic product, employment, product diversification, and technological expansion) and problems unsatisfactorily resolved, such as sector integration, the incapacity of industrial activities to generate jobs at the rate demanded by the rapidly growing population, and the low competitive level of national industries.

The crisis of the early 1980s and the subsequent period of adjustment, within the context of the search for viable economic policies, have called for the very rapid reconsideration of finance mechanisms for development, the degree of openness of the economy, and the regulatory role of the State and its participation in the production of goods and services.

In 1983, as in nearly all of Latin America, Mexico began a corrective programme to reduce balance-of-payments disequilibria produced by the expanding transfer of funds overseas which, in 1982, had amounted to US$10.5 billion, equivalent to more than 6% of the domestic product. The programme consisted in measures designed to strengthen public finances, increase the primary surplus, contain monetary growth and credit, achieve an exchange rate coherent with domestic and foreign interest rates, and begin to open up the national commercial economy.

In contrast to other efforts, this programme, together with orthodox measures, faced the need to combat the fundamental disequilibria of the Mexican economy through the implementation of the so-called structural change strategy (Poder Ejecutivo Federal, 1983) that consisted in measures designed to: redirect and modernize the production and distribution apparatus in order to create an industrial sector integrated internally and competitive internationally; increase domestic savings; rationalize public spending; decentralize productive activities and public administration throughout the country; and strengthen the role of the State in the promotion of development.

It was thought that both kinds of measures could be implemented simultaneously but the conditions in which the strategy was created changed in a little less than two years, accentuating macroeconomic imbalances and thus forcing the authorities to intensify short-term corrections.

Some conclusions with respect to the adjustment and its results in the 1983-1988 period are:

- The adjustment period was longer than initially expected. At first, it was thought that a few measures to correct fiscal disequilibria, halt imports, promote overseas sales, and reduce inflation would be sufficient. When they proved to be insufficient, it was necessary to adopt more severe measures.

- The adjustment was unavoidable. The situation up to 1983 could not, in fact, be sustained; the economic and social costs of the adjustment have been, to a certain degree, inevitable.

- As long as in-depth measures to adjust the economy and correct the public deficit were not taken, attempts to stimulate growth (such as that of 1985) were premature and could not be sustained.

- The public deficit created by excessive spending became a public deficit arising from excessive interest payments on public domestic debt. This makes clear the need to distinguish between public operational accounts (considering only current account expenses) and financial accounts (taking into account interest on public debt).

3 For a detailed evaluation of the successes and limitations of the economic adjustment, see Alberro and Cambiasso, 1989 and Poder Ejecutivo Federal, 1989.
Foreign debt renegotiations also became progressively more sweeping. The Mexican renegotiations gradually convinced the international financial community and the United States Government of the necessity to change their perspective in order to admit creditor bank co-responsibility for the debt problem.

The Mexican stock market crisis of October 1987 demonstrated, among other things, that the Mexican financial market is much more closely linked to overseas markets now than in the past, due either to the weight of expectations or to greater capital flow interdependence.

Since the end of 1987, government efforts were centred on reducing inflation. In December of that year, the first of a series of agreements, still in effect, was signed. That first agreement, called the Economic Solidarity Pact, combined orthodox and heterodox adjustment measures.

As the adjustment was deepened, new measures were taken to open up the economy further to foreign competition. Export permits were substituted more rapidly for tariffs and official import prices were gradually eliminated. Only areas such as the automotive, pharmaceutical, petroleum, and agricultural sectors remained subject to permits.

The greater openness of the economy achieved in 1988 played its part in controlling inflation. This is demonstrated by the greater inflation since then in non-tradeable goods, such as construction, education, and housing costs.

In short, the post-war growth cycle, as experienced by the Latin American economy, has come to an end, as has the use of public spending to promote aggregate demand. It is now necessary to remove or resolve the disequilibria that block sustained and balanced development (Sunkel, 1989).

At this point, the 1988-1994 period poses the challenge to consolidate the successes of the adjustment and to broaden those measures that will promote structural change, beyond those designed for short-term stabilization. This is precisely the objective of the modernization programme of the Carlos Salinas de Gortari Government.

III

Economic modernization in the 1990s

1. The new administration: accelerate the rate of change

As the new decade begins, the Government of Carlos Salinas de Gortari is broadening the process of change. Domestically, the following steps are being taken: economic deregulation as a way to encourage private investment in key areas; consolidation of commercial openness in order to stimulate exports and increase productive efficiency; restructuring of the public sector, both in size and functions, in order to put government finances on a sound footing, improve public expense allocation, and increase social efficiency. Internationally, new types of relations with other countries are being sought in the context of establishing blocs or economic regions.

After nearly seven years of economic stagnation, in 1989, the first year of the new administration, the Mexican economy is beginning to show other signs: the domestic product growth rate rose to 2.9%, a result that coincided with an important drop in the annual inflation rate, to 20%. Private investment registered a real increase of 8.3%, achieving the highest percentage of GDP in the last eight years, while private consumption rose 2.9% in real terms with respect to the previous year. Non-petroleum exports grew nearly 9% in comparison to 1988, a year in which they doubled 1985 figures, while the national accounts deficit was US$5.58 billion due to increased imports (12%) and the still high foreign debt service payments of US$9.4 billion (6% more than in 1988).

In public finances, a primary economic surplus (excluding domestic debt interest) of 8.6% of GDP was obtained that allowed for a financial deficit drop of nearly 50% in real terms with respect to 1988 and 7 percentage points less of GDP.

In the international arena, the Government has allowed for the growing interdependence among national economies which can be observed in current commercial and financial trends, the impact of technology on productive processes, and the new character of transnational companies which tend to adapt their subsidiaries to the reality of each country.

On the domestic scene, the problems diagnosed by Raúl Prebisch and many Mexican economists after
him have again become central government concerns. They include underdevelopment in the farm sector, lack of basic infrastructure, the role of public companies, the general slump in the economy, and unequal income distribution (Poder Ejecutivo Federal, 1989, pp. 84-88).

Along with these macroeconomic problems, there is an urgent need to meet the demands of a population that has undergone a rapid qualitative transformation in the last few years. All of this indicates new investment needs that require financing radically different from that which prevailed during the period of stabilizing development. For example, demographic projections indicate that the population will reach 94 million in the next five years and, toward the end of the century, around 110 million. There are also changes in the age structure: due to the extraordinary growth rates (on the order of 3% yearly) that prevailed until at least the mid-1970s, the younger population has gained greater relative weight, contributing yearly slightly more than 850 000 persons to the work force.

2. The modernization project’s central propositions

The modernization project had four basic lines of thrust: a) State reform to guarantee the success of the fundamental development objectives; b) economic policy coherent with the objective to make the most efficient use possible of natural and investment resources; c) greater openness to the new trends in the global economic environment; and d) active consensus-building with national groups, both those of the private sector and among those with lower incomes, including greater government presence in peripheral urban neighbourhoods.

a) State reform

The reform of the State includes, among other elements, the revision of its constitutional attributes with respect to some aspects of development and the review of its executive faculties for the purpose of both deregulating economic activities and reducing State intervention. The reform, therefore, seeks to introduce changes in the nature and structure of relations between the Government and the diverse sectors of society. In political terms, these changes imply the consolidation of democracy.

Toward these ends, during 1989 and 1990, various decisions have already been taken. In terms of the privatization process, since 1989 to date, the Government has disposed of nearly 40 companies and enterprises as important as Teléfonos de México (TELMex), Minera Cananea, and the iron and steel producing complex Las Truchas, among others, are being sold.

In terms of deregulation, progress has been made in the areas of nation-wide truck and multimodal shipping, in packaging regulations, export promotion activities, technology transfer, and the petrochemical industry, as well as in the marketing of sugar, cocoa, and coffee. Customs laws have been changed; aquaculture has been integrated into the private sector; and the fishing products market has been deregulated to a degree. At the same time, regulations for the petroleum products industry have been modified and the use of telecommunications terminal equipment has been liberalized. The purpose of these measures is to eliminate privileges and such monopolies as had arisen from excessive regulation.

On the other hand, the Presidential initiative of 2 May, 1990, which reinstated the mixed property system for banks—nationalized in September 1982 at the height of the exchange and financial crisis—has reopened the way for private investment in commercial banking. This measure seeks to strengthen a climate of confidence and stability as it prepares the Mexican financial system for the new conditions of international openness. Later, in July of that year, Congress approved a new law regulating the Mexican banking industry that establishes the conditions and foundations for the financial system within the new economic conditions.

b) Changes in economic policy

The economic strategy has two main goals: to recover an economic growth rate of around 6% by 1994 and to consolidate economic stability by seeking to reduce inflation to rates compatible with those of the country’s main commercial partners.

To reach these goals, the 1989-1994 development plan has been designed according to two central guidelines: the progressive stabilization of the economy and increased availability of resources for investment in production.

The progressive stabilization of the economy involves increasing public revenues, limiting public spending in accordance with the availability of non-inflationary financing, promoting price stability,

For these purposes, a firm fiscal reform was implemented that modified the tax base and eliminated special tax havens that had become unjustified “fiscal paradises”. Moreover, the overall subsidy system is being revised and public goods and services tariffs and prices have been modified in order to bring them gradually up to their real market prices.

Within the financial system, competition among banks has been promoted by permitting the free determination of rates and time periods, eliminating excessive regulation, and diversifying deposit instruments. Development banking remains in the hands of the State, although its functions have been redirected toward banking services of secondary importance. Moreover, efforts are being made to strengthen the capital market so that it will be more flexible in response to the needs of growth financing and will be competitive internationally in the acquisition of foreign capital.

Increased resource availability for investment in production (Poder Ejecutivo Federal, 1989, pp. 63-69) involves strengthening both public and private savings and reducing the transfer of resources overseas, a task within which an important role is played by the foreign debt renegotiation agreement between Mexico and creditor banks, international organizations, and the Club of Paris, an agreement that crowned an intense process of 14 months of proposal analysis and negotiations. In it, the net principal owed was reduced by around US$21 billion, a reduction in annual resource transfer of an average of US$4 billion, and a change in the expiration date profile to a horizon of 30 years when a single payment of US$35 billion will be made. In this way, during the 1989-1994 period, transfers of funds overseas will represent an average of 2% of the domestic product in contrast with the 6% level of the 1980s.

c) Efficient integration into the new international arena

According to the plan (Poder Ejecutivo Federal, 1989, pp. 84-88), the foreign trade policy objectives are: to promote non-petroleum exports; to achieve greater uniformity in the effective protection of diverse industries; to lessen the distortions arising from non-tariff restrictions on commerce; increase exports and orient foreign investment, technology transfer and use of foreign resources towards the achievement of national commerce policy goals.

With respect to direct foreign investment, procedures for the authorization of new investments have been simplified thanks to new regulations in the respective law.

d) Consensus-building: the change in the relationship between government and society

The idea of consensus-building among diverse social groups is to promote an attitude of shared responsibility for development throughout society. According to this new concept, the Government now fulfills the institutional function of creating conditions in which society can achieve its objectives.

It is worth recalling here that President Carlos Salinas himself has stated that, in this sense, Mexico’s problem has not been that of a small weak State but rather that of a State which, as it grew ever larger, became weak. Problems were exacerbated as the State grew in disproportionate and disorderly fashion, concentrating its efforts on the search for resources to maintain its own size: in detriment to public service and the improvement of its capacity to defend the nation. The reform that will make the State flexible and efficient requires freeing resources that today are locked into public companies and concentrating political attention on the urgent demands of justice (Salinas de Gortari, 1990).

With this orientation, public efforts have concentrated on building consensus in three directions: a) to stabilize the economy through social pacts; b) to promote new finance systems for key economic areas such as highway infrastructure, mines, basic petrochemical services, and cellular telephones; and c) to overcome extreme poverty through the National Solidarity Programme which operates with its own budget and functions in a decentralized fashion in conjunction with municipal governments and community organizations. In 1990, resources dedicated to this programme amounted to 3.5 trillion pesos, that is, around US$1.2 billion.

4 A detailed evaluation of the renegotiation process and its impact on the Mexican economy is found in Ministry of Finance and Public Credit, 1990.
IV
Terms of reference for renewed integration into the world economy

On the threshold of the twenty-first century, as in the 1950s, the foreign sector constitutes a crucial element in the development of the Mexican economy. There are, nevertheless, differences between these two periods that basically lie both in the new dynamics of international economics and in the type of industrial installation that characterizes the country's economy after four decades of inward growth.

The transition process begun by Mexico in its relations with the rest of the world, i.e., the effort to eliminate the traditional anti-export bias of the productive sector and open up a market that has been captive for nearly half a century, while overseas sales are converted into a motor for growth is made more complex and delicate by the fact that global transformations are occurring simultaneously with internal stabilization efforts and structural changes. The new direction for growth implies significant changes in resource allocation, both at the level of businesses and in the definition of the role of the State and of the kind of economic policy to be applied in the coming years.

In this context, the decision to establish a free trade agreement with the United States, a topic only recently being discussed, focuses on a complex set of problems, in particular the need to overcome economic stagnation and redefine the role of the State in the transition.

1. Recent developments in the Mexican foreign trade sector

In a little less than 15 years, Mexican foreign economic relations have undergone fundamental changes that have, in turn, affected the country's growth, conditioning its direction and rhythm to an important degree. In this section, the transformation undergone by the foreign sector of the Mexican economy will be analysed in the light of the most significant changes in the structure of foreign commerce, the foreign debt and its service, the inbond assembly industries (maquiladoras) and their influence, the composition of direct foreign investment, and the characteristic traits of integration occurring between Mexico and the United States.

a) Changes in the structure of foreign commerce

During the entire post-war period before the marked expansion of petroleum sales, there was a balance-of-payments deficit in the national accounts that was covered by agricultural and mineral sales, manufacturing (for a relatively modest amount), tourism income, and finally by foreign loans. During this period, the domestic market was protected by a system of high tariffs and the rigid and discretionary management of import permits, together with fixed exchange parity. At the end of 1976, it was necessary to devalue the peso in order to correct balance-of-payments disequilibria.

Since 1978, due to the oil boom, the structure of foreign commerce changed drastically: between 1978 and 1982, oil sales rose to account for an average of 45% of trade account income, while agricultural and tourism sales accounted for a lower percentage of total income, although their total value remained more or less constant. The new availability of resources and false expectations caused imports to grow threefold between 1977 and 1981. Moreover, the structure of imports also changed: capital goods imports rose from 26% of total imports in 1977 to 31% in 1982, while consumer goods imports rose rapidly from 8.8% in 1977 to 13% in 1980, dropping off to 10% in 1982. This behaviour was the consequence of the rate of growth of the domestic product which reached an annual average of 8% during the years prior to the crisis.

As a result of the implementation of the adjustment programme, in 1983 imports dropped by around 40% with respect to their 1982 level and 65% with respect to 1981 as part of the adjustment of domestic demand designed to stabilize the economy and counteract the effects of the drop in oil prices.

The moment was seized to introduce structural changes in this important variable in Mexican development through a gradual rationalization of trade policy that was linked to transformations of industrial infrastructure designed to make it more competitive internationally and to enable it to serve as a source of income. Between 1983 and 1985, oil sales continued to represent an average of 50% of total income, a contribution that was used to cover
debt-service and payments on the short-term principal and to maintain high-priority imports. At the end of 1985, other events, such as the hike in real international interest rates, a new drop in oil prices, and the effects of the earthquake in Mexico City in September of that year, led to a radical change in the dynamics of the openness of the Mexican economy.

In this situation, the reduction of the number of tariff segments subject to control, of the range of tax rates, and of the average import tariff initiated the dismantling of domestic market protectionism. Added to this, in July 1986, the decision was taken to enter the General Agreement on Tariffs and Trade (GATT), for the purpose of consolidating multilateral trade relations. This resolution modified an earlier (1979) decision not to enter that organism, when the outlook abroad was completely different.

In 1990, Mexican foreign commerce presents a radically different image from that of a decade ago: 80% of tariff segments are no longer subject to permits; tax rates have been integrated into five levels, in contrast with the 20 levels of 1983; the average tariff is 9.5%, as opposed to 16.4% in 1982.

The structure of merchandise exports also registered substantial changes: between 1982 and 1989 non-petroleum exports grew at the annual average rate of 20%, rising from US$4 753 million to US$14 889 million. These sales accounted for 65% of commercial income in 1989, as opposed to the 22% they represented in 1982. Exports of manufactured goods accounted for 60% of the total in this area, within which the automotive, food-processing, chemical and mineral-processing sectors are the most dynamic, accounting for 35% of overseas manufactured goods sales in 1989.

During a first stage, from 1985 to 1987, growth of manufactured goods exports occurred within a stagnant economy in which the manufacturing GDP did not grow (Gitli, 1990, pp. 16-20 and 45), although there was a considerable rise in imports of intermediate goods which, by 1986, accounted for 65% of total imports. This implies that the implementation of a model oriented toward exports calls immediately for greater integration into the international economy.

b) The inbond assembly industry

The United States inbond assembly plants were installed in Mexico in the 1970s, a time during which the industrialization of the Mexican border was being promoted in order to exploit, on the one hand, the advantages arising from proximity to the market in the United States and, on the other, as a means of retaining within Mexico the population from the centre and south of the country that emigrated in search of higher income and better work conditions. Until the end of the 1970s, the level of employment and the number of plants was relatively low: each plant occupied an average of 165 workers. Beginning in the 1980s, exploiting the additional advantages arising from devaluations and the cost of Mexican labour, a considerable increase took place: around 1985, 620 plants occupied 124 000 workers, i.e., five times as many as in 1970.

Beginning in 1985, these industries acquired a new impetus. Since then, they have been diversified and have grown all along the border with the United States. Bureaucratic procedures were eliminated in order to facilitate temporary imports (i.e., those necessary for the subsequent exportation of finished products) and to encourage greater use of national inputs. Between 1985 and 1988, 870 plants were installed, employing 232 000 workers and, in 1989, another 310, bringing the number of businesses to 1 700, which carried out total commercial operations of approximately US$12 billion and gave work to slightly more than 450 000 workers and office staff (an average of 265 persons per plant), a figure equivalent to 17% of Mexican manufacturing industry employment.

A number of analysts have characterized this process as an example of the complementarity and integration being achieved by the manufacturing industries of these two countries.

c) Direct foreign investment

It is interesting to note that, in spite of Mexico's economic problems both before and during the crisis, direct foreign investment (DFI) continued, although at lower rates of growth. For example, cumulative direct investment up to 1989 amounted to US$26 billion, five times the accumulated investment in 1975 and two and a half that of 1982, representing, however, a small percentage of GDP: scarcely 2%. The following is its distribution pattern: 67% in industry; 25% in services; 7% in commerce and less than 2% in extractive activities and others. s for origin, 63% came from the United States, 6.7% from Great Britain, 6.3% from West Germany, 5% from Japan, 4.5% from Switzerland, and the rest from other countries.
The traditional protectionist policies of stabilizing development, particularly rigid legislation on investments controlled by foreign majorities, and the option taken prior to the crisis of using foreign debt to cover the financial needs of the economy instead of foreign investment, all contributed to the relatively low weight of DF1.

At the present time, the idea that it is better to have partners than creditors is gaining ground. This has become even more evident after it became necessary to resort to reconversion or exchange of foreign debt for investment, a mechanism that, although it involves reducing the size of the debt, implies exaggerated subsidies for foreign investments which probably would have been made without that procedure. Moreover, the mechanism has inflationary consequences that are particularly delicate at a time when a reduced rate of price hikes is a central economic policy objective.

d) Foreign debt

The explanation of the behaviour of the foreign debt lies in the decision to give artificial life to the old system of development that prevailed in the country since the beginning of the 1970s, a time when there were abundant resources in the international markets, available at negative real interest rates that made debt attractive. Public foreign debt grew 4.5 times between 1970 and 1976, rising from US$4.3 billion to US$19.6 billion. Moreover, interest payments amounted to 10% of total balance-of-payment outlays at that time, rising to nearly 14% in 1975 and 1976.

From 1977 onwards, the expectations created by the oil boom led to intensified debt accumulation: by 1982, the debt had grown to three times its 1976 volume, rising from US$19.6 billion to US$59 billion. Furthermore, from 1977, there was a substantial difference from earlier debt: service payments amounted to nearly a quarter of commercial balance spending, 21.6%, with a tendency to rise that moved from 18.3% in 1977 to 35.7% in 1982.

In spite of good intentions, the governments from 1972 to 1982 led the Mexican economy into domestic financial disorder, with a weakened currency, unrestrained inflation, and practically unmanageable foreign debt. Furthermore, at the end of the 1970s and beginning of the 1980s, the economy once again faced its old problem: the deterioration of the terms of export exchange, aggravated by rising international interest rates.

During the period of macroeconomic adjustment after 1983, the international banks stopped the flow of foreign resources while the debt was being renegotiated. Even so, after various renegotiations, debt service was maintained together with a certain level of basic goods importation.

While the foreign debt of private companies was managed adequately with government assistance (through the system called Foreign Exchange Risk Coverage Trust Fund (FICORCA)), public debt continued to grow, although at a lower rate than in previous years: between 1983 and 1988, it rose from US$62.5 billion to US$94 billion. This amounted to an increase of 51%, with debt service accounting for 34% of total outlays during the period, a percentage equivalent to slightly more than US$10 billion per year or, in other terms, 6% of GDP. That level of transfer was a drain on the country's economic growth.

2. The free trade agreement and greater interdependence with the United States economy

The last quarter of the twentieth century has been characterized by abrupt change. The growing weight of Japan and other Asian countries, the new consciousness with respect to energy resources, the debt crisis, the tendency among countries to form trading blocs, technological changes, the failure of the centrally-planned economies and of Keynesianism in the rest of the world, among other phenomena, require new responses from Latin American economies.

Overcoming the crisis and advancing in macroeconomic adjustments, the Mexican economy has moved ahead in the search for new ways to recover a process of sustained development and general welfare. On examining the consequences of renewed insertion of the Mexican economy into the world economy and, more specifically in connection with the United States economy, it is useful, in general, to consider two factors.

Above all, it is necessary to take into account the important differences in the levels of development that exist between Mexico and the United States and, by the same token, in the levels of welfare and salaries. This explains the strong flow of emigrants toward that country. Independently of decisions taken in matters of a new commercial relationship, migratory pressure will continue.5

5The flow of illegal migrants varies, according to different estimates, between 500 000 and one million persons annually.
Secondly, both economies are tending toward greater interdependence, a fact that can be demonstrated in different ways: for example, 70% of Mexico's foreign commerce is with the United States. In 1989, this amounted to US$52 billion, that is, double the amount of 1982. Furthermore, 60% of domestic debt is in the hands of United States banks, while 65% of foreign investment comes from that country.

Many analysts speak of a "silent integration" between the two countries: the literature on the diverse aspects of this reality is ample and is being produced, nearly daily, by different centres and government sources, by the private and academic sectors. It is not possible here to discuss all the stages and aspects of this process. Whether one is for or against, it is a phenomenon that cannot be ignored, one that is evolving at a fairly rapid pace, as well.

From the Mexican point of view, the proposal for a free trade agreement (FTA) with the United States arises from the conditions generated by the most recent national economic developments, that is, once the first stage of macroeconomic stabilization was over. As the first liberalization measures were adopted, after 1985, it became clear that export sales were limited by diverse types of United States protectionism. It soon became evident, as well, that the same problem was being resolved further to the north, through the Free Trade Agreement between the United States and Canada that has been in effect since January, 1989. It can be concluded that, if it is true that import substitution was more a historical necessity than a deliberate policy choice, as Aldo Ferrer has noted, the same is true now for the openness of the Mexican economy.

On the United States side, the FTA is favoured by government and private groups concerned with recovering global economic leadership for the United States and with stabilizing economic relations and migratory flows with their neighbour to the south. The United States, or at least important circles within that country, are reacting in the same way to the formation of the European bloc and to the new role that country, are reacting in the same way to the formation of the European bloc and to the new role

In a first approximation, this would seem to explain the so-called Initiative for the Americas of the United States Government, a proposal which apparently calls for a new framework of relations with all of Latin America, based on three main lines of thrust: trade, investment and debt. The characteristics and ramifications of this proposal will be the subject of far-reaching debate, the duration and conclusions of which are difficult to foresee.

a) The background of the free trade agreement between the United States and Mexico

Economic relations between Mexico and the United States have unfolded within a complex process of negotiations which have occasionally been affected by non-economic factors, advancing through situations, at times, of conflict and, at times, of mutual understanding. In terms of commerce, actions taken prior to the proposed free trade treaty have their roots in the 1970s, when the United States imposed the Generalized System of Preference (GATT) in 1974, as part of the protectionist reaction that followed on the 1973 oil shock. With this system, the United States could control exports from developing countries by imposing quotas and demanding compliance with discretionary regulations and other para-tariff measures.

The growth of Mexican foreign trade was thus subjected to those determinations. Since then, it has been necessary to proceed within a framework of negotiations limited to those specific areas in which Mexico is relatively competitive.

In 1975, both countries signed a textile agreement -renewed, since then, on five occasions--under which Mexico gains access to the United States market, even though restrictions remain for certain products which pose risks for the United States textile industry. The last renewal took place in January 1988, and remains in effect until December 1991.

In 1984, an agreement was signed to establish steel export quotas within the context of the Voluntary Restriction Accords which protect the United States market. Under this agreement, Mexican exports could amount to between 0.31% and 0.46% of the apparent national consumption in the United States. This agreement was renewed in October, 1989, for a period of 30 months, with a quota of 0.95% for the first 15 months and 1.1% for the remaining 15 months.

To illustrate the growing importance of the Mexican presence in the southern United States, it is sufficient to mention that 60% of the Hispanic population, around 20 million persons, is estimated to be Mexican.

6 This is still far less than the volume of commerce between the United States and Canada, which, in 1989, was nearly US$220 000 million.

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In 1985, a bilateral understanding was reached on the matters of subsidies and compensatory rights for the purpose of reducing frictions arising from the unproven claim put forward by some United States merchants that Mexican exports were being subsidized. This accord was renewed for a further three years, beginning in 1988.

By 1987, the negotiations under way within the general agreement or bilateral understanding about consultation on matters of trade or investment covered a range of industries and areas of mutual interest (steel, electronics, textiles, agriculture, tariffs, foreign investment, intellectual property, insurance, and transportation). In March 1989, this agreement was ratified and study groups were formed for each area.

In October 1989, both countries signed a new framework agreement designed to incorporate other areas, given the prevalent interest in promoting trade and investment in those areas within the overall negotiations. The new agreement refers to areas such as the petrochemical industry, a group of farm products, and loan regulations and standards.

On the basis of these agreements, in October 1989, a joint committee for the promotion of investment and trade was formed for the purpose of stimulating investment and exports in the agreed-upon areas, within a general framework that supersedes negotiation by sector or in terms of diverse products and allows for greater interdependence between the two economies. In a first stage, this committee will promote investment projects in the petrochemical, telecommunications, textile, electronics and food-processing industries.

b) The basic contents of the free trade agreement

In June 1990, both Governments initiated conversations aimed at establishing a free trade treaty which will cover the following points:

- Promotion of investment and goods and services trade through the gradual elimination of tariffs;
- Elimination or maximum reduction of all possible non-tariff barriers, such as quotas, import permits and technical barriers to commerce;
- Creation of effective mechanisms for the protection of intellectual property, patents, trademarks and trade secrets;
- Implementation of efficient mechanisms for the resolution of controversies.

Both countries have already initiated the formalities mandated by their respective legislatures. Even so, several months will pass before detailed negotiations will begin. Although the agreement set for December 1990, between Canada and the United States required several years of negotiations and studies, the agreement with Mexico is being advanced through more expeditious channels on the initiative of both Governments.

c) Some terms of reference

On examining the possible motivations and determinant conditions for a free trade agreement with the United States, the following terms of reference seem to emerge with respect to the new insertion of Mexico into the global economy:

- The need to give order and direction to the process of growing interdependence between the two economies. For example, in-bond assembly activities and migration have grown in an uncontrolled fashion, principally in the border areas of both countries and in certain industries (such as the automotive, electronics, textile, furniture, and the electric and electronic supplies industries) and not, as yet, within the emerging joint framework for both economies. The agreement would allow for amplifying the effects in the production infrastructure of both economies, as well as in other regions of their territories.

- The need for bilateral regulation of those economic matters which are currently managed in discretionat fashion. That is, more even-handed negotiations are necessary, not only between governments, but among business people.

- The need to obtain fresh capital to finance Mexican development, both for increasing industrial capacity and modernizing economic infrastructure.

- The need to make the Mexican economy more competitive and efficient as a way of gaining more space in world markets, not only in the United States. In this sense, the basic aim seems to be that of changing relations with the global economy on the basis of a new relationship with that of the United States.

- The need to create jobs and respond more rapidly to those social demands made more acute by nearly seven years of economic stagnation. This will become a means of both slowing emigration and of generating new income for the Mexican people. The position of the Mexican Government has been: "We wish to export merchandise, not workers".
The advantages and risks involved in a project of such a nature and dimensions depend on many economic and non-economic factors. Among the advantages would seem to be the current characteristics and structural restrictions of the country's productive capacity, limitations that are not altogether different from those observed by Raúl Prebisch a long time ago but which, today, are in a process of profound change.

A relatively short-term effect could be the influx of capital in the form of financial investment, which would enter into play with a banking system in the process of being re-privatized and a stock market in a process of revitalization. In a second stage, mid-term production projects to take advantage of the new rules of the game should be generated in this way, a broader market for the products of both countries would gradually take shape.

Another positive effect has to do with the creation of a new, more propitious economic environment which would allow for more secure and longer-range investment planning; this would entail overcoming the current situation of sectoral and product-specific negotiations. Matters, such as greater technological transfer, improved business management systems, and new possibilities for joint ventures by businesses of both countries, would be covered.

At the same time, United States products could become more competitive thanks to the low cost of Mexican labour. The transfer of businesses to Mexico would allow United States manufacturers to supply products both for the local and international markets with an advantage over other countries.

Within these negotiations, it is foreseeable that the United States Government will exert pressure for the liberalization of services, especially financial services (currently limited to citizens by the law for credit institutions, recently modified in July 1990), and for greater flexibility in foreign investment regulations for the purpose of ensuring a stable capital market for United States private investors. This would give that country an advantage in the negotiations of these matters within the General Agreement on Tariffs and Trade (GATT), in the Uruguay Round. A topic requiring special care will be negotiations with respect to Mexican energy resources, given the foreseeable interest of the United States in ensuring access to alternative energy sources and the reluctance of the Mexican Government to include that matter in the agreement.

Within the conversations, mention has been made of the objective to duplicate the volume of trade between the two countries, in order to reach US$100 billion in five or six years, depending on when the agreement enters into effect. This would imply average annual growth of 15% which, judging from the trade growth rates of recent years (around 20% annually), does not seem impossible.

Moreover, given the different interests of the United States and Japan in commercial matters, Mexico could become an investment alternative for Japanese merchants who would be seeking to consolidate their position within the United States market, although this possibility could be expressly rejected by the United States Government in the negotiations. Japanese investors seem to be waiting for Mexican business access to the United States market before embarking on investment projects in Mexico, together with the satisfaction of their demands for reform of Mexican law in order to protect investments from Japan.

With respect to the range of interests within each country, both favourable and opposing positions can be observed. Part of United States society is concerned about the intensification of migratory flows of workers into their country and will energetically oppose the legalization of labour mobility. Certain United States labour union groups have expressed fears in the face of the foreseeable displacement of workers which the emigration to Mexico of capital directed principally towards labour-intensive endeavours would occasion. In this context, it is worth while to mention Rudiger Dornbusch, who reminded United States public opinion that competition among low-salary countries has been occurring for some time and that the tendency of United States businesses has been to produce in other countries, mainly in Asia, and subsequently increase the flow of exports to the United States. Within the context of a free-trade treaty with Mexico, he observes that we should ask ourselves, as jobs move abroad, whether we prefer them moving south or to Asia.

For its part, in Mexico, opposition politicians, certain union representatives, and small business people have also raised criticisms of the agreement.

d) *What will the future bring?*

Above all, it is necessary to recognize that we are witnessing a long-term process: the fruits of the FTA will not be seen immediately, nor have the effects of greater economic openness since 1985 come to light rapidly. Since then, major changes have taken place in the country's export base: non-petroleum exports grew, between 1982 and 1989, at a rate of 20% annually, rising from US$4 753 million to US$14 889 million. Manufacturing exports now account for 60% of non-petroleum sales and acted as a motor for the rest of the economy during 1989 and part of 1990.

On the whole, it will be necessary to moderate the urge to concentrate overseas sales only in businesses with foreign participation and to exert influence on all productive areas within the country so that the new development will be not only sustained but will also maintain certain social, sectoral, and regional balances.

To date, economic openness has had more benefits than costs, mainly for two reasons: the depth of the crisis of the 1980s which undermined the foundations of the style of growth of the past and the new international conditions which independently exerted pressure in favour of a different direction for growth.

Nevertheless, it will be necessary to be alert to costs which will appear as the process of commercial integration advances. It is also possible that juridical controversies will arise which will be difficult to resolve, given the possibilities and advantageousness of change in certain Mexican laws.

In very general terms, several economic policy recommendations can be derived from this discussion:

- Support certain industrial areas during the transition;
- Provide financial support for the commercial disequilibria occasioned by increased imports, principally of intermediate goods;
- Define policies and specific support mechanisms for agriculture, rural employment, and food processing activities; and
- Implement emergency measures to provide jobs for those workers who will be displaced during the transition.

In any case, there must be no doubt about the necessity of entering into a new relationship with the global economy in the greater interests of long-term Mexican development.

## V

### Conclusion

This study has covered a wide range of topics for the purpose of presenting a profile of the situation of the Mexican economy at the end of a difficult phase in terms of its limits and potentialities in the new circumstances. Surely, the evolution among countries and regions will be very different in the immediate future than during the post-war period. In this context, the path that Mexico is beginning to travel can only be dimly discerned.

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