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MEXICAN PETROLEUM: CATALYST FOR A NEW RELATIONSHIP BETWEEN THE UNITED STATES AND MEXICO?

A Dissertation Presented

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To my Parents

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My gratitude to my professor and friend Howard J. Wiarda, for his encouragement and guidance.

ABSTRACT

Mexican Petroleum: Catalyst for a New Relationship Between the United States and Mexico?

(February, 1982)

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If a factor were to be singled out as a useful means to understand U.S.-Mexico relations during the twentieth century, that factor most likely would be petroleum. Ownership, exploitation, and commercialization of the Mexican petroleum industry have been at the fore of some of the most intense episodes of conflict and cooperation between the two countries since the beginning of the century. At stake have been issues such as Mexico's economic and political independence, the reach of American power in its sphere of influence, and the friction between national and private interests in the United States.

This study analyzes the overall impact of Mexico's newly flourishing petroleum industry on Mexican development, and on the relations between the United States and Mexico. Since the mid-1970's, the existence of huge reserves of oil and natural gas in southeastern Mexico has brought about a radical reassessment of these relations, in terms of: a new delineation of the goals and expectations of both nations vis a vis each other; and a new perception, by both, of the national capabilities of Mexico.

The operational context is complex. Petroleum circumscribes an assortment of issues as yet unresolved between the United States and Mexico, and it is a watershed in bilateral relations. For the United States, it means a change in its conduct and patterns of action towards Mexico and, for the latter, a definition of its project as a nation.

If an association based on mutual interests and benefits is to evolve, the U.S. government must understand and accept the changes that are taking place in Mexico, and the emergence of the Mexican state as a middle power with autonomous goals of its own. Under other circumstances, the temptation of economic and political interventionism may effectively obstruct this unique opportunity. In this context, petroleum is both a source of confidence, and a quandary. It may turn out to be a propelling force, or a quagmire. It corresponds to decision makers in both nations to seize this historical challenge and convert it into a stepping stone for cooperation.

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CHAPTER I

THEORETICAL FRAMEWORK

Cultural Heritage and Dependency

The understanding of the Latin American region has often been impaired by ethnocentrism. Scholars and public officials have tended to view the area with preconceived values and notions about development derived from the historical experiences of the United States and Western Europe. And the result has usually been misconceptions about Latin American society and politics, and frustration with policy failures.

Perhaps the most relevant example of the ethnocentric North American interpretation of Latin America is the Diffusion Model.[1] This model assumes a continuum whose two poles are tradition and modernity. The concept of tradition implies backward, archaic, and static structures. Modernity is viewed in terms of social and political mobility, the complexity of the social structure, the degree of specialization of roles and institutions in the political and social spheres, "democratic" forms of government, and indicators such as urbanization. According to the Diffusion Model, underdevelopment is a condition which has been experienced by all nations at one time or another. The concept of "progress," usually seen in terms of economic growth and industrialization, involves the passage from the traditional to the modernity end of the continuum. Obviously, this process is of a teleological character. In North American social science, structural-functionalism in the writings of Gabriel Almond and G. Brigham Powell[2] exemplifies this emphasis on

development as a linear progression from traditionalism to modernity. Likewise, Walt W. Rostow[3] applies the same conceptualization to the stages of economic development. Other theoretical levels of the Diffusion Model include: a preoccupation with stability and orderly change; the decline of ideology as modernization and technology advance; and the notion of development through the spread of knowledge and benefits from the developed to the underdeveloped areas.[4]

According to the Diffusion Model, "...the solutions to the problems and conditions of underdevelopment must originate from beyond the borders of Latin America."[5] This notion triggered during the 1950's and 1960's a substantial amount of literature that praised investments in capital and technology from the United States to Latin America, as decidedly beneficial to the development of the latter.[6] Social and political stability in Latin America was, of course, a precondition for a greater participation of foreign enterprise.

By the end of the 1960's the Diffusion Model was in crisis. The Cuban Revolution proved to be a profoundly disturbing event for U.S. policymakers. The answer by the American government to the challenges posed by the Cuban Revolution was the Alliance for Progress. But the Alliance failed to promote consistent socioeconomic development and political democracy.[7] Throughout the 1960's, in response to real and imaginary constitutional and socioeconomic crisis, and to the fear of communism, many Latin American governments were successively taken over by the military, as it happened in Brazil in 1964, in Argentina in 1966, and in Peru in 1968.[8] In less than a decade, scholars switched their appreciations of Latin America in reaction to these various events. As

the forebodings about violent upheavals to come, publicized in the "scare" literature of the early 1960's,[9] failed to materialize, the scholarly pendulum swung to a vision of an "unrevolutionary society,"[10] where the structural and institutional obstacles to change were quite resilient.[11]

As the previous expectations of orderly democratic progress have subsided, as well as the immediate fear of revolution, shrouded by the ascent of the military, various observers have undertaken the analysis of the authoritarian-corporatist regimes as a possible dominant model for understanding Latin America. Among the main contributors to this approach are Howard Wiarda, James Malloy, Philippe Schmitter, Ronald Newton, and Frederick Pike.

James Malloy sees corporatism as an authoritarian mode of organizing state and society in Latin America. Regimes such as those of Brazil, Argentina, Peru, and Mexico would seem to share certain basic elements of the corporative model, such as: no competition; interest representation based on enforced limited pluralism; statism; ex officio membership; and co-optation. The recognized groups in the corporate regime are organized in vertical functional categories rather than horizontal class categories, and interact with the state through the designated leaders of authoritatively sanctioned interest associations.[12]

However, there are variations in the corporatist model. For example, Guillermo O'Donnell differentiates between the populist authoritarianism of Juan Peron in Argentina and Getulio Vargas in Brazil, the military-populism of Peru after 1968, and the bureaucratic-authoritarianism of Brazil since 1964.[13] Alfred Stepan makes a distinction between

"inclusionary" corporatism which would correspond to the populist regimes, and "exclusionary" corporatism, which would conform with the characteristics of the bureaucratic-authoritarian period.[14] Philippe Schmitter approaches the question by referring to two types of corporatism, state and societal, that would discern the relative power of governments and pressure groups.[15]

The theoretical perspective of corporatism in regards to the role of the state in Latin America, as well as the relationship between state and society, is heavily indebted to those who stress the cultural heritage of Latin American countries as the key factor in understanding the region. From this perspective, the corporate tradition, since the conquest and colonization of the area by Spain and Portugal, has consisted of a complex amalgam of social, cultural, religious, legal, philosophical, and moral principles which support the notion of a functional social hierarchy.

The explanation for current manifestations of corporatism in Latin America can be derived from historical and cultural antecedents. Cultural relativism affords an apparently logical perspective for contempoary authoritarianism. Howard Wiarda argues that Latin America has taken shape along distinct lines of societal structure, organization, and functions. The Latin American colonies were established during the 1500's, on the basis of feudal and medieval institutions very much in force in Spain at the time. This fact gave rise to political, economic, and social constants that, to a varying degree, are still present in the area, including: absolutist, hierarchical, elitist, and bureaucratic-patrimonial political bases; semifeudal, mercantilist, and monopolistic

economic policies; a rigid, stratified, closed social system; and a religious tradition of Catholic hegemony and absolutism.[16]

Glen Dealy maintains that Latin American society is structured according to a monistic tradition, just as the United States has followed a liberal, pluralistic tradition. Expressed in other terms, this would mean that while North American institutions tend to reflect a Lockean prospect, Spanish American institutions share a Thomist outlook.[17] Two of the central principles of Thomist political thought are organicism and patriarchalism. First, society is based on hierarchy; casuistry plays a more important role than law or rational behavior. Second, there are inequalities inherent in society, which imply the acquiescence of its members; thus, conflict is resolved by "public acceptance of the supreme power."[18]

Wiarda would seem to agree with John Mander in referring to Latin America as a historically conservative and nonrevolutionary area, "in the sense of having been cut off and only marginally affected by the great transformations that molded our modern world."[19] In the view of Stein and Stein, Latin America has never been able to escape its colonial legacy.[20] Louis Hartz has added insight to this stance with his concepts on the fragmentation of European culture and ideology. Detached from the originating center, says Hartz, that part of the European nation "loses the stimulus toward change that the whole provides...(and)... lapses into a kind of immobility."[21] Robert Adie and Guy Poitras develop the notion of the "politics of immobility" by stressing the resistance to change and to effective government by the politically predominant groups in Latin American society.[22] According to Wiarda, the dis-

tinctively Iberic-Latin tradition has proven to be quite resilient. Through its corporate-organic mold it blended "the traditional regard for order and hierarchy with the newer imperative of change and modernization." Thus, positivism was assimilated within the prevailing tradition, and liberalism was seldom successful.[23]

The historical cultural explanations suffer from the "fallacy of the single factor." Undoubtedly, cultural heritage is an important factor in understanding Latin America, but not the only one. Douglas Chalmers warns against the temptation to conclude too soon that "authoritarian-corporatist" regimes are here to stay. Change may be the enduring quality of contemporary Latin American politics.[24] In what may be considered as a supplement to historical-cultural explanations, O'Donnell sees the bureaucratic-authoritarian state as a response to modernizing pressures, including the "extended political activation of the popular sector."[25] Other authors point out that recent military coups have been the result of group conflict.[26] Schmitter delineates state corporatism or "corporatism from above," as that type most appropriately associated with modernizing societies, and with the phenomenon of delayed dependent development.[27]

The ideas of these authors constitute a link between the cultural heritage approach and the imperative of the developmental process. Malloy sees the emergence of authoritarian-corporatist regimes as "responses to a general crisis of public authority brought about by the multiple effects of delayed dependent development."[28] An attempt to understand the nature and shortcomings of this process of development is the dependency model.

Most "dependentistas" seem to agree on four basic themes:

1- Underdevelopment is the result of a certain type of relations between expanding industrial capitalist nations and peripheral countries.

2- Development and underdevelopment are two components of the same system, two simultaneous and intimately related faces of the same global process.

3- Underdevelopment is not a temporary, evolutionary stage, but a persistent, natural condition.

4- There are external and internal factors that determine dependency. The interaction between internal domination and external dependency, is deeply embedded in the structures, institutions, and processes of each Latin American national system.

There are differences between the "dependentistas" in regards to the analytical approach and the solutions perceived to the problems of underdevelopment. The "Conservative" approach[29] includes scholars such as Raul Prebisch, Miguel Wionczek, and Anibal Pinto. The "Prebisch thesis"[30] took as its starting point the deteriorating terms of trade for Latin America, as a result of low income elasticities of demand in its exports, and high income elasticities in its imports. From there it evolved into recommendations to push import-substitution industrialization, encourage economic integration among Latin American countries and obtain a higher reciprocity in dealing with developed nations. Prebisch and Wionczek have no abiding fears of foreign investments, although these should be more selective and controlled. Wionczek emphasizes the possibility of solutions to the economic problems born out of Latin America's own initiatives.[31] Some Marxist "dependentistas" such as Ronald H.

Chilcote view this "Conservative approach" as a mere variant of the Diffusion Model, and dismiss the expectations of attaining economic independence and national development within the capitalist framework.[32]

The "Moderate" dependency current tends to place the blame for underdevelopment on internal as well as on external factors. They differ from Prebisch in believing that foreign aid investments, as well as trade negotiations, constitute policy weapons used consciously by the center against the peripheral economies.[33] Some of the members of this group are Helio Jaguaribe, Osvaldo Sunkel, Fernando Henrique Cardoso, Enzo Faletto, Celso Furtado, and Theotonio dos Santos. Sunkel sees development as a deliberate process which must have as its final consequence the equalization of social, political, and economic opportunities, internally as well as in relation to more developed societies.[34] In a historical analysis of development in Latin America, Cardoso and Faletto perceive as the basic problem the fact that political power has never been able to overcome the contradiction between national society and dependent economy.[35] Jaguaribe analyzes the structural problems of Latin America according to three main aspects: economic, political, social and cultural stagnation; marginality, internal as well as in relation to the developed nations; and economic, cultural, and political-military denationalization.[36] These three categories define the interaction between internal domination and external dependency. Jaguaribe sees a basic alternative between dependency and autonomy.[37] In general, however, the moderates are rather vague about policy prescriptions.

The "Radical" dependency approach includes Andre Gunder Frank, Octavio Ianni, James Cockcroft, and James Petras, among others. This

group sees the interests of Latin America and those of the center powers, especially the United States, as intrinsically contradictory. According to Frank, the colonial and neocolonial relationship to the capitalist metropolis has shaped the economic and class structure, as well as the culture, of Latin American society. In this context, there are well defined class interests for the dominant sector of the bourgeoisie. These class interests of the local capitalists perpetuate the imbalance of the economy, as well as the repressive central governments. National capitalism and the national bourgeoisie do not and cannot offer any way out of underdevelopment.[38] Octavio Ianni elaborates further on the historical and structural conditions, internal and external, that generate repression and bourgeois violence.[39] It is clear that the Radicals pay much closer attention to class conflicts than the other dependency currents. Radicals favor social revolution as the only way out of underdevelopment.

As can be easily seen from above, there is no unified theory of dependency. However, by necessity a dependency approach to politics must be historical: the axis of Latin American dependency has changed, from Spain and Portugal, to Great Britain, and to the United States. Likewise, the structural and historical arguments central to the dependency approach imply a theory of conflict. Dependentistas could be spread along most points of the political spectrum, in regards to their attitudes towards the role of the state and of social classes in national development. In this context, Chilcote sees a basic difference within the dependency perspective, between the bourgeois and the Marxist conceptions of development and underdevelopment in Latin America.[40]

The controversy between the cultural relativists and the dependen-

tistas is more apparent than real. To be sure, there are differences between the two. Whereas the first emphasize culture and tradition, many "dependentistas" share the assumption that economic arrangements are the primary determinants of political, social, and cultural forms.[41] On the other hand, the corporative model seems to share with the moderate and the conservative conceptions of dependency an appreciation of the role of the state as the protagonist in Latin America's societal transactions. In various ways the cultural-corporative and the dependency approaches are not exclusive, but complementary. Both cultural and economic factors must be taken into account to understand Latin America. However, the dependency approach would seem to have an advantage, that is, the fact that it affords a more dynamic analysis of both the external influences and internal changes that, through time, have contributed to shape Latin Americas society.

From the dependency perspective, direct proximity with the United States has cost Mexico the loss of more than half of its original territory, various military interventions, repeated interference in its domestic political matters, and economic penetration at all levels. Mexico's economy has advanced to higher levels of specialization and complexity, but not along lines of self-sufficiency and economic autonomy. And economic dependency has obvious political implications.

But in order to understand Mexico one must also look at the cultural-historical patterns that have conformed it. The continuance of bureaucratic-patrimonial political arrangements can be traced from colonial institutions to the present-day one-party system, the institution of the "compadrazgo" and the role of the president as the supreme arbiter of all

political conflicts. Octavio Paz refers to the Mexican national character as a mask that shields from external pressures but at the same time prevents the true identity from surfacing,[42] and stresses that "...the Mexican is not an essence but a history."[43] And the great Mexican scholar Alfonso Reyes talks of the "age" of the Mexican people as that "when all time meets in the present, bringing vapors out of the past and a breeze from the future."[44]

Research on the questions of dependency and cultural heritage must be undertaken from an eclectic perspective. Only an integral approach of political science, economics, and sociology can begin to elucidate the complex reality of Latin American countries. The problem of exclusivity and narrow specialization permeates the social sciences nowadays. However, to give only one example, in the analysis of dependency theory both comparative politics and international relations play a role. Dependency theory itself underlines the fact that there is a somewhat arbitrary distinction between these two subfields of political science.

Development

The distinctive cultural and developmental patterns of Latin America have given rise to the idea that the region represents a "Fourth World of Development," that corresponds neither to the earlier capitalist or socialist models, nor to the "new nation" model of Africa and Asia.[45] In this respect, the corporative-cultural approach is useful, indeed, in analyzing these unique characteristics inherent in Latin America's process of development.

Latin American countries are still in search of models of develop-

ment appropriate to their own reality. Since their inception as independent republics they have tried to copy models such as liberalism and positivism, that are inadequate to deal with the problems of the area and result in distortions. At the same time, most of the prominent development theorists, such as Gabriel Almond, Cyril Black, Karl Deutsch, and W. W. Rostow, have tended to omit Latin America from their "universal" models.

The contemporary definitions of development that are not of much benefit for the study of Latin America tend to reflect the bias of foreign schemes and solutions. The Diffusion Model falls within this group. Latin American countries are not following the same "progressive" trajectory or stages that the developed nations went through, because the conditions are simply different. By this time it seems clear that the future of most Latin American political systems will not be the "ideal" type of Anglo-Saxon democracy. Likewise, Marxism does not lend itself easily to the analysis of Latin American society and politics: "The categories of Marxian analysis apply to the area at best imperfectly and through some elaborate stretching that at times leaves them all but unrecognizable."[46] The radical dependency approach which pretends to fit all facets of dependency neatly into Marxist theory usually rely more on ideology than factual analysis. On the other hand, the "moderate" dependency and the corporative-cultural approaches, even though not all-inclusive, provide useful insights to understand Latin American reality.

In the history of the Latin American countries, since the middle of the nineteenth century, there have been three vital objectives that emerge once and again, as imperatives in the process of consolidation of

their respective societies: national unity; modernization and development; and regional integration. The two first objectives are intimately tied. It is indispensable to arrive at a general definition of what development must mean for Latin America, in the context of these three basic goals. And it means, basically, the conjunction of economic, social, and political advancement. The relationship between these three aspects is basic. A true process of development would tend to spread in an equitable way through all the sectors in society the benefits obtained by economic growth, thereby promoting the social welfare of the population. Implicit in this definition is the assumption that Latin American governments would uphold sovereignty as an essential element of the state, to be either maintained or achieved by all means.[47] This assumption, however, could be effectively challenged to varying degrees in most Latin American countries, according to the dependency model.

Still pending would be the necessity to conceptualize what is meant by "advancement." And this task is unavoidably qualified by value judgements. Perhaps the best way to proceed would be through the analysis of some key elements in each of the three broad categories of development: economic, social, and political.

With respect to economic development, three basic groups of indicators come to mind first:

-Rate of economic growth; per capita and national income.

-Relative weight of primary, secondary, and tertiary sectors.

-Infrastructure (communication, transportation, etc.).

However, these economic indicators should be qualified by two additional considerations:

-Penetration of foreign capital, especially through multinationals.
-Distribution of income.

In regards to economic performance, countries such as Mexico and Brazil score high, with impressive growth indexes. However, the "economicmiracles" of Mexico and Brazil have been accompanied by a disturbing phenomenon: the increasing control by foreign capital of the most dynamic sectors of their economies. In these as in most Latin American countries, national income is distributed very unevenly.

With respect to social development, most of Latin America suffers the effects of a structural dichotomy: a small, modern developed, industrialized, urban sector, and a sizeable backward, archaic, rural, and static sector. This division hinders an effective national integration. However, there is a process of social change all throughout the region, in varying degrees of intensity. In this context, development must be measured in terms of social change: a society is developed to the extent that it guarantees equality and effectiveness of social benefits to all of its members.

The third great category of development, i.e. political, confronts us with contradictory views on the nature of political change. Kalman Silvert maintains that asymmetry, clashes and conflicts characterize Latin America's politics; there is no time for peaceful adjustments of political relationships.[48] Martin Needler distinguishes among three states of stability of the Latin American polity, "stable," "evolving" (i.e. changes towards increasing harmony among the members of the polity), and "permanent instability" (i.e. persistent inconsistency among the elements), and concludes that the patterns of "permanent instability"

accurately describe the political life of most of Latin American countries since independence.[49] Fred W. Riggs suggests that instability may be a permanent feature of developing countries. Riggs' conception of the "prismatic society" revolves around what he denominates as the "clect," a ruling group that reflects the social cleavages and is, thus, incapable of compromise.[50] Ben Burnett and Kenneth Johnson would seem to concur with this assessment.[51]

Opposite to the previous view is the idea that development must be understood in Latin America's own terms. Howard Wiarda maintains that "...the question has been not so much one of 'development' or 'modernization' but of reconciling...the static and vegetative features of the older, patrimonial-corporate state with the imperatives of a modern, urban, industrial order."[52] It is a matter of "blending the traditional regard for order and hierarchy with the newer imperative of change and modernization."[53] Another scholar, Albert Hirschman, points out that "the very forces that are responsible for stagnation in one period can make for progressive change in the next."[54] In this context, Charles Anderson has characterized Latin American politics as a "living museum," where old as well as new power contenders find accomodation and continue to exist, operate and interact with each other.[55]

In dealing with political change one must keep in mind the transplantation and adaptation of European political categories to Latin America. In his theory of "secondary development," Richard Adams talks about this phenomenon in terms of assimilation and reorganization, not of innovation.[56] But, it should be added, there must always be frictions in this process, and the end product will not be the same as any of its

components. The contemporary political crisis in Latin America must be defined in terms of the necessity to create new models of development, which do not ignore those already existent under different historical settings, but attempt to adapt, readjust, and incorporate some of their features with a view towards new results.[57] This constitutes the scenario for Latin America's political process.

Pressure groups constitute one of the fundamental channels of political action in Latin America. In the comparative setting of the region, specific government policies are not extrapolative, but would rather reflect the constantly changing conformation of pressure groups in society. Another avenue of political change is that of political parties. But at present, with a few exceptions, mainly Venezuela, the power of other political contenders, especially the military, and the growing importance of the centralized, authoritarian state, make it more worthwhile to analyze parties in function of their relation to pressure groups, and to the entire political system.[58]

A useful approach to pressure groups is Abraham Lowenthal's "bureaucratic politics model." Lowenthal argues against the "rational policy model" of decision-making, and suggests that the policies of any given country are not the result of a single or even a few policymakers, but the product of a series of interlocking bargaining within the system among different agencies, groups, and individuals. The outcome of this political process would depend on the relation of forces at the time.[59]

Using a similar approach, Guillermo O'Donnell reaches different conclusions. O'Donnell analyzes the emergence of what he calls the "bureaucratic authoritarian" state (BA), in countries such as Brazil, Argentina,

and Chile. The BA is characterized by: control of higher governmental positions by persons from complex, bureaucratized organizations such as the armed forces, the public bureaucracy, and large private firms; political and economic exclusion of the popular sector; and depoliticization, i.e. reduction of social and political issues to "technical problems."[60] "The BA is a system of exclusion of the popular sector, based on the reaction of dominant sectors and classes to the political and economic crisis to which populism and its developmentalist successors led."[61] Mexico, according to O'Donnell, would be a BA which established control of the popular sector before the new expansive trends of world capitalism that started in the 1950's.

At the vertex of action by the politically relevant groups in Latin American countries is the state. Regardless of the various ideological orientations, the state is today the protagonist of the process of development in most Latin American nations. Only the state can face the enormous task of gearing development within the framework of sovereignty. It must confront the challenges of internal antagonisms, foreign penetration and clientelism.[62]

The process of socioeconomic development in the Latin American countries is fostering an ever-higher degree of political awareness among all sectors of the population. This phenomenon galvanizes political action towards the expansion of the existing levels of participation. Legitimacy, in the end, rests "on the possibility of identifying the locality with the center."[63] Development must lead to equitable economic, social, and political advancement. Only in this context can the categories of political freedom have definite meaning. However, at present, political

achievement in the Latin American nations seems to be a measure of the relative portion of the population who enjoy economic and social prerogatives, and these are, to a varying degree, always a minority.

Mexico as a Case Study

A pertinent means to study the previous approaches and variables related to dependency and development, would be the consideration of specific Latin American cases. A framework for analysis is needed that takes fully into account both domestic development and foreign relations, especially with the United States. At present, Mexico constitutes an ideal case to illustrate these areas: the context, cause, and effects of dependency, vis a vis the process of national development; and the impact of this amalgam on U.S.-Mexican relations. At present, Mexico's petroleum boom deeply permeates these issues.

If a factor were to be singled out as a useful means to understand U.S.-Mexico relations during the twentieth century, that factor most likely would be petroleum. Ownership, exploitation, and commercialization of the Mexican petroleum industry have been at the fore of some of the most intense episodes of conflict and cooperation between the two countries since the beginning of the century. At stake have been issues such as Mexico's economic and political independence, the reach of U.S. power in its sphere of influence, and the friction between national and private interests in the United States.

The primary objective of the present study will be to analyze the overall impact of Mexico's newly flourishing petroleum industry on Mexican development and on the relations between the United States and Mex-

ico. Since the mid-1970's, the existence of huge reserves of oil and natural gas in Mexico has brought about a radical reassessment of these relations, in terms of: a new delineation of the goals and expectations of both countries vis a vis each other; and a new perception, by both, of the national capabilities of Mexico.

But the operational context is complex and, as yet, not determined by far. The thesis will be advanced that, far from representing a clear-cut case of positive development for Mexico, and a healthier association with the United States, petroleum may bring about, on the one hand, distorted development and increasing dependency in Mexico, and on the other, a tortuous and perilous period in U.S.-Mexican relations.

At present, Mexico's petroleum circumscribes the complex assortment of issues as yet unresolved between the United States and Mexico, including: illegal migrant workers, drug traffic, the terms of technical and scientific cooperation, the restrictions in the United States market to Mexico's exports, and Mexico's more assertive foreign policy. Petroleum may be the catalyst for better and more amicable relations, or for a recrudescence of misunderstanding and conflict. The result will be contingent upon the conduct of the respective governments, and of all the various pressure groups that compete for attention and for the enactment of specific policies in both countries.

The setting is thus ready for closer friendship or escalating confrontation in the relations between the United States and Mexico. In the present context, petroleum will be the main propelling factor for these relations, as the governing political circles in both countries adjust their decision-making capabilities towards cooperation or conflict.

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28- Malloy, op. cit., p. 5.

29- Richard C. Bath and Dilmus D. James use the taxonomy "Conservative Approach, Moderates, and Radicals," in referring to the various groups of dependentistas, in "Dependency Analysis of Latin America: Some Criticisms, Some Suggestions," Latin American Research Review,

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34- Osvaldo Sunkel, El Subdesarrollo Latinoamericano y la Teoria del Desarrollo (Mexico: Siglo XXI Editores S.A., 1971), p. 39.

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38- Andre Gunder Frank, Lumperburguesia: Lumpendesarrollo (Mexico: Serie Popular, Era, 1971), and Capitalism and Underdevelopment in Latin America (New York: Monthly Review Press, 1967).

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CHAPTER II

EVOLUTION OF THE MEXICAN PETROLEUM INDUSTRY

A Historical Perspective on United States-Mexico Relations

The nature and reach of Mexico's development, and its relations with the United States, are two closely related phenomena in Mexican history, and both have followed unsteady courses. Because of a situation of political impasse at home during a good part of the nineteenth century, Mexico was in a comparatively defenseless position to safeguard its territorial integrity. The result of the lack of even a modicum of national political consensus was the loss of more than half of its territory to the United States in 1848.

Even though U.S. historians have tended to consider "Manifest Destiny" as a non-imperialistic course of demographic expansion, as compared with the more clearly imperialist era of Theodore Roosevelt,[1] it is indeed difficult, from the perspective of Mexico's territorial dismemberment, not to regard the episode as a part of an imperialistic design. The recollection of the Mexican-American War is still deeply embedded in Mexico's national conscience: the official name for the conflict of 1846-1848, "the war of the North American invasion," is a reflection of public sensitivities in Mexico.

Geopolitical accommodations between the two countries during the nineteenth century effectively established, for purposes of future economic exchanges, the predominance of the United States. The takeover

of its territory deprived Mexico of any future aspirations to great-power status, which were by that act transferred to the United States, and left Mexico prostrated and subjected to the will of its northern neighbor. The war between Mexico and the United States, and its fateful climax, were not isolated actions. They must be considered within the context of the Monroe Doctrine, proclaimed in 1824, the Gadsden Purchase of 1853, and the McLane-Ocampo Treaty of 1859; the latter, among various dispositions, gave the United States the right of transit through the Istmus of Tehuantepec.[2]

The Civil War in the United States meant a pause in the expansionist action towards Mexico. However, those were bitter years for Mexico, too, during which the efforts of Juarez's Reform Movement at national reconstruction had to be channeled into a desperate struggle against French imperialism, allied with Mexico's conservative elements.

In short, the period between 1830 and the 1860's in Mexico, characterized internally by political chaos and economic stagnation, and externally by the loss of half of the national territory to the United States and a series of punitive expeditions staged by European powers, effectively turned Mexico into an appendage of rapidly expanding foreign industrial economies.

The period after the Civil War in the United States, one of rapid industrial growth, coincided with the era of Porfirio Díaz in Mexico, during which "peace" and "progress" were the catchwords. Towards the end of the nineteenth century, accordingly, U.S. policies with regard to Mexico shifted to a significant degree from a political to an economic motivation. Throughout 30 years, from 1880 to 1910, Díaz and

his "positivist" advisers opened the doors of Mexico to foreign capital and technology. American companies invested heavily in Mexican railroads, mining operations, and petroleum exploitation. U.S. trade with Mexico had amounted to 7 million dollars in 1860. It doubled to 15 million by 1880, doubled again to 36 million by 1890, and nearly doubled again to 63 million by 1900. During the early 1890's, Mexico imported 56% and exported 67% of the total of its foreign trade, from and to the United States; by 1910 these figures had risen, respectively, to 63% and 76.4%. U.S. direct foreign investment rose from 200.2 million in 1897 to 672 million in 1908. Of the total investment of the United States in other countries in 1908, 26.62% was located in Mexico.[3]

By 1910-1911, foreign capital had controlling interests in 130 of the 170 biggest corporations in Mexico; this represented 77.7% of the total capital of the 170 firms. Foreign investment came mainly from three countries: the United States, Great Britain, and France. U.S. companies controlled 44% of the total capital investment, that is, they had by far the preponderant share. Some of the most important U.S. corporations were: in mining, the American Smelting and Refining Co.; in oil, the Mexican Petroleum; in railroads, National Railroads of Mexico and Kansas City Railroad. By contrast, Mexican capital had a share of only 23% of the total capital of the biggest 170 corporations.[4]

Representative of some of the views about Mexico prevalent in the United States during those years is the following statement by William J. Bryan, which dates from 1908:

> "Before twenty years, North America will have swallowed Mexico. The absorption of that country

> by ours is necessary and inevitable, for economic as well as political reasons. It will take place in a natural and peaceful way, and will mean the perfection of our natural accommodation..."5

Previously, U.S. pressures had affected Mexican territory; now, U.S. business and commercial interests began to affect Mexico's national resources and communications, both of which passed increasingly into foreign concerns, mainly American. In this process of penetration, Díaz's government sponsored the activities of foreign capital, while the nascent Mexican bourgeoisie was clearly subordinated to them. The peaceful conquest of Mexico, i.e. dollar diplomacy, economic conquest through growing ownership of natural resources, by means of sales and concessions of lands and mining interests, continued unabated during this period. Internally, the price was excessively high. The Díaz's regime meant the denial of elementary justice to the majority of the population. The accumulation of social discontent, and the increasing political awareness of a small middle class, were the main factors that led to the upheaval of 1910.

The regime of Porfirio Díaz came to an end with the Mexican Revolution of 1910, which also marks the birth of modern Mexico. The Mexican movement of 1910 was an authentic revolution. It altered completely the social structures and destroyed the old aristocracy; it created the instruments for an economic transformation of the country; and it eliminated the oligarchy which had monopolized political power. The Mexican Revolution was a far-reaching effort in a process dating back to the struggle for independence, to bring into being an entity

which could be properly called the Mexican nation. It was not a simple, clearly defined movement: the revolution did not have a monolithic character, not did it evolve in a single direction. It was a tentative, experimental and pragmatic movement absent, to a great extent, of a prior or even accompanying ideology.

The period between 1910 and 1940 could be characterized as an intense struggle to achieve structural changes in the economic, social, and political spheres. The actors were, on the one hand, newly mobilized social groups, such as the small middle class, organized labor, and peasants. On the opposite side stood conservative groups that had survived the onslaught of the revolution and wanted to restore the old status quo, and external forces, represented largely by U.S. business interests, which persisted in their efforts to preserve and strengthen their controlling position in Mexico.

To a varying degree, from 1910 until the government of Franklin D. Roosevelt, U.S. administrations repeatedly intervened in the Mexican revolutionary process, in defense of American business corporations. These interventions ranged from subtle campaigns of destabilization to outright military invasions. The following cases illustrate U.S. interference in Mexico during this period:

-Mexican President Francisco Madero, who for certain was no radical, in 1910 made clear his intentions to pursue certain nationalistic policies and to deny privileges to foreign capital; for example, he established the first tax on petroleum. As a result, U.S. President William H. Taft, acting on behalf of American companies, alternatively

stationed sizable contingents of troops along the Mexican border and sent ultimatums to Madero, threatening with military intervention.[6]

-U.S. ambassador to Mexico, Henry Lane Wilson, incensed by Madero's refusal to acquiesce in the activities of foreign capital, by 1912 began to show the symptoms of a phobia against Madero. Apparently following orders from President Taft's State Department, Wilson plotted to bring about the downfall of Madero's government, and turned the American embassy in Mexico City into a center of intrigues and conspiracy against the Mexican leader. Finally, through an alliance with General Victoriano Huerta, known as the "Pact of the Ciudadela," Wilson succeeded: in February, 1913, Madero was first overthrown and then murdered, together with his vice-president.[7]

-Under the administration of President Woodrow Wilson, several grave incidents took place, such as the armed occupation by U.S. marines of the Mexican ports of Tampico and Veracruz in 1914, and General Pershing's punitive expedition from mid-1916 until early 1917 in pursuit of Mexican revolutionist Francisco Villa, who had previously raided the American border town of Columbus, in New Mexico.

-Warren G. Harding's government extended strong official support to the claims of U.S. corporations, and pressured the Mexican government in 1922 to accede to the payment of what the Mexicans thought to be an exorbitant foreign debt, in return for U.S. recognition. During the Bucareli Conferences of 1923, the U.S. government pressured Mexico's Obregon administration to recognize the unaffectability of the holdings of the U.S. petroleum corporations in Mexico.[8]

In spite of U.S. interventions and pressures, the Mexican Revolution fulfilled significant goals. Above all, it became a rallying point for Mexican nationalism and a symbol of national unity. In more concrete terms, the highest point of achievement was reached with the Constitution of 1917, which stands as the most radical document of its time. It embodied the revolutionary doctrine that the common welfare takes precedence over the parochial rights of the individual. And, pertinent to future relations with the United States, the Constitution of 1917 gave ample flexibility and power to the Mexican State to define, modify, and extend its authority in a wide variety of functions.

The Travails of the Mexican Petroleum Industry: 1901-1938

The development of the Mexican oil industry, between the years 1901 and 1938, could be divided into four stages.[9] The first stage is the period from 1901 to 1910 when, under Porfirio Díaz, production increased at a modest but steady rate; during these years the industry was for the first time economically important. The second stage runs from 1911 to 1921, when the highest level of production was reached: Mexico was responsible for up to 25% of the world's supply; only the United States produced more oil. During the third stage, from 1922 to 1933, production suffered a dramatic drop. And the fourth stage, from 1933 to the expropriation in 1938, was a period of relative improvement in the levels of production.

Traditionally, Mexican oil exploration followed the practices inherited from colonial times: ownership regulations established that

property of the subsoil was never separated from the Crown, which held it for the "public good;" the owner of the surface rights never acquired property rights over the resources in the subsoil. This precedent was reinforced during the Reform Movement in Mexico in the 1860's, when the Juarez's administration made clear in 1863 that "...coal and petroleum constitute part of the dominion of the nation."[10]

In a series of laws, Porfirio Diaz altered the concept of national ownership over subsoil deposits. The "Mining Law of 1884" made petroleum and other minerals the exclusive property of the owner of the land. The "Mining Law of 1892" restricted the surface owner's right to exploit fully certain minerals, but permitted free exploitation of combustible minerals, including petroleum, without need for concessions.[11] The "Petroleum Law of 1901," concerned itself with concessions rather than titles to the land, and gave the Executive Branch the power to grant permits to explore certain lands and waters under federal jurisdiction. This law extended to the companies which discovered successful oil wells, the privilege of exclusive rights to surrounding lands. Finally, the "Mining Law of 1909" reaffirmed the ownership of deposits of mineral fuels by the owner of the surface.[12]

As a result of these laws, by 1910 landowners had all rights to the subsoil; foreign purchasers of Mexican lands acquired subsoil as well as surface rights, a practice which was actually the Anglo-American system, and contrary to the Mexican tradition. Through these laws foreign oil companies bought large holdings, in the hope that they would prove to have a rich subsoil. In the case of federal lands, the Executive could

issue permits for unrestricted exploitation, which were tantamount to ownership. Besides subsoil rights, Díaz granted foreign oil companies other privileges. Exempt from import taxes was the machinery brought into the country for the development of the oil fields. By-products of oil were not taxed, and neither was the capital invested in oil. While Díaz was in power, there was no export tax on oil. The oil fields themselves were taxed, but at the rate of cheap agricultural lands, with no consideration given to their subsoil wealth.[13]

In this way, large petroleum properties passed into the hands of American and British corporations. The aforementioned laws would later be the cause of many problems between foreign oil companies and the post-revolutionary governments of Mexico.

Incipient exploration had taken place before 1900, but steady exploration and exploitation did not come until after the turn of the century. Two Americans, Edward L. Doheny and Charles A. Garfield, and two British, Weetman Pearson and Lord Cowdray, established themselves as the leaders of the Mexican petroleum industry during this period; together they controlled 98% of the oil production.[14] Doheny founded the Mexican Petroleum Company, which would later be sold to Standard Oil; Pearson founded the Pearson and Son Ltd., which would be sold to the Royal Dutch-Shell. Production during the first decade of the century was about 13 million barrels of oil a year.[15]

Around 1910 huge new reserves were discovered in the Mexican state of Veracruz, which rapidly raised the level of production. By 1917, Mexico occupied the third place in the world as an oil-producing nation, with 55,292,767 barrels annually; oil became the principal Mexican

export. By 1921, foreign producers were pumping out and exporting 193,397,586 barrels per year, about 25% of the entire world output at the time, which gave Mexico the second place as an oil-producing country. The companies based in Mexico supplied most of the oil imports by the United States.[16]

There are several reasons that help explain the fact that, while the Revolution brought havoc on the Mexican economy, the oil industry was actually enjoying a boom. The oil industry was located mostly along the coast of the Gulf of Mexico, far from the main battlegrounds, and did not rely on inland transportation. Besides, the most important oil-producing area at the time, Tuxpan and Tampico, enjoyed "revolutionary protection" by the troops of General Peláez.[17] On the other hand, the world demand due to increasing industrialization and to the First World War promised high profits.

The Constitution of 1917 was a direct challenge to the established practices and activities related to the petroleum industry in Mexico. The land reforms which had attracted the foreign oil companies were repealed, and restrictions to their investments were added. The subsoil became again the inalienable property of the nation. In Article 27 of the Constitution, all resources lying in a natural state in the national subsoil, such as petroleum and minerals, were thereby declared to be the property of the nation and not of the person or corporation that owned the surface above it. This was a reversion back to the old system of land ownership that had existed prior to the regime of Porfirio Díaz. Article 27 enunciated the following:

> "The ownership of lands and waters...is vested originally in the nation which...has the right to transmit title thereto to private persons... (however) the nation shall have at all times the right to impose upon private property such restrictions as the public interest may require... in order to conserve and equitably distribute the public wealth...In the nation is vested direct ownership of all minerals or substances (in the subsoil)...solid mineral fuels; petroleum and all hydrocarbons, solid, liquid or gaseous....The ownership of the nation is inalienable and imprescriptible..."[18]

The same article specified that concessions to own or exploit natural resources could be granted only to Mexican citizens or companies. The State could grant similar rights to foreigners, as long as they agreed to be regarded juridically as Mexicans in their operations, and to waive all right of appeal to foreign nations for protection. Foreigners were forbidden to acquire ownership of lands and waters within a one-hundred kilometer zone from the national boundaries, or within fifty kilometers from the seacoast.[19]

The general consensus was that Mexico had the right to nationalize those petroleum deposits not already in private hands. However, the crucial point was whether Article 27 of the Constitution was retroactive or not. The reach of the doctrine of property set forth in Article 27 was limited somehow by a provision to the effect that no measure would be applied retroactively, but there was a qualifying clause that permitted revisions of past concessions which were deemed to be harmful to the public interest. Thus, in reality, it was left up to the Mexican President to determine the path to follow in reasserting national ownership of natural resources.

Mexican President Carranza had at first privately promised that Article 27 would not be applied retroactively, but in 1918, as a facet of his running confrontation with the United States government, he proceeded to decree that, after all, it was indeed retroactive. The issue remained unresolved for the next two years. In 1920, Carranza was overthrown by General Obregón, who then became President of Mexico. Obregón reaffirmed the promise of not applying Article 27 retroactively, but refused the request of U.S. Secretary of State Hughes to put it into a formal treaty. It was for this reason that Hughes effectively blocked U.S. recognition of Obregón's government. Obviously, there was a degree of correspondence between the actions of the U.S. government, and those of U.S. private companies with interests in the Mexican economy.

In a series of legal cases dealing with the rights of the foreign oil companies, the Mexican Supreme Court, in apparent contradiction with the Constitution, stated the "positive acts" principle. This meant that Article 27 was not retroactive on lands where "positive acts," such as drilling a well, had been performed by owners before 1917; if this was the case, then full ownership could not be questioned. However, if no such act had been performed, then the owner forfeited subsoil rights.[20]

This compromise would have been acceptable to the U.S. State Department if its permanency could have been guaranteed. But Obregón was fearful that if he yielded too much to the U.S. government, domestic repercussions might ensue; therefore, he still refused to make a treaty with the United States. However, Obregón did enter into an "extra-official" pact, known as the "Bucareli Agreement," which embodied the

"positive acts" principle. The agreement led to the official recognition of Obregón by the U.S. government on August 31, 1923.[21]

Obregón's successor, Plutarco Elias Calles (1924-1928), adopted at first a tough stance in the continuing negotiations with the U.S. oil companies. In 1925 the Mexican Congress passed a petroleum law limiting the ownership of oil rights acquired before 1917 to fifty years. Thus, the Bucareli Agreement was considered to be no longer in effect. The foreign oil companies protested accordingly, expressing their dissatisfaction, and bringing about new negotiations.[22]

After a long process of bargaining, in December, 1927, the Mexican Congress adopted a new "Petroleum Code," which embodied the terms of the Bucareli Agreement. This new code satisfied the U.S. State Department, as American concerns could now rely upon the Mexican courts for protection. Based on this code, shortly thereafter, in 1928, the Morrow-Calles Act went into effect, under which U.S. oil companies could no longer look forward to expanding their activities in Mexico. On the other hand, those properties on which they had performed "positive acts" before 1917 were tacitly theirs for intensive development to perpetuity. The oil companies had, in exchange, implicitly agreed that subsoil deposits were nationally, and not privately owned resources.[23]

If the Mexican petroleum industry gained importance during the period 1911-1921, its decline between 1925 and 1927 was equally drastic. As a result of the unstable conditions in Mexico regarding property rights in the oil industry, foreign oil companies started turning their attention to Venezuela, which at the time was far more "cooperative" than Mexico, and appeared to have more petroleum, anyway. Large

discoveries of oil in Oklahoma and Texas also made operations in Mexico less important. In any case, the length of time during which Mexico could continue to supply new reserves for exploitation seemed to be uncertain. The decline in production in the Tampico fields appeared to be directly related to the controversy over the Mexican legislation of 1925. But there were other, more ominous reasons, for the decline and for Mexico's future as an oil-producing nation. In the rich fields of Tuxpan, for example, the foreign oil companies had exploited the wells irrationally, at full capacity, bringing about the filtering of salt water into the oil deposits and their subsequent destruction.[24]

The oil companies had been steadily losing importance in the Mexican economy since 1921. In that year, when the highest peak in production was reached, the industry accounted for 6.92% of Mexico's GNP; by 1936 it had slipped to only 1.83% of the total GNP. During the period of peak production, the petroleum industry employed between 30,000 and 50,000 workers, or about 0.7-0.8% of the Mexican labor force. By 1936, only 14,000 workers were employed, that is, approximately 0.23% of the work force.[25] In 1922, the Mexican treasury had received 88 million pesos in taxes from the oil companies; this figure dropped to 19 million pesos by 1927.[26]

Foreign investments in the petroleum industry fell from a total of 862 million pesos in 1923 to a mere 107 million at the time of the expropriation in 1938.[27] Towards the end of 1924, capital investment in the Mexican oil industry was estimated to be around 800 million pesos. Of this sum, American capital represented 57.46%; the British controlled 26.16%; and the Dutch had 11.37%. Only 3.02% of the invested

capital was Mexican. From these investments, foreign companies had obtained, by 1924, almost 2,000 million pesos, from the sale of a little over one billion barrels.[28]

There was a clear drop in operations after 1926. By 1927, refineries had cut down their activities by 40%, in relation to the year 1924. In 1927 the Royal Dutch Shell suspended its drilling and pumping operations, and cut down to a third its refining operations.[29] The companies stated several reasons for their declining operations, including the arguments over the implementation of Article 27 of the Mexican Constitution, the denial of new drilling permits, less productive wells, and high taxation.[30]

Even though by 1928 the legal controversy seemed to be solved, the entrance of Venezuelan exports in the oil market, and the increase in production in the United States proper, lessened the interest of the foreign companies in Mexican oil. During the following years there was a relative improvement in production, but never to the levels of the early 1920's.

The Oil Expropriation of 1938

In 1934, when Lázaro Cárdenas took over the Presidency of Mexico, the Mexican economy was still very much under the control of foreign corporations, this in spite of the fact that 18 years had elapsed since the enactment of the Constitution of 1917. Total foreign investments reached a value of 3,900 million pesos in 1935. The importance of this figure is easily ascertained by the fact that in that same year the GNP of Mexico was barely 4,500 million pesos.[31]

In many ways, Cárdenas symbolized the climax of the Mexican Revolution. He adopted a policy of profound structural changes. From the beginning of his government, Cárdenas accelerated agrarian reform. By 1936, this policy was affecting properties that belonged to important American concerns, such as the Chihauhua Cattle Co. and the Cunningham Investment Co. Additional lands that belonged to U.S. companies were also taken over in Baja California and the Yaqui Valley of northwest Mexico. Under the administration of Franklin D. Roosevelt, the U.S. State Department recognized the right of Mexico to expropriate those lands, but asked the Mexican government to offer a just compensation. By 1938 Mexico had started paying these indemnities. This time the U.S. government was showing patience in something that affected the interests of its business corporations; there were no notes with threats or ultimatums, as had been the case before for much minor causes. In June, 1937, the Cárdenas government proceeded to expropriate the railroads. The Mexican State assumed the direct obligations of the railroads' debt, and reached an agreement with the International Committee of Bankers; the final settlement for the compensation would be reached under the following administration of Manuel Avila Camacho.[32]

But the issue that brought to a head all the past conflicts between the United States and Mexico was the expropriation of the petroleum industry in 1938. Since 1917 the various Mexican administrations had tried, unsuccessfully, to apply effectively Article 27 of the Mexican Constitution and to carry out the nationalization of the subsoil. In the end, foreign corporations, often backed by the U.S. government, had held their ground; for example, the Mexican government had not

been able to make foreign petroleum companies comply with Mexican tax laws.[33] By 1938, however, Lázaro Cárdenas had consolidated his political position firmly enough so that he felt confident to challenge the power of the foreign oil companies, natural targets of the resurgent revolution.

At the outset of the disputes, it was the question of labor relations that brought matters to a standstill. What the issue finally came down to was whether the foreign oil companies would conform to the conditions and restrictions of Article 123 of the Mexican Constitution, dealing with the rights of workers, and backed not only by Mexican labor unions, but by the Cárdenas' government. Article 123 granted Mexican workers guarantees such as the eight-hour day, equal pay for equal work, control of wages, and the abolition of child labor, and established the responsibility of employers in protecting the workers against occupational accidents and diseases. On the other hand, Article 123 guaranteed the right of the workers to organize and bargain for the defense of their common interests through unions, and to strike. Strikes were considered to be licit when their objective was to achieve the equilibrium among the various factors of production.[34]

In 1934, during his Presidential campaign, Cárdenas had asked the Mexican workers to organize themselves in order to pressure him to satisfy the needs of the people. In his annual Presidential message of 1935, Cárdenas criticized the oil legislation of 1925, because it did not comply with the fundamental principles of Article 27 of the Constitution. In that same message, Cárdenas pointed out that, while oil taxes in Mexico were just 1.82 pesos per barrel, in the United States

they amounted to 4.10 pesos per barrel. Shortly afterwards, Cárdenas consolidated the twenty-one Mexican oil unions into the National Petroleum Workers' Union. In 1936, the Mexican Confederation of Workers (CTM) was organized, which included the most important Mexican labor unions; the National Petroleum Workers' Union merged into the CTM. The CTM had in 1938 a total of 600,000 affiliated workers, of whom 15,000 worked for the foreign oil companies.[35]

Later in 1936, the Petroleum Union struck for the adoption of a new nationwide contract, based on the guarantees stipulated in Article 123 of the Constitution. All bargaining failed. After a six-month cooling-off period of discussions between union and company leaders, which ended with no results in sight, the union called for binding arbitration, reinforcing its demands with a strike in May, 1937. On August 3, 1937, the Board of Conciliation and Arbitration delivered a report in which it criticized the foreign oil companies for their responsibility in the decline of production and for reselling oil back to Mexico at a higher price. The Board found the workers' demands justifiable, and ordered an increase in wages of 27%, as well as social benefits and better working conditions.[36]

The foreign companies refused to comply, and appealed to the Mexican Supreme Court. Their appeal was denied on March 1, 1938, but they still refused to accept the ruling of the Board. The companies then tried delaying tactics, which only helped Cárdenas in rallying public opinion against them. The impasse in the oil industry took the form of an "economic conflict" which threatened Mexico's very viability; thus the matter passed into Federal channels. The companies now faced the

government, rather than the union. Bribery failed. As Cárdenas took steps towards expropriation, the stunned foreign corporations finally agreed to pay the additional benefits for the workers on March 16, but by then it was too late. On March 18, 1938, Cárdenas issued the decree of expropriation.[37]

The conjunction of internal and external conditions in the late 1930's made possible the expropriation. Internally, by 1938 Mexico had achieved a considerable degree of national unity, higher than ever before in its history. The central government under Cárdenas had managed, to a significant extent, to neutralize centrifugal forces deeply embedded in Mexico's social fabric. The revolution seemed to have come to fruition, through government actions such as the agrarian reform and the nationalization of the railroads. Under these circumstances, the protracted dealings between the foreign oil corporations and, in succession, the petroleum workers' union and then the Mexican government, served to incense and rally public opinion behind the nationalization.

Externally, Roosevelt's "Good Neighbor Policy" (and its impact in Mexico through the good offices of U.S. ambassador Josephus Daniels), and his affirmation of the policy of nonintervention, as well as the forebodings of the European conflict, made possible a healthy differentiation between the interests of the United States as a nation, and those of some of its private companies. President Roosevelt acknowledged the principle of international law that underlines the right of a sovereign nation to expropriate holdings with the objective of public utility, as long as an immediate and fair indemnity takes place. Thus, in spite of a strong worldwide campaign by the petroleum companies

against Mexico, finally these had to settle their differences through negotiations.

In the end, Mexico paid a sizeable indemnity. After long and difficult diplomatic negotiations, the two countries signed a pact on November 19, 1941, called the Mexican-American General Agreement, that settled in a global way all U.S. claims against Mexico, agrarian as well as those related to petroleum. On April 17, 1942, the Commission in charge of the negotiations ended its mission and presented a report on the value of the expropriated American holdings; these were estimated to be worth 23,995,991 dollars, of which Standard Oil was assigned 18,300,000 dollars. Mexico paid a third of the debt by July of that same year, and the rest in five equal yearly payments.[38] The indemnity to the British oil companies, which owned a greater share of the industry, was much more substantial.

The oil expropriation was the apex of nationalistic fervor during the Cárdenas' years. Afterwards, extenuated by the struggle with the foreign oil corporations, and their international campaign against Mexican exports, Cárdenas was not able, or willing, to proceed to nationalize the mining industry. For his successors, as we will see, it was a matter of attracting, not fending off, foreign investments.

Fluctuations of the Nationalized Oil Industry: 1938-1976

The nationalization of the oil industry did not start a series of expropriations by the Mexican government. The expropriation of the railroads had already taken place, and the cases in which the agrarian reform affected U.S. interests were solved peacefully through the

Mexican-American General Agreement. It could be argued that Cárdenas did not have a preconceived idea of nationalizing the oil industry. According to this point of view, events themselves would have precipitated the take-over in 1938. In any case, Cárdenas' administration pushed ahead with the reorganization of the industry, and on June 7, 1938, "Mexican Petroleum" (PEMEX) was created as a public institution. By August, 1940, Pemex had in effect centralized all the oil-related activities in Mexico.[39]

After the nationalization, Mexico's role as an oil exporter declined sharply, mainly as a result of the international boycott imposed by the expropriated oil companies, Standard Oil of New Jersey and Royal Dutch Shell. Whereas in February, 1938, Mexico had exported 2 million barrels of oil, this figure dropped dramatically to only 311,000 barrels by April of that same year.[40] Thus, after 1938, and until the mid-1970's, oil production was channeled almost entirely towards the domestic market. Indeed, the nationalization of the oil industry was a crucial factor in Mexico's impressive rate of economic growth beginning with the late 1940's. It also contributed significantly to stabilize the country politically, rallying substantial sectors of the population around a revived nationalistic mystique.

The overall objectives of the expropriation and nationalization of the oil industry could be placed in two categories: to provide sufficient energy for the general progress of Mexico; and to turn the oil industry into the key element for achieving Mexico's independent economic development.[41] It could be effectively argued that the first purpose was adequately accomplished. The oil industry radically changed its

structure: it shifted its orientation from the exports market to the satisfaction of Mexico's internal needs. Petroleum and natural gas became the overwhelming source of energy for Mexico's development.

However, there are indications that point to the fact that the second objective of the nationalization of the oil industry, for Mexico's state-owned oil company to become the key to the country's <u>independent</u> economic development, was never attained. To present this argument, the evolution of Mexico's oil industry since 1938 could be divided into three periods: the "golden epoch" of Pemex, which lasted until around 1952; a transition period from 1952 to 1958; and a third period characterized by the deterioration of the mystique of the petroleum industry, as it had been nurtured by the nationalization.[42]

The "golden epoch" (1938-1952) was a period of scarce financial resources and strong international pressures. In spite of these obstacles, the oil industry underwent a radical transformation. Through ingenuity and a rational distribution of the available resources, the industry kept operations normally after the nationalization; workers and administrators of Pemex were imbued with a sense of determination to operate the company successfully. Its structure was geared to the internal market, parallel to the gradual increment in production and the construction of new refineries and ducts. All this was made possible, in part, because of a prevailing mystique, defined in terms of a spirit of service to national goals, and in which group and personal interests were minimal.[43] During the administrations of Presidents Avila Camacho (1940-46) and Alemán (1946-52), the Mexican government invested considerable sums in Pemex.[44] Nevertheless, to enhance production and the

possibilities of financing and acquisition of capital equipment, from 1949 to 1951 Pemex signed five drilling contracts with private foreign oil companies. These drilling contracts included guarantees to the foreign companies for expenses and investments, as well as a percentage of the value of the oil production in the new wells. However, Pemex reserved for itself all rights over any newly discovered deposits.[45]

During the period from 1952 to 1958, Pemex increased its refining capacity by 50%. However, after the 1954 devaluation of the Mexican peso, the administration of President Ruíz Cortines followed a policy of restraint with respect to public investment, and as a result the rate of growth of Pemex diminished appreciably. Oil production increased by 28.7%, barely half the figure of 59.3% obtained during the previous six-year period. By 1958 public investment in Pemex had increased again, and in that year it represented 26% of the total public investment. However, another factor, the relative poorness of the new oil fields, kept increases in output at a low level. Although investments were geared to modernization of equipment and installation of new ducts, the increment in processed products could not keep up with demand, and substantial imports were necessary; meanwhile, exports increased only moderately. As a result of the general situation, Pemex's finances were seriously affected and, since overall government investments were not sufficient, it had to resort to internal and external credits to defray expenses.[46]

In November, 1958, a clause was added to Article 27 of the Mexican Constitution, precluding contracts in the terms that had been agreed to from 1949 to 1951 by Pemex and several foreign oil companies; with this

new regulation, by 1965 all foreign participation in Pemex came to an end. In any case, these drilling contracts had not significantly contributed to increased production or technological improvement in Pemex. Pemex paid the corresponding compensation to the foreign firms. The new petroleum regulatory law reaffirmed that all oil-related resources and activities belonged to the exclusive realm of action of the Mexican State.[47]

After 1958, Pemex seemed to lose momentum. Paradoxically, or perhaps correspondingly, once international pressures ceased and Mexican control over its petroleum resources was unquestionable, nationalistic motivations were significantly discarded, and instead of the goal of service to the nation, mercantilistic criteria prevailed. From 1959 to the mid-1970's, the level of administrative corruption seemed to be rising. Some of the conditions that characterized this period were: improper financing, including the maintenance of excessively low prices for derived products; lack of planning, which relegated the search for new reserves; a significant increase in the debt of the oil industry, brought about by credit-financing; interference by the political sphere in the management of the oil industry. All these factors made impossible the attainment of the second main objective of the nationalization of 1938: Mexico's independent economic development through its oil industry. And they also brought about the oil crisis of 1973 in Mexico.[48]

In 1973, oil reserves in Mexico were at an all-time low. There was a radical disequilibrium between reserves, on the one hand, and production and growth in consumption, on the other. The apparent lack

of a sustained and appropriate oil policy since 1959 meant that Mexico had to import increasing amounts of oil. Thus, even the first objective of the nationalization, to provide enough oil and natural gas for internal energy needs, was in danger of retrogression. If the situation had continued much longer, it would have spelled financial disaster for Mexico, for towards the end of 1973 international oil prices quadrupled. The discovery and exploitation of the new fields in the states of Tabasco and Chiapas ameliorated what could have been an economic crisis of major proportions, with its corresponding political implications.

By the mid 1970's, as stepped-up exploration and exploitation of the new oil fields in southeastern Mexico revealed an enormous potential, old expectations came to the fore again. The question, once more, dealt with a renewed opportunity for Pemex to become effectively the key to Mexico's independent economic development. It remained to be seen whether the new oil wealth might be just a much wider scenario for a repetition of past pitfalls.

NOTES TO CHAPTER II

1- See, for an example of this view, Ernest R. May, American Imperialism (New York: Atheneum, 1968).

2- The McLane-Ocampo Treaty was not ratified by the American Congress, because of the opposition of the northern antislavery faction.

3- Gastón Garcia Cantú, Las Invasiones Norteamericanas en Mexico (Mexico: Ediciones Era S.A., 1971), pp. 233 & 234.

4- Jose Luis Ceceña, Mexico en la orbita imperial (Mexico: Ediciones El Caballito, 1970), pp. 51-62.

5- Quoted in García Cantú, op. cit., p. 238.

6- Ibid., pp. 272-275.

7- Ceceña, op. cit., p. 104.

8- Ibid., pp. 114 & 115.

9- Lorenzo Meyer, Mexico y Estados Unidos en el conflicto petrolero Mexico: El Colegio de Mexico, 1968), p. 20.

10- José López Portillo y Weber, El Petróleo de Mexico (Mexico: Editorial Fondo de Cultura Economica, 1975), p. 10.

11- J. Richard Powell, The Mexican Petroleum Industry: 1938-1950 (Berkeley: University of California Press, 1956), p. 8.

12- El Petróleo (Mexico: Petróleos Mexicanos, XV Edicion, 1976), pp. 56 & 57.

13- Karl M. Schmitt, Mexico and the United States, 1821-1973: Conflict and Coexistence (New York: John Wiley and Sons, Inc., 1974), pp. 103-105.

14- Howard F. Cline, The United States and Mexico (New York: Atheneum, 1971), p. 230.

15- Meyer, op. cit., p. 14.

16- El Petróleo, op. cit., p. 66.

17- Enrique Krauze, Historia de la Revolución Mexicana, Volume 10, Período 1924-1928: La Reconstrucción Económica (Mexico: El Colegio de Mexico, 1977), p. 239.

18- Constitución Política de los Estados Unidos Mexicanos, Art. 27, (Mexico: Editorial Porrua, S.A., 48th Ed., 1971), pp. 18-21.

19- Ibid., pp. 21 & 22.

20- Powell, op. cit., p. 14.

21- Schmitt, op. cit., pp. 163 & 164.

22- Ibid., pp. 165 & 166.

23- Ibid., p. 167.

24- Joseph Edmund Sterrett, and Joseph Stancliffe Davis, The Fiscal and Economic Condition of Mexico. Report submitted to the International Committee of Bankers on Mexico, May, 1928, pp. 199 & 200.

25- Meyer, op. cit., p. 30.

26- Krauze, op. cit., pp. 239 & 240.

27- Meyer, op. cit., p. 25.

28- Merrill Rippy, Oil and the Mexican Revolution (Ball State University, 1972), p. 167.

29- Sterret and Davis, op. cit., pp. 200 & 201.

30- Ibid., pp. 205-207.

31- Cecena, op. cit., pp. 117 & 118.

32- Luis G. Zorrilla, Historia de las Relaciones entre Mexico y los Estados Unidos de America, Tom II (Mexico: Editorial Porrua, 1966), p. 459.

33- Ibid., p. 467.

34- Constitución Política de los Estados Unidos Mexicanos, Art. 123, op. cit., pp. 91-99.

35- Gonzalo Martínez Corbalá, "Lázaro Cárdenas y la Expropriación Petrolera," Conference given at the Workers' University on May 13, 1975, El Dia, Mexico, May 29, 1975, p. 15.

36- Cline, op. cit., p. 230.

37- Ibid., pp. 235 & 236.

38- Meyer, op. cit., pp. 258-262.

39- El Petróleo, op. cit., p. 74.

40- Powell, op. cit., pp. 97 & 98.

41- Antonio J. Bermúdez, La Política Petrolera Mexicana (Mexico: Editorial Joaquin Mortiz, 1976), p. 13.

42- Ibid., p. 35.

43- Ibid., pp. 36-43.

44- Raymond Vernon, The Dilemma of Mexico's Development (Cambridge: Harvard University Press, 1965), pp. 96 & 103.

45- Rescisión de los Contratos CIMA (Mexico: Petróleos Mexicanos, 1969), pp. 5-11.

46- Olga Pellicer de Brody, and Esteban L. Mancilla, Historia de la Revolución Mexicana, Volume 23, Período 1952-1960; El Entendimiento con los Estados Unidos y la gestación del desarrollo estabilizador (Mexico: El Colegio de Mexico, 1978), p. 242.

47- Rescisión de los Contratos CIMA, op. cit., pp. 12-67.

48- Bermúdez, op. cit., pp. 52-61.

CHAPTER III

MODERNIZATION AND DEPENDENCY IN MEXICO: 1940-1976

Tendencies in Mexico's Development

The nationalization of the oil industry has been a crucial factor in Mexico's impressive rate of economic growth since the 1940's. As the nationalized industry achieved viability, it became the basis of increased state intervention in the economy. However, this did not mean a prolonged halt to foreign investments; it just set the stage for its new manifestations: away from the extractive activities, and fully and increasingly into manufacturing. Paradoxically, oil would come to be the main source of energy for the expansion of a manufacturing sector controlled to a great extent by foreign capital.[1]

By the late 1940's, Mexico had adhered to the postwar U.S. policy of fostering economic growth, mainly through industrialization, as a primary means to achieve political stability and social progress. As it was the case in the United States and other Western countries, this model of development led to higher levels of concentration of wealth. In Mexico these discrepancies would turn out to be far more acute, since the less advanced economic base and fiscal mechanisms cause the "trickle down" of wealth to be a much slower and less socially satisfying process. Moreover, some of the main beneficiaries of Mexico's development policies were to be foreign multinational corporations.

The industrial sector gained the greatest advantages in Mexico's process of development, and a key role was played by foreign capital.

Starting in 1940, total foreign investments rose from the lowest levels of the twentieth century, 449 million dollars, to 2,822 million by 1970.[2] Foreign investments increasingly centered in the manufacturing sector, from 147 million dollars in 1950 to 2,082 million in 1970. In this latter year, the figure represented more than 70% of total foreign investments. In addition, more than 80% of the foreign capital invested in the manufacturing sector, the predominant share, was American. The emphasis on industrialization came to mean, by the early 1970's, a growing Mexican public and private foreign debt of more than 24 billion dollars; more than 50% of this impressive debt was contracted with totally or predominantly U.S. financial institutions.[3]

It would appear that the oil expropriation of 1938, on a middle and long-range terms, established the conditions for a displacement, and not an eradication, of the economic axis of dependency, from agriculture and raw materials to the industrial sector. At the same time, quantitatively, that dependency vis a vis the United States seems to have recrudesced. In other words, beginning in 1938 oil was the propelling force of Mexico's economy, to higher levels of specialization and complexity, albeit not along lines of self-sufficiency and economic autonomy.

What were the reasons behind the new wave of foreign investments? As one of the possible alternatives to develop a country economically, foreign investments constitute, apparently, a way "to have your cake and eat it, too." That is, foreign investments can result in significant contributions to economic growth, without precluding present consumption. Many governments are reluctant, for political as well as

economic reasons, to deal with the complex and difficult issues involved in reforming the fiscal structure (a measure that, to be effective, would imply progressive taxation), as a means of securing domestic funds for development. Thus, foreign investments are sometimes viewed as a panacea for the ills of underdevelopment. It could be argued that, especially since the 1950's, Mexico has been a clear example of the previous assessment. In spite of still ongoing, though mostly ineffective, attempts to shift the tax burden to the more prosperous sectors of the population, and to increase revenues, Mexico until the early 1980's has consistently relied on foreign investments and credits as a practically indispensable factor in its strategy for development.

The criticisms of this policy are obvious, such as the often voiced radical indictments that foreign investments have been responsible for the postponement of urgently needed, deep-seated changes in the social and political spheres. On the other hand, an economic counterargument would assert that, no matter how substantial domestic savings might have been, they would not have been sufficient by themselves to sustain the high indices of economic growth of the postwar era in Mexico. In effect, foreign investments have filled this gap. Furthermore, and mainly during the 1950's and 1960's, by concentrating on "hard" projects, foreign investments have resulted in a highly favorable "multiplying effect" for the Mexican economy. Other areas of reference, in any comparative assessment of the benefits and/or liabilities of foreign investments in Mexico, would be their effects on unemployment, on domestic savings, and on income distribution.

The study of foreign investments in Mexico seems to confirm the

tendency of Latin American countries to embark upon quick-development schemes that are but an extralogical imitation of the economic conditions prevalent in developed, industrialized nations. Since the recipient society, in this case Mexico, usually does not conform to the preordained formulas for development, the results are not too attractive, from a global perspective: high unemployment; rising foreign debt; and control of the industrial sector by foreign companies, which have a comparative economic advantage over domestic concerns.

In any case, during the late 1940's and early 1950's, Mexico was achieving significant economic goals (for example, sustained progress in key industries such as steel), mainly through national efforts, i.e. those of private domestic investors and of the government. However, as the 1950's wore on, international conditions ceased to favor Mexican exports, and the scarce buying power of the popular sectors of the population weakened the growth of basic consumer-oriented industries. As a result of these factors, private domestic investment declined. There was a reticence on the part of investors to expand the industrial plant at an adequate pace. Some observers detected, during the late 1950's and early 1960's, a loss of momentum in the Mexican economy.[4] The impasse was related to the everpresent political question in Mexico of the roles and domains of the private and public sectors of the economy. The possibility of stagnation, then as well as now, might threaten the fabric of Mexican society. Mexico's political leadership seemed to be faced with a choice of risks. As Raymond Vernon posed the issues,

> "Which risks will they prefer to accept: the risks associated with inadequate economic

> performance or the risks associated with change in the national decision-making machinery?"[5]

Mexico's leaders opted for the latter, albeit within the existing institutional framework. The Mexican government returned to a more orthodox economic approach, that is, a willingness to deal on an equal basis with Mexico's domestic private capital. Nevertheless, to a great extent, the crisis was resolved by the substantial entrance of foreign capital: starting during the mid-1950's, foreign investments mostly from multinational corporations made possible the significant growth of the industrial sector, on an average of more than 9% annually between the mid-1950's and the late 1960's.[6] For Mexico it was a Faustian bargain: during this new economic stage the most dynamic sectors of its economy fell under the control of foreign entrepreneurs.

However, it would be unfair to single out the multinational corporations as responsible for the alienation of the industrial sector of the Mexican economy. The entrance and growing power of foreign investments in Mexico were not just the result of a fortuitous and favorable economic juncture. On the contrary, the Mexicán government and, seemingly strange, the prevailing groups in the Mexican private sector, propitiated and encouraged the entry of large amounts of foreign capital. The reasons behind this attitude are not hard to discern. For the Mexican government, the economic crisis augured a social impasse; it could not afford to contract public expenditures, for the price in terms of political instability might have been too high. In other words, the ruling political circles needed a growing economy, as well as sources of external credit. As for the private sector, their

sympathy towards foreign investors derived from their mutual economic, political, and ideological ties. Of course, all these circumstances coincided with a period when U.S. corporations were looking for promising foreign outlets.[7]

The decision of Mexico's governing elites to industrialize the country no matter what the price was the key to the massive entrance of foreign capital. This conscious encouragement of the industrialization process by the Mexican government brought about painful implications, among them: the promotion of capital-intensive industry and technology, which have had a detrimental effect on the unemployment level; and a tremendous increase in the foreign debt.

A subtle and contrasting parallel could be traced between the attitude of the Mexican government towards the oil and the manufacturing industries. In the case of the petroleum industry, the negotiations were directly held between governments, which allowed the Mexican government to charter the course for the industry, ultimately a nationalistic one. In contrast, in the case of the manufacturing sector, foreign investors dealt directly with Mexican entrepreneurs, the latter concerned with private gains and profits, and the result was the alienation of that economic sector.[8]

Finally, another very important determining factor of Mexico's postwar magnet-like qualities in regard to foreign investments, was the so-called "clima de inversion," i.e. "investment climate." Since the late 1940's, Mexico had offered a combination of economic growth, an expanding domestic market, and a stable political system, which proved to be an irresistible target for the expansion of U.S.-based multi-

national corporations.[9]

Thus, the stage was set for the period of "desarrollo estabilizador," i.e. "stabilizing development," in effect, roughly from the late 1950's until 1970. According to Mexican critic Olga Pellicer, there were three basic objectives in the strategy of "stabilizing development." The first was to keep price stability, i.e. an equal level of investments and expenditures. This first goal was achieved basically through external financing. The second objective, closely related to the first, was to prevent a rise in prices of the goods and services produced by State-related enterprises. However, since the need for public investments was greater than the available funds, once again the Mexican government had to resort to credit-financing. Finally, the third objective was to promote capital accumulation and reinvestment of profits, through a series of fiscal incentives. This encouragement of the role of the private sector represented a weakening of the financial capacity of the government which, together with a drop in export taxes, again made inevitable an increase in the public debt. Thus, the objectives of the model of "stabilizing development" were all contingent upon the utilization of external credits.[10]

Within the general framework of the strategy of "stabilizing development," the recourse to external credit financing was a means to avoid other more extreme measures which, if implemented at the time, might have prevented a later reckoning during the 1970's. These dreaded remedies were related to the need for a devaluation and a deep-seated fiscal reform.[11] The willingness of the Mexican government to enter into new foreign debts was coupled at the time with the inordi-

nate availability of funds in various international sources of capital. In any case, Mexico's public foreign debt, which had stood at 1,327 million dollars during the early 1960's, reached the figure of 4,200 million in 1970. During this last year, 22.5% of the income of the Public Sector was destined to cover the debt service, basically interests. External credit-financing was nothing new, but now its utilization was increasing and deliberate.[12] Some of the additional characteristics of these credits were: a marked tendency towards "privatization;" an increasing reliance of private Mexican borrowers on the giant foreign banking enterprises; and a growing reliance of the Mexican Public Sector on U.S. banks.[13]

The development of the industrial sector was one of the key priorities in the schemes of Mexico's "stabilizing development." But foreign capital retained a dominant position in much of the expanded manufacturing activities. In this context, it could be argued that the protectionist measures put into effect by the Mexican government have often served to encourage the activities of foreign corporations, since these are already located in the most dynamic sectors of the economy, whose further growth the government wants to foster. The internal dynamism of the Mexican economy itself then contributes to enhance the role of the foreign corporations.

At the same time, protectionism and fiscal incentives accounted for a strengthening of the political position of native entrepreneurs. The renewed assertiveness of Mexico's private sector would play a key role later on, in the failure and demise of President Echeverria's model of "shared development." Finally, to complete the vicious circle, public

economic policy geared excessive funds as subsidies for urban substructure, accentuating tendencies towards centralization, whose momentum brought about larger increases in public spending.[14] Meanwhile, the agricultural sector was neglected.

Mexico followed one policy for industry, and just the opposite for the agricultural sector. Agriculture, which had previously been the mainstay of Mexico's process of development, suffered from decreasing public outlays: its share of total public investment dropped from 20% in 1950 to barely 8% by 1960. In this latter year, the agricultural sector registered a growth of 5%, which meant a participation of 15% in Mexico's total domestic product; by the second half of the 1960's, these figures had appreciably declined, to 1.2% and 11%, respectively. Moreover, a good portion of the growth in agricultural output took place in products not destined to the domestic consumption but to the exports market. In general terms, during the 1960's the situation of the agricultural sector deteriorated sharply, as it was totally subordinated to the objective of industrialization.[15] The neglect of the agricultural sector, with its detrimental effects on rural employment, and the failure of production to keep up with increasing demand due to population growth, would have severe consequences for Mexico by the late 1970's and early 1980's.

Indiscriminate industrialization brought about grave structural imbalances in Mexico, and it tended to polarize the social sectors along sharply contrasting levels of income and consumption. In fact, it could be argued that the overall model of "stabilizing development" actually undermined the capacity of the State as the promoter par excellence of

Mexico's development, and the acknowledged arbiter of social pressures. As the import of the State in gearing Mexico's development declined, dependency vis a vis the United States became more clear.

> "By the early 1960's, a new pattern for Mexico's foreign economic relations was clearly established, which implied a new form of dependency, sufficiently pronounced, but with distinct modalities to those present during the first years of the Mexican Revolution. This scheme is similar to that which governs the foreign relations of other Latin American countries...(but) in the case of Mexico, the proximity of the United States gives a special character to its foreign relations; because of geographical vicinity there are between both countries particular ties which have a very decisive influence in Mexico's internal life and contribute significantly to the complexity of its dependence vis a vis the United States."[16]

In appearance, the decade of the 1960's was one of uninterrupted growth for Mexico. This was reflected in the literature on Mexican development during those years.[17] In retrospect, the administrations of Presidents López Mateos (1958-1964), and Díaz Ordaz (1964-1970), especially the latter, favored relatively conservative economic policies that enhanced the role of the private sector and the maintenance of a high growth index. However, there were deep problems, such as: a high and rising level of unemployment, due to increases in productivity, rapid demographic growth, and urbanization; pressures for the distribution of land, related to the stagnation of the rural sector; a deterioration in income distribution; labor pressures for wage increases; a chronic and growing commercial deficit; and an insufficient basis of income for the Public Sector.[18]

In December, 1970, the new administration of President Luis

Echeverría marked the beginning of an attempt to break with the priorities of the model of "stabilizing development," and to address some of its shortcomings, with respect to categories such as employment, income distribution, and external financial dependency. The new strategy would be called "shared development."[19] The main objectives of Echeverría's economic policies were the following:[20]

- Economic growth with income distribution;
- Strengthening of public finances;
- Reorganization of international transactions;
- Modernization of the agricultural sector;
- Rationalization of industrial development.

In the socio-political sphere, the policies of Echeverría's administration attempted to face a dangerous legitimacy crisis, partly a result of the social costs implicit in the model of "stabilizing development" and, more specifically, of the domestic unrest which had culminated in the bloody confrontation between soldiers and students in Tlatelolco in 1968.[21] The process of political reform from 1970 to 1973 was meant to strengthen the institutional and legal opposition to the ruling party, "Partido Revolucionario Institucional" (PRI), and to allow new means of expression to the diverse ideological tendencies present in Mexico. These reforms were introduced through constitutional amendments and the promulgation of a new electoral law. Of course, it was evident that these measures also purported to channel and control social conflicts through legally recognized political parties.[22]

The objectives of the model of "shared development" made necessary a vigorous Public Sector, in order to recover the initiative that had

been partly lost to the private sector, and to give the economy a new orientation. This gave rise to a conflict between the government and the private sector, which became a permanent fixture of Echeverría's administration. President Echeverría adopted a policy that strongly favored a greater intervention of the State in Mexico's process of development, and changes in the patterns of distribution of income. On the other hand, the private sector opposed this emphasis on State participation; instead, it sought a continuation of the policies of the 1960's which, to a great extent, had placed the political and economic resources of the State at its service.[23]

President Echeverría's administration considered "stabilizing development" responsible for the relegation of the social aspects of development. Therefore, public investments would now be channeled towards the creation of new jobs, an increase in productivity and efficiency in basic industries, and the reinvigoration of the agricultural sector. And indeed, the Public Sector increased its participation in Mexico's domestic product, from 11% in 1970 to 17.2% in 1975 and, respectively, from 38% to 45% of the total gross domestic investments.[24]

However, in the end, the model of "shared development" did not bring about the expected results. The series of domestic measures undertaken by Echeverría showed the critical interrelationship of social, political, and economic factors. Echeverría's attempts to tilt the ideological orientation of the government to the left, and to side with the poorer sectors of the population, brought about a break with the private sector of the economy. As huge sums of capital left the country and investments collapsed, Echeverría resorted to foreign loans to

finance his government's social programs. The growing debt, increased public spending, and the diminishing production of basic articles of consumption such as foodstuffs, generated a strong upwards inflationary spiral. In the end, the sectors of the population worse-hit by inflation were those that Echeverría had originally meant to help. And this, finally, brought about renewed social unrest, manifest in the peasant land invasions of 1976,[25] and the general anxiety over the presidential succession that same year.

During Echeverría's government, the attempts at administrative reform failed. The expansion of public spending stimulated economic growth indices: 7.3% in 1972; 7.6% in 1973; 5.9% in 1974. However, there were no perceptible changes in the distribution of income. And, by 1976, inflation had reached a level of 16.5% annually. A new surge in imports cancelled out the increments in exports: the deficit in the balance of payments increased from 703 million dollars in 1971 to 3,643.4 million dollars in 1976. Tourism as a source of revenue was affected by Mexico's vote in the United Nations on the "Zionist" resolution, which caused a Jewish travel boycott to Mexico.[26]

During the period 1973-1976, Mexico's foreign debt grew by leaps and bounds. By 1976, the total external public debt had reached the figure of 15.845 billion dollars, which represented 32.8% of Mexico's GNP.[27] At the same time that private domestic investment contracted, foreign investment increased its participation in the Mexican economy: from 2.373 billion dollars in 1972 to close to 5 billion in 1975.[28] Obviously, foreign investors did not share the lack of confidence prevalent among Mexican private investors at the time. "Shared develop-

ment," if for different reasons, had fallen into the same trap as "stabilizing development:" an overwhelming reliance on foreign credits and investments. According to Clark W. Reynolds, it would seem that the years between 1971 and 1976 "...can be considered rather a period of 'destabilizing development' than of 'shared development.'"[29]

Petroleum, although a crucial element in the Mexican developmental equation, was only a part of the general scenario of economic imbalance that persisted throughout the first half of the 1970's. The normalization of the petroleum supply lessened what could have been radical political repercussions, but the economic crisis came anyhow, climaxing in 1976. On August 30 of that year, the Mexican peso was devalued. This marked the end of the transition period of "shared development." The devaluation seemed to settle the internal conflict in Mexico in favor of the development schemes of the private sector.

> "With the devaluation the last conditions were given for the reproduction of the accumulation process on the basis of industrial exports controlled by dependent capital."[30]

Apparently, except that petroleum would take the place of industrial exports. By the time Mexico's new President, José López Portillo, took over in December, 1976, the situation of the country was darkened by dreadful economic indicators, which included: a trade deficit of 3.2 billion dollars by February, 1977; inflation running at a rate of 30%; high levels of unemployment and subemployment; a high rate of demographic growth; uncontrolled urbanization; and a decline in tourism.[31] To generate the resources necessary to grapple with this multi-faceted crisis, and to restore confidence, the answer would be found in petroleum.

Presence and Impact of U.S.-based Multinational Corporations in Mexico

Multinational corporations could be broadly defined as "those economic enterprises -manufacturing, extractive, service and financial- that are headquarted in one country and that pursue business activities in one or more foreign countries."[32] This basic definition could be widened or restricted, in relation to the number of countries where a corporation operates, or to the amount of their investments. In order to better understand the role of multinational corporations in Mexico, it would be useful to mention some fundamental characteristics of their structure and behavior.

Global corporations are not only multinational, but multifunctional, that is, they are involved in the different stages of the productive process through vertical integration.[33] The distribution of different productive capabilities throughout various countries gives the corporation headquarters an edge in determining volume and prices. Multinational corporations share a conception of the world as one big integrated economic unit, in which they exert an increasing control through the technology of production, finance capital, and marketing.[34] The cosmopolitan vision of the multinationals constitutes, indeed, a challenge to nationalism. In a way, the upsurge of the global corporations has been based on the beliefs in "progress" and "growth," i.e. the "cult of bigness," and in the tendencies towards centralization.[35]

Beginning after World War II, the development of multinational enterprises and their presence in the fields of investment, international

commerce, and technology, have been steadily increasing. The sheer economic weight of multinational corporations is impressive. In 1970, it was estimated that the total value of all foreign investment was around 250 billion dollars, with a rate of expansion of between 10 and 20 percent yearly.[36] By the beginning of the 1970's U.S.-based multinational corporations made up 55.6% of the total; European firms, 37.5%; Japan, 2.6%; Canada, 3.9%; and Australia, 0.4%.[37] In 1970, the annual production by foreign enterprises in the world surpassed the volume of world exports; from another perspective, the volume of international production doubled that of exports by Western countries.[38]

There are opposing views with respect to the activities of multinational corporations. Those who favor them point out the increasing anachronism of the nation-state in an age of expanding and complex interdependence, when efficiency and rationality are key objectives to suit the needs of the world. Instead of the old-fashioned relative gains of particular states, multinational corporations would open the door for absolute gains for all.[39] The adherents of the "sovereignty-at-bay" theory "...regard the multinational corporation as the embodiment par excellence of the liberal ideal of an interdependent world economy."[40] The global corporations consider themselves as vehicles for peace and better understanding among nations, as a step beyond the narrow and confining allegiances of nationalism. In short, centralized and integrated production is the best way to run the world economy.

The opposing view is equally emphatic. Some theorists point out that in economic development there are two basic laws: the law of increasing firm size, and the law of uneven development. Parallel to

the concentration of economic wealth, there is a process of division of the world between regions of development, and regions of poverty. Thus, underdevelopment and development are but two elements of the same phenomenon: the inability to achieve balanced growth.[41] To the argument of efficiency proclaimed by the promoters of the international division of labor, critics reply that top management continues to be recruited from rich countries, while workers increasingly come from low-wage areas.[42] Furthermore, the activities of multinationals often result in clashes between the corporations themselves and/or their parent-states, and the host countries. Finally, all these considerations implicitly question the ultimate compatibility of the profit motif with appeals to the issues of morality and justice.

Other views on the subject emphasize that, even though the multinationals have an international or transnational character, their matrix and decision centers are located in the central metropolis, especially the United States. Multinationals would appear to be controlled by self-perpetuating elites that establish a symbiotic relationship with the national state where they originate, in a process that conditions and mutually reinforces the two actors.[43] Even though their pursuits and behavior may vary, both multinationals and the states where they are headquartered share the same basis of sustenance: economic growth. As such, their perception of the world is common more often than not.

The predominance of U.S. management in the big U.S.-based corporations would seem to substantiate the previous assessment. Richard J. Barnet and Ronald E. Muller avoid the use of the term "multinational," because "...it suggests a degree of internationalization of management,

to say nothing of stock ownership, which is not accurate." In their analysis of global corporations, it was found that of 1,851 top managers of leading U.S. companies with large foreign sales, only 1.6% were non-American. Besides, non-Americans have but an insignificant amount of the stock of these corporations.[44]

What would have been the causes of the apparent confluence of interests of U.S. foreign policy and U.S.-based multinationals? Some researchers have suggested that after World War II, U.S. foreign policy was a reflection of the objectives of U.S. domestic policy: economic growth and productivity, as a way of resolving political conflicts. The idea behind this emphasis on economic development was that if scarcity could be overcome, then political stability would follow. In this context, new wealth would make it unnecessary to radically redistribute economic benefits and power. As international tensions and ideological rifts arose during the late 1940's and 1950's, the attempt to ensure the primacy of economics over politics led into higher levels of concentration of economic power in multinational corporations as engines of growth. In Germany and Japan, as mainstays against communism, but mainly in the United States, large corporations eventually managed to ascend to the fore of the production process, weakening the concern over monopolistic power.[45] However, the economic solution for political disequilibriums would seem to work only under conditions of shared prosperity. Present-day tensions over U.S. foreign policy and the role of the multinationals arise from the fact that

> "Hegemony remains successful, however, only when it achieves advances for the whole international structure within which it is

> exercised. Hegemony imposed in a zero-sum cockpit, that is, at the expense of the secondary members of the system, must finally prove less durable."46

To a considerable degree, the phenomenon of the growth of the multinationals since World War II has been related to the dynamism of the U.S. economy. Between 1950 and 1968, U.S. private investments in foreign countries increased from 19 billion dollars to more than 101 billion.[47] The most important 187 U.S. corporations increased the number of their foreign subsidiaries from 250 at the end of World War I to more than 5,500 subsidiaries under their control in 1967.[48] Even though the relative importance of U.S.-based corporations with respect to total world direct foreign investment tended to diminish somewhat during the 1970's, with the increasing participation of countries such as Japan and West Germany, U.S. capital remained predominant among the leading multinationals. By the 1970's it was estimated that close to 75% of world commerce and industrial production was under the control of 300 multinational corporations, based mainly, although not exclusively, in the United States.[49]

The presence and impact of U.S.-based multinationals in Mexico must be understood in light of these worldwide tendencies. Because of its proximity to the United States, its political stability, and its growing domestic market, Mexico has been a much-favored target for the expansion of the multinational corporations. The increasing relevance of the role of U.S.-based multinationals in Mexico coincides with the worldwide enlargement of these corporations; geographical, economic, and political reasons explain the degree of the phenomenon in Mexico.

Mexico is among the top five recipients of foreign investments. By 1970, multinational corporations were responsible for 23% of the total gross domestic product in manufacturing, a considerable increase from the 18% they produced in 1962. Whereas in 1962 multinational corporations had been responsible for 20% of all Mexican sales, in 1972 they accounted for 28% of the total.[50] Foreign investments are concentrated in the largest firms and in certain key industries. For example, in 1972, 50% of the largest 300 Mexican industrial firms, and 61% of the overall largest firms, were controlled by foreign interests. The predominance of foreign capital is a fact in the most technologically advanced and capital-intensive industries in Mexico, including: in non-electrical machinery, 95%; in transportation, 79%; and in chemicals, 68%.[51] Also, foreign investments find a favorite field for expansion in the highly concentrated industries; in these, multinational corporations accounted for 71% of all manufacturing sales.[52]

In 1970, there were in Mexico 1,915 foreign-owned companies. Of these, 242 were subsidiaries of 170 U.S.-based multinational corporations that have an undisputed importance in their home country, in terms of their volumes of production and sales, and technological development. These 242 subsidiaries represented more than a third of the total foreign investment in Mexico, and more than a third of the total sales income; they were predominantly involved in manufacturing activities.[53] Fully 166 of the 242 subsidiaries (or, 68.6%) were totally owned by some of the 170 aforesaid multinationals. In 41 subsidiaries (17%), the multinationals had a controlling share. Only in 14.4% of the 242 subsidiaries was there a participation of less than 50% by the multi-

nationals.[54]

In 1970, out of the total value of direct foreign investments in Mexico, 80% came from U.S.-based corporations. In mining, U.S. investments represented 91% of the total, and in commerce, 77% of the total. But the clearest case of predominance of U.S. firms was in the manufacturing activities: 90% of the activities of the U.S.-based multinational corporations were concentrated in industry and manufacturing.[55] From the perspective of a Mexican observer:

> "In conclusion, almost all foreign investment in Mexico is Northamerican, and is located, fundamentally, in the activities that are cause and effect of a more dynamic development: manufacturing and commerce."[56]

In general terms, foreign-owned firms in Mexico are highly integrated with their corresponding global corporations. Local subsidiaries are owned directly by the parent corporation, rely on the corporation for financing, and do most of their trading with it.[57] In 1976, foreign-owned corporations brought into Mexico 330 million dollars in new investments; during that same year, they took out of the country 781 million dollars in profits. Thus, the negative balance for Mexico on this account was -451 million dollars. The negative balance, i.e. profits sent out of Mexico in excess of new investments, reached between 1971 and 1976 a total of -1,900 million dollars.[58] This negative balance for Mexico, the difference between new investments entering the national economy, and profits from their operations that are sent to the headquarters of the multinationals, would seem to indicate that it is Mexico which is financing the development of the United States, and not the opposite.

It has been documented that multinationals tend to displace native entrepreneurs, and make use of native capital, whenever that course of action is possible, rather than to contribute new capital. In Mexico, between 1965 and 1971, there was an increase of 74,542 million dollars in the total active capital of foreign multinationals; of this sum, 62.6% was financed with national resources.[59] By 1967, of the 412 subsidiaries which belonged to the 162 U.S.-based multinational corporations operating in Mexico, only 143 subsidiaries had been established as new companies; 112 subsidiaries were set up as acquisitions of already-existing firms, and 109 as a result of branching out of already-established subsidiaries.[60]

In regard to external credits to finance Mexico's development, U.S.-banking institutions have also been predominant. In 1976, the total public and private external debt of Mexico amounted to 24 billion dollars. Of this figure, 15,830,000 million were contracted with private foreign firms, and 11,540,000 million of this sum (72.9%) were credits from U.S. private banking institutions. In 1976, the <u>public</u> external debt of Mexico, 15,845,000 million dollars, amounted to 32.8% of the country's GNP.[61]

According to the market orientation of U.S.-based corporations operating in Mexico, a general classification would show two main areas of investments: the first, and by far most important, is constituted by direct investments geared to produce for the Mexican market; the second comprises the industrial plants established in Mexico within a short distance of the U.S. border, geared to sales in the U.S. market.

The Mexican government, by the beginning of the 1970's, offered tax

concessions to foreign companies interested in setting up industrial plants within 20 kilometers of the U.S. border, as long as all finished products were exported to the United States. By 1972, there were 333 of these plants operating along the border zone, employing 40,000 Mexican workers, and producing electronic, textile, and other kinds of products with a value of 500 million dollars annually.[62]

By mid-1974 the number of companies had increased to more than 500, which employed more than 70,000 Mexican workers. In effect, these were an exception to the predominantly capital-intensive activities of U.S. corporations in Mexico. However, by 1975 the program began to slow down, for a couple of important reasons. On the one hand, the Mexican government had doubled the minimum wage level towards the end of 1974. On the other hand, and most important, under the U.S. Act of Commerce of 1974, all cotton articles finished in Mexico and exported to the United States would now be included in the American export quotas for Mexican cotton; fully 25% of the border plants were producing textiles. These facts, coupled by the U.S. recession of 1974-75, had brought about by mid-1975 a reduction in the number of plants down to 430 and in the number of Mexican workers, down to 60,000.[63]

The picture that emerges out of the presence and impact of the U.S.-based multinational corporations in Mexico is a complex and often contradicting one. On the one hand, the beneficial effects of foreign investments are considerable. They include a steady infusion of capital and techniques, the promotion of modernization and industrialization, a more efficient utilization of resources, employment creation, and a rise in productivity. Perhaps the most visible and tangible

effect of foreign investments is their contribution to fiscal revenues, thus helping to cover the "gaps" between domestic savings and public investments; that is, the taxation of foreign capital helps to eliminate budgetary deficits. Foreign corporations are important tax contributors: their participation in the federal budget until recently has been around 20% of the total. These taxes represent almost a fourth of the aggregate value of their production, and their fiscal burden is higher than the average in Mexico. These facts are the result of their high rate of profits and the strict supervision of their activities by Mexican fiscal authorities. Also, their usually large size makes them keep a more careful accountability than small and medium-sized Mexican firms. Finally, some foreign corporations prefer not to enjoy the fiscal exemptions allowed to mixed enterprises, as long as they keep absolute control of the firms.[64]

On the other hand, the detrimental effects for Mexico's development of the activities of foreign corporations are also numerous. As it has been stated, an overwhelming proportion of foreign investments comes from the United States, a fact which underlines the dependence of Mexico on its northern neighbor. Furthermore, foreign corporations prefer to have total control of their firms in Mexico, their rate of profit is considerably high, they take advantage primarily of the Mexican domestic market, and do not constitute a significant source of exports. In spite of their fiscal contributions, it is assumed that tax evasion takes place at substantial levels, through "transfer-pricing" and other means. Foreign investments are concentrated in the industrial sector, and make use mainly of capital-intensive techniques, thus rendering its

effect on employment creation to a much lower level than might be expected from the value of their investments. The technological dependence of Mexico on foreign patents continues to increase. Finally, the activities of foreign corporations take place primarily in or around the metropolitan area of Mexico City and a few other major urban centers, contributing to regional imbalances.[65]

In conclusion, the following could be said to be some of the main characteristics of foreign corporations in Mexico:

-Preponderance of U.S.-based multinationals and U.S. banking institutions.

-Substantial control by these multinationals of some of the most dynamic sectors of the Mexican economy.

-Subordination of operations in Mexico to external decision centers and foreign management.

-Displacement of native entrepreneurs.

-Decapitalization of the Mexican economy.

The previous analysis of foreign investments in Mexico leads into the political arena. The economic and technological benefits implicit in direct foreign investments must be contrasted with the possible loss or reduction of national economic self-reliance. From this perspective, the issue of the positive and negative effects of foreign investments goes beyond the economic dimension to a scenario where economic operations, albeit important, are subordinated to a conjunction of political factors. These factors are related both to Mexican domestic politics, and to the maneuvering capacity of the Mexican government in the international milieu.

The political implications of the effect of U.S. economic influence in Mexico must be viewed within the context of historical, political, economic, geopolitical, and strategic evidence. In short, the political impact of foreign investments in Mexico is directly related to the concept of "national interest," as a basis for analysis. But the "national interest" of Mexico must be weighed against the notion of the "national security" of the United States. The perception of national security on the part of different agencies of the U.S. government, and the subsequent actions to enforce that perception, have often led to conflict in the relations between the United States and Mexico. As a general rule, the national security of the United States has determined the need for a continuous reinforcement of U.S. hegemony in the Caribbean and Central American area, which comprises the so-called vital geographic perimeter for the defense of the United States, and of which, of course, Mexico is an indispensable component. That need has often clashed with Mexico's "national interest," because of what the Mexican government may or may not do. And, as a matter of fact, all political outcomes in Mexico, are evaluated in Washington, primarily in strategic terms.[66]

National interest manifests itself in an acceptable degree of sovereignty. Sovereignty means internal supremacy and external independence; that is to say, a sovereign state must have complete legal and factual authority over all the subjects (individuals and groups) which compose it, and must be legally and factually independent from control by another state. It is the degree of relativity of Mexico's sovereignty vis a vis the United States that especially concerns us here.

The notion of sovereignty provides a useful parameter to assess the impact of U.S. business in Mexico. Through their massive investments, U.S.-based corporations control to a considerable extent some of the most dynamic areas of Mexico's economy, i.e. manufacturing and commerce, as well as the most strategic factor of development, i.e. technology. It would follow that U.S. economic influence potentially removes a large and vital part of the Mexican economy from national political control. It could be argued that in many cases, economic decisions have responded to the needs of U.S. corporations rather than to the needs of Mexico. Therefore, the vulnerability of the Mexican government to actions taken by U.S. business corporations or by Washington is increased significantly. The most important result of this situation is the limitation to the scope and reach of political action by the Mexican government and, thus, to Mexico's national sovereignty.[67]

Attempts to Regulate Foreign Investments

The real debate among Mexico's governing elites since the 1950's has not been whether or not to promote the entrance of new foreign investments. In this respect, up to now the issue is quite well decided in favor of foreign investments. Rather, the critical point has been how to have both foreign capital and domestic control. Parallel to the impressive growth of investments by multinational corporations in Mexico since the 1950's, two developments have underlined the continuous concern of the Mexican government about the activities of the multinationals.

-The renewal of the process of nationalization of areas of the

economy vital for national viability. In 1960, the State acquired the last two foreign electrical companies through the State-owned Federal Commission of Electricity, an action which gave it the monopoly of electric energy. By the mid-1960's, all foreign mining companies were forced to sell 51% of their constitutive capital to Mexican investors.[68]

-As the model of "stabilizing development" gave way to the model of "shared development" during the early 1970's, foreign investments were seen by the Mexican government as unresponsive to the needs of integral development. Consequently, Echeverria's administration proceeded to attempt to control more effectively the multinational corporations.

The Mexican government decided to face what it saw as a challenge from the multinational corporations in a variety of ways: increasing the pressures for "Mexicanization" to new areas of the manufacturing sector; forcing the foreign-controlled industries to increase the use of domestically-produced parts; tying concessions of import permits to the levels of exports by the soliciting corporations; new coordinated regulations to control the volume and activities of foreign investments.[69]

There have been laws controlling foreign investments in Mexico since 1944. However, because of the absence of a general law applicable to all foreign investments, each presidential administration would take a different approach. Also, the laws as they stood provided for exceptions by administrative decree. By 1973, the need for comprehensive legislation to control foreign investments had become apparent. In March of that year the "Law to Promote Mexican Investments and

Regulate Foreign Investment" was enacted, and it went into effect two months afterwards. Among the fundamental points of the new legislation were: in no case would foreign investments be greater than 49% of the total in any given enterprise; this same limit would apply to local management of the companies; the creation of a "National Commission of Foreign Investment," with the power to change established percentages, and tending to greater national participation when it would deem it necessary.[70]

While this law was being enacted in the Mexican Congress, an incident occurred which helps to illustrate the persistence of disagreement between the official American and Mexican views in regards to foreign investments. The U.S. ambassador in Mexico at the time, Robert H. McBride, in a speech given before the U.S.-Mexican Managerial Committee in October, 1972, strongly criticized the imminent change by the Mexican government of the "rules of the game" with respect to foreign investments, praising their beneficial effects on Mexican development. In response to McBride, and expressing the dissatisfaction of the Mexican government with his speech, the Mexican Secretary of Commerce, José Campillo Sains, declared that, indeed, the rules of the game were being changed, "to adjust them to the needs and aspirations of our day."[71] Significantly, ambassador McBride was recalled and dismissed from his post within that same year.

Another legal means of control of foreign investments is the "Law on the Registry of Technological Transfers and the Use and Exploitation of Patents and Brands," which went into effect in January, 1973. This law established the "National Registry of Technological Transfers,"

whose main objectives are to avoid the importation of technology already available in Mexico, and to regulate the payments that can be made by the multinationals for concept of royalties and technical assistance, which should not exceed 3% of net sales.[72]

In the context of these attempts to regulate the activities of the multinational corporations, two related facts should be mentioned: Mexico is one of the few Latin American countries that have refused to sign with the United States an agreement of guarantee to investments; and Mexico does not receive direct aid from the United States. Another interesting related action took place during the mid-1970's, in regards to the Mexican-sponsored United Nations "Chart of Economic Rights and Duties of the States." To this day, the United States has not signed this international agreement, one of the few industrial powers still not to do so. Thus, while the United States lacks certain legal and economic means to pressure Mexico to be favorably disposed towards U.S. policies regarding foreign investments, it, too, has avoided entering into agreements that might hinder a U.S. response to actions against foreign investments by other countries.

These Mexican laws that regulate foreign investments and technological transfers are by no means flawless. It is doubtful whether the Mexican government has the administrative capacity to carry on the regulatory supervision of foreign enterprises. On the other hand, various devices to circumvent the laws are still extensively used in Mexico, such as the subterfuge known as the "name lenders," which involves the registry of shares of ownership under the name of a Mexican citizen,

concealing the real owner or beneficiary. These facts add up to a situation where

> "The preponderance and control of foreign investments in the Mexican economy will continue to grow to the same extent that the system does not come to grips with the correction of these deficiencies, and to the same extent of its failure in doing so.73

NOTES TO CHAPTER III

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CHAPTER IV

MEXICO'S ENERGY POLICY

Measure of the Petroleum Bonanza

Although most of the recent petroleum finds in Mexico have centered in the southeastern region of the country, there are other areas of substantial hydrocarbon accumulations. The main oil and gas producing areas are the following: the Northeastern Fields, located in the Piedras Negras-Monclova Province, which extends through the states of Coahuila and Nuevo Leon; the Tampico-Nautla area, which includes the Chicontepec Basin along the northern part of the state of Veracruz; the Reforma Fields in the southeastern states of Chiapas and Tabasco; and the Continental Shelf off the state of Campeche.[1] There are also other areas throughout Mexico that have been reported as promising sources for new petroleum provinces. In regards to medium-term objectives, exploratory work is under way in the states of Baja California and Chihuahua, as well as in the Continental Shelf of the Gulf of California and at sea off the state of Sinaloa. Longer-term objectives include exploration in the states of Michoacan, Guerrero, Nayarit, Oaxaca, and Jalisco. Additionally, preliminary exploration work suggests the existence of hydrocarbons in various places along the Central Plateau, Sonora, and the Chiapas mountain range.[2]

The Northeastern Fields are mainly producers of natural gas, although there are a few oil wells near the city of Reynosa. By 1978, close to 15% of Mexico's estimated natural gas reserves, which amounted

to six trillion cubic feet of gas, were located in the Sabinas Basin, along the central part of the state of Coahuila and the northwest section of the state of Nuevo Leon.[3] The Sabinas fields, which extend over an area of 50,000 km^2, appear to be some of the most important in the Western Hemisphere, and superior to all the other natural gas deposits in Mexico put together.[4]

The Tampico-Nautla area, site of much of Mexico's oil boom of the early 1920's, includes the old fields near Tuxpan and Poza Rica. Present efforts in this area concentrate on the Chicontepec Basin, which covers an area of more than 3,000 km^2. These are generally shallower deposits, found at an average depth of only 1,200 meters, and with a low yield of between 50 and 100 barrels daily (b/d). By comparison, the overall average production level of Mexican wells at present, including of course the rich Southeastern area, is 500 b/d.[5]

According to Pemex, the Chicontepec Basin holds more than 100 billion barrels of oil, of which close to 18 billion are susceptible to exploitation. However, this would require the drilling of more than 16,000 wells. By comparison, from 1938 to March, 1979, the total number of wells drilled in Mexico came to 15,895. Notwithstanding, Pemex insists on the profitable exploitation of Chicontepec which, throughout the first thirteen years of development, should yield 2,600 million barrels of oil. As a start, by March, 1979, there were 433 wells in production in the area.[6] Initially, the news about Chicontepec were received with awe in the United States,[7] which has subsequently turned somewhat to skepticism regarding the technical feasibility of fully developing the area.[8]

Mexico's present oil bonanza centers in the southeastern states of Tabasco and Chiapas, and in the Continental Shelf off the state of Campeche. An analysis of production figures for 1979 attests to this fact. Pemex divided its oil production figures for that year in relation to three geographical zones, northern, central, and southern, which correspond roughly to the Northeastern Fields, the Tampico-Nautla area, and the Reforma and Campeche Fields of the southeast, respectively. In 1979, out of a total production of 590.6 million barrels, that is, a daily average of 1.618 million barrels, the northern zone produced 27,812,635 barrels (5%), the central zone 53,403,515 barrels (9%), and the southern zone 509,354,215 barrels (86%).[9] By 1980, the Reforma area was contributing 48.9% of the total production, and the fields in the Continental Platform off Campeche accounted for 35.4%. For 1982 the relative importance of the fields in the Continental Platform is expected to increase to 63% of the total, while the Reforma area diminishes its share to 26%.[10] In any case, by mid-1981 it was possible to conclude that both oil provinces were part of the same geological formation.[11]

The Reforma Fields in the states of Tabasco and Chiapas have undergone a rapid development since 1972, when the first discoveries took place. By 1975, five oil fields were being exploited in the area, which represented 310,000 b/d, at the time nearly half of the total national production. The average yield per well was over 4,200 b/d, in contrast with the then national average of 110 b/d per well.[12] By April, 1976, there were 80 wells in the Reforma area, which produced 442,000 b/d, that is, an average of 5,524 b/d per well. The combined

production for both oil and associated gas was 950,000 b/d, which underlines the fact that natural gas accounts for a high proposition of the total output in the Southeast. By 1976, the fact that wellhead pressures had remained basically unchanged through more than two years of sustained production, confirmed the richness of the Reforma Fields.[13]

By 1978, the picture that seemed to emerge from Pemex's data on the Reforma oil region, was that of a huge deposit of approximately, 7,000 km^2. The geological structures in Reforma are extremely rich, and most drillings in the area have turned out to be commercially profitable. The first discovery of a "supergiant" petroleum deposit during the 1970's took place in Reforma: the "Antonio J. Bermudez" field, with 6,500 million barrels susceptible to exploitation, and an average production of 8,000 b/d per well, as of 1978. Other "giant" fields in the area, with more than 1,500 million barrels susceptible to exploitation, include the "Cactus," "Sitio Grande," and "Iris-Giraldas" fields. By mid-1981 the Reforma area was producing more than one million b/d.[14] It has been estimated by Pemex that, when fully developed, the Reforma area could produce at least 3.5 million b/d.The total reserves of Reforma should amount to over 25 billion barrels.[15]

Closely related to the mainland finds, the most spectacular and recent discoveries have taken place in the Continental Platform off the state of Campeche. By mid-1978, Pemex had announced the existence of a "sea" of oil offshore, comparable in size to the deposits of Tabasco and Chiapas. In order to explore further, and commence the exploitation of the area, Pemex rented several oil rigs and contracted the services of U.S. engineers and geologists. The first drillings

resulted in an encouraging rate of success.[16] By August, 1979, Pemex had accelerated development of the Gulf of Campeche deposits at the rate of one drilling platform every two weeks.[17]

By March, 1981, Pemex had explored some 50,000 km^2 in the Continental Shelf, with detailed work being done in 8,000 km^2. Actual development of oil deposits was taking place within an area of 700 km^2, at a depth of between 1,250 to 3,600 meters. There was a 64% rate of successful drillings. With a production of 1,308,000 barrels per day, the Gulf of Campeche is at present the most important oil province in the world. The "Akal" field is the world's first in capacity of production, with an output of 42,000 b/d per well.[18]

Many other areas in Mexico are susceptible of holding deposits of petroleum and natural gas. Mexico's territorial extension is 1,967,183 km^2; including the Continental Platform, the total increases to approximately 2.5 million km^2. According to Pemex officials, 72% of this total area, i.e. 1.8 million km^2, corresponds to sedimentary basins, of which only 10% have been explored and exploited with relative intensity. The remainder, i.e. 1.6 million km^2, is likely to contain hydrocarbon deposits.[19]

In order to better understand the measure of Mexico's petroleum reserves, the basic scale of reference should be mentioned here. There are three categories used to estimate the magnitude of reserves: proven, probable, and potential. These terms express the degree of certainty of the deposits. Proven reserves are those whose location, size, and susceptibility to exploitation have been determined beyond any reasonable doubt. Probable reserves imply the likelihood of the

existence of deposits. Potential reserves pertain to still preliminary estimates, reached according to the characteristics of geological strata usually associated with hydrocarbon deposits.

Since the early 1960's until the mid-1970's, estimates of Mexico's proven hydrocarbon reserves remained stable, at 5 to 6 billion barrels of crude oil and natural gas. Production steadily increased, albeit not rapidly enough to compensate for growing domestic demand, and by 1972 Mexico's annual petroleum output of close to 194 million barrels had reached the previous 1921 all-time high. By late 1976, the incorporation of the fields in southeastern Mexico had raised the level of production considerably, as well as the estimates of proven, probable, and potential reserves. On February 11, 1977, for the first time in its history, Pemex produced more than a million b/d. By then, the new fields in the southeast already represented 60% of the entire output.[20]

During 1977, a year in which Pemex expanded its exploration to cover twenty-five states across Mexico, petroleum deposits were being discovered at a rate of one each twenty days. By December of that year, Pemex estimated its reserves, which always include natural gas as well as crude oil, to amount to 16 billion barrels in proven reserves, 31 billion probable, and 120 billion potential.[21] In his second annual report, President Lopez Portillo in 1978 officially announced estimates of 20 billion barrels in proven reserves, 37 billion probable, and 200 billion potential.[22] By August, 1978, stepped-up explorations in the Bay of Campeche were beginning to raise speculations that Mexico's hydrocarbon wealth could place it eventually alongside Saudi Arabia as a producer.[23] Early 1979 estimates expressed that Mexico conservatively

expected its offshore reserves and production to equal that of the entire North Sea by the mid-1980's, and that it had only begun to exploit its Gulf of Mexico potential.[24]

On the basis of these substantial increments in reserves, the production of hydrocarbons doubled in just four years. From 1977 to 1980, total output increased from 545.6 to 1,032.4 million barrels, i.e. an average of 23.7% per year. In 1976, the average daily production was 0.9 million barrels of crude oil and 2,115 million cubic feet of gas; by early 1980, these figures had increased to 2.1 million barrels of crude oil and 3,672 million cubic feet of gas. In spite of the growth in production, the ratio reserves/production improved from 19 years in 1976 to 57 years in 1979.[25]

The program of production drawn up by Pemex in 1976 had stated the goal of 2.25 million barrels daily for 1982. By July, 1980, two and a half years ahead of schedule, this objective had been surpassed, with 2.276 million b/d. At that time, Mexico became the first producer of hydrocarbons in Latin America, ahead of Venezuela, and the fifth in the world, behind the Soviet Union, Saudi Arabia, the United States, and Irak.[26] In his fourth annual report of September, 1980, President Lopez Portillo announced significant increases in estimates of reserves: 60.126 billion barrels in proven reserves, 38.042 billion probable, and 250 billion potential.[27]

Thus, in terms of both reserves and production, the growth of the Mexican petroleum industry has been spectacular. On March 18, 1981, the Director of Pemex was able to announce that available reserves had increased almost eleven times since 1976, to 67.830 billion barrels in

proven reserves, 45 billion probable, and 250 billion potential.[28] At the time, the ratio reserves/production was up to 60 years.[29]

There are two reservations that, to a certain degree, might qualify reserves estimates as well as production goals. In its figures for reserves, Pemex includes natural gas as well as petroleum. Since the ratio is usually estimated at 35:65 respectively, petroleum by itself would correspond to only two-thirds of total reserves. Additionally, partly as a result of the quick pace of development, in some cases drilling data have not been forthcoming parallel to announcements of increases in reserves. This point could raise some questions in regards to reserve claims. However, in the light of achievements in both exploration and subsequent exploitation since the mid-1970's, these factors by no means appear to add up to a straitjacket for the Mexican petroleum industry.

In his fifth annual report of September, 1981, President Lopez Portillo announced that total production of hydrocarbons through 1981 had reached an average of 2.350 million b/d, an increase of 17.5% relative to the same period in the previous year. Whereas in 1976 Mexico occupied the fifteenth place in the world with regard to production, at present it is the fourth largest oil producer in the world, only after the Soviet Union, Saudi Arabia, and the United States. Likewise, Mexico's reserves are also the fourth largest in the world, on the order of 72 billion barrels in proven reserves, 58.650 billion probable, and 250 billion potential.[30] By late 1981 it was a widely acknowledged fact that Mexico had, indeed, sizable petroleum and natural gas deposits, whose progressive exploitation was bound to have a lasting impact in

its domestic affairs, as well as in its role in the international scenario.

Energy Policy

Administration. Until recently, the Mexican government had not considered the need for a comprehensive energy policy. Since the nationalization of the petroleum industry, each energy field had been managed individually by state enterprises. These state organizations could be classified in two groups: those involved in the production process; and the institutions in charge of research and development. The most important in the first group are: Mexican Petroleum (Pemex), created in 1938; the Federal Electricity Commission, set up also in 1938; and Mexican Uranium (Uramex), established in 1979. The research institutions that operate in accordance with these organizations are: the Mexican Petroleum Institute, established in 1965; the Electricity Research Institute, created in 1937; and the National Nuclear Research Institute which, together with the National Atomic Energy Commission, were established in 1979.[31]

Pemex is the most important Mexican company, second in Latin America, and thirty-eighth in the world, with sales for 7.290 billion dollars by December, 1980.[32] This figure would be substantially higher but for the fact that domestic price levels are far below those prevalent in the international market. To December, 1979, Pemex employed 103,271 workers in its various areas of activity. Whereas in 1976 production was 14.9 b/d per employee, by 1980 this figure had risen to 26.1 b/d. This represented a 75% increase in productivity. By 1980,

crude production was three times that of 1976, while personnel had only increased at an average of 5.06% annually. From another angle, operating expenses, which in 1976 accounted for 54% of total sales income, represented only 31% of the total in 1980. Of course, it could be argued that the extraordinary wealth of the new wells, rather than specific increases in productivity per worker, has been the key to these improvements. Indeed, the number of barrels of proven reserves for each Pemex worker increased from 72,000 in 1976 to 560,000 by 1980.[33]

According to U.S. sources, "Pemex can easily be compared to a major American oil company." Pemex itself takes care of most of its own work: exploration, drilling, production, refining, basic petrochemicals, transportation and commercialization, technological development, and construction. For operations such as offshore drilling and coring analysis, sometimes it contracts the services of commercial specialized firms, just as major American companies occasionally do.[34]

The Mexican Petroleum Institute includes five divisions: engineering, petrochemical and refining, training, exports, and exploration. The Institute is Pemex's primary consulting firm and architect/engineering contractor. It appears to be an internationally competitive technical firm, holding more than 100 international patents. The Institute is "an active, burgeoning petroleum technology firm" which, in addition, provides Pemex with onsite technical supervision at its major construction projects. Thus, the Institute not only develops, but also implements and applies Pemex's technical base. This role as a fundamental technological support includes training programs for most of Pemex's personnel.[35]

Planning. The Secretariat of National Patrimony and Industrial Development (Secretaria de Patrimonioy Fomento Industrial) is in charge of defining and implementing national energy policy. Its jurisdiction includes the Energetics Commission, established in 1973 and termed by its officials as a "modest equivalent" to the U.S. Department of Energy; its role is rather diminished by the fact that it does not set any energy policy.[36] However, the Energetics Commission formulates guidelines about the administration and rational use of energy sources. In other words, the Commission is a state instrument for developing strategies to meet energy demands, according to available resources and the country's socioeconomic needs.[37]

With the creation of the Energetics Commission in 1973, the idea of a comprehensive approach to energy policy began to take hold of Mexican government officials. At first, the main themes referred to self-sufficiency, an extension of energy supplies to the population, a diversification of energy sources, planning mechanisms, financial stability, and the promotion of research and technology. There were obvious internal and external factors that blocked these measures, including: a lack of coordination among the various organizations in charge of the national supply of energy; a discontinuity in the development plans of the sector, due to the administration changes every sexenio (six-year presidential terms); after 1976, external pressures regarding oil exports; domestic subsidies to the industrial sector; and a lack of reliable data concerning reserves. However, the fact that national

development is contingent, to a significant degree, on energy strategies, reaffirmed the vital need for a comprehensive policy. It was a double-edged proposition. Energy policy must be geared towards production, mainly industrial growth, according to the basic tenets of Mexico's postwar process of development; and the industrial sector should cover, increasingly, the needs for capital goods in Pemex and the Federal Electricity Commission.

There were two basic domestic considerations in the promotion of a comprehensive energy policy: the fact that Mexico's development and growing energy demands have relied predominantly on petroleum and natural gas; and the state policy of maintaining a low domestic price for these resources, in order to promote economic and industrial activities. Conversely, an energy plan would have to address the question of diminishing the overwhelming reliance on a single non-renewable resources, i.e. oil and natural gas, and of revising internal price policies.

By 1977, the main guidelines for a comprehensive energy policy during Lopez Portillo's <u>sexenio</u> (1977-1982) already seemed clear: a) petroleum should not become an end in itself in the process of development; b) petroleum resources must be industrialized; c) for geographical as well as economic reasons, the United States would continue to be Mexico's most important oil client; d) petroleum resources must be given optimum utilization; e) hydrocarbons would constitute the axis of the energy policy; f) the process of development must make use of coal; g) nuclear energy should be used once reactors were available, but it would not be the base of Mexico's development; h) solar and geothermic energy must be incorporated to development, even before

nuclear energy; i) hydraulic energy should also play a role.[38]

By the late 1970's, it appeared that the Mexican government was following a course of accelerated extraction of its petroleum resources, with the objective of achieving a sizable level of exports. In the past, Mexico had maintained a rather cautious energy policy, geared to production for the domestic market, and conservation of its oil resources. Now the new and sharply distinct goals revolved around three incentives for development: to achieve self-sufficiency for Mexico in refined products and basic petrochemicals; to increase the participation of finished products in contrast with primary products in the exports market; and to achieve a liberalization in the prices of petroleum products. This amounted to a recognition of the need to end with superfluous subsidies and excessive protectionism.[39] However, these objectives would be qualified, increasingly, by crude oil exports, a tendency which in principle at least, would seem to undermine their intended effectiveness.

In recent times, the Mexican government has shown an affinity with planning, as a means to bring cohesiveness and a common purpose to the process of development. According with this trend, on April 15, 1980, President López Portillo promulgated the "Global Plan for Development, 1980-1982," as a stage towards the creation of a "National System of Planning." The Secretariat of the Budget and Planning (Secretaria de Programacion y Presupuesto) is in charge of the implementation of the Global Plan, whose basic objectives are:[40]

1- "To reaffirm and strengthen Mexico's economic, political and cultural independence as a democratic, just and free nation;

2- To provide the population with employment and a minimum of welfare, giving priority to the needs with respect to food, education, health, and housing;

3- To promote a high, sustained, and efficient economic growth; and

4- To improve the distribution of income among the people, factors of production, and geographical regions."

Energy policy is a crucial element of the Global Plan for Development. In his presentation of the Plan, the Secretary of the Budget and Planning, Miguel de la Madrid Hurtado, emphasized that "oil is intimately tied to the viability of the planning strategy." However, "It is not a matter of implementing an oil growth policy, but a policy of development that makes use of oil." From this perspective, the exploitation and export of oil would seem to be conditioned by the purposes of the overall development strategy, and by the real absorption capacity by the Mexican society, of oil resources and income.[41] Indeed, this question encompasses the critical dilemma that grows out of Mexido's petroleum wealth: will Mexico's government and society be able to foster, shape, and channel development in a positive way for the nation as a whole, or will oil distort development in an uncontrolled, and possibly unsatisfying, fashion. In other words, oil income is likely to further the third basic objective of the Global Plan, i.e. economic growth; but its impact on the achievement of the other three objectives, i.e. Mexico's economic and political independence, social progress, and distribution of income, still remains a dubious proposition.

Energy policy, introduced in Chapter XI of the Global Plan, constitutes a basic support for the objectives of the general strategy of

development. Chapter XI enumerates the specific goals to be reached in this field: to uphold the sole ownership by the nation of all hydrocarbon resources in Mexico's territory, as well as in the 200-mile "exclusive economic zone" in the Gulf of Mexico and the Pacific Ocean; to generate sufficient electric energy for the country's needs; to diversify and take advantage of alternate energy sources; to promote the manufacture of capital goods for the oil industry; to diversify Mexico's foreign trade; to protect the environment; and to propose to the international community the adoption of a "World Energy Plan," in order to give an integral approach to the solution of the energy crisis.[42] In the Global Plan, a maximum level is set for production of petroleum, defined as 2.5 million barrels of crude oil daily, with a margin of flexibility of 10%, to guarantee domestic supply and exports. This means that, according to the Plan, the level of 2.7 million barrels of crude oil daily would be the maximum expected production up until 1982.[43]

The Global Plan for Development gave an additional boost to the promulgation of an Energy Program. During September and October, 1980, the Mexican Congress was busy analyzing the basic points of such a program.[44] Finally, on November 18, 1980, the Secretary of National Patrimony and Industrial Development, Jose Andrés de Oteyza, set in motion the National Energy Program. Among other points, he emphasized the fact that not more than 50% of Mexican oil would be exported to any single country, the need for appropriate technology, and the urgency of rationalization in the use of oil. Specifically with respect to the 50% limit on exports, Oteyza declared: "Of the one million and a half oil

barrels Mexico will export, the United States will receive 730,000 or 750,000 barrels of crude daily."[45]

The Energy Program sets goals to 1990, and projections to the year 2000. It places energy in the overall context of development, and delineates its role. In other words, the main objective of the Energy Program is to support national economic development, which implies:

> "...in the first place, to expand the production of hydrocarbons according to the needs of a balanced economic growth. Secondly, to obtain the resources derived from oil exploitation, in order to assign them to activities of the highest priority."[46]

Specifically, the objectives of the Energy Program are as follows:[47]

1- "To satisfy the national needs for primary and secondary energy;

2- To rationalize the production and use of energy;

3- To diversify the sources of primary energy, paying particular attention to renewable resources;

4- To integrate the energy sector to the development of the rest of the economy;

5- To know with greater precision the energy resources in the country; and

6- To strengthen the scientific and technical infrastructure capable of developing Mexico's potential in this field and of benefiting from new techniques."

The Energy Program stresses the fact that so far Mexico has used its energy resources in an inefficient way. This is underlined by the high intensity in energy consumption per unit of GDP, an index comparable, and even superior to those in highly industrialized countries. In

other words, Mexico appears to have an energy-intensive economy. Thus, there is a need to modify consumption patterns and increase efficiency. In this context, the diversification of energy sources is the only way to diminish dependency on hydrocarbons.[48]

The Energy Program establishes three levels of priorities:[49]

1- Energy and industrialization;

2- Energy and regional development; and

3- Energy and the external sector.

In regards to energy and industrialization, the Program underlines the possibilities in refining, petrochemicals, and energy-intensive industries. The links with regional development are related to the need for spatial planning of urban and industrial growth, for a strengthening and extension of infrastructure and services in the places where the oil industry has a greater impact, and for a protection of the environment. The relation between energy and the external sector basically deals with the limits of the economy to absorb income from oil exports, and the role of these exports in the diversification of Mexico's foreign trade.[50]

There would seem to be a rather clear contradiction between the promotion of energy-intensive industries, and the already-established high-intensity levels in energy consumption in Mexico. It could be argued that the solution lies in more efficient operations, but the mode through which this increased efficiency can be achieved is still undetermined. On the other hand, even though apparently sufficient consideration is given to the regional impact, the Program goes on to emphasize immediately afterwards that it is mainly at the national level

where gains from the expansion of the energy sector will have an effect. Here, again, the seeming inevitability of centralization would seem to override the preoccupation with regional imbalances. Finally, the capacity of the economy to absorb income from oil exports is not clearly defined.

However, the Energy Program does set a limit to petroleum exports, at a level of 1.5 million barrels daily, and of natural gas, at a level of 300 million cubic feet daily. Furthermore, to avoid an excessive dependency on a single product, it is underlined that hydrocarbons are expected not to account for more than 50% of current foreign income. Not more than 50% of Mexican oil exports should go to a single country. Parallel to this, Mexican oil exports should not account for more than 20% of the hydrocarbon imports of any country, with the exception of the Central American and Caribbean countries, whose needs up to 50% could be supplied by Mexico.[51]

The Energy Program emphasizes Mexico's unique international position, due to the magnitude of its petroleum and gas reserves, and to the comparatively low costs involved in their exploitation. Given the export projections of the Program, and the expected increases in domestic demand, it is estimated that the production of crude oil and gas liquids will be around 3.5 million b/d by 1985, and around 4.1 million b/d by 1990. The production of natural gas will increase, respectively, to 4,300 million and 6,900 million cubic feet daily. A margin of 10% in additional production capacity should give the energy sector added flexibility. The rate of exploitation of actual proven reserves, as established by the Program, would guarantee by 1990 a ratio reserves/

production of at least 23:1 for petroleum, and of at least 19:1 for natural gas, which are deemed to be adequate margins of security, to be enhanced as exploration proceeds.[52] Independently of the exploitation policy that is followed, the Energy Program concludes that, because of technical reasons, which include safeguards against premature exhaustion of the fields, the maximum level of production of oil and gas in Mexico will not exceed during any period the equivalent of between 8 to 10 million b/d of crude oil.[53]

On February 5, 1981, the National Energy Program was published in Mexico's Official Diary, approved and signed by President López Portillo and nine Secretaries, and thus it became a law. This, in effect, seemed to reassert the goal of the Mexican government in regards to the rationalization of the activities of the energy sector.[54]

Infrastructure. According to the Global Plan for Development, "the industrialization of hydrocarbons is the fundamental part of energy infrastructure."[55] The priority given to infrastructure works is revealed by some of Pemex's development objectives over a six-year period (1977-1982). As stated in 1978, these included: in refining, to double capacity to 1.7 million b/d; to accelerate the construction of gas processing plants, and of the gas pipeline system in Mexico, as well as of oil and gas distribution and transportation equipment in general, such as additional pipelines and tankers; in petrochemicals, to triple capacity to 18.6 million tons by 1982.[56]

Mexico's energy policy has given priority to the multiple uses and

transformations of crude hydrocarbons into processed products. During the first three years of the López Portillo government, from 1977 to 1979, there was a significant increase in infrastructure geared to that end. In the area of industrial plants, there were the following works: 28 refining industrial plants, 18 plants for hydrocarbon treatment, 24 petrochemical industrial plants, and 50 auxiliary service installations. During these three years, the area of transportation, storage, and distribution expanded in the following way: 128 gas, oil, and petrochemical ducts, 18 storage tanks, 17 storage and distribution plants, and 11 port works. With respect to offshore structures in the Gulf of Campeche, again from 1977 to 1979, these included: 10 drilling platforms, one linkage platform, four platforms for temporary production, the setting of a 36" diameter oilduct 165 kilometers long, and 65 kilometers long, and 65 kilometers of recollection lines.[57]

Domestic demand for refined products derived from petroleum has pushed Pemex to sustain annual rates of increment of 9.3% on the average. By December, 1979, refining of crude oil and liquids had reached the level of 1.1 million b/d, an increase of 42% from the December, 1976, level. For the first time in its history, Pemex surpassed the level of one million barrels of crude oil refined daily. The capacity of crude processing was raised by 31% from December, 1976, to December, 1979; during this same period, processing of gas liquids increased by 78%.[58] This was made possible by the incorporation to production of the new refineries of Cadereyta, with an ultimate capacity of 235,000 b/d, and Salina Cruz, with an ultimate capacity of 170,000 b/d. These refineries, together with the expansion in the capacity of older ones, have

allowed Mexico to become self-sufficient in processed products.[59]

Towards the end of 1980, Mexico had reached the eleventh place as a country in the refining of crude oil and gas liquids, by increasing the processing capacity of its ten refineries to 1,476,000 b/d, i.e. an average annual growth rate of 13% since 1977. As a refining company, Pemex now occupies the fifth place in the world, surpassed only by four multinational corporations. Expansion is under way in the refineries at Tula, Hidalgo, Salina Cruz, and Ciudad Madero, and there are projects for new refineries.[60] The expected expansion of refining capacity during the 1980's will make it necessary to build five plants equivalent in size to the refinery at Minatitlán, the largest in the country.[61] The increases in refining capacity underline the fortunate coincidence for Mexico of huge deposits of petroleum and gas, a rapidly expanding domestic consumption, and a respectable level of industrial capacity.

In the primary petrochemical industry, during 1979 the production in Pemex's 70 plants reached a volume of 6.34 million metric tons of 37 different products, such as ammonia, ethylene, polythylene, methanol and ethanol. This represented an increment of 60% with respect to the 1976 level of production. In spite of this increase, the supply of several important products still remained under the level of demand.[62] This situation was being addressed since mid-1978, with the construction of 76 additional petrochemical plants, which would help Pemex reach its goal of tripling production to 18 million metric tons per year.[63] According to the rate of construction, by late 1981 Mexico was expected to be self-sufficient, and even an incipient exporter, in most of the basic petrochemical products.[64]

In 1980, the production of basic petrochemicals was 7.22 million tons, an increment of 83% over the 1976 level. The Cosoleacaque petrochemical complex is at present the biggest ammonia-producing center in the world, which guarantees Mexico sufficient nitrogen to meet domestic demand for fertilizer, as well as a substantial surplus for exports.[65] On April 29, 1981, the huge petrochemical complex at La Cangrejera started operations. The 20 plants located in this complex represent an initial incorporation of 3.5 million tons per year to total petrochemical production, and will make possible the fulfillment of the expansion objectives.[66]

One of the most important additions to Pemex's infrastructure has been the Central Duct of the National Gas System, from Cactus to Monterrey. Originally initiated with the main purpose of selling natural gas to the United States, at present it plays a crucial role in meeting Mexico's domestic energy needs. The result of the rupture in the negotiations for the sale of gas to the United States in 1978 was a process of conversion of Mexican industry to gas. By March, 1978, the Secretary of National Patrimony and Industrial Development, Jose Andre's de Oteyza, stated the intention of supplying all the industrial zones in the country with natural gas, and adding an extension to the gasduct from Cactus to Reynosa-Monterrey all the way to Chihuahua and Ciudad Juarez in the northwest. Gas was to become the key to an ambitious project of industrial decentralization that would help to rationally distribute economic growth through the establishment of development poles.[67]

On March 18, 1979, President López Portillo inaugurated the Central

Duct. Its construction time was 17 months, the total length of the main line is 1,247 kilometers, and the cost was over 16,000 million pesos. This was the most ambitious distribution project ever undertaken by Pemex, and investments ran at the rate of almost 1,000 million pesos per month. The line includes 1,102 km of 48" diameter duct, and 145 km of 42" diameter duct.[68]

Towards the end of 1979, work was under way in 82 additional ducts, in order to interconnect the Central Duct with various locations in the country, such as the poliduct Cadereyta-Monterrey-Torreón-Jiménez, and also in other regions such as the poliducts Rosarito-Mexicali and Topolobambo-Culiacán in the northwest.[69] In October, 1980, the Secretariat of Health and Welfare signed an agreement with Pemex through which the latter is to supply natural gas to the central valley (where Mexico City is located), by means of a direct gasduct from Cactus, Chiapas. The main objective of this project would be to reduce the level of environmental pollution in the capital through the use of cleaner energy sources such as gas.[70] By November, 1980, the Director of Pemex announced that the national duct network for the distribution of hydrocarbons and gas would ultimately extend 35,100 km, of which 15,800 km were already in service. At the time, a new gasduct was underway between Salamanca and León, Guanajuato, alongside which there will be an industrial corridor through the central part of the country.[71] Early in 1981, construction of a line was started in order to supply gas to the steel works at Lázaro Cárdenas-Las Truchas, on the Pacific Coast. Likewise, an additional 48-inch gas line was being laid to double the volumes available in the central valley.[72]

During 1980, for the first time, natural gas consumption exceeded that of gasoline, fuel oil and coal, and its importance is expected to be still greater in the coming years. In all, in that year 2,940 million cubic feet of natural gas were processed, 97% more than in 1976. In this operation, Mexico occupies the fifth place in the world.[73]

The advances in infrastructure were dramatically underscored by the Director of Pemex in his annual report of March 18, 1981:

> "During the period 1977-1980 we have installed an average of one high-capacity compressor every six days; we have laid 5,200 meters of pipelines per day; we have completed and put into operation one industrial plant every 14 days; we have installed one offshore platform every 19 days; we have built a storage tank every three days."74

In spite of Pemex's impressive record of achievements, especially since 1977, a number of drawbacks still persist. By September, 1980, out of a total production of 3,300 million cubic feet of natural gas per day, 300 million were being burned in the atmosphere.[75] However, most flaring has been confined to offshore wells in the Bay of Campeche. With the construction of gas delivery systems to the shore, specifically a 336 km gasduct to Ciudad Pemex and a 165 km gasduct to Merida, it is expected that Pemex will be able to use up to 97% of the total production.[76] By March, 1981, the Director of Pemex acknowledgedthat in total 550 million cubic feet of gas were still being flared at sea, but that the installation of compression platforms as well as the additional gas pipelines, would soon eliminate the waste.[77]

There are indications that Mexico's industrial sector is not keeping up with the capital goods needs of Pemex. In 1978, a year in which the petroleum industry grew by 65%, Pemex had to import 50% of the

machinery it needed. By 1979, Pemex was forced to buy up to 75% of its capital goods in foreign markets.[78] In October, 1980, the Mexican Petroleum Institute estimated that Pemex would spend a total of 33 billion pesos in foreign equipment during 1980. This figure represented 30% of the total imports by Mexico's Public Sector.[79] The previous facts imply a significant erosion of Pemex's financial basis. Two additional limiting factors to Pemex's expansion are its reduced tanker fleet and the lack of adequate port facilities.[80]

Pemex is pushing ahead to cope with these obstacles. In March, 1979, it was announced that a plant for the production of machinery and capital equipment would be built in the northern part of the country, with French technology and financial support, which would eventually supply the needs of Pemex and the Federal Electricity Commission. Additionally, by mid-1981, Pemex owned 223 drilling rigs, thus becoming one of the main drilling firms.[81] But in general terms, the scientific-technological panorama in Pemex, as well as in Mexico as a whole, is rather somber. There is an urgent need to foster basic research and research for development, in order to proceed from the stage of a user to that of a producer of appropriate technologies.[82] Nonetheless, in what would appear to be excessively optimistic projections, by October, 1980, Pemex announced that by the end of 1981 it would be using in its operations 90% of national technology, and thus only 10% of imported technology.[83]

Action is being undertaken which shows a preoccupation with the need to develop human resources. As part of the National Program for Science and Technology, 1978-1982, 2,924 scholarships are being granted

through the Mexican Petroleum Institute, for training in the fields of petroleum and petrochemicals, as well as technical training in nuclear and solar energy. The Mexican Petroleum Institute itself grew in size from 1966 to 1977, from 316 employees to almost 3,000, 75% of whom were involved in research and development projects. On the other hand, there have been increases in the budget of the Institute in the order of a 20% level.[84]

With respect to tankers and port facilities, Pemex is also trying to build up its capacity. Pemex's tanker fleet is expected to increase its deadweight tonnage, from 650,000 tons in 1977, to close to one million tons in 1982. On the other hand, some shipyards are being rehabilitated. Still, Mexican ports can only service ships in the order of 25,000-30,000 tons of dead weight, which excludes supertankers. This constitutes an obstacle to Pemex's objective of exports diversification. A temporary solution has been found in the Bay of Campeche, through the use of a mooring buoy installed at Cayo Areas, with a captive tank tied to it, capable of storing one million barrels. Crude oil is pumped from the captive boat to the tanker ships that carry the loads for export.[85]

At present, under the project "Ships, Pipelines and Ports," a new pattern of transportation is taking shape, based on sea and river routes, as well as the optional use of pipeline systems, instead of the traditional land roads. By the end of 1980, 793,000 tons of freight had been transferred from land to sea and river transportation. These measures are aimed at complying with the proposed goal of relieving congestion in overland routes. Whereas formerly 78% of Pemex freight

was transported by railroad and highway, and only 22% by water, by 1980 land movements had decreased to 59% while sea transportation had increased to 41%.[86]

Finances. A key component of Mexico's energy policy is the financial factor. The schemes for advancing rapidly and in unison in the various stages of the petroleum production cycle obey a financial imperative. For example, the development policies for the petrochemical and refining phases are expected to eliminate imports of chemical products, which in 1976 still amounted to 700 million dollars, and of fertilizers, which in that same year totalled 350 million.[87]

Several fortunate circumstances would seem to contribute to a bright financial outlook for Pemex. Even though the Reforma Fields are relatively deep and the decline in the natural pressure of the wells demands maintenance works, plus the additional expenses involved in exploiting the offshore deposits in the Gulf of Campeche, the total production costs for the average barrel of Mexican oil are considerably lower than the costs in other areas such as the North Sea fields. Extraction costs for Mexican oil, which vary markedly, are not expected to exceed an average of $2.50 per barrel, and might be as low as $1.60. However, they are substantially higher than Saudi Arabia's $0.35 to $0.50 per barrel.[88]

Pemex's development program, introduced in 1977, included a budget of 926 billion pesos for the entire period 1977-1982. Investments were expected to reach a total of 390 billion pesos. The magnitude of

these figures is easily perceived when compared to those of the previous sexenio, during which budget and investment totals amounted to 240,300 and 119,800 million, respectively.[89] Since 1977, moreover, expenditure levels and investments have surpassed the original estimates by a considerable margin. Just in 1979, Pemex received financial resources that totalled 259,026 million pesos, an increment of 57% over the 1978 level. Pemex's own income from its operations came to 184,372 million pesos, 71% of the total and 275% higher than in 1976. Credit financing represented 74,654 million, or 29% of the total. Of Pemex's own income in 1979, 72,749 million corresponded to domestic sales, and 100,766 million to exports of crude oil, refined products, and petrochemicals. Expenses amounted in 1979 to 258,884 million.[90]

During 1980, Pemex's total income amounted to 362 billion pesos, a figure more than seven times higher than that of 1976. Current disbursements came to 140,600 million pesos, more than five times those of 1976. Thus, current savings totalled 221 billion pesos, i.e. 12 times as much as the 1976 figure. The destiny of these savings helps explain Pemex's financial situation, as well as its impact in the Mexican economy. In 1976, 38% of internal savings were assigned to the payment of taxes, i.e. revenues for the Public Sector. By contrast, in 1980 this proportion had increased to 73% of internal savings. In 1980 Pemex paid 162 billion pesos in taxes, or 20 times more than the 1976 level. For 1981, taxes are estimated to increase to over 300 billion pesos. On the other hand, the amount corresponding to investments during 1980 was 121,800 million pesos, or five times more than the figure for 1976.[91]

As of December 31, 1980, total liabilities of Pemex amounted to 369 billion pesos, of which 193,400 million corresponded to foreign debt on a short and long term basis. That is, the debt increased five times from 1976 to 1980. Pemex officials argue that the increment in the debt does not have a detrimental impact on the financial stability of the company, when compared with the substantial and growing value of the vast and ever expanding petroleum reserves. In other words, the growth in reserves has brought about the possibility of widening Pemex's credit capacity. And Pemex has increased its foreign debt as a function of its investment programs, and as a result of its supportive role as a major source of revenues for Mexico's Public Sector.[92]

On the other hand, Pemex is a major recipient of government expenditures. Mexico's national budget for 1981 allocated 418 billion pesos for the sectors given priority in the Global Plan for development. Among these, 36%, or 150,480 million pesos, were destined to Pemex's investments. As a whole, Pemex received 35.6% of the total budget for organizations and companies within the Public Sector, i.e. 376,818 million pesos. This is 10% higher than the 1980 figure.[93] And there is the precedent of "additional" allocations: during his fourth annual report, in September, 1980, President Lopez Portillo announced an increase in that year's budget by 206 billion pesos, most of which went to Pemex to "balance costs and operations related to the new oil production level."[94] Thus, it is likely that, given the industry's momentum, expenses in 1981 will have exceeded estimates once again.

Alternate energy sources. There are three important variables that determine energy demand: population growth, economic development, and modes of utilization of energy sources. Energy consumption in Mexico has also been influenced by government price policies. By keeping prices low, on occasion even below production costs, the government has tried to promote development. However, this artificial price structure has also led to an irrational pattern of consumption. This is one of the reasons that explain the fact that many Mexican public companies operate at a loss and, subsequently, increase the public debt. In addition, there is the question of whether in recent times petroleum resources have been exploited irrationally, i.e. at an excessively rapid pace.[95] This general situation has hindered the incorporation of alternate energy sources other than petroleum.

By 1978, the general rate of growth in energy consumption in Mexico was 7.5% annually, and 7.7% for petroleum consumption. Between 1976 and 1979, per capita energy consumption expanded at a rate of 5% per year.[96] In the world context, Mexico has a relatively high level of energy consumption, and one of the highest among developing nations. The consumption of primary energy per unit of GDP in 1978, expressed in thermic equivalent of crude oil, was of 0.8 in Mexico. This figure can be compared with 1.1 for the United States, 0.9 for Great Britain, 0.9 for Venezuela, and 0.6 for West Germany, during that same year.[97]

The indices of growth of energy consumption, and of the GNP, have traditionally been intimately tied in post World War II Mexico.

According to official sources, by 1979 the most important energy users were the following sectors: industry, 25%; transportation, 24%; energy, 34%; domestic consumption, 6%; and other uses, 11%.[98] A more detailed, and somewhat different chart of energy users would show the following percentages: industry, 26.38%; transportation, 29.84%; residential, 8.09%; agriculture, 0.69; other uses, 1.00%; nonenergy uses, 3.39%; Pemex's own needs, 14.01%; and the electricity sector, 16.61%.[99] In any case, it is clear that the industrial sector is a dynamic energy user. The growth in energy use in the field of transportation is a result, to a considerable degree, of the rapid increase in the number of motor vehicles, of 10.2% annually. The precarious level of energy use by agriculture is a reflection of the travails of this sector in recent years. And the rate of growth in the domestic sector, well above the rate of population increase, denotes an increment in per capita consumption, although not necessarily a more equitable spread among the various groups of the population.

Petroleum and natural gas are by far the predominant sources of energy in Mexico. In 1980, the production of primary energy came from the following sources: petroleum, 64.40%; natural gas, 23.15%; coal, 5.25%; hydroelectric works, 6.94%; and geothermal, 0.26%.[100] Thus, out of its total energy consumption, Mexico depends in a level of 87.55% on hydrocarbon energy. The Global Plan for Development, in its section on energy, proposes a strategy that would consistently widen the government's knowledge about Mexico's energy resources, as a basis for diversifying actual sources. It seeks to promote a greater use of hydraulic, geothermal, solar, and coal sources, among others. This strategy

acknowledges the effect that domestic price structures have had on the exploitation of new sources, and the need to use energy more efficiently.[101] In his annual report of September, 1981, President López Portillo emphasized that the electricity sector, in which demand grows at a rate of 11% annually, will be forced to double its electric energy generating capacity of 17.1 MW every seven years. Thus, efforts will have to be undertaken in order to diversify its energy sources; specifically, geothermal, coal, and nuclear power, will progressively become substitutes for hydrocarbons, which have other more productive uses.[102]

Mexico has sizeable sources of energy, other than petroleum and natural gas, such as:

Coal. Reserves, which were 172 million tons in 1976, had increased to 1,500 million tons by 1980.[103] Traditionally, coal production in Mexico has been associated with the steel industry. However, at present the Federal Electricity Commission is trying to foster the development of other sources for electricity, such as coal. Some Mexican sources foresee that by the end of the century coal might supply 12% of the country's electricity needs. As a start, the first great thermoelectric plant based on coal, "Rio Escondido," Coahuila, is near completion. This plant will have a capacity of 1,200 MW.[104]

Hydraulic energy. At present, this is the source of almost 7% of the overall energy generated in Mexico, and of close to 28% of electric energy.[105] Even though Mexico is not relatively well-endowed with great river systems close to its main population centers, the government is pushing ahead with dam projects in the southern section of the country, in order to supply an increasing share of the national demand for

electricity. The great works at Chicoacen, Chiapas, constitute the most recent example of this policy. In November, 1980, President López Portillo inaugurated the Chicoacen Hydroelectric Plant, which required an investment of 21 billion pesos, and is expected to generate 8% of Mexico's total electricity demand, i.e. 5,500 MW per hour.[106]

Nuclear energy. This is another possibility that is being given growing attention by the Mexican government. During 1983 and 1984, the nuclear reactors at Laguna Verde are expected to begin operations, with a capacity of 1,308 MW. Together with another nuclear unit to be built during the 1980's, by 1990 Mexico is expected to have a nuclear-electric generating capacity of 2,500 MW. In this context, the objective of the Energy Program is to build additional nuclear units throughout the 1990's, in order to have installed 20,000 MW of nuclear capacity by the end of the century.[107]

A drawback from the perspective of the goal of energy independence, is the fact that Mexico must rely on the United States for delivery of enriched uranium for these nuclear plants. Nevertheless, Uramex has increased its exploratory activities, in order to guarantee the production of 250 tons of uranium needed for the Laguna Verde plant. By December, 1980, the prospects appeared to be good, with the discovery of sizeable uranium deposits in the state of Oaxaca. With these finds, the production of refined uranium might reach the level of 70 tons in a two-year term. Apparently, Swedish, French, and Canadian companies are actively trying to obtain the contracts for the construction of the new Mexican nuclear plants.[108]

Geothermal energy. Mexico, a predominantly volcanic country, is

located in a privileged area for generating geothermal energy. There are estimates for a minimum geothermal potential of 20,000 MW. The importance of this figure is well understood by comparing it with the 9,000 MW total electric capacity installed in Mexico at present.[109] According to the goals of the Energy Program, Mexico will have increased its goethermal capacity from 150 MW in 1980 to 620 MW in 1990.[110]

Solar energy. Additionally, the Energy Program also considers the "solar option," although only as a long-term resource that will be the basis for decentralized types of electricity systems.[111]

The degree of success in promoting alternate energy sources is bound to be a decisive factor, on a middle and long range basis, in determining the flexibility of development strategies and of foreign policy options. Rising domestic demand for energy, if dependent solely on hydrocarbons, could eventually lead to dwindling reserves. And, to the extent that domestic needs require a greater share of total output, the potential will diminish for petroleum to be used by Mexico as a generator of foreign revenues, as well as a leverage for its foreign policy. Thus, the stabilization of the domestic energy market, in terms of a rationalization of consumption patterns and a diversification of energy sources, would appear to be a must for Mexico's overall objectives of development.

NOTES TO CHAPTER IV

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CHAPTER V

THE ENERGY SITUATION IN THE UNITED STATES

The World Energy Crisis: Economic and Political Fulcrum

It would be pertinent here to incorporate into the discussion the general context of the world energy situation, and U.S. responses to it, as the global scenario where Mexican petroleum must, by necessity, play its role. In order to better understand the meaning of the energy crisis, it is necessary to underline the peculiar characteristics of petroleum, as a raw material of not only economic, but also political and strategic importance. Petroleum is a critical factor in determining the possibilities of any nation, in terms of both domestic viability and international relevance. In this context, three categories should be considered: 1) those countries which have oil; 2) those which do not have oil, but control financial resources to acquire it; and 3) those which have neither oil nor sufficient financial resources to buy it from foreign producers.[1] International politics and economics, to a significant degree, are contingent upon the changes in price, supply, and demand of petroleum. This is a fact of present times.

Much of the economic growth in the post-World War II era was based on cheap energy. From 1967 to 1973, the demand for hydrocarbons in the three main consuming regions, Western Europe, Japan, and the United States, increased by more than 500 million barrels annually, while production in these same areas expanded by less than a tenth of this amount. Thus, imports by these regions grew by 95% during this

entire period, from 4.9 to 9.5 billion barrels per year. Practically all the increment in consumption was made possible through an increase in production by members of the Organization of Petroleum Exporting Countries (OPEC). More specifically, 80% of the increase came from Middle East countries.[2] This constitutes the background of the energy crisis of the 1970's, and of the growth in power of OPEC countries.

Petroleum prices were kept at a low and stable level through the worldwide control of the market by the fabled "Seven Sisters:" Exxon, Shell, Mobil, Texaco, British Petroleum, Standard Oil of California, and Gulf. These companies, in effect, operated as a cartel from 1945 until 1973, concerting their transactions in the international oil trade, in order to maintain prices low. One of the results of this successful policy was that alternate sources of energy were gradually driven out of the market. During the 1960's, oil prices diminished progressively in real terms. This made possible the penetration of petroleum as the predominant energy source in Western Europe and Japan. In the United States, the effect of low oil prices was felt at various levels, all of which would contribute later on to increase U.S. dependence on foreign oil sources: the domestic market was protected by means of import quotas, which made U.S. oil prices rise well above those in the international market, and thus affected adversely U.S. industrial and trade competitiveness vis a vis Western European countries and Japan; coal production declined; starting in the 1970's, natural gas production also diminished; and the timetable for the construction of nuclear plants was significantly delayed.[3]

The main oil companies were able to maintain a low-price structure

by means of increases in production. In this way, even though the price per barrel of crude declined, oil-producing countries registered an absolute increase in tax revenues: from, 1,381 million dollars in 1960 to 4,886 million in 1970.[4] But the situation was to change soon, as the oil-producing countries looked for ways to obtain more substantial profits.

The first initiative for the creation of OPEC belonged to Venezuela. This country, in 1949, offered its cooperation to Iran in the negotiations then underway between the latter and the Anglo-Iranian Oil Company. Afterwards, Venezuela's information on its tax agreements with the oil companies would be used by Iran, Saudi Arabia, and other oil-exporting countries in their demands for additional revenues. In 1953, a formal agreement was signed between Iran and Saudi Arabia for the exchange of information regarding prices and oil policy. Finally, in Baghdag, in September, 1960, as a reaction to the persistent trend towards lower oil prices (8% less in 1959; 6% less in 1960), representatives of Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela, announced the creation of OPEC.[5]

There were three principal factors that contributed to the development of OPEC: the need, from the point of view of the petroleum-producing countries, to check the capacity of the oil companies to lower prices at will; the awareness on the part of the already-established producers that the entrance in the market of new, lower-priced producers could affect their operations; and a new confidence by the oil-exporting countries in their own technical achievements, enough so to compensate for any possible reaction by the oil companies.[6]

A few years later, in January, 1968, the Arab countries members of OPEC signed an agreement that created the Organization of Arab Oil-Exporting Countries (OAPEC). Even though the OAPEC agreement stipulated that it would not affect the functions of OPEC, the fact that the Arab countries felt the need to underscore their common economic and political objectives was indeed significant.[7] Arab militancy, reinforced by political-military events in 1973, i.e. the "Yom Kippur" war, that galvanized Arab countries into action, came to the fore in unprecedented oil price increases: from 2.48 dollars per barrel in 1973 to 11.56 dollars in 1974, that is, an increment of 366%.[8] This action, in effect, signaled the end of the era of cheap energy.

The energy crisis, in plain terms, has meant a disruption in the production and commercialization processes of the main energy source in the contemporary world: from 40% to 50% of all the energy consumption comes from crude oil or derived products. But its causes and outcomes are not a matter easily agreed upon. According to various diverging perspectives, the roots of the energy crisis can be located in: the actual or imminent scarcity of world energy reserves, especially petroleum; the instability in the international oil supply, manifest through price variations and insecurity in the supplies; and the environmental and social degradation due to the growing dependence on oil and coal to meet energy demands.[9] Obviously, the relative weight of these factors, especially the first two, is directly related to the political context. Thus, it would be useful to analyze the energy crisis in terms of its impact on, and reaction from, five basic groups of actors: OPEC; the international oil companies; the Western

industrialized countries; Third World countries; and the Soviet Bloc countries.

To a significant extent, what the OPEC countries have done is to take over the petroleum market structure that had been created by the main oil companies, and to continue fixing prices also according to a political strategy, albeit a different one.[10] But diverging ideological perspectives within OPEC have threatened its very viability as an international cartel. Specifically, the "hard-liners," such as Lybia and Iraq, have frequently clashed with the "moderates," mainly Saudi Arabia, over matters related to price and supply levels.

After the abrupt increases of 1973-74, oil prices began to fall in real terms, i.e. in relation to inflation. Specifically, from January, 1974, to December, 1978, official OPEC prices declined 25% in constant dollars, 40% in constant Marks, and 50% in constant Yens. Several factors contributed to this trend. First of all, the economic recession in the Western industrial nations during the mid-1970's, and the subsequent erosion in the value of the dollar, brought about a reduction in the demand for OPEC oil, and declining revenues for the cartel members.[11] On the other hand, during the second half of the 1970's, new sources of oil, such as Mexico, the North Sea, and Alaska, caused a temporary relative glut in the oil market.

Another factor that permeated the oil price structure during the 1970's was the continuing presence of the international oil companies as kingpins of commercialization. The size and diversity of the main oil companies, which limits their vulnerability, and their extensive control of refineries, pipelines, tankers, and gas pumps, tend to

explain their resilience. By 1978, the sales of the "Seven Sisters" had more than doubled the level of 1973. Most of the companies were successful in arranging deals with OPEC countries, through which they received a fee for pumping the oil, and bought a guaranteed share of the production for themselves, plus most of the remainder at a fixed price.[12]

According to a 1980 study for the National Office of Economic Research, written by the former head of economists of Allied Chemical Company, Avram Kisselgoff, the price increases by OPEC also brought about higher earnings for the main U.S. oil companies, in the three stages of operation: production, refining, and commercialization.[13] Even though the relative increases in their earnings tended to diminish through 1981, it is estimated that total earnings for 1980 were still 30% above the 1979 level: from 8.350 billion dollars in 1979 to 11 billion in 1980. Earnings for 1981 were expected to amount to 11.7 billion dollars, and for 1984 a total of 14.960 billion dollars.[14]

The role played by the oil companies is intimately tied to the actions by the Western European and U.S. governments in regards to the energy crisis. To begin with, the energy crisis is not by any means an isolated phenomenon, in its causes and consequences. At a macro-level, it is inscribed in the framework of a linear vision of history, central to contemporary Western civilization, and to much of the rest of the world by the effect of demonstration, which assumes unending progress and limitless expansion of the standard of living. Without entering here into a revision of the various estimates of availability of natural resources, i.e. of the exploitation of the physical environment,

such a vision is ultimately a fallacy from either a material or a moral perspective. But this topic is well beyond the objectives of this volume, and a brief mention will suffice. At a micro-level, the energy crisis is related to the general economic situation in the countries members of the Organization for Economic Cooperation and Development (OECD), i.e. inflation, unemployment, and the deficits balance of payments. In regards to energy policies since 1973-74, there have been instances of sharp disagreement among OECD nations.

Diverging political responses by oil-importing OECD nations to the sharp increases in oil prices were, from the beginning, divided in two currents. One, headed by the United States, tried to promote the formation of a common front to counteract OPEC. This initiative culminated in the International Energy Agency (IEA), established in Brussels in September, 1974. The IEA has encouraged cooperation among its members[15] in order to "...promote a secure petroleum supply, according to reasonable and equitable conditions."[16]

The opposing tendency, led by France, maintained that such a front would not be able to achieve the needed unity among its members, and thus would not have the negotiating power to check OPEC's maneuvers.[17] Indeed, to a certain degree, Western European countries, and to a lesser extent Japan, have frequently favored bilateral negotiations and independent agreements. Such a course of action might appear to be contrary to the interests of the IEA, the United States, and the big oil companies. Parallel to this, since 1973, governmental control over the energy sector in Western Europe has increased significantly.[18]

On the other hand, U.S. initiatives provoked an uncomfortable

political situation for OECD countries that were potential oil exporters, such as Canada, Great Britain, and Norway. Some of these nations, as a matter of fact, concurred with OPEC measures. After all, it was the increase in prices itself that made the exploitation of oil profitable in areas such as the North Sea, that had previously been economically unfeasible. Nevertheless, by early 1981, the European Economic Community was considering a project to constitute a "petroleum bank," as a common reserve to act as a safety value against supply deficits and price raises.[19]

From a general perspective, some authors see the energy crisis as a syndrome of a global crisis of the capitalist system, unable to maintain a rate of growth akin to raised expectations.[20] Within this context, there is the view that the energy crisis has been to a certain degree the result of price manipulation by the oil companies, with the objective of increasing profits. Likewise, one of the positive results for the United States would have been the partial reduction of the comparative trade disadvantage of recent years vis a vis Western Europe and, mainly, Japan.[21] However, this point of view misses facts such as the growing deterioration of the U.S. balance of payments, and the erosion of U.S. global political leadership, both direct results of the energy crisis. At any rate, even though there might be reasons to think that the U.S. government tended to stimulate actions by OPEC until 1973, as a means to bring about a raise in prices in the international market to levels closer to U.S. domestic prices, after that year OPEC policies were by far too forceful, unpredictable, and disruptive of the

international monetary system, to serve U.S. interests.[22]

If the increases in oil prices have pushed inflation to perilous levels in Western developed nations, among the Third World oil-importing countries of Latin America, Asia, and Africa, the impact has been catastrophic. In 1978, Third World countries, with 71% of the world population, were consuming 10.5 million b/d of oil; by contrast, the United States, with approximately 6% of the world population, in that same year consumed 18.3 million b/d.[23] In spite of the fact that Third World countries consume only about 16% of the total energy, their current payments deficit grew from 7 billion dollars in 1973 to more than 70 billion in 1980. The standing debt of almost 100 developing countries increased six times over during the 1970's, to a total of 376 billion dollars by 1980.[24] Developing countries must pay oil bills that amount to 50 billion dollars per year and that, on the average, absorb 26% of their export earnings; in some cases, this last figure is considerably higher, for example, in 1980, 60% for Turkey, 40% for Brazil, and 30% for India. Oil expenditures are expected to increase to 110 billion by 1990.[25]

In the United Nations, the danger of an economic paralysis of the Third World has been given growing attention, as proof of the urgent need for a "New Economic Order" that would be based on a monetary reform, a transfer of financial resources, and an equitable planning of energy production and consumption.[26] Even though the possibilities of an OPEC "Special Fund" for helping developing countries solve their financial problems have been widely considered, no effective and quick solution is to be expected from these quarters. In their price hikes,

OPEC has given only marginal attention to their pledge of 1975, in Argel, to assist developing countries.[27]

At the October, 1981, summit of 22 leaders from industrialized and developing nations, held at Cancun, Mexico, near consensus was reported on the need for the creation of an energy affiliate of the World Bank. The proposed agency would manage a 30 billion dollar fund to help finance exploration and development of energy resources in Third World countries. In this context, the active participation of the United States would be essential. However, the Reagan administration has opposed the idea, favoring instead the action of private enterprise.[28]

In the context of the energy crisis, those nations which have oil and the political-military capability to act on a global scale, will try to assert their presence and objectives. Specifically, the Soviet Union would appear to gain from financial turmoil in Western countries, including inflation, recession, and social malaisse, and from stagnation and increasing political upheaval in Third World countries. Thus, the energy crisis must be placed in a proper framework, political as well as economic, strategic as well as commercial, and as a danger signal that points to the fact that the means and ends of development must be redefined, in order for the Western world to stand up to the challenge of an economically finite, and politically perilous environment.

There have been contradictory signals, since 1973, regarding the future energy supply scenario. According to some observers, the relative oil glut since the second half of the 1970's, a result of Western economic recession and growing oil production, means that scarcity was just a passing phenomenon. The optimistic forecasts in regards to

petroleum supplies have been partly based on the assumption that new technologies will make possible an increase in the recovery rate of deposits. But the discovery of new sources, by itself, is supposed to augment petroleum supplies. According to some 1975 estimates, by 1985 potential production of oil will be twice as large as consumption: the exporting capacity of oil-rich countries would amount to 65 million b/d, while the import needs of industrialized nations would be covered with 32 million barrels.[29] A study of OECD published in 1977 expected supply by OPEC countries to reach the level of 45 million b/d by 1980, well above the estimated world demand of 33.5 million b/d. By 1985, there would be an excess supply of between 13% to 37% of OPEC's production capacity.[30] By October, 1981, new and hopefully more accurate predictions underlined that there could be surpluses for the next five to ten years, as a result of continued slow growth in world economies and further energy conservation.[31]

On the other hand, new sources such as Mexico and the North Sea have considerably increased total output. Additional possibilities are found in China which, according to the China Business Review, published by the National Council for U.S.-China trade, would be exporting 50 million tons of oil a year by 1990. Indeed, by August, 1980, China was producing 106.15 million b/d, a level equivalent to that achieved by Great Britain in its North Sea wells.[32] All in all, some estimates put the amount of oil remaining to be discovered in the world at around 1 trillion barrels, with 30% to 40% of it expected to be found offshore, some in deep water areas that have yet to be explored.[33]

In the midst of the maze of estimates regarding oil supplies and

prices, it is obvious that these depend on contingent situations of a triple nature: economic; political; and those related to time horizons. In order for the price of crude oil to decline significantly, there would have to be a sizable drop in world demand (especially U.S. demand), a growing reliance on alternate energy sources, and a permanent expansion in the oil production of non-OPEC countries.[34] These conditions are not likely to coincide on a sustained basis.

Many recent indications tend to confirm the previous argument. A 1977 analysis of future oil supplies concluded that, regardless of the rate of economic growth and oil prices, up to a 50% increment above then prevalent levels, before the end of the century there would be a substantial gap between production and demand: demand would outstrip supplies by a margin of 15 to 20 million b/d, that is, a 26% to 28% of total world demand.[35] According to a report by the Office of Technological Studies of the U.S. Congress, oil production in the Western industrialized nations, under the most favorable circumstances, will remain stationary until the year 2000. In the United States, production is expected to decline to 4 million b/d. Additionally, by the early 1980's the Soviet Union may be forced to interrupt its oil exports to Eastern Europe.[36]

A 1977 CIA projection estimated that the Soviet Union and its Comecon Bloc are likely to have a petroleum deficit of up to 4.5 million b/d by the mid-1980's, with its subsequent impact on the World Market.[37] Indeed, in 1981 the Soviet Union, the biggest oil producer, increased its oil output by only 0.7%, the lowest rate of increment in recent times, in contrast with a 4% rate during the previous four

years.[38] At present, the Soviet Union supplies only 75% of the petroleum demand of Eastern European countries, which means that a higher share of the latter's financial resources will have to be spent on oil from other sources.[39]

Developing countries constitute the most dynamic force in overall petroleum supply and price levels. Petroleum exporters, which number more than 20 countries and represent one-fifth of the population of the Third World, are industrializing at an accelerated pace, and increasing their energy use at a rate of 6.1%; oil-importing developing countries also share the goal of industrialization. As an aggregate, these countries will play a crucial role in the 65% Worldwide increase in energy consumption expected by the end of the century. Energy use in less developed countries is rising at a rate at least 30% higher than the GDP. In all, the demand for crude oil in the Third World, including the 13 OPEC members, will grow from 11 million b/d at present, to close to 24 million b/d by the year 2000. Import needs of developing countries may not be satisfied unless there is a drastic reduction in sales to OECD nations, or a substantial increase in overall production. But oil demand elsewhere is expected to decline only slightly, by about 2 million b/d, to somewhere around 64 million b/d by the end of the century.[40]

If the previous situation appears to impede any sustained trend towards stability in petroleum supplies and prices, the political milieu is even more unpredictable. By 1978, sagging demand for petroleum was instrumental in making Saudi Arabia lead and implement an OPEC price-freeze through the last two-thirds of that year.[41] However,

the Iranian upheaval and the Iraq-Iran War were soon to show again the intimate relationship between political and economic events. In particular, the war between the two Persian Gulf oil-exporting countries has raised the possibility of a cut-off in the transit of oil tankers through the Strait of Ormuz, which would economically strangle Western Europe and Japan. By October, 1980, most of the Iranian oil exports, and more than two-thirds of Iraq's exports had been suspended. This amounted to a loss of 3.15 to 3.35 million b/d for exports market.[42]

These factors contributed to a new round of price hikes. By June, 1980, OPEC members had agreed to raise their base price from $28 to $32 per barrel of crude oil, with a maximum $5 premium.[43] By mid-November of that same year, the price had gone up to $40 per barrel for cash transactions, and up to $50 for 30-day sales, the highest levels in history.[44] The precipitate price increases would put to test OPEC unity, and bring about an abrupt reversal of the upward price spiral.

Even before the price increases of November, 1980, a drop in the demand of industrialized nations due to recession, and to burgeoning existences that by the beginning of that year had reached the level of 5 to 5.5 billion barrels, were already eroding the basis for OPEC's price structures.[45] Saudi Arabia, by far the main OPEC exporter, in order to prevent excessive raises in prices, by October 1980 had increased its production from 9.5 to 10.5 million b/d.[46] For their part, the 21 nations members of IEA responded to the price raises by announcing in December, 1980, that they would reduce their oil imports and start to use their reserves instead.[47] These factors, in addition to the bitter pricing battle that ensued through 1981, had by mid-year

effectively undermined the unity among OPEC members and forced a downward revision of prices. Skyrocketing prices and diminishing demand had, in effect, resulted in a mini-glut.

The key to a price compromise has been the high level of production of Saudi Arabia's less expensive crude oil, nearly half of OPEC's total production of 21.5 million b/d by October, 1981. Apparently, Saudi Arabia's policy has been to maintain the price of oil at a level low enough to prevent conservation measures and alternate sources of energy from substantially eroding the demand the petroleum. At the same time, the Saudi's benchmark price for their oil during 1981, at $32 a barrel, effectively undercut competition from other oil-producing countri[illegible] into reaching a price agreement.[48]

On October 29, 1981, at Geneva, OPEC again established a common price structure. Saudi Arabia agreed to increase its price $2 per barrel, in return for a $2 reduction by other members of their $36 base price. Thus, the new common benchmark price is at present $34 per barrel, frozen at that level until the end of 1982. OPEC members are allowed to attach surcharges to this base price, to account for transportation and crude quality differences, although there will be a maximum of $4 surcharge per barrel. This means that under no circumstances will the price per barrel of oil be above $38.[49] After 1982, OPEC policy conceivably could seek pricing formulas that would link the price of oil to the rate of inflation in the main oil-importing nations, and to the value in real terms of certain key world currencies. Such an arrangement would strengthen a long-term tendency towards moderate, progressive raises in petroleum prices.

The end to the OPEC pricing feud, i.e. to the dual pricing structure that plagued the organization during most of 1981, could mean a reassessment of the energy picture in Western industrialized nations. By November, 1981, demand in the United States was again edging upwards, while supplies were going down. The new, stable OPEC prices might result in decreasing efforts to develop alternate energy sources. No end was in sight for the Iraq-Iran War, which continued to limit output from these countries. Total OPEC production had, by October 1981, fallen to 20.5 million b/d from a high of 31 million b/d in 1979. In this context, if Saudi Arabia were to cut back on its production, currently at about 9.5 million b/d, as an additional measure to ensure more bargaining power for OPEC, this could mean a new period of tight petroleum supplies.[50]

In regards to time horizons for changes in oil price and supply levels, the picture is not any rosier. On a short-range basis, it is widely acknowledged by now that fuel supply difficulties will be an almost universal phenomenon during the 1980's, though taking different forms in different parts of the world.[51] According to a 1980 CIA study, world oil supplies are likely to last only between 60 to 90 years. There is a "precipitate decline" of "giant" oil fields (those of 500 million barrels or more), and of "supergiant" fields (at least 5 billion barrels), which are being found only at a fraction of the rate of previous years. These huge fields are at present the source of more than 75% of the recoverable oil.[52] According to a global projection of the energy sector to the year 2030, the period of "confusion" up to the year 2000, during which the world will face a progressive scarcity

of "clean" fuels, must be overcome by a period of "transition," immediately afterwards, during which energy needs will have to be increasingly supplied by alternate sources.[53]

The energy crisis, with its economic and political variables, contributes to shape an international scenario according to the degrees of vulnerability of the actors. In this respect, Helio Jaguaribe has noted several overlapping categories: countries or regions without resources to face the crises; those that are being forced to revise their economic and social policies to adapt to the new conditions; democratic nations whose consensus mechanisms are being sorely tested by the economic impasse; and those countries whose legitimacy is based on an apparently all-encompassing ideology, albeit under diverging methods of political control.[54]

In an unstable international milieu, qualified by these groups of actors, disorientation as to the mutually acknowledged and accepted boundaries of political interplay could lead, according to Jaguaribe, to three possible outcomes: 1) a Third World War; 2) the consolidation of a "world regime" under "shared direction" by the superpowers; or 3) the emergence of a new international system, based on widely agreed-upon economic transactions.[55] The definition of, and agreement on the meaning, causes, and effects of the energy crisis, will be a crucial factor in determining which path will be followed in the end.

Impact of the Energy Crisis in the United States

It is necessary to analyze the energy crises in the United States in relation to general patterns of consumption, for if the goal of

development is limitless expansion of demand, ours being a finite world, there is no possible way of avoiding a turning point sooner or later. In this context, is it a crisis indeed, or rather a shortcoming of a particular mode of civilization, i.e. industrialism, based on an excessive rate of energy consumption? Of course, it could be argued that the United States also produces a disproportionate share of the world's industrial and agricultural goods. But this fact by no means would dispose of the innate faults of life style and a system of production based on the irrational exploitation of non-renewable resources.

After World War II, exploitation of petroleum in the United States accelerated sharply. The United States, in fact, was a net oil exporter, mainly to Western Europe, until 1947. As early as during the 1950's, some U.S. geologists were disputing the excessively optimistic estimates of hydrocarbon reserves, among them L. G. Weeks and M. K. Hubert. By 1956, based on a revision of available data, Hubert predicted that U.S. petroleum production would reach a peak from 10 to 15 years afterwards. A few years later, in reply to greater supply expectations raised by the main oil companies, Hubert reaffirmed that new discoveries had already reached a maximum level in 1957, and that proved reserves were at their highest in 1962. Hubert was saying, in effect, that during the 1960's, U.S. oil production would enter a phase of decreasing yields.[56]

Grim reality would confirm Hubert's assertions. What the 1973-74 oil price hikes did was to question the up-until-then assumed abundance of cheap energy. But the signs of an impending crisis were at hand well before that time. After 1961, proven oil reserves in the United

States entered into a steady decline. The U.S. petroleum industry could not keep up with the staggering increases in demand of the 1960's and early 1970's. Nevertheless, some of the most important markets and industries in the United States, such as the automobile industry, the transportation system, and the home-heating market, were developed on the premises of cheap, abundant energy.[57]

Between 1955 and 1976, U.S. petroleum demand almost doubled, from 8.5 million b/d to 17.4 million b/d. Production of oil and natural gas increased at a slower pace. In 1970, petroleum production reached its peak, 9.64 million b/d. By 1965, the United States had ceased to be self-sufficient in petroleum and, after 1970, imports grew at a rapid pace. By 1976, the United States was importing 7.3 million b/d, that is, 42% of national demand.[58] Whereas in 1973 the United States imported 35% of its oil, by 1977 the figure had risen to 48%.[59]

The sources of oil imports on which the United States relied became increasingly less secure and more politically explosive. During 1976, Canada reduced its oil exports to the United States. Parallel to this, Saudi Arabia replaced Venezuela in the position the latter had occupied since World War II, as the main U.S. external source of crude oil and derived products. Imports from OPEC countries grew from 47% of the total before 1973 to close to 67% in 1976. This included a tripling of purchases from Arab OPEC nations, a disturbing strategic prospect. The cost of oil imports increased rapidly, from 4 billion dollars in 1971, to 8 billion in 1973, 45 billion in 1977, and 42 billion in 1978. By 1979, the petroleum bill had exceeded the 50 billion mark.[60] In his "Energy Address" to the nation of April 5, 1979,

President Carter presented a gloomy picture:

> "Just ten years ago, we imported hardly any oil. Today, we buy about half the oil we use from foreign countries. We are by far the largest customer for OPEC oil, buying one-fourth of that foreign cartel's total production. This year, we will pay out 50 billion dollars for imported oil -- about 650 dollars for every household in the United States."[61]

Domestic oil production has failed to meet increasing demand. In 1978, oil imports diminished somewhat as oil from Alaska's North Slope added 1.2 million b/d to domestic supply. However, this proved to be only a temporary respite, since it was not reinforced by stringent restraint measures, and it was partly erased shortly afterwards by the effects of the Iranian upheaval on world oil supply and prices.[62]

As a result of government measures, but mostly because of economic reasons, during the first two-thirds of 1980 crude oil imports by the United States dropped from 8.3 million to 5 million b/d. This represented a contraction of 19.3%.[63] However, price increases nullified any possible gains from this decline in demand. In April, 1980, government officials were announcing that:

> "With the doubling of oil prices in the last 12 months, we are spending 90 billion dollars per year for imported oil -- and the price is rising all the time. Our 1980 oil import bill is equal to the net assets of General Motors, Ford, IBM, and General Electric combined. If we continue to spend for imported oil at this rate, in 12 years we will have exported cash equal to the trading value of all stocks listed on the New York exchange -- well over a trillion dollars."[64]

There is no way to overestimate the impact of the energy crisis on the American economy. Since the first oil price increase round of 1973-74, the U.S. economy has been painfully vulnerable to trade

imbalances and inflation. The unhappy combination of inflation and recession so prevalent in the mid and late 1970's was directly related to OPEC's price increases.

Specifically, foreign oil price hikes have meant that substantial income has been shifted to OPEC which otherwise would have been spent on goods and services within the U.S. market. The fact that energy demand is relatively fixed in the short run, i.e. it cannot be reduced significantly by conserving fuel or by using substitutes for oil, made it unavoidable for consumers to pay higher energy bills. Indirectly, higher energy prices have had repercussions on everything that uses oil or substitutes, even for several years after the initial impact. Internally, this has implied additional inflation; externally, growing trade deficits. The depreciation of the dollar in foreign markets during the late 1970's completed the vicious circle, by further raising oil imports and inflation. In short, the net effect of the energy crisis has been a decline, or at least a stagnation, of the American standard of living, this in spite of the 12% reduction of oil prices in real terms from mid-1974 to 1978.[65]

A comparison of the average economic growth rates in the main Western industrialized nations during the periods 1950-1973, and 1973-1978, clearly presents a picture of a fall in the rates of growth and productivity. In the United States specifically, the growth rate fell from an average of 2.6% during the first period to 0.4% during the second. One of the main reasons for the decline was the sudden increase in energy prices.[66]

By April, 1979, one of the primary immediate impacts of the

curtailment of foreign oil supplies on the U.S. economy, in spite of constantly higher prices, was the reduction of industry stocks to dangerously low levels. This augured a crucial need to dispense partially with gasoline production in order to rebuild distillate fuel oil stocks for industry.[67] But the energy problems referred to a much wider framework than the simple reduction of oil consumption:

> "The task ahead is clear. We have to bring the highly inflationary price of energy under control, stop the outflow of dollars, and wean ourselves away from the excessive dependence on Middle East oil, which has grown to the point where it threatens our national security."[68]

The energy crisis represents a danger to the United States from two sources: domestic malaise, and foreign strategic dependence. Internally, unless policy measures to prevent them are effective, progressive increases in the cost of fuel and rationing, a breakdown of the transportation system, unemployment, and inflation, could wreak havoc with America's social structure and even its political system.[69] Externally, the security threat from vulnerable sources of supply, which are concentrated in the politically volatile area of the Middle East, underline the need to find appropriate solutions.[70]

United States Energy Policy

If the voice of alarm had been given since the 1950's by some scientists worried about the growing gap between U.S. energy production and reserves, on the one hand, and demand on the other, it was not until the early 1970's that political circles began to show their concern about the situation. During 1971, President Nixon expressed his

awareness of a possible energy scarcity, and proceeded to promote research and development of new sources. By April, 1973, these programs had not given the expected results, and Nixon proceeded to eliminate government restrictions on petroleum imports. When the crisis of late 1973 arose, the response of the Nixon administration centered on production: oil companies were given incentives, such as the authorization to raise prices, as a means to increase the domestic supply of petroleum. Other signs of government action were the adoption of a general 55 m.p.h. speed limit all over the nation. Nixon's "Project Independence," geared as its name implied to achieve energy self-sufficiency and sever external links of dependence, fell short of its goal. Some of the reasons for its failure were an excessive optimism regarding the production and price levels of alternate sources of energy, and environmental considerations.[71]

The failure to increase domestic supplies led to conservation measures. A 1974 policy project by the Ford Foundation stressed the need to cut in half the annual rate of increment in energy demand through conservation. This reduction, according to the project, would not affect the growth of the economy, but it would effectively contribute to reduce petroleum needs through the end of the century. The project was the first integral policy approach designed to face energy shortcomings. However, because of strong opposition from the private sector, it was never implemented.[72]

During the 1976 elections, the energy question was not a central theme of the Ford-Carter campaign debates. Both men coincided in the triple need to cut petroleum imports, to free the prices of natural

gas, and to support a strategic petroleum reserve. While Ford emphasized strong Federal budgetary support for creating a 90-day reserve, Carter went further and proposed an energy plan that would deal with the various dimensions of the problem.[73]

After his election, Carter placed James R. Schlesinger in charge of the energy sector. The bitter winter of 1976 reinforced the objective of a comprehensive energy plan, but political problems related to Carter's inability to deal with Congress were to plague its enactment. The energy plan that finally emerged in November, 1978, after protracted negotiations in Congress, was a modified version of the original. Nevertheless, it was a recognition to a new awareness in the government regarding energy problems. Energy questions had gained a position of priority. An indication of this fact was the creation in 1977 of the Department of Energy at the level of a Secretary, headed by Schlesinger.

Carter's Energy Plan, i.e. the National Energy Act, was in reality a package of energy-related measures, centered on two basic objectives: conservation and utilization of alternate energy sources. In regards to conservation, the National Energy Conservation Act of 1978 required Governors to submit plans to the Secretary of Energy on the procedure through which oil and gas dealers would advise customers about conservation measures in each state. Furthermore, it encouraged conservation by putting into effect a series of grants, loans, and federal programs to assist public and federal facilities in installing energy-saving devices and switching to solar heating and cooling.[74]

The Energy Tax Act of 1978 reinforced these measures by granting

tax credits to homeowners who installed energy-saving equipment, and by imposing a tax starting with 1980 automobile models, on those which did not meet a minimum standard of economy. The Public Utilities Regulatory Policy Act was based on the principle that electric rates should encourage the conservation of energy and the efficient use of resources. In regards to the promotion of alternate energy sources, the Power Plant and Industrial Fuel Use Act of 1978 tried to reduce the nation's dependence on imported oil by expanding domestic coal production; this would be achieved by limiting the use of oil or natural gas in certain facilities, which would then turn to coal for their energy needs.[75]

Another section of the energy package, the Natural Gas Policy Act of 1978, created for the first time a single national market for natural gas. Through this Act, all states now gained access to 40% of the natural gas production, which had previously been out of the interstate market, due in part to the higher prices available in the producing states. Since this situation had caused gluts inside the producing states, it was expected that the nation as a whole would benefit from more abundant supplies. Initial price increases would be smaller for homes, schools, and hospitals than for large industries. In regards to new natural gas, price controls would end by 1985. The Natural Gas Policy Act purported to help reduce dependence on imported oil by stimulating home production through increased prices, and accelerating the switch from gas to more abundant energy sources.[76]

The National Energy Act acknowledged that growth in world oil production could not keep pace indefinitely with demand. While new

oil findings might postpone the day when oil production started its inexorable downward trend, the Act underlined the fact that new finds were not replenishing existing reserves. Thus, there was a crucial need for conservation and use of alternate energy sources.[77]

During 1979, energy questions remained one of the priority policy areas in the Carter administration. The central preoccupation was now to set forth a phased decontrol of oil prices, to begin on June 1, of that year throughout 28 months, until September, 1981, when Federal government controls on oil were to cease anyway. The objective of phased decontrol would be to encourage production of oil and gas. Thus, it appeared that conservation and alternate sources of energy by themselves were not enough to face the energy crisis. However, since decontrol could further augment what the Carter administration deemed to be already large profits by the oil companies, there would also be a "windfall profits tax" on the oil companies, in order to retain part of the extra earnings and channel them into an "Energy Security Fund." This Fund would be geared to "protect low income families from energy price increases, to build a more efficient mass transportation system, and to put American genius to work solving our long-range energy problems."[78] Congress would later approve these measures.

In addition to the previous announcements, Carter proposed other steps to encourage production. One of these would be the resumption of previously stalled talks with Mexican officials, in order to reach an agreement on sales of Mexican natural gas to the United States, "at a price that is fair for both countries.[79] These talks would eventually clear the way for an agreement.

The details of Carter's new offensive on the energy field were spelled out in what was called a "Response Plan," that included conservation as well as production measures, such as: crude oil price decontrol mechanisms; increased production from sources such as the Naval Petroleum Reserve at Elk Hills; State, local, and private initiatives to reduce petroleum use; natural gas projects; electric energy transfers; a lead phasedown for gasoline; emergency building temperature restrictions; immediate reductions in Federal energy consumption; emergency weekend sales restrictions; and allocation and price control rules in case of emergencies.[80]

To present a comprehensive view of the new initiatives or, as President Carter put it, "to build on the foundation of the National Energy Act," by May, 1979, the Department of Energy designed the Second National Energy Plan. This plan addressed three fundamental themes: U.S. dependence on potentially unstable supply sources, which implies a vulnerability to interruptions and sudden price increases; the possibility that supply and demand forces might cause world and domestic oil prices to rise well above the rate of inflation, depressing the long-term economic growth index; and the need to develop an energy strategy that holds down economic and political costs to the United States.[81]

The National Energy Plan II introduced a near term (1979-1985), a mid-term (1985-2000), and a long-term (2000 and beyond), strategies. The challenge of the near term would be to insure appropriate energy producing and consuming equipment in degree and kind, so as to start reducing dependence on foreign oil. During the mid-term, the United States would continue to hold down energy consumption and oil imports,

and to develop the capability to shift from reliance on oil and gas to new and higher-cost forms of energy technologies. Finally, the challenge for the long-term would be to go beyond the "transitional" energy supplies of the mid-term, such as some renewable technologies, enhanced oil recovery, oil shale, and coal-derived products, towards a set of "ultimate" technologies, such as renewable and advanced nuclear technologies. "The Nation's long-term objective is to have renewable and essentially inexhaustible sources of energy to sustain a healthy economy."[82]

The Agenda for Action of the National Energy Plan II included a number of Federal policies and programs. Grants and tax incentives would continue to be instrumental in increasing energy efficiency, thus enhancing conservation. Financial incentives and the reduction of institutional barriers would be major tools to raise domestic oil and gas production. The use of coal, as the Nation's most abundant fossil energy resource, would be encouraged in place of oil and gas wherever economically and environmentally feasible. Nuclear reactors were expected to continue to meet a growing share of the electrical energy needs. And, finally, an effort was to be made to enhance the capacity to use renewable resources such as solar and geothermal energy.[83]

By mid-1979, the Carter administration again underlined its commitment to deal with the energy crisis. The 1977 oil import level was set as the maximum allowed, leaving conservation and domestic production as the only avenues for higher energy consumption. To insure these targets, import quotas were set. A commitment of funds and resources was made to develop alternative sources of fuel. Carter asked Congress

to require by law that U.S. utility companies cut their massive use of oil by 50% within the following decade, and switch to other fuels, especially coal. He also urged Congress to create an Energy Mobilization Board, in charge of completing key energy projects. Finally, Carter reemphasized a conservation program, at the State, county, and city levels.[84]

Carter's energy proposals faced numerous obstacles from pressure groups, within Congress itself, and from lobbies, which favored above everything else the liberalization of prices as incentives to production. Carter's proposals, which originally had underlined the need for conservation and the use of alternate sources of energy, progressively incorporated measures such as phased decontrol, whether by own conviction, or perhaps in order to lessen the opposition to his programs. Some observers have also pointed out that the energy proposals were designed in too much of a hurry and secrecy, which harmed Carter's already-strained relations with Congress. On the other hand, the barrage of legislative initiatives received by Congress may have weakened their passage.[85]

There has been a continuing debate over the role of the American oil companies in the energy crisis since 1973. Obviously, there is a wide, and hard to discern, margin of negotiation between the U.S. government and the oil companies. There are both coincidences and divergencies between the perspectives of the two in regards to national security, the standard of living, economic stability, and the proper rate of profits.[86] There are questions regarding the degree of compatibility between the interests of the U.S. government and those of the oil

companies. The issue remains undefined and open to debate. During 1979 the Carter administration became worried over the role of the oil companies in the gasoline supplies shortages of 1978-79. However, in a mid-1979 report by the Department of Energy, it was stated that no evidence had been found of hoarding of oil by refiners, and that the refiners had kept their stocks within normal levels.[87]

Perspectives. What are the perspectives of U.S. energy policies at present? In regards to exploration and production, intensive efforts are being carried on. By 1979, world instability in the petroleum market was spurring domestic drilling.[88] By late 1980, oil companies were drilling at deeper levels than ever, 15,000 feet or more. During 1980, a record 60,000 new oil and natural gas wells were estimated to have been drilled in the United States; by comparison, only 27,602 wells were dug in 1973. At the same time, an attempt was being made to develop new techniques to recover some of the 75% of oil that remains in the subsoil after using conventional pumping methods.[89] According to official sources, these efforts are expected to succeed in keeping oil production in the United States near current levels of approximately 9 million b/d, through the year 2000. In addition, by 1985, petroleum consumption is expected to be lower than current levels: up to an 8% reduction that would allow a savings of as much as 1.5 million b/d.[90]

In 1980, the Department of Energy had projected conservation measures that by the year 2000 could bring about savings on the order of approximately 20% in energy use.[91] Among alternate sources, coal

constitutes by far the brightest hope. Under the authority of the Fuel Use Act, during 1980 the Department of Energy was ordering industry and utilities to convert from oil to coal, with the goal of displacement of the equivalent of a million b/d of oil by 1990. However, many environmental problems related to the burning of coal remain to be solved.[92] In August, 1980, it was announced that the biggest commercial plant for the production of oil from coal would be built in West Virginia, at a cost of 1,400 million dollars; the investment would be partly guaranteed by West Germany and Japan, which would benefit from the technology.[93]

Crucial to the achievement of the previous objectives would be the rational distribution of energy throughout the United States. This will involve the construction of much additional infrastructure, including pipeline systems. For example, the size and development of additional Alaskan reserves and California production will determine the size and desirability of a west to east pipeline.[94] By late 1980 the U.S. pipeline network continued to grow steadily, despite inflationary costs for construction.[95]

A key part of U.S. energy policy, in regards to lessening the political vulnerability of the United States vis a vis foreign oil sources, is the strategic petroleum reserve. In 1977, President Carter proposed the creation of such a reserve, in the order of 500 to 1,000 million barrels of oil.[96] By March, 1978, 150 million barrels were already in reserve, and the 1 billion objective was expected to be reached by 1983.[97] However, by 1979, the U.S. Department of State opposed the Strategic Reserve, arguing that it would destabilize the

world market; leaders of the oil industry, as well as Saudi Arabia, supported the view of the State Department.[98] By September, 1980, only 92 million barrels were in reserve, sufficient for only 86 days of normal consumption. At that time, the Department of Energy suggested that the initial objectives fell short of actual strategic needs, and should be increased four times over.[99]

These discrepancies in official U.S. policy objectives seemed to subside with the election of President Reagan. Since early in 1981, the Reagan administration announced that the United States would buy crude oil for the strategic reserve, at an accelerated pace and directly in the international market.[100] By mid-1981 the new Energy Secretary, James Edwards, declared that the United States was taking advantage of more flexible market conditions, to increase its strategic petroleum reserves at a rate of 200,000 b/d. The ultimate objective has been expanded to 120 days of supply.[101] In this context, a significant development by September, 1981, was the incorporation of Mexico as a direct supplier to the strategic reserve.

If a lesson must be learned from a decade of various approaches to face the energy crisis, it is the extreme difficulty of putting into effect an efficient program of energy conservation in a society and an economic system such as those of the United States. According to some observers, factors such as the American political process itself, and the coexistence of multiple pressure groups, do not bode well for the prospects of success.[102]

It would appear that energy policies should be flexible and multifaceted: the goals of conservation and production must be carefully

balanced. However, the Reagan administration is bound to direct its efforts mainly towards production and away from conservation. This is likely to imply a number of things, such as: a lessening of environmental standards, in order to facilitate the use of coal; the encouragement of the nuclear industry; and the opening up of more federal lands for oil and gas exploration.

Indeed, early in 1981 the Reagan administration moved to eliminate the last oil price controls, well ahead of schedule, in order to spur domestic exploration and production.[103] Likewise, federal subsidies in the industry were abolished, an action which has resulted in serious economic difficulties for small exploring and refining companies. Decontrol was bringing about the closing down of various retail gas sales operations, which had been maintained due to government regulations.[104] Furthermore, the Reagan administration has proposed dismantling the Department of Energy. By October, 1981, U.S. imports were at their lowest level since 1975, oscillating between 3.3 and 4.4 million b/d. However, domestic demand was beginning to increase again, while inventories are 19 million barrels lower than a year before, down to 200 million barrels. This was taking place at a time when the mini-glut in the international market seemed to be coming to an end.[105]

Whether under an approach that gives priority to conservation or to production, some of the main worries that have underlined the urgency of U.S. energy policy, such as the need for stable, nonvulnerable sources of foreign petroleum, remain very much in effect. And it is in this context that the position of Mexico as a U.S. supplier finds its relevance.

Effects of Mexican Oil Exports on U.S. Domestic Market

In the light of special geopolitical circumstances, i.e. geographic proximity, trade, strategic considerations, Mexico's oil-exporting potential is bound to have a growing impact on the U.S. energy situation and policies. In this respect, Edward J. Williams points out that "Mexican oil will take on added importance as the drama of U.S. energy dependence unfolds." This importance is manifest as a crucial source of petroleum in case of an external threat to U.S. national survival. Mexico's basic political stability and continuity, in contrast with the political unpredictability of Persian Gulf and African sources, enhances its prospects as a reliable supplier.[106] In short, according to Williams:

> "The United States certainly sees more Mexican oil as desirable under any circumstances, and it is not too difficult to project a scenario in which petroleum exports from Mexico would be absolutely crucial."[107]

The point of view of Mexican analysts often reaffirms the previous assessment, albeit qualifying it with a dose of skepticism regarding Mexico's prospective gains from the exchange. In many cases, it is claimed that the United States has incorporated Mexican hydrocarbon wealth to its global energy plan, as a means to maintain American hegemony. In this context, the main objectives of the United States behind its massive purchases of Mexican oil would be: to increment its crude oil reserves; to insure the external supply of petroleum and natural gas necessary to cover the U.S. domestic deficit; to sustain a "loyal exporter" as a precaution against future conflicts with Arab countries

or adverse OPEC policies; and to solve the need for secure energy sources while U.S. energy policy and consumption patterns undergo necessary adjustments and new alternate energy sources become available.[108]

Richard B. Mancke has summarized from the U.S. perspective, the role of Mexico as a U.S. petroleum supplier:

> "Expanded imports of Mexican petroleum will help the United States to achieve three important domestic goals...: reducing U.S. vulnerability to sudden interruptions in oil supplies, assuring that the United States satisfies its basic energy needs efficiently, and reducing environmental damage."[109]

In terms of U.S. national security, the view is widely shared by American analysts that it is in the interest of the United States that Mexico develops its hydrocarbon resources "as rapidly and completely as possible."[110] The reason for this derives from the divergence in political, economic, and ideological perspectives between the United States and the group of countries that control a large share of the world's oil exports, and from the growth in military and navel strength by the Soviet Union. Obviously, the full insertion of Mexico in the present framework of U.S. petroleum suppliers would support the U.S. position in regards to actual and potential threats to its energy, and thus to its national security. Indirectly, in reference to Mexican exports to countries other than the United States, the existence of alternate oil sources would also alleviate pressures on world supply and prices.[111]

In a context of economic efficiency, Mancke sees three main areas of economic benefits for the United States, arising from growing imports of Mexican oil:

> "1) a sizable reduction in total spending for energy, because increased imports of more secure Mexican oil should reduce the need to commence large-scale, commercial production of higher-cost domestic alternatives (such as synthetic gas or oil made from coal, oil shale, nuclear power, and solar energy) in order to ensure an adequate level of energy security; 2) a sharp reduction in capital demands and, as a corollary, less rigid capital stock requirements; and 3) strengthened exports, which will improve the U.S. balance of trade."[112]

Mancke is suggesting, in fact, that Mexico's oil exports to the United States might add a third option, at least in terms of time-margin, to the two basic alternatives faced by U.S. energy policy, i.e. conservation, or increased domestic production. In short, Mexican oil exports might solve, albeit temporarily, the dilemma of spending billions in alternate energy sources, or continuing to rely on high levels of imports from unstable foreign sources. And, in what appears at first to be an adequate suggestion, Mancke states that "it would be in the best interests of both nations to negotiate firm guarantees calling for a large and steadily growing minimum amount of petroleum to be sold by Mexico to U.S. firms each year." In this way, Mexico would have no financial or marketing problems for expanding its production, and the United States would have secure sources of petroleum.[113]

However, there are some basic weaknesses to Mancke's arguments. To begin with, the postponement of the critical U.S. energy dilemma, i.e. conservation vs. increased domestic production, is by no means a solution to the energy problem, and might even retard such a solution by giving rise to a new spurt in domestic consumption, on the basis that new, secure supplies have been assured. And, whichever the path, between conservation and increased production, proves to be the

appropriate one, it must undoubtedly be qualified by restraint in demand increases. Moreover, the negotiation of sale guarantees of Mexican oil to the United States on a long-term basis are conditioned by Mexico's domestic politics. Finally, Mexico's socio-economic situation would not necessarily improve according to growing oil exports.

The purchase of large amounts of Mexican oil might reduce the need for capital demands in the United States, but at the price of postponing a definite solution to the energy problems. And, in any discussion in regards to the development of domestic oil and alternate energy sources, U.S. pressure groups and domestic politics must be taken into account. Mexican exports are bound to have a large impact on U.S. domestic production. It has been estimated that Mexican oil could displace petroleum from Alaska's North Slope (ANS) producers, who have at present no export option. Thus, there is an urgent need to reconcile the increased imports of Mexican oil with present policies that encourage sales of ANS crude in the Gulf Coast refining market. As a matter of fact, Mexican exports might undermine ANS sales both in the Gulf Coast and in the West Coast refineries. By August, 1978, Mexico was discounting[114] its oil to the extent required to gain a share in the U.S. market. As a result, Arabian light crude oil was being displaced, as Mexican oil became available. Furthermore, at that time "Mexican oil (was) also displacing ANS crude oil, causing ANS to be discounted on the Gulf Coast as well."[115]

This phenomenon might be beneficial to U.S. consumers, since ANS producers "would be forced to discount Alaskan oil to the extent necessary to undersell Mexican oil and to maintain their market shares.

Slightly lower crude oil costs for domestic U.S. refiners could be the result."[116] However, if Mexican exports were to increase substantially, at reduced price levels, the situation might deter production and exploration in Alaska's North Slope. The competitive position of the producers of ANS could improve by the construction of the PACTEX Pipeline,[117] because of the savings in transportation costs over the present transit costs of the Panama Canal route. If this were to materialize, Standard Oil of Ohio (SOHIO), the largest ANS producer, which also has a sizable investment in PACTEX, would likely discount its oil to the extent needed to outsell Mexican oil in the Gulf Coast refining market. Since it has alternative markets, in the end "Mexico will probably price its oil just low enough to back out Arabian light but not low enough to displace ANS crude on a large scale."[118]

However, there are contrasting views regarding the extend of the impact of Mexico's oil exports on U.S. Gulf Coast refineries and Alaskan North Slope crude Oil. According to U.S. official sources, the importation of sizable amounts of Mexican crude oil to Gulf Coast refineries "could render ANS crude oil unmarketable anywhere in the United States except the West Coast, even with the PACTEX pipeline, unless ANS prices are heavily discounted." And, needless to say, there are critical discounting margins beyond which ANS production and exploration might be discouraged.[119]

The effect of oil imports from Mexico on the U.S. domestic market could be further underlined by reference to two additional indicators: the "marker" standard in oil transactions, and transportation costs. There are two important factors that help to establish the price of

crude oil and determine the "marker" refining values and transportation costs. Towards the end of 1979:

> "...Arabian light crude oil (was) the 'marker' crude oil against which other crude oil is measured. Due to significant differences between transportation costs for Arabian light crude oil and Mexican-Reforma crude oil to U.S. Gulf Coast refineries, however, the potential exists for significant discounting of Mexican-Reforma crude oil, and this discounting could lead to the Mexican-Reforma crude replacing the Arabian light crude oil as the 'marker.'"[120]

Specifically in regards to transportation costs, these are determined by factors such as the size of tankers, distances, and prevalent world scale rates. Due to the fact that freight rates are expected to increase through the 1980's, "the transportation differential between Mexican and Arabian light crudes will probably widen over the next decade." As the transportation differential increases, "this discounting in conjunction with West Coast surpluses could create downward pressure on the price of ANS crude."[121]

In short, the import of significant quantities of Mexican crude oil would: bring about pressures to discount U.S. Gulf Coast price for ANS oil, which would reduce the netback to the wellhead; in the absence of a West Coast pipeline (PACTEX), hinder ANS production and exploration; progressively push both Arabian and ANS oil out of U.S. Gulf Coast refineries. These possibilities raise potential Federal policy issues in regards to the need for incentives and compensations to Alaskan North Slope producers in order to sustain exploration and development of oil fields there. Other areas of concern would be the potential levels of discounting by the various actors, estimates on quantities and geographic penetration in the United States of Mexican

oil, and availability of oil for the Strategic Reserve Program.[122]

On the other hand, in all likelihood the U.S. balance of trade would benefit from the growing imports of Mexican petroleum. Factors such as geography, population density, and economic growth objectives, underline the fact that Mexico will purchase increasing amounts of U.S. goods. According to Mancke:

> "...since compared with any eastern hemispheric OPEC member, Mexico will spend a far higher fraction of any rise in its foreign exchange earnings for U.S. goods and services, a policy that encourages a rise in Mexico's share of the total world oil trade will lead to a net increase in the demand for U.S. exports. Therefore, the net effect...would be to reduce the U.S. balance of trade deficit."[123]

However, it would be an altogether different proposition for the United States to openly encourage, or pressure, Mexico to raise its level of petroleum production and exports, even though it might benefit the U.S. balance of trade, without due consideration to the domestic socio-economic impact in Mexico. Any significant increases in Mexico's hydrocarbon exports must be carefully weighed against the overall effect in Mexico's internal milieu. And, obviously, domestic conditions in Mexico are of utmost importance for the United States. Mancke seems to assume that the more oil Mexico produces and exports, the better off it will be, in terms of stability and "rapidly rising living standards."[124] But this is not necessarily so. As a matter of fact, unrestricted development of Mexico's oil industry, with a corresponding increase in exports and earnings, might well have the opposite effect, in social, economic, political, and ecological terms.

By 1979, Mexico had already displaced, in order of importance, two

traditional U.S. petroleum suppliers, Venezuela and Canada.[125] It is by now clear that Mexican hydrocarbon exports can indeed contribute to alleviate the energy problems in the United States. However, as it has been seen, their impact is complex and intimately tied to U.S. domestic energy policy. Regardless of the extent of Mexico's petroleum export potential, its ultimate significance is contingent upon the future patterns of U.S. energy consumption and production. In a context of expanding oil consumption, in time all of Mexico's exports might turn out to be just a transient palliative. On the basis of a 1978 conjecture, of 100 billion barrels in proven reserves, it was estimated that Mexico would not be able to supply the equivalent of more than 3 or 4 years of petroleum consumption by the noncommunist world, in terms of expected 1990 levels of petroleum needs.[126]

Mexico as an oil exporter represents for the United States, on the one hand, valuable time to reach an adequate equilibrium between conservation and production, and on the other, a unique opportunity to lay the foundation for a better mutual understanding. In effect, this is a two-sided proposition that goes beyond a mere commercial exchange, to encompass the complex social, economic, and political amalgam of relations between the two nations.

NOTES TO CHAPTER V

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CHAPTER VI

MEXICO: THE DOMESTIC CAULDRON

Socioeconomic Environment: 1976 to the Present

A diagnosis. The goals of Mexico's process of socioeconomic development could be measured in terms of the following criteria:

-A more equitable distribution in income, through greater efficacy and honesty in the fiscal mechanisms and a structure of progressive taxation.

-An increase in productivity levels in all the sectors of the economy. This goal is parallel to the first one since, as the possibilities of consumption of the population become greater, there must be an increment in the availability of goods. Productivity is also a key factor in slowing the inflationary spiral.

-A rate of employment creation above that of the increment of the economically active population. This is a vital objective in promoting the self-satisfaction of basic needs by an increasing percentage of the population, and thus freeing state resources for other critical areas of development.

-An improvement of educational levels, congruent with the modalities of development.

-An improvement and extension of social programs, tending towards an ever-increasing coverage of the population, indispensable for their full incorporation to the productive and creative activities of national development.

-An improvement in basic infrastructure, in order to achieve an effective national integration.

-An extension of birth control programs, in order to bring demographic growth down to an acceptable level.

-The promotion of political-administrative decentralization, and the establishment of fiscal incentives for industry in the interior of the country (outside the cities of Mexico, Guadalajara, and Monterrey). The objective of these measures would be to slow down the excessive increase of population in a few, overcrowded, and unbalanced urban centers, with their subsequent negative impact in terms of maladministration of public resources.

These previous objectives implicit in Mexico's process of development must be inscribed within a framework of complex social and economic problems, intimately related to each other.

Official policy: 1976 to the present. During the postwar era, a series of factors effectively contributed to strengthen Mexico's process of development, among them:

-Domestic political stability.

-A sustained rate of economic growth.

-Alternate sources of foreign currency (besides exports and international financial organizations), i.e. tourism.

-Self-sufficiency in basic foodstuffs and petroleum.

-A low rate of inflation.

-Solvency in the world's financial markets.

-An "escape value" for unemployment and underemployment, through

migration to the United States.[1]

However, by the late 1960's these factors had ceased to have, to various degrees, their former positive influence. From 1970 to 1976, matters took a turn for the worse. Domestic political stability was threatened by a flagging economic performance, and by the acrid conflicts between public officials and the private sector. Income from tourism was increasingly canceled out by the growing expenditures of Mexican tourists in other countries, especially the United States. In this way, Mexico lost an important compensating element for its chronic trade deficit. Agricultural production continued its long and steady decline, both for domestic consumption and exports. During a brief period Mexico lost its self-sufficiency in petroleum. The rate of inflation soared. As a result of the previous situation, Mexico's position in the international financial markets was progressively eroded. Finally, a precarious economic situation in the United States made Washington redouble, to be sure more in intent than in effectiveness, its efforts to stop illegal Mexican migration.[2]

When the López Portillo administration took over in 1976, the stage was set for decisive political action in order to overcome the crisis, and embark upon new schemes of development. In his first annual report, in September, 1977, the Mexican president defined the then prevalent situation:

> "Mexico...is living a severe crisis. The development of the country was sustained for a long time by political stability, moderation in price increases...and a fixed monetary parity with the dollar....Of these three supports we lost several years ago the proportionality of prices, which unleashed inflation...Later, our

> currency was devalued, unemployment increased, we fell into a recession, the financial system proved to be inadequate, and the situation was complicated by a lack of confidence."[3]

According to López Portillo, inflation, massive movements of capital, and radical changes in the relative values of currencies and raw materials, had created an essentially different scenario. Thus, there could not be a return to previously acceptable rules for socioeconomic development. The old pattern of growth, according to the President, was finished, and new approaches would be needed.[4]

A key element characteristic of López Portillo's regime has been the reliance on planning mechanisms, as a means to consolidate the guiding function of the state in the process of development. During his campaign for the Presidency, López Portillo had coined the slogan "Alliance for Production," i.e. between the public and private sectors, as a response to the economic crisis. In his acceptance speech of December 1, 1976, he defined the context of operation of the Alliance, in effect a new framework or organization in order to produce, distribute, and consume according to Mexico's own intrinsic needs. The Alliance for Production would offer "to everyone viable alternatives geared to reconcile the national objectives of development and social justice, with the specific demands of the various factors in the economy."[5]

The Alliance for Production set the pattern for a series of programs, such as: the Plan for Urban Development, the Plan for Industrial Development, the Plan for Agriculture and Cattle Development, the Mexican Food System, and various political, economic, and administrative reforms. By early 1980, all of these plans had been integrated into the

Global Plan for Development, 1980-1982.

The Global Plan for Development has defined the model Mexico is to follow as a nation, based on

> "A productive system capable of offering the national goods necessary for the consolidation of development and national autonomy, and the social goods to cover the normal needs of food, health, education, social security, and housing..."6

Within the framework of the National System of Economic and Social Planning, the strategy of the Mexican government would be geared to fulfill four basic objectives of development policy:

-"To reaffirm and strengthen Mexico's independence as a democratic, just, and free nation, in the economic, political, and cultural spheres.

-"To provide the population with employment and a minimum of welfare, giving priority to food, education, health, and housing needs.

-"To promote high, sustained and efficient economic growth.

-"To improve the distribution of income among persons, factors of production, and geographic regions."[7]

At present, two elements determine the priority of Mexico's development efforts: petroleum, and food production. By March, 1980, with the creation of The Mexican Food System (known by its Spanish acronym of SAM), the setting of limits to oil exports, and the postponement of Mexico's entrance to GATT, the model of development promoted by the Mexican government appeared to emphasize the goal of national autonomy.

The Mexican Food System has tried to overcome the lack of response by private enterprise in regards to the agricultural sector, namely in the area of basic foodstuffs for domestic consumption. The official encouragement of and preoccupation with food production would be

summarized by López Portillo in crude terms:

> "...The objective is national self-sufficiency...It would be painful for us that, having solved the energy problem, we were to fall into the trap of losing (the battle) through the mouth. We will not tolerate this!"[8]

An additional indication of the importance the Mexican government places on food production is the Law for Increasing Production in the agricultural and cattle industries. Enacted in early 1981, this law constitutes a further attempt to encourage productivity in this sector.[9]

But the petroleum industry is the key factor that has brought renewed confidence and high expectations in regards to socioeconomic development. The petroleum bonanza means for Mexico the possibility of a new model of development, able to compensate for domestic disequilibriums. Official Mexican government assessments of the significance of the oil wealth have shown clear optimism. By March, 1978, President López Portillo could already declare confidently that "petroleum will erase the ancestral misery of the Mexicans."[10] In his second annual report, on September 1, 1978, the Mexican President underlined the recovery of the nation's economy and predicted accelerated economic growth for the next few years.[11] By early 1979, in the words of López Portillo, petroleum had become the "axis of progress."[12] In other words, the exploitation of oil means the opportunity for Mexico to "liberate itself economically and socially."[13] More than that, on its petroleum wealth lies the future of Mexico:

> "That a country without petroleum fails, cancels its possibilities of development, is lamentable but explainable; but that in these moments, in this last third of the XX Century, a country with oil should become disorganized, to the extreme of not solving

> its economic and social problems, would be grave. Such a country would definitely cancel its historical project, would not deserve a worthy place in history."14

The expectations arising from Mexico's petroleum wealth were underlined in a mid-1978 study by Mexico's National Bank. Petroleum could be, according to this analysis, the key to national development. It would generate funds for various industries, provide the necessary energy for an increase in the production of goods and services, create demand and employment through Pemex's purchases, strengthen Mexico's financial stability in foreign markets, and promote the industrial capacity to achieve new projects.[15] Indeed, according to a prestigious international analysis firm based in Mexico, 1981 was expected to be the first of two years of accelerated growth, with a goal of upwards of an 8% increase in the GNP. A "powerful petroleum sector" would be the basis for a year in which "the Mexican economy will be one of the most dynamic in the world."[16]

Mexican government officials have frequently expressed their assurances that the country's development will not come to rely excessively on oil. Since mid-1977, President López Portillo has often reiterated that Mexico's diversified economy will allow it to place the exploitation of petroleum within a rational context and that petroleum will not be the axis of national development.[17]

By early 1979, Mexico's Secretary of the Treasury, David Ibarra Muñoz, and the General Director of the Bank of Mexico, Gustavo Romero Kolbeck, had announced a new strategy to generate foreign funds, in which petroleum would pass to occupy a second place in importance,

while the exports of manufactured and semi-elaborated products would become the pivot of economic development.[18] In August, 1980, Pemex Former Director, Jorge Díaz Serrano, emphasized that Mexico's economy was not becoming "petroleum-bound," but that, on the other hand, the financial inputs from hydrocarbon resources constituted a fundamental element to attain social justice. Mexico, said Díaz Serrano, "is not an oil country, but a country with oil...hydrocarbons are not an end in themselves, nor the final objective of the efforts underway."[19]

The self-assurance and ebullience of Mexico's public officials since 1977 has been positively reflected in U.S. and international government and financial circles. Late in that year, France's Le Figaro was predicting that "Mexico was destined to become a new Saudi Arabia," a favorable assessment of the situation, apparently.[20] By April, 1979, The Petroleum Economist considered Mexico's rapid ascent as an important oil producing and exporting country as "the most stimulating event since the 1973 oil embargo." According to that London-based publication, the revision of Mexico's financial and monetary policies by the López Portillo administration had placed the country again on sound basis, and attracted a new wave of foreign investments.[21] By mid-1978, the U.S. press was giving increasing attention to Mexico's oil wealth, emphasizing the promising perspectives for sustained economic growth under new pragmatic policies.[22]

An assessment. How does the socioeconomic situation in Mexico stand in the context of governmental policies, rhetoric, and forecasts? To begin with, there must be a distinction between two often interchangeably

used terms. Economic growth is not the equivalent of development. The latter involves a conjunction of economic and social progress. The relationship between these two factors is critical. A balanced process of development would tend to spread among the various sectors of the population the gains achieved through economic growth. Social progress, for its part, enhances the possibilities of economic growth by expanding the domestic market.

Following this appreciation, it could be effectively argued that Mexico's postwar "stabilizing development," while stimulating industrialization and economic growth, resulted in a deterioration of the distribution of income and unemployment rates, and the stagnation of the agricultural sector. Likewise, "shared development" failed in its objective of improving income distribution, because it lacked a comprehensive fiscal reform and resorted instead to external financing.

Redvers Opie has underlined six main problems related to Mexico's development: inflation; demographic growth; lagging agricultural productivity; low levels of industrial efficiency and international competitiveness; the problem of the "mix" between public and private enterprise; and the need for direct foreign investment capital.[23] The traditional avenues of solution to these various problems involve definite views concerning the direction Mexican development should follow. For example, an improvement in agricultural productivity would be the means to both expand the domestic market and create a surplus for exports. Increased industrial efficiency would go hand in hand with a shift in the structure of manufacturing into capital accumulation and the exports market. Mexico's "mixed system" would orient itself towards

greater participation by private enterprise. And foreign direct investment capital, mainly through the action of multinational corporations, would contribute to job-creation and general economic development.[24]

Mexican sociologist Rodolfo Stavenhagen challenges the previous perspective of the situation, through a number of "myths" which should not be confused with reality. One of these myths is that growing exports are a solution to Mexico's problems. If exports consist mainly of raw materials and semi-manufactured products, this would underline the lack of autonomous internal development. On the other hand, exports can indeed contribute to improve the balance of trade, but only if imports diminish, too. A deterioration in the terms of exchange can also spur inflation.[25]

According to Stavenhagen, another myth would be that an increase in production contributes automatically to the general welfare of the population. Deficits in the production of basic articles such as foodstuffs are often related not to a low level of output but to an unbalanced structure of production and an unequal system of distribution. A third myth would be that measures such as a devaluation and/or a liberalization of prices can improve economic health without substantial structural changes. Finally, there would be the myth that only large entrepreneurs can increase production in the agricultural sector. This production is usually geared to exports, which is detrimental for the domestic market, and takes away financial and technical resources from the poorest regions and populations.[26]

It is fashionable in Mexico these days to mention that the postwar model of development is no longer valid. It would be pertinent to

analyze the shortcomings of the process of development during the 1950's and 1960's, which tended to worsen domestic economic disequilibriums and social inequalities,[27] and to explore its persistent effects, now under the aegis of petroleum.

In many academic as well as financial circles, Mexico's economic performance following World War II was widely described as a "miracle." Specifically, high indices of economic growth, related mainly to the development of the industrial sector, an impressive infrastructure, improvements in the social services, and political stability, were some of the signs of the miracle. A critic of the "miracle" during the early 1970's, Fernando Carmona et. al., questioned these assumptions by referring to certain fallacies such as: the official manipulation of statistical data; the lack of equilibrium in the economy, in sectorial as well as social terms; the "bureaucratic-political labyrinth," that enhanced nepotism and favoritism; the failure to improve significantly nutritional, health, and educational standards among great sectors of the population; and the monopoly of political power.[28]

However, the authors of the Mexican Miracle failed to suggest alternatives to the situation they explored. Furthermore, whatever social and economic progress Mexico has experienced during the last few decades should not be dismissed lightly, especially when the enormous increase in population, and therefore in demands, is taken into consideration. Faced with internal diversity and external limitations, the job for Mexico's political leadership has not been easy, and its achievements would seem to be substantial.

Nevertheless, there are some clearly identifiable drawbacks.

Writing in 1979, Enrique Padilla Aragón, argues that Mexican development tends to be dependent, fluctuating, unbalanced, and unequal.[29] To a great extend Mexico relies on foreign investments and loans. But the determining factor is its strong dependence on a single market, i.e. the United States. Says Padilla: "...our economic development accelerates or is set back according to the economic policy of the United States in relation to the world and to us."[30] Mexican development also fluctuates, i.e. it is a cyclic type of development.[31] It suffers from various types of disequilibriums, i.e. between occupation and income, productivity in agriculture and industry, regional imbalances, and a breach between exports and imports.[32] Finally, the main problem, according to Padilla, is "redistribution of income and the internal market." In the early 1970's, 50% of Mexico's population perceived only 15% of the total income.[33] To a varying degree, since 1976 these four characteristics have continued to define Mexico's process of development.

Mexican development until the early 1970's had enjoyed both growth and stability. This was possible, according to Roger D. Hansen, because financing schemes followed the "monetarist" admonition of avoiding governmental deficits, as well as the structuralist dictum that investments in infrastructure must be kept at a proper level. Foreign credit financing was available at moderate interest rates.[34] However, something has obviously gone wrong since then. By early 1981, official Mexican estimates put the rate of inflation at close to 28%, and the IMF expects inflation to reach the figure of 32.5% by the end of the year. Washington sources have stated that, in spite of an average 8%

rate of increase of the GNP in 1979 and 1980, inflation is limiting Mexico's progress.[35] For his part, President López Portillo has referred to inflation as the "cost of the consolidation of progress," i.e. industrialization and modernization.[36]

Nevertheless, inflation remains a serious threat to the Mexican economy. Part of it is undoubtedly related to the external sector, i.e. a result of turmoil in international financial markets, and the high costs of imported capital goods for the petroleum industry. But there are significant domestic components, three of which could be identified: a growing domestic demand which exceeds the supply of goods and results in bottlenecks in the economy; the fact that imports which might satisfy domestic demand and lower prices are constrained by trade barriers; and wage compensations demanded by Mexican organized labor to offset inflation, which have often resulted in actual wage increases, and a subsequent spur in demand for limited products.[37] However, any actions by the Mexican government to counter this situation would run contrary to developmental and nationalistic objectives and, thus, would be politically unfeasible.

Inflation has also been spurred by the critical situation in the agricultural sector. Starting in the 1940's, Mexico's economic growth was based on the primary sector. The government invested heavily in irrigation, and agricultural production began to increase by 4.4% a year. According to Richard D. Hansen, the agricultural sector had to provide: increasing amounts of foodstuffs to the rapidly expanding urban population; raw materials; export earnings to finance the import of capital goods; labor for the secondary and tertiary sectors; savings

for industrial and infrastructure investments; a market for the goods from the industrial sector. Mexico became virtually self-sufficient in food production, and its output of raw materials for the industrial sector increased rapidly. Agricultural exports since 1940 grew at a rate of 6% annually, and represented from 25% to 50% of total exports income. A sizeable proportion of the rural population became available for urban occupations. Savings from agriculture were transferred to other economic sectors. And, finally, rural Mexico seemed to represent a growing domestic market for Mexican industry.[38]

But agriculture, the hen that laid the golden eggs for Mexico's process of development, increasingly faltered. From 1965 to 1976, output grew only by an annual average of 1.6%. In the words of Redvers Opie:

> "At some point in the process of industrializing the country, the contribution of Mexican agriculture to GDP could be expected to decline. But total agricultural production would seem to have declined too early and too rapidly."39

The participation of agriculture in the total goods and services produced in Mexico, which was 20.2% in 1950, diminished to 9.4% in 1965, 5.6% in 1975, and 5.2% in 1979.[40] From 1970 to 1979, the agricultural sector's contribution to Mexico's foreign trade declined by 23%.[41]

The reasons for the crisis in the agricultural sector are varied. At the beginning of 1980, the surface under cultivation and the grain tonnage obtained were basically the same as 15 years earlier.[42] During the 1970's, agriculture suffered from a scarcity of investments.[43] Cultivation of basic grains for domestic consumption, such as wheat,

corn, and beans, has dropped, while crops for export or cattle-feeding, such as sesame and sorghum, have increased their volumes.[44] This has been propitiated by speculation in the basic foodstuffs market by Mexican as well as multinational corporations. The situation of scarcity in basic agricultural products contrasts with the expansion of the cattle industry, geared towards beef exports.[45]

Due to a combination of drought and frost, between 1979 and 1980 Mexico's grain harvest collapsed catastrophically. Through the entire decade of 1970's, grain imports by Mexico amounted to 16.637 million tons. By contrast, during 1980 alone the figure would reach a total of 12 million tons, the largest quantity of grains ever purchased in its history.[46] The huge purchases brought havoc to Mexico's railroad system, in charge of transporting the grain imports from the U.S. border, and apparently unable to cope with the task.[47] The traditional surplus in the agricultural trading balance had, by 1980, turned into a deficit of 180 million dollars, due to low production and massive imports.[48] Continued sizeable purchases were predicted for 1981, in the order of 10 million tons of grain.[49]

The "easy" solution to the agricultural problem, i.e. to import foodstuffs with funds from petroleum exports, would seem to hinder the implementation of structural changes in the countryside, needed in order to achieve a more rational and effective production. Nevertheless, the Mexican government appears to be aware of these problems. Since late in 1978, President López Portillo had emphasized that "oil (was) not enough; without foodstuffs, there can be only a half-way development."[50] The Mexican President, by late 1980, was counting on the Mexican Food

System (SAM) to achieve a sufficient minimum level of foods consumption for all Mexicans.[51] In December, 1980, the Secretary of Patrimony and Industrial Development, Jose Andrés de Oteyza, was underlining that the best utilization of earnings from petroleum would be in the agricultural sector, to encourage food production.[52]

In his fifth annual report of September, 1981, the Mexican President announced the recovery of the agricultural sector. During 1980, harvests were the highest in history, i.e. 23.489 million tons of basic foodstuffs, an 11% increment over the previous record figure of 1978, and 29.5% in excess of the 1976 level. Likewise, new record figures are forecast for 1981. The production of fertilizers more than doubled during 1980, from 2.2 to 5 million tons. The Mexican government seems to have made the decision to reach self-sufficiency in food as a means to neutralize dependence on the United States. By 1982, present trends point to self-sufficiency in corn and beans.[53]

The López Portillo administration has taken strong measures which involve extensive subsidies to producers and consumers of agricultural products. Besides the rise in production itself, the surface under cultivation is expanding rapidly, a 17.9% increase in 1980 in relation to 1979 levels, to a total of 12.7 million hectares. The strategy is proving to be very costly. During 1980 credits to the agricultural sector increased by 61%, and for 1981 it is estimated they will amount to 290 billion pesos. Basic price guarantees to producers increased by 40% during 1980, and 1981 will represent an apportionment of 38 billion pesos. Still, Mexican officials point to the fact that oil income is being spent at home.[54]

According to a Mexican critic, Raúl Olmedo, even if self-sufficiency in basic foodstuffs were to be reached, it would mean nothing to income and employment levels in the rural sector are not raised.[55] Olmedo thinks that insufficient food production is a result of a low level of demand, which springs from the weak consumption possibilities of great sectors of the population. Whereas potential demand is enormous, as precarious indices of nourishment attest, real demand, based on earnings, has not grown accordingly.[56]

Some Mexican officials are apparently well aware of the social implications from this agrarian dilemma. By late 1980, former Mexican Secretary of Agrarian Reform, Javier García Paniagua, declared that the social inequalities in the countryside were "brutal."[57] Income distribution problems are deep-seated, and they are likely to plague Mexico through the remainder of the century. However, the level and intensity of these inequalities, and the success or failure of the government to improve them, might well determine social peace in Mexico. By mid-1980, a group of Mexican analysts were warning that the Global Plan for Development would not reach its goals, since it was addressed to problems pertaining to a certain economic juncture, i.e. the so-called exhaustion of the model of import-substitutions, and not to deep structural problems, such as the maldistribution of income.[58]

Income distribution continues to be extremely unbalanced. While certain small groups receive a disproportionate share of the total income, the bottom 40% of the people subsist on barely 12% of the income. This unequal concentration of economic wealth means that the living conditions of the majority of the population are well below what they

could be, were there a more equitable distribution of the national income. By September, 1981, the Mexican President was addressing the issue of income distribution. According to López Portillo, the impressive economic growth rates of 9.2% in 1979, and 8.3% in 1980, are having a clear impact on the increment of family income, of 4.7% between 1977 and 1980. From another perspective, the various social security institutions cover 48 million people, i.e. more than 65% of the population, 20 million of whom have been incorporated since 1977.[59] But conclusive proof of improvements in the distribution of income remains elusive, and the quality of benefits under social programs varies sharply.

Socioeconomic pressures are directly related to demographic growth. Mexico practically doubled its population between 1960 and 1980, from 36,881,000 to 69,752,000 people. During this period, life expectancy increased from 59.2 to 64.4 years. In spite of partially effective official efforts at birth control, Mexico still has one of the highest rates of demographic growth in the world, around 3% annually. This means that its population of 70 million will double in 24 years. One of the most formidable problems derived from these facts is the age structure of the population: more than 45% of the people are 15 years old or under. There are simply not enough resources to achieve an adequate level of nutrition, health, education, and housing for such an overwhelming proportion of minors.[60]

This phenomenon of rapid demographic growth in Mexico could be better understood in the following terms:

-The estimated demographic growth for relatively short time spans, of 20 to 30 years, leads to levels of population density similar to

those of developed, industrialized nations, without a nearly comparable urban, industrial, or agricultural infrastructure.

-Mexico's economic policies, and efforts at developmental planning, cannot by any means underestimate the impact of the demographic factor, not only in terms of total population increases, but also of its structure, i.e. the fact that the economically active portion of the population continues to decrease relative to the dependent sectors.

-Demographic growth, and population structure, generate an ever-greater need of investments on equipment and social services than is the case in countries with smaller demographic increases and a more balanced age structure. In particular, the educational and formative process, together with the sanitary, assistance, and housing capabilities, are under constant pressure from growing demands.

Closely related to demographic growth, the high rate of urbanization causes multiple and sharp problems, among them the incapability to create urban-industrial jobs in sufficient numbers, and to supply adequate social services, equal to the prevailing needs. Almost two-thirds of the Mexican population live in urban centers, and peasants continue to migrate to the cities, most of them to join the ranks of the poor, marginal population of the urban slums. Accelerated urbanization frustrates the efforts to provide adequate public services to an ever-increasing population, and depletes resources that, otherwise, would be channeled towards the agrarian sector. Industrial and bureaucratic centralization in a few, large cities emphasize the negative effects of urbanization.

Unemployment and underemployment represent one of the fundamental

obstacles to achieving better distribution of income. Although data is not altogether reliable, it is estimated that both of these phenomena affect close to 50% of Mexico's population. The main causes of unemployment are demographic growth and the situation in the agricultural sector.[61] The age structure of the population determines that the country has an adult labor force of only 18 million. This means that barely 28% of the population support the remaining 72%. Still, less than half the workers have permanent jobs. The task of bringing down the level of unemployment is staggering: the Mexican economy would have to create more than a million jobs per year.[62] In other words, the indices of employment creation, 2.5% a year between 1950 and 1970, and 2% from 1970 to 1979, must be brought up to a goal of 4.2%, in order to safely surpass the annual increment of job demand, of 3.4%.[63] President López Portillo is placing the hopes for employment creation on vast industrial investments.[64] By September, 1981, the Mexican President was reporting that during the period 1977-80 industrial production registered a growth of 8.1% per year. This contributed to the creation of 3,250,000 new jobs.[65] But, in the past, because of tendencies towards capital-intensive industrialization, this scheme has been only partly successful.

Here, again, hopes are also placed on the oil industry to create jobs.[66] But the petroleum industry is basically a capital-intensive industry, employing relatively few workers per plant. Thus, the success of a liaison between the oil industry and the employment market would depend, rather, on the ability to transfer funds from the first into a wide arrangement of productive activities.

In this respect, there are a number of critics who maintain that, far from representing a contribution to Mexico's economic standing, petroleum exploitation has increased its economic vulnerability. In other words, Pemex has borrowed and spent more than it has received from its exports.[67] Indeed, a number of official estimates would seem to confirm this assertion. By the beginning of 1981, the Secretary of Patrimony and Industrial Development announced that, in 1980, income from petroleum exports amounted to 10.4 billion dollars (more than twice the level of 1979), but the commercial and payments deficit grew because imports totalled 18 billion, 7 billion more than expected.[68] On the other hand, during the second three-month period in 1980, Mexico paid 2.88 billion dollars in foreign debt services, while petroleum exports income only reached the amount of 2.565 billion.[69]

In the midst of economic turmoil in 1976, the Mexican government had approached the International Monetary Fund (IMF) for a loan, which was granted under certain conditions, i.e. an austerity program which would have set limits to Public Sector deficits as a percentage of GDP. Petroleum changed this situation, and relieved Mexican economic policy from IMF pressures. At present, international financial institutions and banking consortia are more than willing to lend to Mexico. As a result, Mexico has incurred a steadily growing foreign debt.

Towards the end of 1980, the public foreign debt was officially estimated to be 34 billion dollars. If the private foreign debt is added, the total rises to approximately 53 billion dollars. During 1981, the debt service grew by 36%. But official sources in Mexico point out that the proportions of the public foreign debt in relation

to GDP has been reduced to close to half of what it was in 1977.[70] And the government does not plan to utilize oil income to defray the debt.[71]

As a result of the mid-1981 worldwide oil glut, Mexico's reserves are expected to be cut during the year from a projected 20 billion dollars to approximately 15 billion. This has affected adversely the projected public budget for 1981, which had originally amounted to 2.333 billion pesos, 31% higher than the 1980 budget.[72] In spite of domestic measures to reduce public spending by 4%,[73] Mexico will have to borrow about 8.5 billion dollars during 1981.[74]

It is true that Mexico's total international reserves are at a record high of 10.397 billion dollars, 66% over the 1980 level and the highest in history.[75] However, in this respect it should be noticed that the central bank's reserves, as a percentage of the bank's total assets, have fallen from between 30% to 50% during the 1950's and 1960's, down to 14% by July, 1981. These facts, together with a rise in consumer prices of 106% between 1977 and 1980, point to the possibility of a sharp devaluation of the Mexican currency. The peso has been allowed to "float" since the 1976 devaluation, and it has slipped from a parity of 22.74 pesos to the dollar in late 1977, to 25.62 by November, 1981. But, as a matter of fact, the central bank has supported it by holding pesos in Mexico's financial markets.[76] In any case, it is likely that the peso will continue to slip steadily, rather than undergo a sharp devaluation, albeit at a rate as yet difficult to anticipate.

The liquidity of Mexico's financial system suffers from a heavy

imbalance in its foreign commercial transactions. This is not a new situation: Mexico's balance of trade, with the exception of the year 1949, has been unfavorable for the last 49 years. But the present characteristics and volume of the deficit are indeed different. Specifically, two key factors that determine the performance of the external sector since 1978 are the steady growth in imports, and the decline in manufacturing exports. Imports have increased partly as a result of growing domestic demand, derived substantially from the expansion of the petroleum industry. And the balance of trade in the manufacturing sector has worsened, in spite of continuing domestic energy subsidies. The total commercial deficit for 1980 was 3.265 billion dollars. By 1981 the Mexican government was trying to reduce imports by the Public Sector, with mildly encouraging results, but non-petroleum exports continued to be sluggish. On the other hand tourism, a traditional compensating factor as a source of reserves, is declining due to rising domestic prices.[77]

According to the Mexican government's Foreign Trade Cabinet, Mexico has a substantial deficit in its commerce with the United States. From 1975 to 1978, petroleum exports brought about a reduction of this deficit, from 26.390 billion pesos in 1974 to 12.387 billion in 1978. However, the dynamism of the Mexican economy resulted in renewed sharp increases in imports, which soon neutralized income from sales of petroleum. By 1979, the commercial deficit with the United States surged to 38.712 billion pesos, and tendency continued during 1980, when a level of 64.512 billion pesos was reached. In 1977, petroleum started to play a preponderant role in Mexican sales to the United States. In

1978, oil accounted for 39.5% of sales, and this figure had risen to 61.2% by 1980. During this latter year, Mexico became the third commercial client of the United States in order of importance. In general terms, there would seem to be a correspondence between the sharp increases in Mexico's trade deficits, and the consolidation of petroleum as its main export to the United States.[78]

During 1980, foreign investments in Mexico increased by 1.661 billion dollars, and were expected to go up by 3 billion in 1981. Investments by subsidiaries of U.S. corporations registered an increase of 347 million dollars in 1978, and 1.3 billion in 1980, channeled mostly to the manufacturing sector of the Mexican economy. Parallel to this, between 1979 and 1980 the current account deficit of Mexico in its balance of payments with the United States grew by 230%: from outflows of 797 billion dollars in "hard" currency for 1979, to 2.631 billion by 1980.[79]

The high indices of economic growth in Mexico during 1979 (9.2%) and 1980 (8.3%) would seem to be related to a few basic detonating factors: petroleum exports, purchases of capital goods for Mexican industry (especially that related to the oil industry), and the entrance of new flows of investments. Mexico continues to depend on the U.S. market for these key components of its trading relationships.

The Political Pivot

An overview: the State and the Private Sector. According to Anderson and Cockcroft, the Mexican government is primarily concerned with promoting four national goals: political stability, economic growth,

public welfare, and Mexicanization. Political stability involves the perception of basic political institutions, decision-makers, and modes of transferring power as legitimate by most of the people. Economic growth relates, as usual, to increases in categories such as industrial productivity and per capita income. Public welfare implies the improvement of living standards for the bulk of the population. And Mexicanization refers to the policy of achieving national control, public or private, of the process of development.[80]

In Mexico, these goals are closely linked with the mystique of the Mexican Revolution, and the concepts of "mixed economy" and "state capitalism," i.e. the State viewed as leading the country to higher levels of economic growth, social progress, and national consciousness. State action takes place within a political space in which the main actors are, in order of importance, the Mexican President, the "official" Pantido RevolucionarioInstitucional (PRI, i.e. Revolutionary Institutionalized Party), and pressure groups of varying nature and political persuasion.

The Global Plan for Development, 1980-1982, reaffirms the "predominance of the State and the Public Sector" in Mexico's economy.[81] In his Annual Report of September, 1981, President López Portillo underscored that "planning for development supposes the leading function of the State in its various processes."[82] This preponderant role of the State does not spring from direct control of most of the Mexican economy. The Private Sector still contributes about half of the country's total investment, to 45% for the Public Sector and 5% for foreign capital. Rather, the State controls some key factors in the process of

development. Raymond Vernon has pointed out the overwhelming role of the Mexican State in regulating the supply of credits, imports, and public facilities.[83]

The Public Sector comprises a complex of powerful economic institutions. Three of these, the Banco de Mexico (Central Bank), the National Banking and Insurance Commission, and the Secretariat of Finance and Public Credit, regulate the financial operations of the Private Sector. Traditionally, the government has maintained a degree of control over prices in the Private Sector, usually to protect domestic industry. Several public financial institutions such as Nacional Financiera, are active in the promotion of agricultural and industrial activities. State enterprises and decentralized organizations, of which Pemex is by far the most important, have in recent years accounted for 10% to 15% of Mexico's GNP.[84]

Since 1977, the growth index of State decentralized enterprises has been more than double that of the total for the entire manufacturing sector. Even excluding Pemex, this accounts for 11% of GNP. According to official estimates, the 350 State decentralized enterprises employ 470,000 persons and contribute with more than 75% of total exports, although most of this latter figure is made up by foreign oil and gas sales.[85]

At first sight, Mexico's petroleum bonanza would seem not only to restore to the State the influence it had lost during the crisis-ridden mid-1970's, but to reinforce its role as the controlling force of the economy. In the words of E.V.K. Fitzgerald,

> "The onset of oil and gas exports on a massive scale in the nineteen eighties means that the Mexican State will have, for the first time, resources of its own to allocate to economic and social infrastructure; this should permit the public sector to complete the task of restructuring the economy through direct investment."[86]

In other words, the growing financial capacity of the State is likely to have a substantial impact on Mexico's "mixed economy." Indeed, by mid-1980 the Mexican Institute of Foreign Trade reported that the Public Sector had attained a surplus in its commercial balance during the first five months of that year, amounting to 2.032 billion dollars, which compensated in 79.4% the commercial deficit of the private sector, of 2.559 billion dollars. Hydrocarbon exports were the decisive factor in the 199% increment in exports income during this period, relative to a similar period during 1979. However, the Public Sector had deficits in both agricultural and manufactured products transactions.[87]

Thus, petroleum income would seem to alter the previous political equilibrium between the Public and Private Sectors. The increase in petrodollars for the government could diminish the leverage of the Private Sector to advance its goals. Capital flight constitutes the main element of pressure available to the Private Sector to impinge upon the orientation of national economic policy. This possibility would tend to weaken as the State increases its disposable funds through oil exports.[88] This seems to be the general situation in oil exporting countries. According to Marcos Kaplan,

> "The multiple impact of petroleum in producing-exporting countries is manifest and focuses on the strengthening of the State and its functions,

> of its powers, and of its relative autonomy, to retransmit itself to all the aspects and levels of national society."[89]

However, the plain fact of the increase in the financial weight of the Public Sector, does not necessarily mean that there should be a conscious attempt to swamp the sphere of action of the Private Sector. From 1940 to 1970, the role of the state in Mexico was to support domestic private enterprise through means such as tax exemptions in order to achieve an accelerated and sustained process of industrialization.[90] And there is at present no real indication that the Mexican government intends to do otherwise. The recent Mexican refusal to enter into GATT seems to confirm this assessment. Some Mexican analysts see schemes such as the Alliance for Production, as basic incentives to foster the activities of the Private Sector. In this context, the larger enterprises would be the ones with the most to gain out of price liberalization policies at a domestic level, and government measures to support industrial recovery.[91]

Indeed, President López Portillo has emphasized the need to protect domestic industry against foreign competition, and from limitations implicit in Mexico's present stage of development.[92] Specifically, in October, 1981, the government's Public Works Bank (BANOBRAS), extended a credit for 680 million dollars to the Alfa Industrial Group, Mexico's largest and fastest-growing private conglomerate, which was suffering a financial squeeze due to overextension of operations and the rise in worldwide interest rates.[93]

<u>Pressure groups and political parties.</u> Mexican critic Roger Bartra

stresses the manifestations of Mexico's "heavy centralism and authoritarian presidentialism." According to Bartra, the Mexican federal system is merely a legal formulism. As the traditional power of the regional caciques has eroded, the sway of the central government over the provinces has increased. Most of the governors are imposed by the Executive, says Bantra. With the exception of four state governments that constitute a "crystallization of regional power," i.e. the states of Mexico, Nuevo Leon, Jalisco, and Veracruz, all the rest would be either in a situation of extreme dependence vis a vis the central power, or as mere administrators for it.[94]

On the other hand, the PRI has been able to maintain an overall control over political processes through its three sectors: the National Confederation of Popular Organizations (CNOP), which represents the interests of Mexico's middle class; the Mexican Confederation of Workers (CTM); and the National Peasants' Confederation (CNC).

A number of elements explain PRI control over Mexico's middle sectors, such as the heterogeneity of CNOP's component groups, which make it difficult for them to act in unison, and the expansion of the national bureaucracy, whose members depend on the government for their jobs. Government employees constitute a sizable part of the sector and are, thus, a powerful force contributing to close identification with the official PRI line. Centralized control of Mexico's organized labor through the CTM and its durable leader, Fidel Velázquez, gives the PRI the capacity to mobilize workers in the urban sectors. The hold of the CNC throughout the countryside, based on its possibilities for patronage of peasants, remains practically unchallenged.

But political power in Mexico is by no means monolithic. There are new patterns of authority, as well as new political actors.[95] One of the key elements that must be incorporated into an analysis of Mexico's changing political environment is the growing role of pressure groups.

Taken as a whole, the Private Sector is perhaps the most formidable source of pressure on the central government. As Richard B. Mancke asserts:

> "Ironically, it has been the 'nonrevolutionary' private sector that, historically, has had the most influence on the PRI. Though officially excluded from the PRI's formal structure, there are at least three structural reasons why industry interacts closely with government. First, railways, communications, utilities, and several key industries, such as petroleum, are all in the public sector. Second, government pricing, credit, tariff, and investment policies have a direct impact on private business. Third, and probably most important, the PRI is able to control labor and thereby wins the gratitude of the private sector."[96]

On the other hand, the activities of private business help to mobilize employment and capital, vitally important elements in Mexico's process of development.[97] In this respect, some conservative Mexican critics argue in favor of a full return to private capital of its traditional activities in the Mexican economy, especially in the manufacturing sector.[98]

At the other end of the political spectrum, the leftist leaning Mexican magazine Proceso has given particular attention to what it sees as a political environment, under President López Portillo, extremely receptive to the activities of the private sector. The initial action

by the government in this sense would have been the formation, in December, 1976, of the "Alliance for Production," an agreement reached between the government and leaders of industry and organized labor, with the objectives of promoting investments and economic growth. According to Proceso, since 1977 there has been an expansion of the fusion between private industrial and banking capital which is bound to tighten its hold on the Mexican economy.[99]

Some Mexican critics go even further in their analysis and see the appearance of a bureaucratic-entrepreneurial complex as part of a project of privatization of political power. This would amount, in effect, to an alliance between the government and private enterprise, in order to maintain the present model of development, based on capital accumulation, rapid economic growth, and renewed industrialization.[100] However, present political processes in Mexico cannot be viewed from such a narrow perspective, as the strengthening of any particular group, no matter how relevant it may be.

Nevertheless, the resources available to Mexico's Private Sector are formidable. In a mid-1980 list of the 500 most important enterprises in the world, published by the magazine Fortune, there were 16 Latin American state and private firms, of which 3 were Mexican. The most important Mexican company was Pemex, third in Latin America and 39th in the world, with sales for 7.290 billion dollars. The other two were private firms. The Alfa Group, with headquarters in the city of Monterrey, ranked 8th in Latin America and 299th in the world. Alfa is the most important private enterprise in Latin America, with sales for 2 billion dollars and total assets at a level close to 5 billion.

Alfa has diversified its activitiesbeyond its initial nucleus as a steel company, into petrochemicals, tourism, electric appliances, food processing, and capital goods. The VISA Group (Industrial Securities, S.A.), also located in Monterrey, ranked 15th in Latin America and 453rd in the world, with sales for 781 million dollars.[101]

The political demands by Mexico's Private Sector have traditionally been channeled through a representation of their interests in Mexico's bureaucratic-political apparatus. For example, the Secretariat of Industry and Trade has generally tended to represent Mexico's manufacturing interests. Likewise, the Secretariat of the Treasury has over time worked towards the maintenance of a "good investment climate," and sound financial management.[102] Thus, the Private Sector appears to have direct institutional means to present its views in governmental circles.

The Private Sector has a direct stake in the expansion of petroleum exploitation, and present laws mandate the extensive use of Mexican subcontractors in the development of the industry. By the same token, oil income would seem to strengthen the Mexican economy and pave the way for larger investments and operations by private companies.[103] However, an overheated economy has also brought about rising interest rates, a sign of strain in the capacity of the Mexican banking system to finance purchases on credit. In any case, in spite of the willingness of the Private Sector to expand its activities in the petroleum industry, the State is unlikely to relinquish to any degree its direct control of the industry.[104]

The harmony of interests between Mexican and American business

groups derives from their multifaceted association. Mexican private firms in Monterrey and Mexico City, as well as banking groups such as Bancomer and Banamex, share joint ventures with U.S., Western European, and Japanese Multinational corporations. Likewise, the Mexican private sector relies on credit financing from U.S. conglomerates such as the Bank of America and the Chase Manhattan Bank.[105]

After the January, 1981, meeting between President López Portillo, and then President-elect Reagan, the leaders of three of Mexico's most powerful private sector organizations, Ernesto Rubio del Cueto, President of CONCAMIN (Confederation of Industrial Chambers), José Porrero, President of CANACINTRA (National Chamber of the Transformation Industry), and Jorge Chapa, President of CONCANACO (Confederation of National Chambers of Commerce), stated their hopes for a better commercial relationship and a relaxation of bilateral tensions. High on their agenda is the need for lesser trading barriers in the United States to Mexican manufactured exports.[106]

It would be safe to assert that the American Chamber of Commerce in Mexico represents the views of U.S. investors quite closely, since in its membership of approximately 2,200 corporate members "is represented the major part of U.S. direct private investment in Mexico."[107] Al R. Wichtrich, former President of that association, has stated that its "main objective (is) to promote trade between the host country and the United States....There is no question in my mind that U.S. private foreign investment is one of the best ways to stimulate the economic development of Mexico."[108]

Wichtrich praised the measures put into effect by López Portillo

early in his regime, which gave "reassurance of a more understanding and conciliatory attitude toward the private sector."[109] Apparently, a good working relationship has developed between the Mexican President and the Officers of the American Chamber of Commerce in Mexico. These officers, according to Wichtrich:

> "...dialogue with the Mexican Government, we do talk to them, we do try to place before them our position, certainly we are not going to tell them what they should do or not do...They have their problems. As I mentioned before, it is a sovereign country. We try to show them where perhaps they are making a mistake and try to prove...how they shouldadopt certain attitudes, perhaps, foreign investment would be more welcome."[110]

One of the objectives of the American Chamber of Commerce in Mexico is to underline "this mutuality of interests between the U.S. transnationals and the Mexican government."[111] Jorge Domínguez has noted in the behavior of this pressure group an attempt to widen and influence the information available to the Mexican government and to mold a more favorable political climate for foreign investments. At the same time, "specific foreign firms have also lobbied to defend their particular interests against adverse governmental policies," such as the case of automobile and pharmaceutical firms in the 1960's and 1970's.[112]

John Pluntket, President of the American Chamber of Commerce in Mexico at present, views the relationship between López Portillo and Reagan as instrumental in strengthening friendly relations between the "leading Latin American country" and the United States. Pluntket minimizes the import of recent differences between the two nations, as "a problem of concepts and disagreements in the definition of some terms."

The United States is ready, says Pluntket, to reestablish a dialogue for the benefit of both countries.[113]

Likewise, José Carral, General Vice-President and representative in Mexico of the Bank of America, has been encouraged by signs of decreasing political and economic tensions between the United States and Mexico, due to Reagan's personal diplomacy, parallel to an increment in foreign investments in Mexico and general commercial relations between both countries.[114]

The American newspaper New Times has underlined the divergencies in Mexican public opinion referent to ties with the United States in the following terms: "The government, bankers, and industrialists are pressuring in favor of closer links with the United States, while several opposition groups demand economic independence for the country."[115] While this distinction may be too sharply drawn, it does reflect some of the realities of the response by politically aware forces in Mexico, especially in light of the oil bonanza.

The increasing diversity and conflicting demands of various political groups point to the fact that the Mexican political system is becoming more open in terms of political competition. The process of Reforma Politica (Political Reform), consolidated from 1976 to 1979 under former Secretary of the Interior Jesus Reyes Heroles, has allowed for an expansion in the number of registered political parties, their assured (if minimal) representation in the Chamber of Deputies, and greater access to mass media, which the government strongly influences.[116]

At present there are, in addition to the PRI, eight registered

political parties which will present candidates in the 1982 elections. These include three groups that had enjoyed legal status previously to the Reforma Politica: the National Action Party (PAN); the Popular Socialist Party (PPS); and the Authentic Party of the Mexican Revolution (PARM). The five new parties include three that had participated in the 1979 congressional elections: the Communist Party (PCM); the Workers' Socialist Party (PST); and the Mexican Democratic Party (PDM). Two other parties have been legally recognized for the 1982 elections: the Trotskyte Revolutionary Party (PRTT); and the Social Democrat Party (PDS). Additionally, there is the Mexican Workers' Party (PMT), led by one of Mexico's best-known opposition leaders, Heberto Castello, which the government has refused to register, as well as other minor groups.[117]

The National Action Party (PAN), created in 1939, is the largest and oldest political party in Mexico next to the PRI. To the right along the country's political spectrum, the PAN constitutes a pro-business force, ideologically committed to free enterprise and Catholic values. In spite of a continuous division among its upper echelon leadership, the PAN seems to have a unified policy thrust, which includes support for more domestic private involvement in the petroleum industry. PAN's candidate for President in the 1982 elections, Pablo Emilio Madero, is likely to be the runner-up after the PRI's candidate, present Secretary of the Budget and Planning, Miguel de la Madrid Hurtado. Another alternative to the right of the PRI and, as a matter of fact, the most conservative Mexican political party, is the Mexican Democratic Party (PDM), which wants to promote the collaboration

between church and State and traditional family values.[118]

The Popular Socialist Party (PPS) and the Authentic Party of the Mexican Revolution (PARM), have traditionally been allies of the PRI. The PPS has attempted to rally supporters around the issues of land and income redistribution, while the PARM's views remain indistinguishable. Both parties have accepted, with token opposition, government policies for the petroleum industry. The role of both PPS and PARM is likely to be preempted by the entrance into the political arena of the new leftist parties.

Mexican leftist opposition parties have repeatedly argued against present Mexican government policies regarding petroleum production and exports. Since early 1978, leaders of four Mexican parties of the left, the Communist Party (PCM), the Mexican Workers' Party (PMT), the Socialist Revolutionary Party (PSR), and the Mexican People's Party (PPM), coincided in expressing the need to draw and implement an energy policy that would truly respond to the national interests, and warned against the danger of continuing Pemex's "handout policy." Present oil policy, according to this view, is totally opposed to that put into action by Cárdenas in 1938.[119]

Herberto Castillo, head of the Mexican Workers' Party (PMT), has stood out in recent years with his acerbic criticism of the government's oil policy, both from an external and a domestic perspective. Externally, according to Castillo, present policies are bound to increase drastically Mexico's dependence on the United States. Internally, he says, petroleum exploitation is resulting in a dichotomous society, with two contrasting sectors: "one employed and benefiting from

economic growth, and the other underdeveloped and relying on government handouts for survival."[120]

The announcement by the Mexican government early in 1977 of the construction of the gasduct to the United States, served as a catalyst for the various leftist opposition leaders to unite against it. Edward C. Williams has pointed out that even though the Mexican left failed to thwart the project, it did succeed in making the government effect a "strategic withdrawal." Under fire from critics, who advanced a scenario of increased economic dependence, pressures, and even U.S. occupation of Mexican oil fields, the government changed the emphasis regarding the objectives of the gasduct. The project, according to the revised official version, would improve Mexico's internal distribution system.[121]

More recently, Castillo has presented his view of the logic of increased petroleum exploitation in terms of greater dependence of Mexico vis a vis the United States: "The U.S. needs our oil and Mexico is economically bound to that nation." Speaking early in 1981, Castillo pointed out that massive exports of petroleum have brought about the abandonment of various industries, and have aggravated unemployment problems in Mexico.[122] The Communist Party sees the issue in terms of "systematic pressures from imperialistic capital" to force Mexico to raise its oil exports level, enter GATT, and change its stand against intervention in Central America."[123]

By August, 1981, six leftist parties announced plans to unite for the 1982 elections. These included the Communist Party (PCM) and the Mexican Workers' Party (PMT), plus four other minor groups. The project

attempted to form a new leftist alliance, to be called the Unified Socialist Party of Mexico, which could have become Mexico's second largest political force. However, by November, 1981, the alliance had collapsed. The reasons for the quick end to the leftist challenge were not too different from other cases, mainly a personality conflict between Heberto Castillo, head of PMT, and Arnoldo Mantinez Verdugo, head of PCM. More specifically, the issue referred to the preference by individual leaders to control their own groups rather than relinquish authority to a bigger organization, but also to the reluctance by Castillo to join forces with the Moscow-oriented PCM.[124]

Leftist groups in Mexico have usually relied on intellectuals and university students to strengthen their political demands. The student movement of mid-1968, which ended in a bloody confrontation with police and military forces on October 2 of that year, remains as a rallying point for leftist forces. At present the National University in Mexico City (UNAM), as well as other provincial universities, are footholds for Marxist ideology. However, leftist student groups have not recovered from the internal divisions that ensued following the 1968 debacle. On the other hand, the government provides most of the financial support for the public university system, and is directly involved in electing high administrators. Furthermore, it could be argued that the government perceives universities as providing an "escape value" for pressures from young urban sectors of the population. Nevertheless, the intelligentsia continues to be a strong source of criticism, some would say the "conscience" of Mexico's political establishment which, in turn, listens to its arguments.

Independent unionism represents another pressure group of particular importance, since it would seem to threaten official control of labor through organizations such as the Mexican Confederation of Workers (CTM), one of the three sectors of the PRI, and the Congreso del Trabajo (Labor Congress). Dominguez has mentioned Mexican automobile industry unions as examples of these changes in labor's political role. Independent unionism would tend to affect managerial practices, through a higher resource to strikes, and a more active attempt at participation in policy-making processes affecting production.[125]

Local peasant organizations in Mexico's southeastern states of Tabasco and Chiapas have attempted to retaliate against Pemex, pressing for demands regarding indemnizations for their ruined or expropriated lands.[126] The take-over of some of Pemex's installations has brought attention to the plight of the Mexican peasantry and, occasionally, the intervention of the army.[127] However, it is unlikely that these regional actions by the peasants, lacking real organizational strength, or a nationally established power base, can effectively challenge the control that the PRI exerts over that sector through the National Peasants' Confederation (CNC).

The various political uncertainties since 1968, which reached a high point in the mid-1970's with increasing urban guerrilla activity and terrorism, might be having a detrimental effect on one of the foundations of the Mexican political system: the nonpolitical role of the military. The limitation of the military's role in politics should not be automatically thought of as a permanently settled question for all time. As Martin Needler advanced in the early 1970's, "...rather than

regarding the achievement of civilian control in Mexico as a definitive accomplishment, it is probably wiser to think of it as provisional."[128] If the government were to show steady signs of weakness and instability, or if it had to resort too often to the military to put down civilian discontent, such as it happened during the early 1970's with the guerrillas in the state of Guerrero when close to 20,000 troops were mobilized there, the importance of the military in the political equation would be bound to increase.

The Mexican military are quite a susceptible subject in Mexico's public life. Proof of this surfaced in November, 1980, when the Mexican writer Juan Rulfo, in a discreet pronouncement put forth in a National University act to protest against the most recent coup d'etat by the Bolivian military, remembered that, historically, one of the resources of the Mexican political system used to appease the aspirations of the military was to offer financial rewards and business partnerships to the generals, who then abstained from directly attempting to take power. The indignant reaction from various military circles was swift. But there was also a direct intervention in the suddenly burning issue by President López Portillo himself. The President publicly denounced Rulfo's opinion as a calumny and vindicated the military. In any case, the degree of the reaction to Rulfo's remarks cannot but raise certain questions about the vulnerability of Mexico's civilian political machinery to potential military pressures.[129]

In recent years there has been a substantial increase in the budget for the military and police. According to a United Nations report on disarmament, Mexico's growing petroleum wealth has turned it into a

"coveted prey" for weapons manufacturers. Mexico's military purchases had by 1979 risen to 780 million dollars, the highest in the Caribbean and Central American area, with the exception of Cuba (which spent 1.065 billion approximately). Mexico's armed forces total 125,000 men, and the army is by far the most important branch, with 95,000 men. Still, in relation to its size, Mexico's military is one of the smallest in Latin America.[130]

The traditional low profile the Mexican military have kept in recent times may be giving way to a more assertive presence, mostly as a result of Mexico's new status as an increasingly important oil producer and exporter. In particular, the potential for difficulties arising from the political situation in the Central American area seems to be changing somewhat the priorities of the Mexican armed forces, to the southern Mexican states in terms of location and, in terms of functions, from basically social tasks to a truly self-defense force. The army's training centers increasingly on "regional tactical and counterinsurgency operations," and its arms purchases, mostly light armed vehicles and individual weapons, are geared to those objectives.[131]

In December, 1980, as he directed the biggest military maneuvers ever staged by the Mexican military, in which 43,705 men from the various branches swept the southern state of Chiapas, the Secretary of National Defense, General Felix Galván Lopez, declared that the army has the obligation to prevent any groups from any political tendency to enter Mexican territory and to violate its sovereignty.[132] Some sources saw the maneuvers as a proof that Mexico's southern region was not being used as a refuge by Guatemalan guerrillas and, most important,

to quiet down rumors about violent confrontations between Mexican forces, perhaps Pemex's "security" units, and groups of rural rebels.[133] For 1981, the Secretariat of Defense has a budget of 25,855 million pesos. The main objectives are the modernization of military equipment and an adequate level of training and preparedness for the armed forces. Likewise, there are plans to accelerate the production of war material, such as light weapons, mortars, and rockets.[134]

Changes in the Mexican political establishment. The implications from petroleum exploitation are permeating Mexican politics at all levels. Signs of impending political change have come from the ranks of Mexico's ruling political establishment. There has been a displacement of the center of gravity of political power, from traditional posts such as the Secretariat of the Interior (Secretaria de Gobernación), the Secretariat of Agrarian Reform, and the Secretariat of Agriculture, towards more professional and technocratic elites, located in the Secretariat of the Budget and Planning, the Secretariat of Patrimony and Industrial Development, the Secretariat of the Treasury (Secretariat de Hacienda), and Pemex. As petroleum continues to be the lever of development, and the government tries to consolidate its reliance on planning schemes, these latter agencies would indeed seem to be headed for growing political relevance.

The increase in political power of the Secretariats associated with finances, planning, and energy, within the context of the petroleum boom, leads to the issue of the apparent process of technocratization of the Mexican state. While in the extremely dynamic Mexican

development milieu, political approaches to problems will certainly remain a must for the future ahead, a growing reliance on economic growth and management, fueled by the petroleum industry, is likely to manifest itself in the rise of technicians and planners to the top levels of national decision-making. Writing in the mid-1970's, Rafael Segovia noted a progressive loss of power by the traditional "caciques," i.e. "the men who use their local implant and force to accede to national power." Parallel to this,

> "The new tendency seems to be that of a different cursus honorum to accede either to the Presidency of the Republic, or to the Cabinet....If this technostructure is the most visible and perhaps most important, the progressive and inevitable technification and bureaucratization of the state leads to the displacement of the traditional political class, limited more and more to functions that keep it away from the authentic centers of decision."135

This tendency seemed to be confirmed on September 25, 1981, when the PRI announced its candidate for the July, 1982, presidential elections, Miguel de la Madrid Hurtado, Secretary of the Budget and Planning. De la Madrid, who was in charge of the Global Plan for Development, holds a graduate degree in Public Administration from Harvard University, has a long record in economic management, and is considered to have strong ties to the business community.[136]

By mid-October, 1981, just as de la Madrid was preparing to begin his campaign as official candidate, the head of the PRI, Javier García Paniagua, resigned unexpectedly. He was replaced by Pedro Ojeda Paullada, a close friend of President Lopez Portillo who the Secretary of Labor. In turn, García Paniagua took over the Secretariat of Labor.

As the head of Mexico's ruling party directs and coordinates the campaign of the official candidate, this move could be seen as a consolidation of the political group closest to the President, and the demotion of García Paniagua, who had presidential ambitions of his cwn. Likewise, it would seem to show underlying tensions within the ranks of the PRI, between the traditional politically-minded circles, and the emerging groups of technicians and bureaucrats.[137]

The clash between the traditional, established politicians, and the new technocratic groups, has been brewing for some time, as a source of discontent and lack of discipline within the PRI. These divergencies have been underscored by the oil bonanza. A case in point was that of Victor Manzanilla Schaffer, a PRI federal deputy member of the CNC, from the state of Yucatan. Agriculture and petroleum exploitation have been at odds since the intensification of Pemex's activities in 1977. A rare act of dissent within the normally tightly knit PRI was staged by Manzanilla, in October, 1977, when he voted against a constitutional amendment which gave Pemex broad powers to expropriate lands needed to proceed with petroleum exploration and development. In effect, this amendment, which was passed eventually, formally placed the petroleum industry ahead of agricultural development. After quite an upheaval in the PRI-controlled Congress, caused by this unheard-of dissidence, Manzanilla finally remained in his post and the controversy died down.[138] Nevertheless, in 1977 this incident already reflected subjacent tensions beneath the apparently unruffled exterior of the government party apparatus, and may have played a part in redirecting official attention to the plight of the peasants and the agricultural

sector in general.

Parallel to the previous developments, a tug-of-war has developed since the late 1970's within the new professional and technocratic groups, directly related to contrasting views in regards to oil production and exports plans. As Edward F. Wonder has pointed out,

> "...the bureaucracy itself is organized along lines that are more horizontal than vertical, with numerous agencies, often displaying quite different policy philosophies, involved in the same policy area, frustrating planning, and contributing to frequent shifts in policy emphasis, even during the same administration as the President seeks to hold together his coalition."[139]

A result of the previous situation was the dismissal of Jorge Díaz Serrano as head of Pemex, on June 6, 1981. Since 1977, four Secretariats have been involved in planning and implementing energy policy: Patrimony and Industrial Development, Budget and Planning, Treasury, and Commerce. These have often manifested diverging viewpoints in the administrative councils of energy industries. To this must be added the growing economic and political importance of Pemex, as the most dynamic sector in the Mexican economy. The fact that Pemex is under the jurisdiction of the Secretariat of Patrimony and Industrial Development, helps explain the rift that developed between the head of the latter, Andrés de Oteyza, and Díaz Serrano. While the former head of Pemex advocated an ever-rising level of oil production and exports, de Oteyza emphasized the need to curtail expansion of the industry within the limits set by the Energy Program.

Until shortly before his dismissal, Díaz Serrano was considered to be the political figure closest to President López Portillo, and a

potential PRI candidate for the 1982 Presidential elections. By mid-1980, political rumors in Mexico were ripe concerning the possible creation of a Secretariat of Energy, to be headed by Díaz Serrano, and to comprise the petroleum, electricity, nuclear, and coal industries.[140] This did not materialize. On the other hand, Díaz Serrano was attacked by Mexican leftist forces for his alleged association with U.S. political and business interests,[141] and for "invading the field of action of other government officials."[142]

By November, 1980, Díaz Serrano appeared to be politically damaged by the Presidential decision not to raise the domestic prices of leaded gas and diesel, a measure long advocated by the former Pemex Director in order to increase the financial base of the oil industry.[143] Nevertheless, in February, 1981, Díaz Serrano was designated as official speaker in the anniversary ceremony of the enactment of the Mexican Constitution, a fact that seemed to underline his aspiration to the PRI's Presidential candidacy.[144]

However, everything came quickly unraveled for Díaz Serrano as a result of the worldwide petroleum glut of mid-1981. By April, 1981, supplies were growing while demand declined in the international oil market. Díaz Serrano first reacted to the situation in late May, by stating that Pemex would maintain its prices, in spite of oversupplies in the market.[145] Then, suddenly, just a few days later, Díaz Serrano announced that Pemex, after all, would have to reduce its prices in order to maintain its clients. Pemex lowered its average price for crude exports by $4 a barrel, from $34.60 to $30.60.[146] On June 6, 1981, Díaz Serrano presented his resignation to President Lopéz

Portillo.[147]

The official reasons for the dismissal of Pemex Director were related to his disagreement with members of the Mexican government's Economic Cabinet, especially Secretary of Patrimony and Industrial Development, José Andrés de Oteyza, over the price reduction measures. Other critics mentioned that Pemex had turned into an autonomous bureaucracy, and that petroleum policy had been increasingly divergent from Mexico's national policy. At the root of the disagreement was Díaz Serrano's persistant decision to continue raising oil production.[148] The debate over petroleum and general development policy in Mexico is bound to continue for the foreseeable future.

The new Director of Pemex, Julio Rodolfo Moctezuma Cid, is a former Secretary of the Treasury and a close friend of President Lopez Portillo. It is interesting to note that the PRI candidate for the 1982 presidential elections, Miguel de la Madrid Hurtado, was Undersecretary of the Treasury when Moctezuma Cid held the top post. In any case, the change of Directors in Pemex did not make Mexico immune to international market forces. Attempts by Moctezuma Cid to restore the price of Mexican oil during June and July, 1981, led to an abrupt fall in exports. Likewise, policies under the new Pemex administration might not differ too much from previous guidelines, including the objective of diversification of clients and products. However, there appears to be at present a greater willingness to conciliate views with respect to the pace of development of the petroleum industry.[149]

Pemex's workers union (STPRM), has benefited from the petroleum bonanza. There has been a change of guard in STPRM's leadership, from

the men who belonged to the generation that participated in the nationalization of the oil industry, and had traditionally opposed oil exports, and to the United States in particular, to a younger group of leaders who see the fortunes of the union rising parallel to the rapid expansion of the petroleum industry. Thus, the petroleum workers' union is likely to support Pemex's official policy, but not without proper compensation,

> "In return for its consent, STPRM's primary conditions are that its members be guaranteed continued hikes in relative wages, and benefits, coupled with assurances of no layoffs."150

But the activities of the union, and of Pemex in general, have traditionally been mired by corruption. Corruption is by no means a phenomenon exclusive of Pemex but, rather, an endemic characteristic of the Mexican system. However, even in such a milieu, the situation in Pemex has tended to be particularly serious. Some foreign assessments are indeed gloomy:

> "Some critics suggest that Pemex itself will have to be overhauled before there is any chance for wise use of Mexico's oil and gas...Riddled with nepotism, plagued by graft and corruption, the company is a model of inefficiency, spending $9 to get each $13 barrel of oil out of the ground (in August, 1978). The Petroleum Workers' Union openly sells jobs, with the going rate for a permanent post in the oil fields about $3,500. And there are so many ghost workers on the Pemex payrolls that roughnecks call them 'aviators'...'They only touch down here to get their checks.'"151

The members of the STPRM constitute, in fact, an elite within Mexico's entire labor sector, and the oil boom is likely to reinforce their privileged position. As Edward C. Williams has succinctly advanced: "Corruption has always been a part of the Pemex scene, but

indications point to its increase as the economic pie expands." The economic bonanza is bound to add fuel to management-labor disputes over workers' benefits.[152] So far, the issue appears to have been solved through increasing concessions to the union. For example, in October, 1977, as news of the construction of the gasduct were spreading through the Mexican press, it was publicly known that the STPRM would receive 2% of the total investments on that project. Critics kept asking for reasons as to "why the first beneficiary of said works should be the powerful and corrupt petroleum syndicate."[153]

Oxford specialist Lawrence Whitehead has pointed out the dangers of excessive centralization of the oil industry in the following terms:

> "To keep Pemex as a state monopoly in the new conditions set by the boom, will permit the powerful and arrogant oil union to threaten the tranquility of domestic interests, and the security of the state itself."[154]

An additional, and very visible indication of the importance of Pemex's administrative circles, is the construction in Mexico City, at present underway, of a new, huge Pemex central building, to be the tallest in the city, and which will even include a heliport.[155]

In the past, efforts to stamp out cases of corruption, such as auditing Pemex's workers in order to stop clandestine sales of fuel to sugar refineries and industries, have been turned down by union threats to strike.[156] Accusations of corruption have been thrust not only at union workers, but at the highest levels of Pemex's management, by leftist groups as well as by the independent National Petroleum Movement (MNP). The latter, however, seems to lack any substantial support within the industry. Allied to leftist political parties, the MNP has

repeatedly denounced corruption in the STPRM, and its leader, Hebraicaz Vázquez Gutiemez has referred to corruption as a cancer that "threatens the independence of the oil industry."[157]

Nevertheless, in his fifth annual report of September, 1981, President López Portillo announced a new "Law of Responsibilities," geared to strengthen fiscal instruments and to supervise the finances of high public officials.[158] Previously, by November, 1980, the Mexican President had announced reforms to the government's fiscal code, in order to prevent tax evasion through the use of "name-lenders" (presta-nombres).[159]

Political tendencies. At present the State reigns supreme as the gravity center of the Mexican political system. But the progressive democratization of the PRI, i.e. the expanding number and sources of its components, as well as the proliferation of outside political actors, might seem to pose a threat to its stability. The Mexican President is still, by far, the keystone of the system. As Needler stated in the early 1970's, "...it is clear that in Mexico the leading political actor is the President. The political system is thus one of executivism rather than single-party rule."[160]

But, in spite of oil resources, both the institution of the Presidency, in its role as mediator between public and private interests, and the PRI, as the main political arena for such a debate, are under stress. Jorge Domínguez has appropriately described the present political crossroads, characterized by changes in its "internal economic, social, ideological, and political factors:"

> "...Mexico has in the early 1980's a presidency less independent of economy and society than historical standards would suggest. The central organs of the State must respond to more diverse pressures within a context of persisting and at times rising bureaucratic and enterprise political rigidities. It is this state -- relatively weaker than it had been, although it is still strong -- that has had to face twin problems in its relations with the United States: greater real dependency on the U.S. in a political context of less support for such close relations. The needs of the Mexican economy require, for Mexican officials at least in the short run, such a deepened dependency, while the needs of Mexican politics require the opposite. Discoveries of hydrocarbon resources may have been the Mexican miracle of the 1970's. The 1980's may require a political miracle that is as yet not in evidence."[161]

It could be asserted that the conditions of a developing society such as Mexico's, i.e. population explosion, rapid urbanization, social dichotomy, economic inequalities, and political flux, among others, are <u>not</u> conducive to effective party competition, if the overall objectives are political stability,sustained economic growth, and social development in a evolutionary, rather than a revolutionary, setting.

One of the main foundations of Mexico's ruling party has been its flexibility, i.e. its ability to accomodate different groups or political tendencies within its organization. During the 1970's, several factors contributed to strain this flexibility, among them the reduction in the rate of economic growth, with the consequent inability to satisfy fully the demands of various groups, and the persistent deep inequality in the distribution of income. The continuing question today is whether the PRI can handle the increased pressures of the process of modernization, originating to a great extent in the petroleum boom. The present political system may be undergoing a transition, but new

forms are hard to visualize.

The social and economic situation in Mexico, seen not from the beaming perspective of oil exports and income figures, but from that of the living conditions of a sizable segment of the population, would seem to be deteriorating. There is a "critical limit," i.e. inflation, less consuming power, each of basic articles and services, beyond which an increasingly aware urban population will not remain calm. It is impossible to foresee at what conjunction of economic and social demands, on the one hand, and political awareness, on the other, this "critical limit" might be.

The possibility that the Mexican government will carry on its programs in an atmosphere of political order depends on the question of achieving a balance between economic growth and social justice. Oil wealth is giving the government more time and resources to stage needed reforms, but again, it might worsen the situation. Revenues from petroleum exports could aggravate corruption, inflation, and the inequality in the distribution of income, and could easily be offset if agricultural production continues to deteriorate. On the other hand, petroleum might offer new perspectives to Mexico's political system, if resources are channeled in the proper direction: into the agricultural sector, efficiently and with an emphasis on domestic consumption; and into labor-intensive middle-scale industries, to create more employment opportunities. Thus, the internal impact of the oil bonanza still remains to be seen. Oil wealth could lead to prosperity, or to a mirage.

James W. Wilkie has referred to the Mexican political system in terms of a situation of "permanent revolution," which draws deep from

its very basis of sustenance, ideologically and politically. This would seem to give rise to a state of "permanent crisis," or political convulsion, in the midst of which the system finds itself periodically, with the danger of a final impasse. The previous situation underscores a basic feature of the Mexican system, i.e. the need for continuous bargaining. In the end, says Wilkie, "the Mexican political system does not work smoothly."[162]

A parallel reflection on the issue would be the widely cited "pendulum effect," as Mexican leaders swing from side to side of the political spectrum, in search for stability. However, under the present accelerated process of social mobilization, Mexico's political establishment may be willing to dispense with abrupt political changes, notwithstanding the rationale for ideological renovation, and embark instead on a course of consolidation of more pragmatic, professional, and technocratic policies and styles of leadership. The selection of Miguel de la Madrid Hurtado as the next PRI's presidential candidate, who is likely to uphold the continuity of the present administration's policies, would tend to support this argument. Nonetheless, one must be cautious, for in the past predictions about the Mexican political process and Presidential successors have proved to be a dubious enterprise.

General Impact of the Oil Exploitation

The "Petroleum Syndrome." The impact of the oil exploitation is determined by endogenous factors, i.e. government policy, and exogenous factors, i.e. world oil price levels. The euphoria about petroleum wealth has so far prevented to a certain degree an analytic criticism

of potential pitfalls. For all its magnitude, the oil boom could become just a palliative, instead of a solution to basic structural problems, and could aggravate bottlenecks in the development process, such as corruption, inflation, and the distribution of income.[163] In this respect, domestic critics have complained that Mexico's energy policy lacks an organic relation with the needs for profound changes in the country's socioeconomic structure, and that it is being increasingly incorporated to the U.S. global energy strategy.[164] However, an impartial assessment of the overall impact would also have to weigh in the fact that it is unrealistic to expect overnight changes. In regards to a short-term outlook,

> "It does appear...that the major problems facing the Mexican government today will still be there in 1988, regardless of the level of petroleum output. Inflation will still be high, income distribution and geographic development will still be unbalanced, unemployment will still be high, and the country will still have difficulty producing domestically all its foodstuffs. To an extent, the continuation of these problems is simply an indication that 10 years is not a very long time in the life of an economy."[165]

The most crucial question regarding Mexico's petroleum exploitation, since it could very well indicate the future direction of Mexico's development, is whether the Mexican economy is becoming petroleum-bound. From the evidence available in the early 1980's, it would seem that petroleum tends to overshadow the remaining sectors of the Mexican economy, and is having a substantial impact on Mexico's social fabric. An article for the August, 1979, issue of the prestigious Mexican journal Comercio Exterior, concluded that "for the first years of the decade of the 1980's, Mexico would emerge as an economy

fundamentally dependent on its hydrocarbon exports."[166]

In a subsequent issue of Comercio Exterior, of June, 1980, Abel Beltrán del Río, director of Diemex, an econometric project for Mexico from the Wharton Econometric Forecasting Association at the University of Pennsylvania, noticed the first symptoms of the "petroleum syndrome." Beltrán categorizes oil-rich countries as hybrid in their process of development. That is, due to their indices of inflation and their sectorial disequilibriums, they would seem to be less-developed countries, while signs such as a surplus in the balance of payments, abundance of finance capital, high rates of savings, and scarcity of labor, place them in the category of countries of medium development.[167]

According to Beltrán, the indicators that would indicate the "petroleum syndrome" in any given country include: high level of petroleum production; an overwhelming participation of oil as a percentage of their exports; a growing surplus in their external balance of payments; a fast and unbalanced growth of the petroleum sector, with the subsequent bottlenecks; and accelerated inflation, generated by excessive demand and currency-convertibility vis a vis insufficient supply. Noneconomic symptoms would include: politically, a more relevant presence in the world scenario; socially, rising expectations and demands, as well as a get-rich-quickly and speculative atmosphere; and culturally, the introduction of foreign values and customs that clash with national traditions.[168]

By 1979, says Beltrán, the first signs of the "petroleum syndrome" were clearly detectable in Mexico, albeit tempered somewhat by the fact that the process was just beginning, and that Mexico has a good-sized

and semi-industrialized economy. Some of these signs were a growing participation of oil in Mexico's exports, a high rate of economic growth based on the exploitation of hydrocarbons, persistent inflation, congestion in Mexico's transportation and communication infrastructure, land speculation, and growing foreign investments.[169]

There has been a general awareness about the negative effects of an excessively rapid exploitation of oil. An editorial in the August, 1979 issue of Commercio Exterior warned against possible economic and social distortions, i.e. the existence of two nations or economies within the same national territory, due to their different degree of development. It was necessary, said the editorial, to avoid the destabilizing effect of excessive petro-funds, to prevent excessive imports which could eventually destroy Mexico's industrial sector, and to control inflation.[170]

The main official instrument to manage Mexico's petroleum industry has been the Energy Program, with its production and exports platform. On February 4, 1981, President López Portillo's decree approving the Energy Program and ordering its implementation appeared in Mexico's Official Diary. Thus, the Energy Program became a law. The exports limit of 1.5 billion b/d until 1982, is expected to prevent an excessive dependence on oil exports.[171]

Some Mexican analysts emphasize the need on the part of the Public Sector to reinforce its planning mechanisms, in order to condition the oil sector to the global requisites of national development. Also needed to avoid an excessive "petrolization" would be a deep fiscal reform, a more effective industrial diversification, and a greater state

participation, not only in the design and control processes of industrial development, but in the production process itself.[172]

Reflecting official concern, by September, 1980, the Secretary of Patrimony and Industrial Development, José Andrés de Oteyza, stated as one of the bases of Mexico's economic policy the need to guide development along the path of greater equilibrium, and to diversify the nation's economic structure away from an excessive future reliance on oil. Petroleum resources should, according to Oteyza: back Pemex's expansion plans in order for the industry to finance its own growth; be channeled through taxes to finance government programs in the fields of education, health, basic infrastructure, and general Public Sector productive projects; and benefit the community through prices substantially lower than those prevailing in the international market.[173]

There are indications that government policy is not succeeding in avoiding the "oil syndrome." Out of the official budget for 1981 Pemex has one of the highest shares of 377 billion pesos.[174] For 1981, Mexican exports are expected to have a value of 25 billion dollars. Of this amount, non-petroleum exports will only account for 6 billion. According to some sources, hydrocarbon exports, including crude oil, gas, refined products, and petrochemicals, are expected to represent up to 82% of total Mexican exports. Total manufactured exports, including petrochemicals, will amount to only 3.500 billion dollars. In spite of oil exports, the Mexican balance of trade will still show a deficit of 2 billion dollars for 1981.[175]

Thus, it would seem that Mexico's present high rate of growth, is to a great extent attributable to petroleum economics. In other words,

the recovery of the Mexican economy during the last few years would not appear to be extraordinary at all, were it not for the sectorial impact of the oil boom. And it is clear that petroleum has become the medullar center of Mexican exports.[176]

Following the fall of oil prices in June, 1981, Mexico's magazine Proceso raised the alternative of a recession, as a result of falling income which depends basically on petroleum exports, or a higher foreign debt to compensate for growing deficits in commerce.[177] The Secretary of the Patrimony and Industrial Development, Oteyza, emphasized the need to revise Mexico's exports plans, in order to avoid the trap of petroleum mono-exports.[178]

However, in his fifth annual report of September, 1981, President López Portillo vehemently denied that the Mexican economy might be ineluctably tied to its petroleum industry, citing a number of figures: petroleum accounts for only 7% of Mexico's GDP; the Public Sector receives only 28% of its income from petroleum; investments from the oil sector account for only 12% of the total; and only 38% of total foreign income derives from petroleum sales.[179] Likewise, Bancomer (Bank of Commerce) has pointed out that the Mexican economy is quite diversified and does not depend on any single product for its exports.[180] In this context, the preponderance of petroleum would be only a temporary phenomenon, as a result of the urgent need Mexico had in the mid and late 1970's to expand its production quickly to face the economic crisis.[181]

Furthermore, there would seem to be a relatively positive element in the midst of the generalized oil price drop of mid-1981, that is, the halt to the process of higher reliance of the Mexican economy on

the petroleum industry.[182] Notwithstanding the fact that Mexico was forced to reduce prices for its oil because of international market forces, by July, 1981, this happenstance had allowed dissimilar political groups, i.e. the PRI, leftist and rightist opposition parties, and all concerned Secretariats, to coalesce around the banner of reduced levels of petroleum exports, quite a feat which illustrates the vagaries of Mexican political life.

Regional and ecological impact. Never before in Mexico's history has any single economic sector, such as petroleum right now, been such a determining factor in the industrial location and organization of economic activities. According to a Mexican analyst, the impact of oil activities affected only cities before; now, the magnitude and nature of their impact is such that it tends to "dominate all the regional space, that is, all the forms of zonal production..."[183] Some indications point to the fact that the regional and ecological impact of petroleum exploitation so far has not been balanced at all.

In the Mexican states that are the center of the present oil boom, Tabasco and Chiapas, Pemex's activities have polarized conflicts such as inequality in income distribution and unemployment.[184] A social dichotomy is emerging, between the native population, dedicated mainly to agricultural activities and increasingly pushed out by oil projects, and Pemex's workers, who enjoy a substantially higher standard of living.[185] Since 1979, there have been frequent clashes between Pemex and peasants in both states. In occasion, groups of armed peasants have blocked Pemex's installations. In January, 1981, such an

incident took place in the petrochemical complex at Cactus, Chiapas, Pemex's industrial areas in Reforma, and various oil fields.[186] Military patrols were called in to evict the peasants and protect the installations.[187] Pemex, for its part, agreed in principle to pay an indemnization to the peasants for damages resulting from its activities.[188]

The problems seem to have started during 1977, when the reform to Article 27 of the Mexican Constitution transferred to the Secretary of Patrimony and Industrial Development the power to expropriate agricultural lands. Ever since, questions have been raised in regards to how well that Secretariat has fulfilled its role "to harmonize interests and in its case to indemnify."[189] The Secretary General of the League of Peasant Communities in Tabasco has denied that peasants oppose oil exploitation, but that such activities must be undertaken carefully, and just indemnizations paid to those who are affected by them.[190] On the other hand, Pemex has stated that it does not have direct responsibility over the formation of "misery belts" in the southeastern regions of Mexico where it operates. There are also "prosperity belts" propitiated by Pemex's activities.[191] In any case, President López Portillo declared in 1978 that Pemex's role is "to generate economic wealth, not to solve problems."[192]

Nevertheless, these problems are indeed multifaceted. There have been a number of accidents related to Pemex's activities, significant both in terms of environmental degradation, and economic losses. These would tend to underline either the haste with which Pemex has proceeded with its explorations, the lack of proper caution, or both. The

Mexican magazine Proceso, in an August, 1980, issue, was stating somewhat sarcastically that Pemex was discovering oil and gas through accidents.[193] Such have been the cases of the "Ixtoc I" well off in the Gulf of Campeche, and "Giraldas 22" well, in the state of Chiapas. The Ixtoc well exploded on June 3, 1979, and spilled millions of barrels of oil into the waters of the Campeche Bay, one of the richest fishing zones in Mexico. According to Mexican scientists, the damages to the ecology of the zone, and thus to the fishing industry, have been irreversible.[194] Due to a "technical error," in August, 1980, the explosion of the "Giraldas 22" well provoked the spill of thousands of barrels of oil and the burning of millions of cubic feet of gas, in an apparently unpopulated area of Chiapas.[195]

In both of these cases, there were economic losses to Pemex that amounted to millions of pesos. But in some cases these losses are nothing compared to the damages to agriculture in the Southeast. At present there is literally a clash between the petroleum and the agricultural industries in that region. Not only because of disasters such as those described, but through the noxious effects of the burning of gas, various crops such as corn, cacao, and banana, as well as grasslands, are being destroyed. This is happening in some of the most fertile regions of a mostly arid country, Mexico. According to a December, 1980, report by the National Research Institute on Biotic Resources, "Tabasco is now a big swamp," devoid of all its former dense jungles, the remaining Mexican tropical jungles of Chiapas, Oaxaca, Campeche, and Quintana Roo are under siege, and in general, "Mexico is in danger of becoming an extensive desert, a fact which could bring the country to an absolute

food dependence."[196]

Ixtoc I and Giraldas are not isolated accidents. In July, 1980, a huge fire at Salina Cruz refinery destroyed oil storage tanks, left 30 injured workers, and consumed 140,000 barrels of oil, with damages estimated at 200 million pesos. 70% of the population in that city lacks all types of services.[197] In October of that same year, the "Corindon" well, in the northern state of Tamaulipas, went out of control and spilled oil and gas in an area 43 km. off Neuvo Laredo.[198] The causes of most of these accidents have not been satisfactorily determined. By mid-1980, peasant communities in the Huasteca region of Hidalgo were bracing themselves for the feared negative social and ecological effects of Pemex's imminent exploitation of the Chicontepec fields.[199] In regards to accidents, Pemex officials have declared that "they worry us, but do not scare us," reaffirming their confidence in Pemex's know-how.[200]

Pemex periodically announces programs to prevent contamination, build schools and housing projects for its workers, and roads for the nation's infrastructure. It has emphasized its commitment to undertake a dialogue with the officials of the affected areas, in order to remedy the problems generated by the accidents, and by Pemex's activities in general.[201] Undoubtedly, there are positive contributions that are also a result of the oil boom. But a balanced assessment of the relation between positive and negative impacts remains to be made.

The Mexican sociologist Rodolfo Stavenhagen, in 1978, foresaw three possible scenarios for Mexico's development, based on the influx of petroleum resources. The first scenario would lead to the exhaustion

of petroluem reserves and a grave domestic crisis, with social and political convulsions. The second, to a temporary respite for the system, at least for a generation, until the reserves are gone. And the third, to integral development in the framework of democratic planning, with diminishing dependence and a more real autonomy for Mexico as a nation. In this third scenario, prosperity would be truly shared. Some of the key factors that qualify the three scenarios would be: the degree of dependence and vulnerability vis a vis the United States, based on commercial transactions; the state of the foreign debt; the domestic destiny of the petroleum financial resources, leading to an improvement or a deterioration of the distribution of income; and the role of the Mexican state, as a democratic and benefactor, or as an authoritarian state.[202]

The weight of evidence by the early 1980's points to a process located somewhere around the second scenario . Mexico has not been altogether successful in avoiding past pitfalls of other oil-producing countries. The influx of funds from oil exports tends to have destabilizing social and economic effects that the Mexican government cannot quite cope with. The fact that Mexico's international financial position is considerably stronger than in the mid-1970's, cannot hide the domestic distortions due to the oil boom.[203]

However, at present this process would not seem to be irreversible. There is, for one thing, the awareness of government officials as manifest in their public expressions of concern. Also, there is the fact that Mexico's diversified economic infrastructure and plain market size, contrast favorably with those of most oil-exporting countries. There

is still a time margin available to Mexico, during which its government might devise effective means to deal with the effects of the oil boom. The challenge is to utilize a resource that is crucially needed at present, in order to build foundations for a sustained, integral process of development in the future.

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CHAPTER VII

UNITED STATES-MEXICO RELATIONS: DIMENSIONS OF THE DEBATE

Nature of U.S-Mexican Relations

The "Special Relationship." For some time now, both American and Mexican analysts have tended to approach the subject of relations between the United States and Mexico in the framework of what might be called a "special relationship." Regardless of periodic official disclaimers by both sides, the relationship between the two countries is indeed "special." Some key elements illustrate this fact. Mexico and the United States share an undefended 2,000 mile common border, through which people and goods have moved back and forth in an uninterrupted flux since the nineteenth century. In regards to trade, the United States is Mexico's first commercial client, while Mexico is the third largest trading partner of the United States.[1] Additionally, a unique factor is the large and growing population of Mexican origin in the United States, which represents a permanent link that goes beyond the formal country to country relations. Mexico's petroleum boom is straining the scope of this traditional "special relationship."

David F. Rondfelt and Caesar D. Serenseres have defined the "special relationship" between the United States and Mexico in regards to three concepts: interdependence, intermesticity, and the special reciprocal rights of bordering nations. The validity of the concept of interdependence can be ascertained by the close links between the two nations, both in societal and economic terms. In addition to trade,

economic interdependence is underlined by the volume of U.S. investments in Mexico ($6.3 billion by 1980), the exports of Mexican petroleum and gas to the United States, and the purchases of American foodstuffs by Mexico. Intermesticity refers to the fact that, because of important, mutually shared problems, the usual distinction between the international and domestic spheres tends to wane. And, finally, these previous considerations add to the idea that neighboring nations have a right to a reciprocal special treatment.[2]

Rondfelt and Serenseres advance the proposition that these factors that tend to make for "special relationship" between the United States and Mexico, could likewise be applied to the relations between Canada and the United States. This initial conceptualization of two special bilateral relationships could very well be the stepping stone for a "trilateral" vision of North America, i.e. an interdependence between the United States, Mexico, and Canada,[3] not too far off from President Reagan's idea of a North American Common Market.

If it is true that the United States and Mexico share many common problems derived at least partly from their "special relationship," such as unemployment, inflation, and environmental pollution, it is also a fact that their priorities are different. Calvin Pat Blair has referred to these differing perspectives in terms of a confrontation between a geriatric society, i.e. the United States, and a pediatric society, i.e. Mexico. The United States worries mainly about its access to energy sources and raw materials, and has to deal with an aging industrial base that renders it vulnerable to exports from foreign nations such as Japan, ready to encroach upon the U.S. domestic market. On the

other hand, Mexico has an altogether different set of problems, such as a sharply unequal distribution of income, and must try to gain access to markets for its manufactures, as well as for capital and technological imports, uphold the rights of its migrant workers, and diminish its dependence on oil exports. Furthermore, says Blair, whereas the United States lives in permanent fear of a radical leftist Mexico, the latter in turn dreads the possibility of U.S. policies such as stringent protectionist measures or an all-out campaign to deport Mexican migrant workers.[4]

James W. Wilkie has summarized these "conflicting national interests" between the United States and Mexico in terms of a series of "dilemmas" facing both nations in their relations with each other.[5] On the Mexican side, the structural dilemmas would be the following:

1- "Mexico's 'national interest' to encourage tourism vs. its'national interest' to develop industrialization."

2- "Labor intensive vs. capital economic activity."

3- "Need for U.S. investments vs. loans."

4- "Need for diversified trading partners throughout the world, in order to achieve 'economic independence' and protection against U.S. recessions vs. reliance on its northern neighbor, especially during times of economic crisis."

5- "Need for urban food and export food vs. need to distribute land."

6- "Need for an open U.S. border as escape valve for excess labor vs. need to retain in Mexico the ambitious rural worker."

And, among the U.S. dilemmas:

1- "U.S. 'national interest' to have a cheap reserve labor pool vs. its 'national interest' to close the frontier to 'excessive' immigration from Mexico."

2- "Need to expand exports to Mexico vs. need to control imports from Mexico."

3- "U.S. 'national interest' to have a healthy, stable neighbor on its southern border vs. its 'national interest' to keep Mexico politically and economically dependent upon the United States as it seeks to retain its role of world leader."

In conclusion, Wilkie believes that "change within and cooperation between Mexico and the United States means that there are few 'solutions' to common problems."[6] Or, in other words, in what could be an unwilling allusion to the impact of the oil boom in the relations between the two countries:

> "Historically, U.S.-Mexican relations have involved the diplomatic resolution of common border problems causing temporary tension between the two countries, but with the advent of the 1970's, new kinds of tensions that reflect structural changes in the affairs of both countries pressage the rise of issues in the 1980's and 1990's that are not susceptible to traditional diplomatic solutions that have marked U.S.-Mexican relations in the past."[7]

There are at present varying opinions about the special U.S.-Mexican relationship that reflect both acknowledgement of a de facto situation and uneasiness about it. On the whole, on the American side it is possible to appreciate a mixture of regard for Mexico's needs, and an awareness of U.S. benefits from the relation. Mexican opinion, on the other hand, tends to be qualified by apprehension about American intentions and possible advantages.

U.S. policies towards Mexico have often been labelled by the latter as "inconsistent." In the view of the U.S. Department of State these relations are, rather, "very complicated."[8] Richard Nussio, from Williams College, has pointed at "bureaucratism" as one of the prevailing realities in the bilateral relations between Mexico and the United States. There are, says Nussio, more than 200 U.S. government agencies

participating in decisions and matters pertaining to Mexico.[9]

Perhaps as a response to the increasingly complex relations between the United States and Mexico, in April, 1979, the Carter administration decided to appoint a Special Ambassador to Mexico, i.e. officially an "Ambassador at large and U.S. Coordinator for Mexican Affairs," directly dependent from the President and the Department of State. The new Ambassador, Robert Kruger, was to assist the President and the Secretary of State "in the development of effective national policies towards Mexico and in the coordination and implementation of such policies." Likewise, Kruger was to serve as Chairman of a Senior Interagency Group on U.S. policy towards Mexico and as U.S. Executive Director for the U.S.-Mexico Consultative Mechanisms. As Coordinator, Kruger was to be located in the Department of State, while the Director of the Office of Mexican Affairs in that same Department would serve as Deputy Coordinator.[10]

Carter's Presidential Memorandum on the subject of coordination of U.S. policy towards Mexico was delivered to his entire Cabinet, in an effort to assure the integration of any "overlapping entities" into a coherent process of policy development and formulation. Indeed, the Presidential Memorandum seemed to reflect an official awareness of the special relationship with Mexico, in view of the latter's growing importance as an oil producer and exporter:

> "In view of the increasing domestic and international importance of our relations with Mexico, and of the intensity and complexity of those relations in the years ahead, I have decided to take steps to improve our ability to address effectively all issues which affect U.S.

relations with Mexico....To ensure that all U.S. policies toward Mexico, and all actions directly or indirectly affecting Mexico, promote basic U.S. national interests and are consistent with our overall policy toward Mexico, I ask: -that each of you accord a high priority to any and all matters within your jurisdiction affecting Mexico, consciously giving good relations with Mexico a continuing high priority in your thinking and planning; and -that all proposed actions, which have an effect on Mexico, be carefully coordinated so as to be consistent with overall U.S. policy toward Mexico, and based on the fullest possible prior consultation with the Government of Mexico."11

A Mexican commentator, Joseph Hodara, had some specific views with respect to the designation of a "Special Ambassador." This was a result, according to Hodara, of the strengths and weaknesses of Mexico's oil boom. The fact that Mexican affairs had been translated directly to the White House "reflected the strategic importance accorded by Washington to Mexico at present," since such consulting and decision mechanisms had been previously established only in the realm of detente and Middle East affairs.[12]

However, the appointment of an additional ambassador, albeit "at large," which in fact meant a duplication of some of the functions of the regular U.S. Ambassador in Mexico City, seemed to contribute to a situation of confusion and hesitation. Mexican government officials did not know precisely whom to deal with in the various areas of bilateral relations. By early 1981, the Reagan administration, congruent with its goal of streamlining policy-making and eliminating excessive bureaucratization, initiated the dismantlement of this special agency. However, Reagan emphasized the importance be placed on the relationship with Mexico by meeting with López Portillo in Ciudad Juárez, in January,

1981, breaking his previous promise not to confer with any foreign leaders before he assumed the presidency. The visit underscored the strategic and economic position of Mexico as the cornerstone of U.S. foreign policy towards Latin America. Additionally Reagan stated that he personally would handle relations with Mexico, without need of any intermediaries.[13]

The views of other American officials and scholars tend to reaffirm the existence of a "special relationship" with Mexico. For example, in 1978 former U.S. Ambassador to Mexico, Patrick Lucey, caused a stir by declaring that "there are not two nations on earth whose present and future are as closely intertwined as Mexico and the United States."[14] James W. Wilkie has qualified the U.S. relationship with Latin America as a whole as "overdrawn and overdone," while affirming that this is altogether different in the case of Mexico, where the United States indeed has a special relation with its southern neighbor. In this context, says Wilkie, "...it is in the United States' best interests to make it easy for Mexico to solve its own problems."[15] Edward J. Williams, David F. Rondfelt and Caesar D. Serenseres advance the opinion that, while there are particular obligations that fall on the United States, as a result of its "special relationship" with Mexico, such as a greater understanding and sharing of the problem of migrant workers, there has to be also a degree of Mexican reciprocity, in regards to supplying petroleum and gas to the United States.[16] An official analysis for the U.S. Senate concludes that

> "Although some feel that the concept of 'special relationship' is theoretically outmoded in this day of "global' perceptions of U.S. foreign policy, it

> remains a prominent concept to be considered in understanding United States-Mexican relations. The concept of 'special relationship,' in fact, could very well reach new prominence and importance under the new dimension of Mexican energy."17

Mexican official reaction, at least openly, tends to be one of suspicion towards the concept of a "special relationship." According to Rondfelt and Serenseres the necessary incentives are not present, for both countries to embark upon a new special framework for bilateral cooperation, and rather than upholding special bilateral guidelines, Mexico would seem to prefer to deal with the United States on the basis of legally accepted international principles and a multilateral framework of discussions.[18] This view would seem to reflect, not an open hostility to the idea of a special relationship, but a disenchantment with it. Mexican Secretary of Foreign Relations, Jorge Castañeda, before his appointment and acting then as Ambassador at Large, declared in late 1978 that, as a whole, Mexico did not believe any longer that "there exists or can exist a special relationship with the United States." Castañeda's comment was inscribed within a general framework of Mexican official opinion, that as long as the United States proceeds to act unilaterally in areas such as trade and migration, a policy of "special relationship" is merely rhetoric.[19]

The concept of a "special relationship" is based to a significant degree on the existence of an economic interdependence between the two countries. Hodara sees two possible results of a growing interdependence between the United States and Mexico, in the context of the latter's oil boom. A first scenario would have petroleum enhance the

mutual benefits accruing from interdependence, thus contributing to solve accidental differences of opinion in regards to matters such as trade and fishing rights; beneath a facade of diplomatic rhetoric designed for public consumption, both nations would encourage more extensive commercial ties. A second scenario, however, would be qualified by an asymmetrical interdependence, which would lead to an irreversible Mexican subordination.[20]

Some Mexican analysts tend to visualize the second scenario. Carlos Rico F. plainly considers "interdependence" as a mechanism that reinforces U.S. hegemony and responds to the logic of its foreign policy objectives. A key objective here would be to transform Mexico into a trustworthy and influential partner of the United States in North-South negotiations.[21] Heberto Castillo contemplates a conspiracy by the Mexican government, which would be placing pro-United States and business officials in central administration posts and along the Mexican states bordering on the United States in order to "create a border transition zone towards the eventual installation of an Associate State."[22]

Olga Pellicer believes that the idea of a "special relationship," while not offering concrete solutions to bilateral problems, has served to legitimize close links between the two nations.[23] By late 1978, Pellicer could discern an effort by American diplomats to reach an understanding with Mexico, under the slogan of "interdependence," which would in reality strive to further U.S. priorities such as a steady supply of Mexican petroleum and gas. According to Pellicer, various political groups in the United States would be pressuring in favor of

an "extraspecial relation" with Mexico, geared to propitiate the rapid exploitation of petroleum and its commercialization towards the United States.[24] In this context, adds Richard Fagen,

> "The importance of Mexican petroleum at present... is not a simple function of its percentage contribution to world exports, but rather a very complex function related to Mexico's role as an exporter in rapid expansion which, at the same time, shares very close geographic, political, and economic ties with the biggest petroleum consumer in the world."[25]

By June, 1980, the Mexican Secretary of Foreign Affairs, Jorge Castañeda, was emphasizing that Mexico does not wish a special treatment from the United States but, rather, "...a relation based on mutual benefit, taking into account the relative degree of economic development of both countries."[26]

Perhaps it would be pertinent, in order to clarify Castañeda's statement to inscribe it within a conceptual framework developed by Victor S. D'Souza. D'Souza distinguishes between three types of international relations: domination, interdependence, and common interest. In the first type, the principal means to carry out policies on the part of the more powerful nation would be to threaten the weaker country. In regards to interdependent relationships, the powerful nation would offer help to solve a particular problem of the weak country, inasmuch as it affects the interests of the former. And, in relations based on common interests, the objective would be to pay attention to the basic problems of the weak country, among which the particular problems affecting the powerful nation would be only aspects of the overall framework. In this last type of relationship the developed nation

would leave aside its role as a "powerful nation," and behave instead as a "worried partner."[27]

D'Souza's classification would seem to cover quite appropriately the attitudinal spectrum in U.S.-Mexican relations. While the Mexican position tends to react against domination and suspect interdependence, it does seem to coincide strikingly with the basis of a "common interest" relationship.

Linkages. The concept of a "special relationship" between the United States and Mexico is intimately tied to the global nature of their nature of their relations. Even though petroleum permeates the entirety of the complex amalgam of U.S.-Mexican relations, it is but one of many issues, such as migrant workers, trade, and environmental degradation. In the past, the Mexican government has preferred to deal with all these problems in terms of a linkage, viewing them as a whole, while the United States would rather treat them individually. Petroleum may be changing the U.S. perception towards the concept of "linkage." For example, in March, 1979, a Joint Commission in Congress asked the Federal Government to take into account, together with the issue of imports of Mexican petroleum and gas, the problems of bilateral commerce and migration, "in the context of a spirit of comprehension and cooperation between the two nations."[28] Calvin Blair has stressed that the various topics in the agenda of U.S.-Mexican relations must be, by necessity, considered as a package, which would tie the key themes and allow both countries to obtain advantages in economic agreements. Mexico will insist, says Blair, on tying petroleum matters, so important to the

United States, to those which are important to Mexico, such as Mexican manufactured exports, access to American technology, and the treatment of Mexican migrant workers.[29]

The present official Mexican position towards linkage remains vague in regards to the theme of migrant workers. On the eve of President Carter's visit to Mexico, in February, 1979, within three days of each declaration, President López Portillo alternatively put forth conflicting statements on the issue. First, the Mexican President asserted that all the problems that divide the United States and Mexico, such as petroleum and gas price levels, illegal migrants, and commerce, must be analyzed jointly.[30] Two days later, Lopez Portillo emphatically declared that he would oppose any attempt at blackmail, in tying the issues of migrant workers and petroleum negotiations.[31] But the problem of Mexican migrant workers is, indeed, an emotionally charged issue for Mexican public opinion, commonly fused with a good dose of rhetoric. In regards to other, more clearly cut issues such as trade, the Mexican position becomes less diffuse. For example, reaffirming a crucial "linkage" between trade and oil sales the Mexican Secretary of Foreign Affairs, Castañeda, declared in June, 1980:

> "...would it not be useful for those who influence on the definition of policies in the United States to begin to consider the relation that exists between Mexico's economic development, sales of crude oil and gas to the United States, and the growing need we have of access to that nation's market on a less restrictive basis, so as to export the production from that industrial infrastructure that we are creating."32

At the same time, according to Mexico's view, the situation of migrant workers is tied to the issue of trade. From this perspective,

Mexico maintains that lesser trade restrictions on the part of the United States would contribute to Mexican development and employment creation, and would slow down illegal migration to the United States. Thus, from the Mexican perspective, trade would seem to be the cornerstone of the global nature of U.S.-Mexican relations. As López Portillo declared early in his administration:

> "...We are extremely concerned that Mexican exports are confronted by a large number of restrictions applied by our northern neighbor. We think the trade problem should be viewed in its entirety, in terms of its impact not on individual interests, but on the U.S.-Mexican relationship as a whole."[33]

Perhaps the most important recent single trade issue for Mexico, during 1980, was the domestic debate over membership in the General Agreement on Tariffs and Trade (GATT). President López Portillo had previously defined Mexico's potential entrance to GATT as basically a "substantial modality of commerce with the United States, since 70% of our foreign commerce is with that nation."[34] In other words, the liberalization of trade barriers would take effect mainly vis a vis the United States. When, in March 1980, Mexico finally decided not to join GATT for the present time, the official reaction from the United States was one of disenchantment, not to say anger. Robert Kruger, Special Coordinator for Mexican Affairs, described U.S.-Mexican commercial relations as in a state of uncertainty. Kruger emphasized that trade between the two nations, which in 1979 reached the record level of 18.7 billion dollars, an increase of 46% in a year, would continue to expand, but at a slower pace. The United States, said Kruger, was anxiously looking forward to Mexican proposals regarding bilateral commercial

relations, but negotiations to that end would be prolonged.[35]

The reasons behind Mexico's refusal to enter GATT were closely tied to its petroleum exports. On the one hand, given the recent decline in Mexico's non-oil exports, membership in GATT might have hurt further Mexico's protected domestic industry. Petroleum also gave Mexican political leadership the necessary self-confidence to try to pursue trade advantages without affiliating to GATT. Furthermore, the decision was also meant to be for domestic consumption, quieting a considerable nationalistic uproar.[36] But there was another important consideration. Mainly because of the availability of oil, Mexico would not be accorded guarantees within GATT pertaining to less developed countries. In other words, "it is not feasible to obtain a preferential and differentiated treatment (for Mexico) within GATT."[37] Thus, the likelihood of a disruption of the Mexican economy, at least in terms of increased dependence on the United States, seemed to loom large in the minds of Mexico's political decision makers.

In regards to trade, President López Portillo has emphasized that Mexico is pursuing "global agreements of bilateral cooperation," i.e. bilateral arrangements that encompass various issues.[38] It seems likely that for the near future Mexico will refrain from joining multilateral trade accords such as GATT, concentrating instead on bilateral trade packages. However, although Mexico refused to enter GATT, in 1980 it lowered tariffs and imports permits in all activities in which domestic supply was deemed to be insufficient.[39]

The gasduct project in Mexico clearly illustrates the volatility of U.S.-Mexican relations, in the framework of the petroleum boom. As

Pemex increased its activities in Mexico's southeast, there were growing volumes of available natural gas that could not be used domestically. By mid-1977, Pemex signed a letter of intent to sell the gas to six U.S. private distributor companies, at a price of \$2.60 per thousand cu. ft. (MCF). The means to transport the gas to the United States was to be a gasduct, from Cactus, Chiapas, to Reynosa, Texas, which began to be built on October 7, 1977. There were compelling economic arguments in favor of the pipeline. In short, the cost for the project was estimated to be 1.5 billion dollars, and the construction time 24 months; at the outset, the pipeline would represent earnings in foreign exchange at the rate of 3.3 million dollars a day. However, as the duct neared completion, the U.S. government, acting on the specific recommendations of Secretary of Energy James Schlesinger, refused to allow the companies to buy the gas at the price they had previously agreed with Mexico. The argument of the Department of Energy centered on the fact that the United States could not pay Mexico 44 cents more than Canada for an MCF. Also, there were fears that Congress would not approve the \$2.60 price tag, while American gas producers were only paid up to a ceiling of \$1.75, according to Carter's energy bill.[40]

Reaction to both sides of the border was swift, and seemed to coincide in deploring the failure of the deal, with its subsequent detrimental repercussions on U.S.-Mexican relations. In the United States, The Wall Street Journal, among other major newspapers, harshly criticized the lack of a more enlightened approach to the problem on the part of U.S. government authorities.[41] Mexican reaction was twofold. On the one hand, the Mexican government proceeded to redirect the

pipeline to distribute and use the gas domestically. On the other, Mexican officials took advantage of every opportunity to denounce the lack of frankness and finesse manifest in U.S. actions concerning the deal. The gas fiasco was the main factor that darkened the talks between López Portillo and Carter in Mexico in February, 1979. During Carter's visit, at a luncheon toast, López Portillo lectured the American President on what he saw as a U.S. practice of treating Mexico with a "mixture of interest, disdain, and fear," and added:

> "Among permanent, not casual neighbors, surprise moves and sudden deceit or abuse are poisonous fruits that sooner or later have a reverse effect. No injustice can prevail without affronting decency and dignity."[42]

In June, 1980, the Mexican President still remembered vividly the gasduct fiasco. At that time López Portillo expressed his opinion that "the ties between Mexico and the United States have deteriorated lately, with respect to what they were in 1977." And, again, he recalled how his good faith had been betrayed by the U.S. government when it cancelled abruptly the deal between Pemex and the American gas companies.[43]

After protracted, off-and-on negotiations, which in all amounted to seven rounds of talks, on September 21, 1979, the two governments issued a Joint Announcement to the effect that an understanding had finally been reached. The agreement called for the sale of 300 million cubic feet per day of natural gas by Pemex to U.S. purchasers, starting as of January, 1980, at an initial price of $3.625 million btu, subject to reconsideration if the price for natural gas from comparable sources were to exceed that amount prior to the starting date.[44] By November 21, 1979, the Department of Energy received an application to import

Mexican natural gas by a consortium called Border Gas, Inc., made up of six U.S. energy companies,[45] and gave it final clearance on December 29, 1979, after an order issued by the Department's Economic Regulatory Administration (ERA), which was responsible for approving imports and exports of natural gas.[46] DOE officials stated that "these approvals (were) a further step in establishing closer relations between the U.S. and Mexico,"[47] a doubtful proposition considering the bitterness of the preceding exchanges.

A case with serious environmental consequences has also affected U.S.-Mexican relations. From June, 1979, to March 24, 1980, when it was finally capped,the Mexican oil well Ixtoc I blew out and spilled millions of barrels of oil into the waters of Campeche Bay in the Gulf of Mexico. Eventually, ocean currents carried the oil to the Texas coast, affecting close to 200 miles of beaches. This environmental disaster affected the relations between the two countries, and resulted in damages to sea life, beaches, tourism, and property in still unknown proportions.[48]

The Ixtoc I disaster gave rise to a series of public accusations and discussions between the two governments in regards to delineating responsibilities. By February, 1981, the U.S. government was trying to determine the effect on its relations with Mexico of a possible lawsuit against Pemex for the damages caused in 1979 as a result of the Ixtoc I oil spills. Lawsuits were filed by the U.S. Federal government, the government of Texas, and private concerns against Pemex and firm Permargo, a subcontractor in charge of drilling the well when the disaster took place. However, a direct suit against Pemex would involve

the Mexican government itself, with the possibility that general relations between the two countries would suffer.[49]

In Mexico the Ixtoc I case aroused nationalistic sensibilities. Following his September 28-29, 1979, trip to Washington, President López Portillo declared that Mexico rejected liability damages, and compared the issue to that of the salinity of the Mexicali Valley in northwestern Mexico, where the United States has never paid for damages to Mexican agriculture from the high salt-content of the waters of the Colorado River. Although Ixtoc I was a serious foreign policy issue for both countries, the fact that other issues of greater importance might suffer, i.e. the question of linkage, has contributed to keep the problem from going beyond certain limits of diplomatic propriety.[50]

From the preceding discussion, it would appear that a mutually binding package which takes into account the overall set of issues between the two countries is perhaps rather unfeasible. Both governments would ultimately be opposed to such an agreement, albeit from a different rationale. The United States remains committed to global policies and multilateral accords, and the American political system itself is not conducive to "package" deals, due to the multiplicity of government agencies and lobbying interests operating on the context of U.S.-Mexican relations.[51] From the Mexican perspective, nationalism and the ever-present theme of increased dependence on the United States constitute a formidable opposition to a permanent "package" arrangement. However, the interrelationship between numerous issues also underlines the fallacy of trying to approach them on an individual basis. In this respect, Alfred Stepan has advanced the need for a "more integrated

bargaining framework:"

> "...a bargaining framework that recognizes the complete range of issues at stake, and one in which the United States, precisely in order to advance its overall interests, would aggressively seek out new formulas for responding to Mexico's special needs, especially in the areas of migration and trade."52

A North American Common Market? For some time now, various public and private sources in the United States have seemed to advocate, as a logical extension of that nation's "special relationship" with Mexico and Canada, a North American Common Market. For example, Redvers Opie has developed this point, in terms of a "geographical division of labor:"

> "Canada, the United States, and Mexico are in many respects complementary rather than competing economies; and perhaps especially Mexico and the United States are complementary. These two countries have a mutuality of interest in protecting harmonious development together."53

Clark Reynolds, in a somewhat deterministic assessment of the situation, advances the idea that there is a "silent economic integration" between the United States, Mexico, and Canada. This process could be furthered, says Reynolds, by formalizing closer economic links through mutual safeguards in regards to labor migration, and the establishment of standing commissions to deal with the ample spectrum of problems likely to arise between neighbors.[54] Reynolds suggests, in order to promote the idea of a common economic region, that the United States should act as a partner, rather than as an overwhelming leader:

> "I feel that the United States would be well advised to reconsider the possibility of regarding the entire North American Continent as an economic region in which it is one important participant and in which

> it can play an increasingly relative role rather than absolute or dominant role."55

Specifically, in regards to energy, Kenneth E. Hill, in a 1979 study called "A Proposal for a Common Market Between Canada, Mexico and the United States," talks in terms of a crucial need for the United States to foster, within a maximum time lapse of 10 years, a trinational alliance between the three countries with the objective of solving the U.S. energy problem, namely to help supply the U.S. energy demand of 19 million b/d of oil and 20 trillion cubic feet of natural gas annually. The United States imports 45% of its petroleum and 5% of its natural gas needs. Among the mutual benefits of such an alliance, says Hill, there would be U.S. guarantees to buy Mexican and Canadian fuels and stabilize prices, and to purchase agricultural and manufactured products from Mexico, free of trading restrictions, as well as a solution to the problem of Mexican migrant workers, through an elimination of some of the present migratory barriers. The Mexican and Canadian currencies would continue to be tied to the fluctuations of the dollar. Furthermore, the United States would guarantee the military security of this economic community which would extend its operations into the Caribbean.[56]

There would seem to be sound economic incentives for such a common market. For example, between them, the United States, Canada, and Mexico drilled nine-tenths of all the wells in the non-communist world during 1979, in a continuing unabashed drilling boom that has characterized the petroleum industries of North America since 1973.[57] By mid-1980, a U.S. business periodical was reporting that a broad trade

alliance among the United States, Canada, and Mexico was not likely yet, but pacts for specific industrial sectors might be possible. One candidate for agreement would be petrochemicals, and the effects would be profound.[58]

By August, 1980, in a series of meetings of the policy committees of the U.S. Senate and the Working Group on North American Commerce of the National Association of U.S. governors, the need was stated for reciprocity on the part of Mexico and Canada, in regards to allowing the access of U.S. products to their domestic markets. The discussions, which included the participation of John Plunkett, President of the American Chamber of Commerce in Mexico, had as their main objective the delineation of strategies relative to the establishment of a North American Common Market.[59]

President Reagan has expressed his support for the notion of a North American accord. However, Mexico and Canada have both turned down the idea as a scheme that would be mostly favorable to the United States.[60] By April, 1979, Jesús Puente Leyva, President of the Energy Commission of the Mexican Congress, went public in denouncing the U.S. goal of interdependence, or North American Common Market, as contrary to Mexican interests.[61] In mid-1980, during a visit to Canada, López Portillo tried to put an end to speculations in Washington regarding a North American accord, by declaring that Mexican energy sources would not be used to maintain the high standards of living of other nations.[62]

From the Mexican perspective, progress on this issue seems to be precluded by the disparity in levels of development and income between the United States and Mexico, which would foreordain, apparently,

American predominance and increased dependency for Mexico. Again, nationalism underscores the Mexican position. For example, in October, 1978, as a reply to the interest manifested by Exxon and Texaco to participate in the direct exploitation of Mexican hydrocarbon resources, Pemex stated categorically that Mexico would not allow any such intervention by American oil companies.[63]

Geopolitical and Strategic Considerations

Mexico and the United States share the same geopolitical space, i.e. the Caribbean and Central American Basin. There are common, as well as contradicting, elements, values, and goals, in the Mexican and American approaches towards this vast area. The Mexican position has been reinforced by its new status as an oil-rich nation. Just as this latter fact has impelled the U.S. government to seek closer relations with its southern neighbor, Mexico has perceived, in its role as an oil-producing and exporting country, a propelling factor for imprinting a new dynamism into its foreign policy. This situation is shaping a scenario fertile for joint initiatives, but also fraught with potential conflict between the two governments, in regards to a series of security and strategic points of contention.

Security and strategic questions. In 1976, at the petition of then Undersecretary of Defense of the United States, Robert F. Ellsworth, the Pentagon prepared a report on "Energy Geopolitics, 1976-2000," which could be considered to be one of the antecedents for present U.S. policies regarding the establishment of a close energy relation with

Mexico, Venezuela, and Canada. According to the document, the basis for this relation were to be found in the fact that the United States is the natural market for petroleum exports from those countries, and the source of financial and technological assistance. The authors of the study, Melvin Conant and Fern R. Gold, believed that Canada would accede to such an association rather willingly. However, Mexico and Venezuela posed a problem, derived from their nationalistic sensitivities. Thus, the United States should act with caution in its approaches to those governments, in order to avoid any appearances of exploitation.[64]

Specifically in regards to Mexico, Conant and Gold concluded that politically it would be the most difficult case. In order to appease Mexican opposition, a "special treatment" should be developed, related not only to energy matters, but also to other bilateral matters such as trade and investments. According to the authors, access to petroleum resources would be determined by an interrelation between geographic factors and governmental policies, and by a complex assortment of political and economic variants.[65]

By mid-1981, the Reagan administration seemed to be pursuing, still, the objective of an association with Mexico, Venezuela, and Canada. Following an American initiative, the foreign ministers of the four nations met in Nassau, at the Bahamas, to study the possibility of launching a joint program of economic assistance for the countries of the Caribbean and Central America.[66] Commenting on the Nassau reunion, President López Portillo praised the efforts to achieve cooperation in fostering economic development in the region, as long as the right of the Central American and Caribbean countries is respected, "to decide

for themselves the forms of government and social organization to which they aspire."[67]

In the present world energy context, the consolidation of a closer relationship between Mexico and the United States from the perspective of the latter, is seen in terms of national security. In other words, Mexico represents a secure source of energy for the United States. According to Richard B. Mancke, two matters of consideration threaten the national security of the United States: the disparity in political and economic perspectives vis a vis a small group of countries, mainly located in the Middle East, that control most of the world's exportable oil; and the fact that this problem of reliance on distant sources is compounded by growing Soviet naval strength. Thus,

> "Increased imports of crude oil and natural gas from Mexico's Reforma and Campeche fields would permit a political, economic, and geographical diversification that would, in part, alleviate these threats and enhance the energy security of the United States."[68]

Besides these security objectives, i.e. prevention of political threats and geographic diversification, Mancke has underlined military-security benefits in case of conventional, limited, and undeclared naval wars, in which Mexican oil could become a life-saving link for the United States. Furthermore, Mexico would be more secure in regards to terrorist activities, because of shorter transportation routes and the possibility of bilateral arrangements for the protection of Mexican oil fields.[69] In a late 1981 interview, asked about accessibility to Mexico's petroleum for the United States, in case of an international emergency such as a war in the Middle East, President López Portillo

declared that it was not a matter of "conflict of interests but of a convergence of purposes... We live in such proximity and interrelation that assuredly there would be an understanding..." Still, the Mexican President did not foresee such extreme cases for which there are no contingencies in Mexico's petroleum plans.[70]

Official awareness in the United States about the security implications of Mexican petroleum has been manifest in the last few years. Even in early 1979, at a time of low-ebb in U.S.-Mexican relations, still in the midst of the controversy over the gas deal, President Carter, while dismissing then the urgency for the United States of Mexican hydrocarbons for immediate commercial use, recognized their strategic value on a long-term basis, especially in case of war.[71] By September, 1980, the U.S. Secretary of the Treasury recommended to "pay careful attention" to bilateral relations with Mexico and Canada as a means to assure a future supply of oil and gas. The report concluded that "Mexico will probably be the primary source of petroleum and gas imports by the U.S. during the next decade."[72] In October of that same year, the American Ambassador to Mexico, Julian Nava, openly described Mexico as a "key part of the U.S. security strategy."[73]

The Rand Corporation, in a late 1980 study called "Mexican Petroleum and U.S. policy: Implications for the 1980's," recommended to the U.S. government to increase U.S.-Mexican interdependence, and not only in regards to energy questions. The authors, David Rondfelt, Richard Nehring, and Arturo Gándara, stated three possible solutions, from the the U.S. perspective, to improve relations with Mexico:

1- A long-term energy agreement to insure continued exports to U.S. markets.

2- The establishment of an Energy Common Market, which would include also Canada.

3- Hemispheric coordination in the production of energy and commerce with these three nations plus Venezuela, and Caribbean and South American countries with refining capacity.[74]

The Rand Corporation has presented two alternative policy concepts for future relations between the United States and Mexico. The first places emphasis on "internationalism," that is, Mexico would be treated much like any other developing country emerging as a "middle-power." The second underlines the concept of "community," that is, Mexico would be viewed as a special partner in the long-range development of North America. According to Rand, the first approach assumes that Mexico's development would make it more independent than interdependent vis a vis the United States, and would result in restrictions to the process of integration of both economies and societies. This approach would be congruent with Mexico's desires to reaffirm its sovereignty and diversify its foreign relations, and to conduct its dealings with the U.S. on the basis of international principles.[75]

However, the "internationalist" approach would imply, according to Rand, a denial of Mexico's "special relationship" with the United States. Furthermore, the more independent Mexican development is, the greater its economic competition with the United States, with the subsequent added bilateral tensions. Thus, giving support to the tendencies in official U.S. circles which seek to promote a "special relationship," Rand suggests the second alternative, i.e. fostering U.S. policies based on the concepts of community, partnership, and interdepen-

dence. According to Rand, if Mexico were to futilely persist in ignoring this possibility, in the end the result of such an attitude would lead to a reinforcement of U.S. policies to render it as an increasingly weaker and dependent client.[76]

A work group created by President-elect Reagan in December, 1980, to examine the present conditions of supply of strategic minerals to the United States, warned of the precarious and vulnerable state of national security, and recommended economic integration strategies and political alliances with exporting countries that are geographically closest to the United States, i.e. Mexico, Canada, and other Caribbean and Central American countries. Another recommendation suggested the creation of a National Strategic Reserve of thirteen basic minerals, eleven of which are already supplied by Mexico to the United States.[77]

In this context, Mexico has been selling the Pentagon crude oil for the U.S. strategic petroleum reserve since 1978.[78] By August, 1981, the U.S. Department of Energy had reached an agreement with Pemex to purchase 106 million barrels of oil over the next five years for the strategic reserve. The agreement included 200,000 b/d of oil at $31.80 per barrel from September 1, 1981, until the end of the year. Afterwards, deliveries will be reduced to 50,000 b/d of oil, and the price renegotiated.[79] It should be underlined here that most of the Middle Eastern producers have refused to sell oil for the strategic reserve. On the other hand, the deal guarantees Mexico secure sales at a time when it is still recovering from the lost reserves that resulted from the June, 1981, drops in sales.

There is another angle of the U.S. problem of national security,

intimately tied to Mexico's internal processes. This is, according to Richard R. Fagen, the "time bomb" of Mexican development, with profound implications for U.S. security. In other words, a distorted process of development in Mexico, i.e. economic growth without any improvements in the distribution of income, could eventually have grave domestic repercussions in Mexico and destabilize the country's political system, with the subsequent multifaceted impact on the United States.[80]

In a scenario of uncontrolled social and political disturbances, the U.S.-Mexican border would be but a symbiotic membrane that would bring unrest to both sides. The Rand Corporation is aware of this dimension of the problem, suggesting that Mexico should perhaps be a conservative petroleum country. However, in Rand's scheme of late 1980, there was a calculated strategic perspective: even though it might restrict its total oil output for reasons of domestic stability, Mexico would, nonetheless, widen its extraction, transportation, and exports capacity. This excess production capacity could be incorporated rapidly during a sudden international energy crisis.[81]

Another late 1980 report titled Petroleum Geopolitics, prepared for the Energy and Natural Resources Committee of the U.S. Senate, under the direction of James Z. Pugash, also recommended that the United States should encourage Mexico to create such an excess production capacity, for strategic reasons. The report underlined the need for a "mutually beneficial association that includes Mexican energy development."[82] These potential arrangements would seem to run counter to the exploitation goals of Mexico's Energy Program.

Geopolitics. There are a number of questions that could be inscribed within the framework of the Mexican oil boom, which are at the heart of a process of geopolitical reaccommodation under way at present between the United States and Mexico.

Historically, a key point of the U.S. strategy for its immediate sphere of influence in the Caribbean has been a transisthmian means of transportation and communication between the Pacific and the Atlantic oceans. Even though the strategic value of the Panama Canal has diminished somewhat in the nuclear age, it remains a crucial link in military and political terms. For some time in the XIX century, the isthmus of Tehuantepec in Mexico was considered by the United States as an alternate and cheap means of communication. Due to the prospect of saturation in naval traffic of the Panama Canal, by February 1980 the Mexican government was reported to have initiated work for the project Alfa-Omega, with the objective of linking overland the ports of Coatzacoalcos in the Gulf of Mexico, and Salina Cruz in the Pacific. Parallel to the oil ducts that cross the isthmus, various types of cargo, including American goods, are to be transported in "containers," i.e. large metal and wooden boxes, through 300 kilometers of Mexican territory. The cost of the investment is estimated to be around one billion pesos.[83] These works constitute a new factor in the closely connected U.S. and Mexican commercial interests, and additionally, a new potential point of geopolitical contention.

Another matter pending resolution between the two nations pertains to the jurisdictional boundary limits in the Gulf of Mexico and in the Pacific. On May 4, 1978, the governments of the United States and

Mexico signed a draft treaty which, according to U.S. geologists, resulted "in (the) giving away (of) some 25,000 square miles of potential, albeit deep-water, petroleum areas in the Gulf of Mexico." It appears that the west-central part of the Gulf of Mexico is a geological region promising in terms of petroleum deposits, lying between the oil fields of the Texas-Lousiana coast, and those of the Campeche-Reforma region in Mexico.[84] By September, 1980, faced with a petition from the U.S. Petroleum Geologists Association, the U.S. State Department had postponed the ratification of the treaty. However, according to a spokesman of the State Department, new "negotiations could fail, since it is very difficult to make the Mexicans change their way of thinking."[85]

Early in 1981, a study by the U.S. geological survey indicated that the deeper areas of the Gulf of Mexico whose jurisdiction has not been established yet could contain more than 9 billion barrels of oil and more than 18 billion cubic feet of natural gas. It is expected that new technology will be developed so that the oil industry may be able to operate at depths in excess of 10,000 feet, where more than 75% of the potential wealth would be located.[86] Geologist John Hunt, from the Woods Hale Oceanographic Institution, has emphasized that the Gulf of Mexico as a whole could be one of the three major areas in the world in terms of oil potential (the other two would be Alaska and the USSR), once exploration and drilling techniques develop further.[87] These facts could well explain the delay in the ratification of the treaty on Maritime Boundaries with Mexico. In any case, by April, 1981, Mexico's Secretariat of Foreign Relations was still officially awaiting the ratification by the U.S. government.[88]

But, by far, the main geopolitical issue that threatens to perturb dangerously U.S.-Mexican relations is the situation in Central America and the Caribbean. Mexico regards the area as a natural region for its own commercial expansion and, albeit not officially acknowledged, political influence. Furthermore, Mexico sympathizes with "liberation movements" such as the Sandinistas in Nicaragua, and the present insurrection in El Salvador. Undoubtedly, petroleum wealth has given Mexican foreign policy an added ingredient of self-assurance and dynamism. In this respect, from Mexico's position, petroleum serves somewhat as an equalizer in its dealings with the United States.

Mexico does not share the United States' apprehension with respect to communism. This could be partly related to the fact that the Mexican government traces itself back to a revolution. It is pertinent to remember that Mexico never broke relations with Cuba, and helped Allende's regime in Chile until its overthrow in 1973. Likewise, the Sandinistas in Nicaragua are viewed with admiration. Though officially denied, Mexico is striving to be a source of leadership in the Caribbean Basin, and to play a larger role. Conversely, it views with suspicion American political, and military, overtures in the Caribbean and Central America.

Needless to say, present U.S. perceptions of the situation in Central America and in the Caribbean, as well as its actual policies, tend to clash with Mexico's. According to a December, 1979, report by Radio Liberty Research, Mexico is the Soviet Union's ultimate target in Central America, and present disturbances in the area could determine a scenario quite dangerous for U.S. national interests and national security:

> "...Soviet-Cuban nibbling in Central America and the Caribbean may well set the stage for a major effort to shift Mexico's political and ideological orientation towards the Communist world...." specifically "...growing Societ-Cuban influence in Central America and the Caribbean is capable of constraining the flow of Mexican oil to the U.S. at a time when anti-American forces already exercise a potential stranglehold on the oil-rich Persian Gulf."[89]

Lewis A. Tambs sees as a backdrop of the situation a "grand geo-political game plan" by the Soviet Union. According to this view, the USSR would be applying the classical principles of geopolitics, i.e. encircle, isolate, and overrun, to the Caribbean area, in order to interrupt American access to strategic minerals and petroleum supplies. In this context, "even the oil fields of Mexico are under long range attack."[90] On the other hand, Moscow dismisses the "Soviet threat" to the Caribbean as a propaganda veil the United States uses to disguise its attempt to control the world's hydrocarbon reserves.[91]

In any case, the Reagan administration would seem to agree with the need for greater U.S. efforts to counter radical influences in the region. With Reagan's election in November, 1980, some political observers foresaw a definite shift in the balance of forces in Central America, towards the conservative side, as the United States intensified its involvement in that convulsed region.[92] By late January, 1981, official spokesmen for the State Department were talking about the Caribbean as the "third border" of the United States.[93]

It was highly significant that one of the first foreign visitors to Reagan's White House was Edward Seaga, Prime Minister from Jamaica, who defeated leftist Michael Manley in that island's 1980 elections,

and has been singled out by the Reagan administration as a source of hope for the beleaguered region. In regards to Nicaragua, by late November, 1981, Secretary of State Alexander Haig pointed out that "the horns are growing rather short" to prevent the Sandinista government from turning their country into "a totalitarian state like Cuba." Haig accused the Sandinistas of staging a huge military buildup through Cuban assistance, and supporting the insurgents in El Salvador. White House counselor Edwin Meese, as well as Haig, had not ruled out by late 1981 any particular action, such as a naval blockade, that might be taken against Nicaragua.[94]

A specific point of contention is Cuba, visited by López Portillo in 1980, and with which the Mexican government has increasingly identified itself. Since January, 1981, during his confirmation audiences in the U.S. Senate, confronted by a question related to Mexico's possible defense of Cuba if that island were attacked by the United States, Secretary of State Haig opted for avoiding any confrontation, and declared his intention not to enter into a dispute with Lopez Portillo. The issue remains a stumbling block in U.S.-Mexican relations, as the Reagan administration sees Cuba as the main focus of terrorist activities in the Caribbean area, and has threatened to resort to even military action to stop Cuba's meddling.[95]

Geopolitical contention between the United States and Mexico could be fueled, additionally, by the apparent existence of substantial hydrocarbon deposits in Belice, which obtained its independence from Great Britain in September, 1981, and where Pemex is undertaking exploratory works, together with other international oil companies.[96] Additionally,

the intended construction of an interoceanic petroduct through Guatemala by an American petroleum consortium, as well as indications that there are significant deposits of petroleum in the Peten region of Guatemala could likewise fully incorporate that Central American country into U.S. political-military schemes...and create another source of friction with Mexico.[97]

There is no likelihood for an early agreement between the United States and Mexico in regards to a mutually accepted modus vivendi in these various foci of potential geopolitical confrontation. As if to emphasize his views on matters related to Central America and the Caribbean, and in a comment obviously directed at the United States, in March, 1981, President López Portillo declared that "for Mexico the danger does not reside in ideologies, but in intervention," and went on to add that Mexico cannot stand by passively in regards to such intervention in the Central American and Caribbean countries. Said the Mexican President: "(Mexico) wants a rational alternative, and not an hegemonic fate."[98]

Mexico's official support for revolutionary movements in Central America and the Caribbean would seem to have a domestic implication, too: the insulation of Mexico from that very same turmoil. In other words, Mexican foreign policy would respond to domestic political needs, i.e. as long as it sides with the insurgents in countries such as Nicaragua and El Salvador, Mexico would expect to retain domestic tranquility. However, this is not an all-encompassing explanation. There is also an element of genuine revolutionary consciousness and tradition permeating the actions of a government such as Mexico's, born of

revolution. According to Washington analysts, Mexico believes in the inexorable course of revolutions.[99] In other words, the Mexicans believe that their society is the result of a revolutionary process, such as that under way in Central America at present.

Some American analysts perceive a missing element in the logic of the Mexican position, determined by the breach between rhetoric and socioeconomic reality, i.e. Mexico's own vulnerability to contemporary revolutionary tendencies. Despite the wealth and multifaceted expectations to be derived from its energy resources, the potential for social unrest remains high in Mexico, due to factors such as the precarious distribution of income, and high birth rates. U.S. worries in regards to Central American turmoil could be possibly explained, as much in terms of Soviet-Cuban meddling, as in relation to a Mexican indulgency apparently not quite justified by its domestic situation.[100]

In this respect, Jeanne Kirkpatrick, U.S. Ambassador to the United Nations and one of the main Latin American experts in Reagan's administration, has lumped Mexico together with the rest of the Caribbean and Central American countries, as governments with various degrees of institutional vulnerability, and "vulnerable and dependent economies." "All these countries," says Kirkpatrick, "find themselves in permanent risk of revolutionary destabilization."[101]

In this context, the Mexican pluralistic model, seen by some Mexican officials as an alternative between U.S. capitalism and Cuban marxism, i.e. in Mexican terms "the institutionalized revolution," might be a unique consequence of historical processes that cannot be repeated.[102] In any case, it remains to be seen whether Mexico's

activist foreign policy in Central America and the Caribbean may be able to induce viable models of government that emulate some of the characteristics of the Mexican system.

Under certain conditions, the Mexican position could be undermined by the meaning of Mexico's energy wealth to U.S. national security. During a late 1980 visit to Mexico, Clyde Mark, Assistant to the Foreign Affairs Division of the U.S. Congress, declared openly that if Mexico were to critically limit its supply of oil to the United States, or if this supply were subject to domestic and/or external threats, Washington would likely send military forces to gain control of Mexican wells. If such a military occupation were to take place, said Clyde, a subsequent return of the wells to Mexico would be most unlikely.[103]

Olga Pellicer has somewhat substantiated the previous assessment, by suggesting that petroleum wealth, as well as Mexico's foreign policy towards Central America and the Caribbean, presage a frank interventionist tendency on the part of the United States over the Mexican State.[104] The reasons are plain to see, according to Pellicer:

> "Independently of whether the Mexican project toward Central America is aggressive or not,... the fact is that its foreign policy has become an obstacle to the advancement of the project sponsored by other countries in the Continent."[105]

As a sequence to the previous situation, Joseph Hodara has delineated three possible scenarios, related to Mexico's emergence as a petroleum rich country. The first would be the "finlandization" of Mexico, based on the overwhelming control of the means of information and intelligence by the United States, which would result in an intermittent diminution of Mexico's freedom of action. The second alterna-

tive would be for Mexico to "selectively disentangle" itself progressively from the strategic project of the United States. The third scenario would be, simply, a frank, reasoned, and "technologically and intellectually guided" process of negotiation between the two nations.[106] In any case, the path to either scenario seems to be, at present, tortuous and fraught with potential convulsions.

Petroleum and Mexico's Foreign Policy

The bases of Mexico's foreign policy. Petroleum policy is not, obviously, the equivalent to foreign policy. Mexico has a long tradition with respect to certain principles of international conduct. Nevertheless, its new role as one of the world's leading oil-producing and exporting countries is having a definite impact on Mexico's formulation and implementation of its foreign policy. Specifically, petroleum wealth is serving as the propelling factor for the apparent consolidation of a more aggressive, self-assured role in international forums. The "continuance and coherence in regard to principles and objectives" of the basic lines of Mexico's foreign policy is ascertained in the Global Plan for Development, 1980-1982. Mexico's foreign policy is geared towards

> "...preserving our sovereignty, strengthening our independence vis a vis the rest of the world, practicing international solidarity; supporting domestic efforts at development, and participating in the conformation of a world order that guarantees these objectives and allows the development of all peoples in this same international sovereignty, equality, security, and justice that we wish for ourselves."[107]

Within this framework, some key principles can be clearly under scored:

-The respect for national sovereignty, non-intervention by one or more foreign States in the internal affairs of another, and the principle of self-determination.

-The peaceful solution of controversies.

-The renunciation of the use of force or threats in international relations.

-The legal equality of states.

-International cooperation.[108]

Mexico has traditionally practiced a basically defensive foreign policy. The reason for this attitude is to be found in historical precedent , i.e. the proximity of the United States, which has tended to neutralize Mexico's potential for an independent foreign policy. According to Mario Ojeda, various interventionist experiences throughout Mexican history, during the XIX and into the XX century, which resulted in the loss of territory, temporary occupations of national territory, and interference in Mexico's domestic affairs, have resulted in "an attitude of repudiation to contacts with foreign nations and isolationism, self-determination and non-intervention became the fundamental concepts of Mexican foreign policy." These basic principles have also been reflected in the Mexican objective of trying to avoid foreign domination as a fundamental requisite for domestic economic development.[109]

Since the beginning of the 1940's, mutual understanding and cordiality in the relations between the United States and Mexico seemed to substitute for the tensions and conflicts of the revolution and post-revolutionary period in Mexico, which climaxed with the oil expropria-

tion in 1938. There were obstacles, related to issues such as trade and migration, but both countries, on the whole, tried to reduce their frictions to a minimum. To the United States, Mexico became a trustworthy neighbor, with a predictable behavior. From the Mexican perspective, the postwar period of relations with the United States seems to have been qualified by a feeling of "geographic fatalism," springing from the fact of a continuous border with the most powerful nation in the world, from whose economic and political influence it was impossible to escape. It was during this period that the concept of a "special relationship" took hold of the imagination of leaders in both governments.[110]

By the mid-1960's, Mario Ojeda could perceive a gradual shift in the conduction of Mexico's foreign policy, from the traditional passive, defensive, and isolationist attitude, towards a more dynamic presence in the international scenario. This change, which seemed to have started during the Lopez Mateos administration (1958-1964), was a result, according to Ojeda, of the maturity achieved by Mexico, on the basis of sustained economic growth and political stability. As the capacity of Mexico to resist foreign pressures was enhanced, there was also a gradual subsidence of the fear from domestic subversive movements.[111] In conclusion, said Ojeda:

> "...it could be stated that Mexico's foreign policy is in a transition stage...from a passive, defensive and isolationist attitude, Mexico is passing into a more dynamic and internationalist phase in its foreign relations....But this transition is taking place gradually. The country seems to be proceeding pragmatically, testing the possibilities of a new international status. The general conclusion would

> then be that it is not to be expected that the country adopts an active role of importance in the near future."[112]

However, during Echeverría's administration from 1970 to 1976, Mexico did attempt to conduct an extremely active foreign policy, based on a Third World activism that brought it into conflict with the United States. Domestic difficulties and an adverse international economic juncture turned the experiment into a failure. By the mid-1970's, some Mexican analysts foresaw the imminence of a return to "bilaterality" vis a vis the United States, in Mexico's foreign relations, due to the critical weakness of the country's economic-political system at the time.[113] According to Ojeda, the effort to diminish unilateral dependence on the United States had resulted, paradoxically, in a much more dependent country, and a drastic weakening of the structural bases needed to follow a more independent course in foreign policy matters.[114] Another Mexican analyst, Eugenio Anguiano, while lamenting the frustrated experience, suggested nonetheless its continuing viability:

> "In the end, it would be very costly, in political and economic terms, to abandon the reformist efforts of the last two decades, only because of the need to solve the short-term crisis. The Mexican state has sufficient human and material elements, as to continue to pursue multilateral relations, without impairing bilateral relations (with the U.S.)."[115]

Indeed, Mexico would have these elements, mainly in the form of petroleum resources. As early as February, 1977, during his first official visit to the United States, President López Portillo confidently declared that "Mexico is not bankrupt...I did not come to ask for help."[116] Petroleum would come to be the crucial element in trying to renew the search for a more independent Mexico, domestically and in

regard to foreign relations. By late 1978, The Economist could assert that petroleum was bringing about a "...fundamental change in the equilibrium of power in the Western hemisphere. It is a sudden change so big and new that neither the Carter administration nor Mexico itself have understood it yet."[117]

The initial fiasco in the gasduct negotiations seems to have marked a turning point in the attitude of the Lopez Portillo administration towards the United States. In any case, by 1978 rhetoric had hardened in regards to the inevitable new relationship with the neighbor to the North. In October of that year, expressing his awareness that neither Mexico nor developing countries in general have the priority nor the respect they deserve from industrialized nations, Lopez Portillo would declare that, on the basis of Mexico's natural resources, there would no longer be a "master-client relation" vis a vis the United States, but an equal partnership.[118] Petroleum, he would say during an interview with CBS in February, 1979, "is for Mexico, not for the convenience of the U.S.." And, again, at that time López Portillo criticized the wheeling-dealing of the U.S. government as the main reason behind the failure of the gas negotiations.[119] Shortly after the 1980 presidential elections in the United States, the Mexican President would emphatically comment that "Mexico's destiny is above the political fluctuations in the United States."[120] An appreciation somewhat arguable, though understandable in terms of domestic consumption.

Parallel to the previous pronouncements, Mexican analysts were underlining the need for coordination between Mexico's petroleum and foreign policies. Mexico's petroleum strategy, said Samuel Berkstein K.

in mid-1980, must be geared towards an increment of three basic criteria in the evaluation of foreign policy: security, welfare, and prestige. The objective of such a strategy would be to project into international relevance the political dimension of the petroleum policies of the Mexican state.[121]

By mid-1980, the Secretary of Foreign Relations, Jorge Castañeda, could state with visible pride that in ten years Mexico's presence amidst the community of nations had enlarged appreciably. Mexico, said Castañeda, maintains relations with 138 countries and has presented in various international forums initiatives in favor of justice and peace. In spite of new international pressures, especially in the case of petroleum, and other limiting factors, Mexico's foreign policy is more active, and has gained elements for negotiation that make it less dependent on subjective appreciations such as sympathy and conveniences.[122]

Specifically, in regards to relations with Washington, Castañeda has attempted to tread a middle course, conciliatory to the United States but at the same time definite about the objective of a greater autonomy for Mexico. Castañeda recognizes that "the principal element of Mexico's foreign policy is the nature and degree of its relations with the United States," because of obvious multiple causes, i.e. geography, multiple exchanges, and the global importance of the United States. This, says Castañeda, "cannot be denied by past problems or historical experiences, it is simply a fact of life." Parallel to this, however, Castañeda underlines the idea that Mexico has abandoned the "cautious and up to a degree defensive attitude" that tended to characterize its foreign policy, and has begun to play an increasingly active

role in international affairs. This constitutes a need in order to uphold traditional principles and to defend specific interests.[123]

In other words, the fact that relations with the United States are the key component of Mexican foreign policy, does not mean a passive acceptance by Mexico of political, economic, and cultural dependence. The United States, according to Castañeda, is a "key element," an "important factor," but not a "factotum" in Mexico's foreign policy. Thus, for example, to Mexico economic diversification represents an essential national goal, and not an action directed against the United States.[124] In this context, petroleum constitutes an invaluable ally:

> "...petroleum...must be seen not only as a simple product to be sold at the going world price, but rather as something in such demand that an additional value could be affixed to it. This could consist -as it happens with other nations- of an extra cash price. But in our case it has a much more essential character."[125]

U.S. and Mexican mutual expectations. Mario Ojeda has correctly noted that Mexico's strategic value for the United States increases in periods of political crisis in the world and, particularly, in the Western Hemisphere. The United States, says Ojeda, has usually

> "...recognized and accepted the need for Mexico to dissent with North American policy in all that is fundamental for Mexico, even though for the United States it may be important, but not fundamental. In return, Mexico gives its cooperation in all that is fundamental or even important for the United States, and not so for Mexico."[126]

Ongoing processes, in particular those in Central America and the Caribbean, may be changing this set of perceptions, as Mexico emerges as a "middle power," with a growing influence on the national and

international policies of the United States. Petroleum would be seen as the key factor in a scenario for U.S.-Mexican relations, qualified by a mainly technical and strategic perspective of matters by the United States, in contraposition to a vision by Mexico according to nationalistic priorities and tested principles of international behavior.[127] Some U.S. analysts believe that Mexico's new assertive foreign policy carries a number of ominous implications for the United States, especially in regards to the crisis in the Caribbean and Central America, and the stage would seem to be set for a potential clash between the contrasting interests of Mexico and the United States.[128]

The Reagan administration perceives the crisis in Central America and the Caribbean as an East-West confrontation. Thus, the socioeconomic situation of the countries in the area must be subordinated to the exigencies of the global U.S.-Soviet conflict. From this appreciation, American foreign policy should be geared, primarily, to contain Soviet-Cuban expansionism through military assistance to friendly governments such as that in El Salvador. There seems to be an urgency to prevent the "domino effect," according to which revolutionary movements akin to Cuba's would extend their field of action from Nicaragua to Mexico itself. Indeed, by November, 1981, the Pentagon announced the formation of a new U.S. military command for the Caribbean, whose area of responsibility will include waters and islands of the Caribbean Sea, Gulf of Mexico, and "portions of the Pacific Ocean bordering Central America." Pentagon officials declared that the move "reflects the continuing U.S. interest in the vital Caribbean area."[129]

However, as the American mood towards the crisis in the Caribbean

Basin turns increasingly aggressive, the means to carry out a tougher policy are not clearly discernible. Alfred Stepan has noted a deterioration of the traditional instruments of U.S. foreign policy in the area. For example, U.S. military assistance programs in Latin America, which flourished during the 1950's, were by 1979 barely in effect anywhere in the region. Bilateral economic assistance to Latin America, which under USAID programs played an important role in the 1960's, had been discarded by the late 1970's by "middle income" countries such as Brazil and Venezuela. U.S. military intervention faces significantly greater obstacles in the 1980's than in previous decades. Stepan also emphasizes the "domestic dimension" of U.S. policies towards Latin America, i.e. the 17 to 22 million Hispanic Americans, largely Mexican Americans, who are close to become the largest minority in the United States, and are reaching for growing political power. Finally, there is the fact of the emergence of new power centers in Latin America, of which Mexico is possibly the most relevant due to its oil wealth, which are bound to significantly shape American foreign policy in the region.[130]

Mexico is opposed to a reprise of U.S. reliance on military means to achieve its objectives in Central America and the Caribbean. By mid-November, 1981, President López Portillo declared that it would be a "gigantic error" for the United States to stage military actions against Nicaragua or Cuba.[131] The Mexican government sees the crisis in Central America in terms of a North-South dimension, i.e. development. Socioeconomic conditions are primarily the cause for the upheaval and, thus, only a political and not a military solution is

feasible. There is a difference of approach between the Mexican and the American positions, more noticeable now that Mexico has come out of its shell in foreign policy matters. Simply, whereas U.S. policymakers believe that conservative, old-fashioned regimes would be more convenient for its interests in Central America, Mexico seeks to strengthen its role as a regional power through the support of more progressive governments.[132]

Nevertheless, both the Mexican and the U.S. governments realize that they must work together. During the years of the Carter administration, an important factor that led to a deterioration in the relations between the two countries was the subjective dimension of leadership perception. López Portillo and Carter were definitely incompatible in character, and they developed a mutual animosity that was to be reflected at the wider level of bilateral relations. With the advent of the Reagan administration, this personal equation of politics has improved greatly. The personal chemistry between López Portillo and Reagan is, indeed, warm, and both leaders feel at ease with each other. This fact is contributing to create a new, improved climate for negotiations. The Mexican President, as previous Mexican leaders sensitive to nationalistic motivations, believes that mutual respect and dignity must pave the way for a better understanding. "The problems are the same," has said López Portillo, "but the attitude toward them has changed radically, and this means that treatment of them is possible."[133] For his part, Reagan is seeking to personally gain the sympathy of the Mexican leaders, through personal charisma as well as through well geared publicity.[134]

From the American perspective, U.S. overtures towards Mexico must seem somewhat as a component of a tug-of-war. Whereas Mexico is pulled by its self-conception as part of Latin America, and as a developing country member of the Third World, i.e. the "South," fundamentally in agreement with the Non-aligned Movement, the Reagan administration believes that Mexico's ties with the United States and plain, basic geopolitics are bound to solidify its identification with U.S. policies and objectives.

An important element that would tend to score this latter reasoning is the role of Mexico's private sector in bilateral relations. The Latin American policy of the Reagan administration, following the norm of previous Republican governments, reflects a symbiosis between the interests of the Public and Private Sectors in the United States. According to this appreciation, U.S. policy must be closely coordinated with private American business interests in the region, and by extension with the latter's liaison with Latin American private concerns.[135]

Former Ambassador to Mexico Robert H. McBride has noted that the relationship between Mexico's private sector and its U.S. counterpart is thriving. According to McBride,

> "...there seems to be a harmony of objectives and an ability to work together on the part of U.S. and Mexican industry and banking which are absent from government-to-government relationships. The powerful business groups in Monterrey have been closely associated with major U.S. corporations for most of the post-World War II period, as have most of the Mexico City business groups, the banking groups of Banamex and Bancomer, and others. The intense desire of the Mexican government to diversify its investments sources in order to prevent 'dependence' on the U.S. does not seem to be reflected in attitudes of the private sector."[136]

Mexican analysts concur that, indeed, the Reagan administration is placing its trust on U.S. entrepreneurs to reach a better understanding between the private sectors of both countries, which would be expected to have a beneficial impact on governmental circles as well.[137]

McBride has underlined the special situation prevailing along the border, which is bound to foster a growing association of interests from both sides, stemming from factors such as trade, commerce, and the maquiladora program.[138] Among the various plans to propitiate cooperation, there is the Agreement for the Exchange of Electric Energy signed in May, 1980, as well as joint projects regarding agricultural transactions. Olga Pellicer sees as the obvious attraction of these projects for the United States "the possibility to transfer the political handling of relations between the two countries from the federal government to local governments."[139] According to Pellicer:

> "This permits to find, on the Mexican side, interlocutors less reluctant to the open acceptance of greater Mexican-U.S. ties. The lesser responsibility of local political leaders in the maintenance of a defensive and nationalistic ideology, allows them to proceed, without great political costs, on an openly friendly dialogue with their American counterparts."[140]

On a broader scale, the re-emergence of Mexico as an oil exporting nation has underscored its economic bonds with the United States. Trade between the two countries is soaring. By 1980, new investments had surpassed the billion dollar mark, up from $374 million in 1978. Projections for 1981 indicated that, only in the manufacturing sector, new U.S. investments would be well above the billion dollar mark, geared mainly towards the automobile industry.[141] In short, the economic

panorama would not seem to bear bad presages for political relations between the two nations.

In this context, U.S. expectations of Mexico's role in Central America and the Caribbean would seem to be especially high in regard to diffusing the politically explosive situation in the area. Curiously, the Mexican government seems to willingly pursue this role, too. The differences between the respective positions, of course, spring from the degree of independence of Mexico's foreign policy, and the diverging appreciations of issues by the two governments.

The previous proposition is not new. McBride has noted that in earlier U.S. administrations the Department of State had envisaged a greater Mexican presence in Latin American affairs. Specifically, it was thought that Mexico could play a part in hemispheric "bridge-building," regarding the Central American region.[142] By mid-1981, the Mexican government was apparently trying to carve a niche of its own for its potential role as a "common communicator" in international relations.[143] In reference to the view by the U.S. government of the situation in Central America and Cuba, Mexico believes it can ultimately help to narrow the gap in perceptions and lessen misunderstandings. President López Portillo maintains that

> "...because we have open and frank relations, these relations could be useful in communicating with two parties that frequently do not communicate, provided there is political goodwill to relax the area."[144]

By November, 1981, during Secretary of State Haig's official visit to Mexico City, Mexican officials reiterated their opposition to any precipitate action by the United States against Nicaragua. Mexican

Secretary of Foreign Relations, Jorge Castañeda, underscored that "anti-interventionist" feeling was widespread throughout Latin America, and added that "a sharp response (to Nicaragua) could be counterproductive." However, Mexico was ready to act as a "communicator" in order to improve relations between Washington and Managua.[145] For its part, a spokesman for the Department of State declared that the United States and Mexico

> "...clearly do not have identical views but they share a common concern in the search for ways of dealing with the problems of Nicaragua."[146]

Petroleum as an instrument of Mexico's foreign policy. The suddenness with which Mexico has been catapulted into a prominent position as an oil-producing and exporting country raises a number of questions. There is the suspicion that the "discovery" of the petroleum fields in the southeast during the mid-1970's may have been merely the official announcement of a fact already known by the inner circle of top Mexican government officials. One of the explanations for the secrecy would be related to the fact that former President Echeverría, who apparently had ambitions to become Secretary General of the United Nations, viewed the announcement of the existence of huge oil deposits as indirectly harming his candidacy with respect to OPEC countries, which might then have seen Mexico as a relief source for oil imports by the United States and Western Europe.[147]

On the other hand, former Pemex's Director Díaz Serrano underlined the technical difficulties which had to be overcome just for Pemex to undertake drillings up to 5,000 meter deep in order to find the new deposits. Only when these operations were possible could the finds be

confirmed.[148] According to information obtained by France's Le Figaro, the secrecy was maintained because Mexico wished to avoid an excessive oil consumption as in the Middle East countries, and to conserve its hydrocarbon resources.[149] In this respect, President López Portillo declared in March, 1978, that Pemex's technicians had deliberately withheld information pertaining to the new deposits, because of fear of squander by Mexican politicians.[150] It is pertinent to remember that the Mexican political system itself tends to secrecy, and neuralgic issues are not openly discussed. Additionally, an obvious reason for the reluctance to divulge information about oil reserves could have been wariness of growing economic and political pressures by the United States.

In any case, the economic crisis of 1976, and the subsequent need to court external and internal confidence in Mexico's process of development, led to a complete turnabout in the previous policy. The administration of López Portillo aimed to augment and verify the claims concerning Pemex's reserves.

In general terms, Mexican policy orientations are significantly conditioned by U.S. strategy and, in certain cases, are a direct response to that strategy. The actions by the Mexican government on the issue of oil reserves illustrate this causal relationship. U.S. sources were among the first to publicize the existence of sizable hydrocarbon deposits in Mexico. Whereas by May, 1978, the Energy Commission of the Mexican Congress had tried to disprove what it deemed to be an exaggerate estimate of Mexico's oil reserves by the CIA, in contradiction with Pemex's lower figures,[151] a year later Pemex's former Director Díaz

Serrano was busy disclaiming "a campaign in the United States to underestimate Mexico's petroleum reserves."[152] By November, 1980, Díaz Serrano once again denied assertions by the U.S. Department of Energy that questioned Pemex's figures.[153]

The previous scenario serves as a background for the role of petroleum as an instrument of Mexico's foreign policy. It is a scenario qualified by restraints, as well as by increasing flexibility for Mexican initiatives.

Constraints. Olga Pellicer has analyzed Mexico's foreign relations in terms of two possible outcomes: interdependence with the United States, or a national project of development. In the process of redefinition of its foreign policy, Mexico faces a series of conditions set by the expansion of its petroleum industry, such as incoming pressures from the United States, and the contrasting policies of domestic groups in regard to the possibilities of further integration with the U.S., or the pursuit of a national project. From the American perspective, interdependence would seem to be the most appropriate path. And here is found a net source of conflict between the two countries, that springs from nationalistic feelings commonly expressed in Mexico through an anti-American attitude.[154] Nationalism remains, indeed, the most powerful political ideology in Mexico, closely tied to the fortunes of the petroleum industry.

But the search for a nationalistic course of action in Mexican foreign relations must take into account a series of structural limiting factors. Jorge Domínguez has aptly referred to a "triple dependency"

that constrains Mexico's overtures:

> "Considerable continuities are shown in the international implications of Mexican internal affairs. There are remarkable continuities in economic structure, especially in the economy's general vulnerability and in its links to the U.S....There has also been a deepening of a triple dependency well beyond historical standards. Mexico relies increasingly on the export of a single family of products (hydrocarbons), on a single country for its international economic relations (the United States), and on a declining number of regions within Mexico for such relations....The autonomy of foreign policy consequently declines. To an unparalleled degree, Mexican foreign policy must serve internal economic needs, and non-economic foreign policy objectives must be subordinated to serve them....The more Mexico relies on petroleum exports to meet its internal economic needs, the more important it will become to the U.S., and the more likely that there will be conflicts over new issues between the two countries."[155]

In sum, says Domínguez, "the deepening of Mexico's triple dependency has constrained the independence of the Mexican government in the conduct of foreign policy."[156]

The constraints on petroleum as an instrument of Mexico's foreign policy are well illustrated by the convulsions of the industry during mid-1981, as a result of the worldwide oil glut. There events had crucial domestic, as well as external, repercussions.

By late 1980, Pemex was actively embanked on a course of increasing levels of oil exports, and higher sales prices. In December of that year, Pemex raised prices for its exports even above the levels than prevalent in most OPEC countries. At that time, the crude denominated "Istmo" was selling at a price of $38.30 per barrel, and the "Maya" crude at $34.50 per barrel. Most of the Mexican reserves correspond to these two types of oil: "Istmo," which is a light crude of 34°

API[157] and 1.8% sulfur content; and "Mara," a heavier crude of 23^{o} API and 3.42% sulfur content. Increasingly, Mexican exports correspond more to the "Maya" crude, extracted mostly from the Gulf of Campeche.[158] Likewise, Pemex was successfully continuing its policy of markets diversification. By January, 1981, Pemex exported, or had plans to export oil to nineteen countries.[159]

By April, 1981, the international petroleum market was feeling the impact of lower levels of demand, and a growing surplus in supply. The big Western importers had been successful in reducing consumption, at the same time that Saudi Arabia raised its production in order to pressure other OPEC countries to agree to a common price level. These factors contributed to force OPEC to tentatively cut production down by some 2.5 million b/d, a measure that had no appreciable effect on world prices.[160]

Starting in May, 1981, the previous situation unleashed in Mexico in rapid succession, a series of events which were to demonstrate the degree of vulnerability of Mexico's economy and polity to international market forces. By late May, Pemex announced that it would not alter its program of production and exports, nor its price structure, in spite of OPEC's decision to reduce output.[161] Shortly afterwards, by early June, Pemex Director Díaz Serrano had reconsidered the matter, and acknowledged the need for Pemex to lower prices in order to retain its clients.[162] At the time, the Secretariat of the Treasury estimated that Mexico would have to contract an additional external debt for $1,200 million, to compensate for lost reserves.[163] The reduction in prices, of $4 per barrel, was expected to bring about a loss of more than

50 billion pesos for 1981, in relation to previously estimated reserves. By early June, exports were already down to 1.4 million b/d, 560,000 "Istmo" and the rest "Maya."[164]

The decision to lower prices, albeit perhaps unavoidable from an economic standpoint, was politically explosive. On June 6, 1981, Díaz Serrano presented his resignation as Director of Pemex. The decrease in prices had not been, apparently, unanimously approved by the Economic Cabinet. Behind the dismissal of Diaz Serrano loomed the fact of Pemex's independent course of action vis a vis other Secretariats and the continuing debate over production levels. The pursuance of bureaucratic autonomy and an ever-increasing petroleum output ultimately cost Díaz Serrano his post.[165] Commenting retrospectively on the episode, President López Portillo would express his belief that "a precipitate action reduced the exports price of our crude, with a chain reaction over the world's oil market."[166]

By mid-June, 1981, the Mexican President was attempting to restore stability to the petroleum industry, by declaring that the production goals would be kept, as delineated in the Energy Program, and that the sudden drop in prices would be corrected.[167] The Secretary of Patrimony and Industrial Development, José Andrés de Oteyza, reiterated the objective of revaluating the price of crude oil, even if it meant a "depuration" of Pemex's list of clients.[168]

The new Pemex Director, former Secretary of the Treasury Julio Rodolfo Moctezuma Cid, was soon to realize the difficulties of trying to manage a product such as petroleum, subject to the fluctuations of the international market, according to considerations of national interest.

Moctezuma Cid proceeded to prepare a program to overcome the crisis the proposals included: to undertake a more dynamic and flexible commercialization policy in the international market, in order to obtain more favorable prices and sales conditions; to uphold the production goals in the Energy Program; and to achieve a greater coordination between production, commercialization, infrastructure, and operation of facilities.[169]

By late June, 1981, Pemex announced it intended to raise prices back to their former level, and that the possibility of reducing exports was under consideration.[170] On July 1, as a result of "difficult negotiations" with its clients, and as a step in recuperating from the economic effects of the drop in revenues, Pemex proceeded to increase its prices by $2 per barrel of oil.[171]

The attempts by Pemex to raise prices resulted in a series of cancellations of purchases by a number of clients. The French Petroleum Company, which had been buying 100,000 b/d from Mexico, notified Pemex that it would reduce its purchases by half.[172] Companies from other countries, i.e. United States, the Philippines, Sweden, Yugoslavia, and India, also cancelled orders, bringing the total of lost sales up to 310,000 b/d by late June. This meant financial losses of 230 million pesos daily for Pemex.[173] By early July, the previous cancellations had become official. These included four U.S. petroleum companies: Exxon, Ashland Oil, Charter Oil, and Clark Oil and Refining Co. Lost sales continued to mount, to 550,000 b/d.[174]

Parallel to the previous developments, on July 1, in San Francisco, Pemex signed an agreement with 82 banks from eleven countries, in order to obtain credits for $4 billion, the highest amount ever contracted by

any country for a single operation. The Bank of America was to be the agent and twenty other banks, including seven from Japan, would administer the operation. The Japanese banks were to contribute $1,200 million, thirty U.S. banks were responsible for $1,500 to $1,600 million, and 28 European banks would account for the remainder. Pemex officials declared that the loan was a transitory measure, while payments for exported oil arrived. Likewise, part of the credits was to be destined to acquire additional exploration and drilling equipment.[175]

According to Alicia Girón, in a study for the Economic Research Institute of Mexico's National University, by early July 1981, Pemex's foreign debt amounted to more than $13 billion. Between 1970 and early 1979, Pemex's debt increased from $438,6 million to $6.213 billion. Shortly before the record $4 billion credit operation, the total had surpassed the $9 billion mark.[176]

Faced with the possibility of financial disaster, the Mexican government retaliated against France, which had been purchasing 100,000 b/d of oil from Mexico since February, 1979. By early July, 1981, the French Petroleum Company communicated to Pemex its intention to cancel purchases altogether for the rest of the year. Apparently, the French were applying one of the clauses of the contractual agreement with Pemex, which allowed any of the two parties to suspend operations for a trimester, if disagreements developed over price levels.[177] In any case, on July 4, 1981, the Mexican government proceeded not only to suspend the petroleum deal, but to eliminate all French companies from participation in Mexico's projects of national development, as a reaction against France's cancellation of oil purchases.[178]

Nevertheless, negotiations between Pemex and the French Petroleum Company were resumed shortly afterwards, with the personal intervention of President Francois Mitterand, who stated that it was essential for France to deepen relations with Mexico.[179] By mid-July, both sides had announced that the oil contract remained in effect, and that France would continue to buy Mexican crude, pending further negotiations.[180]

In the end, the episodes of mid-1981 demonstrated to the Mexican government the high volatility and unpredictability of the international petroleum market, and the corresponding obstacles to relying on petroleum for domestic development and activism in foreign policy matters. The storm subsided as quickly as it had arrived. By early August, 1981, Pemex was able to announce that it had recovered its petroleum market. Sales were up to 1.250 million b/d, at an average price of $31.25 per barrel. This latter figure was the combination of sales prices of $34 for "Istmo" crude, and $28.50 for "Maya" crude. Pemex's production schemes were geared to a 50% mixture of each of these two basic types of oil.[181]

Total sales for 1981 were expected to amount to more than $15 billion, i.e. an increment of up to 50%, over the 1980 income of $10.4 billion. In retrospect, events resembled a cycle, from euphoria to deception back to euphoria.[182] As a result of OPEC's new price structure agreed upon by November, 1981. Mexico raised the price of its light "Istmo" crude by $1, to $35 per barrel, and held the price of its heavy "Maya" crude steady at $28.50.[183] By September, 1981, President Lopez Portillo could speak of the drop in prices as a "transitory phenomenon."[184]

Nevertheless, the Mexican government remains wary of potential future developments. There has been a proportionally quicker increment of production and reserves of heavy "Maya" oil, especially from the wells off the Gulf of Campeche, over the lighter "Istmo" crude from Tabasco and Chiapas.[185] This fact could strain the flexibility of refining facilities in customer countries, which might be an obstacle to growing Mexican petroleum exports, under soft international market conditions.

In his annual report, President López Portillo summarized Mexico's tentative initial steps in the world of the big oil exporters:

> "The expectations raised by petroleum and our sudden presence in the world of its conflicts, took us by surprise, and we do not yet fully understand its meaning. We graciously accepted the upwards price movements, and at the first downwards change became discouraged and bitter....this resource (well)... gave us the opportunity for progress if we know how to administer its abundance; if we organize work."[186]

The selection of Miguel de la Madrid Hurtado as the PRI candidate for the 1982 Presidential elections would seem to indicate that Mexico will slowly but steadily increase petroleum production and exports, albeit attentive to the need for planning and efficiency in the midst of uncertain international market conditions for the rest of the decade. Conversely, market realities are bound to act as a constraint to the determination of the Mexican government to continue utilizing petroleum as a key lever to spur domestic development and to substantiate the projection of Mexico's foreign policy objectives.

Mexican initiatives. In spite of the built-in constraints, petroleum constitutes a formidable element in policy formulation and implementation.

Based on its petroleum wealth, Mexico has embarked upon a highly ambitious course in its foreign policy, which has both points of continuity and contrast in regard to previous stances.

According to Olga Pellicer, the foreign policy project of the López Portillo administration has followed three basic directions, clearly manifest since 1980: in the first place, towards a diversification of its foreign relations, both economic and political, on the basis of the negotiating power afforded by petroleum; secondly, a somewhat more discreet solidarity with "Third World" positions, parallel to a selective strengthening of relations with key countries in terms of regional influence and prestige, such as Sweden, Canada, Brazil, and India, and a more solid presence in international forums such as the U.N. Security Council, where Mexico accepted a post after 30 years of declining participation there; and thirdly, contrasting with the pragmatism of the two previous lines, support for ideological pluralism and a maintenance of the commitment to its revolutionary origins, through its support of revolutionary regimes such as those in Cuba, Nicaragua. Thus, says Pellicer, there is a mixture of pragmatism and revolutionary tradition in Mexico's foreign policy, with petroleum as the basic pillar for its actions.[187]

Officially, Mexico has denied any attempts at exerting a subregional, or Latin American leadership, but this seems to be an impending role. Mexican analysts abound in the concept of a "sleeping giant," to describe Mexico's leadership potential.[188] According to Edwin Deagle, from the Rockefeller Foundation, the Reagan administration must recognize the status of Mexico as an "emerging leader."[189] The President of Costa

Rica, Rodrigo Carazo, has openly acknowledged that Mexico exerts "in a certain way a leadership role in Central America, at the time economically."[190]

This leadership, or at least the potential for it, is demonstrated by a series of actions on the part of the Mexican government, that confirm the efforts to delineate a more assertive foreign policy. In regard to the objective of economic diversification, the achievements would seem to be substantial. In 1976, Mexico sold all its hydrocarbon exports to the United States. By January, 1981, Pemex was exporting oil to eleven countries, and had plans to extend the list to eight more.[191] By July, 1981, the following were the most important Pemex's clients, with their respective levels of purchases: the United States, with 658,000 b/d; Spain, 198,000 b/d; Japan, 100,000 b/d; France, 100,000 b/d; Israel and Brazil, 60,000 b/d each; Canada and Sweden, 50,000 b/d each; Great Britain, 30,000 b/d; the Philippines, 10,000 b/d; and Yugoslavia, 6,000 b/d.[192]

Some additional factors illustrate the attempts to diversify exports markets and operations. By January, 1981, Pemex announced that it had acquired a total of 34.29% of the stock of the Spanish refining company Petronor, with facilities in Bilbao, Spain. This action not only strengthened Pemex's operations in Spain, but also gave it a firm vantage point to consolidate and expand its European operations.[193]

By November, 1980, President-elect Reagan invited Pemex to establish itself in U.S. territory, and to compete with its products in the American market.[194] The Mexican government received the proposal in a "positive way," and Pemex announced that Mexico would commercialize its gasoline and petrochemicals in the United States through independent producers

rather than through the big U.S. refineries.[195] By early 1981, Pemex had plans to establish plants of its own to distribute gasoline and diesel fuel in California, Arizona and Texas. These operations were expected to compensate for the problem caused to Pemex by the fact that up to 40% of the total volume of gas and diesel it sends to the Mexican northern states, along the border with the United States, is acquired by American citizens who cross the border.[196]

An area in Pemex's expansion plans that has resulted in misunderstanding with the U.S. government is that related to dealings with Cuba. In 1978, during his visit to the Soviet Union, President López Portillo raised the proposal for a triangular oil supplying agreement, through which the Soviet Union would supply petroleum to a Mexican client, Spain, while Mexico would supply it to Cuba. By May, 1980, the idea had been discarded, dur to the fact that Cuba would have to pay substantially higher prices, since the Soviet Union sells oil to that island at discount prices.[197]

However, Mexican cooperation with Cuba has continued. By December, 1980, Pemex announced that through a protocol on cooperation agreed upon by both countries, Mexican technicians would explore Cuba's sea platform in search for oil.[198] In February, 1981, the Chicago Tribune published news in regard to a "secret agreement" between Mexico and Cuba, through which the former would supply Castro's regime with petroleum machinery manufactured in third countries.[199] Pemex emphatically denied this version.[200]

President López Portillo has acknowledged that disagreements between Mexico and the United States possibly lie in the diverging orien-

tation towards certain critical countries in Central American and the Caribbean, such as Cuba and Nicaragua. But the Mexican President believes that

> "Mexico's friendship with Cuba is not a condition (that interferes with) friendship between Mexico and the United States. The United States has friendships with many countries of the left...with practically all of them except Cuba, which makes one suppose that there are very special reasons for it, and not ideological ones... But Cuba and Mexico have been united since the sixteenth century."[201]

However, increased cooperation on petroleum and general matters between Mexico and Cuba is bound to underline U.S.-Mexican differences over approaches to the problems of the Caribbean and Central American region.

The Mexican government has repeatedly underscored its vital interest in the Caribbean and Central America. By February, 1981, the Mexican Secretary of Foreign Relations, Jorge Castañeda, in a specially arranged meeting with the Mexican ambassadors to the countries in that region, emphasized the "maximum priority" accorded by Mexico to the situation there.[202] In regard to the mid-July, 1981, Nassau meeting between the Foreign Ministers of Mexico, the United States, Venezuela, and Canada, to define programs of cooperation for the development of Central America and the Caribbean, the Mexican government strongly made the point that any form of assistance must be free of political and/or military components.[203]

The Mexican position is particularly forceful in the case of El Salvador, where Mexico is trying to promote a political solution among the warning factions. Late in August, 1981, the Mexican and French governments issued a joint statement recognizing the Salvadoran rebels as

"a representative political force" the French-Mexican declaration also called for a restructuring of the armed forces in El Salvador before the scheduled 1982 elections are held, and raised the possibility of bringing the issue of the civil war in that country to the United Nations Security Council.[204]

The U.S. government expressed anger and indignation at the French-Mexican initiative. Likewise, several Latin American nations reacted unfavorably. By early September, 1981, Argentina, Columbia, and Venezuela issued a statement supporting the government of Jose Napoleón Duarte in El Salvador, and criticizing Mexico and France for interfering in that country's internal affairs.[205] The previous action raised the possibility of an attempt to diplomatically isolate Mexico, if the Mexican government were to harden its position in the matter.

In his annual report of September, 1981, President López Portillo reiterated his government's support for Cuba, Nicaragua, and the leftist insurgents in El Salvador, in the following terms:

> "...during the last year we have centered our action on the nearest area, geographically and politically, to our own essence: Central America and the Caribbean holding high the banner of nonintervention. We have, on repeated occasions, made clear publicly, privately and in many ways, our disagreement and opposition to all types of interference in the area, especially by the superpowers.... By further tightening the links of friendship and cooperation that bind us with the revolutions of Cuba and Nicaragua, we have underscored Mexico's attachment to the political principle of the free determination of peoples...because of sympathy and affinity with the essence of their struggle-social justice-(Mexico) has helped them and will continue to do so."[206]

A key component of Mexico's foreign policy is the Energy Cooperation Program for Central America and the Caribbean, i.e. the San José

Pact, created by Mexico and Venezuela in August, 1980. The program provides approximately 160,000 b/d of oil to nine countries, at 70% of the going market rate, and the rest payable through long-term, low-interest loans.[207] For President López Portillo, this program of easy oil terms for developing countries represents a solid step "in the construction of a new economic order not dominated by the superpowers. Mexico also intended to set an example for Venezuela's fellow OPEC members.[208] In August, 1981, Mexico and Venezuela renewed the accord for another year. At that time the countries benefiting from the program were: Barbados, Costa Rica, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, and Dominican Republic. Savings for these countries represented a total of one billion pesos per year.[209]

The San José Pact must be inscribed within the context of Mexico's strategy to promote a global energy agreement. On September 27, 1979 in his address to the United Nations, President López Portillo unveiled a nine-point World Energy Plan, which would guarantee the sovereignity the participating states and create an agency to finance the energy needs of hard-pressed developing countries.[210] The objective of the Plan would be "to insure an orderly, progressive, integral, and just transition between two epochs of humanity," i.e. the era of petroleum and that which will be based on new energy sources.[211]

This proposal followed the international objectives of former President Echeverría's "New Economic Order," based on more equal and just economic exchanges between developed nations and "Third World" countries, which Mexico has tried to promote through its sponsorship of the "Charter of Rights and Duties of the States." In November, 1979, 113 devel-

oping countries (the Group of 77), presented in the United Nations a project for international economic cooperation that included the World Energy Plan as a medullar part. Industrial nations accepted the project as an adequate framework for negotiations.[212]

In September, 1980, the United Nations proclaimed a new international strategy for development during the 1980's, which included a restructuring of the global energy market, on the basis of the Mexican World Energy Plan.[213] However, opposition to the Plan developed from some OPEC's members such as Algeria, since it could diminish the bargaining power of petroleum vis a vis the industrial nations.[214] Mexican initiatives in the field of energy have included regional schemes as well. By early April, 1981, the Mexican and Venezuelan governments proposed the formation of a Latin American Multinational Petroleum Enterprise, which would refine and distribute all the crude contributed by both countries, according to the terms of the San Jose Pact.[215] Since late 1980, the Canadian government has expressed its interest in participating in the Mexican-Venezuelan petroleum cooperation programs towards Central America and the Caribbean.[216]

By mid 1980, as a result of President López Portillo's visit to Brazil, commentators in both nations believed that the energy crisis and Mexico's willingness to cooperate with Brazil, were likely to bring a complete turnabout of previously cold relations between "the two most developed Latin American countries," in what could be on a long range basis "the most important step taken in the last years towards Latin American integration."[217] In October, 1981, Mexico, Brazil and Venezuela officially announced the signing of a joint agreement on Latin American

potential oil extraction and exploration projects. This trilateral effort is designed to promote schemes of technical and financial assistance to Western hemispheric countries. The accord is to be carried out through the participation of Pemex, the Brazilian Petroleum Corp. (Petrobras), and Venezuelan Petroleum, Inc. (PDVSA).[218]

A tour d'horizon of Mexican initiatives must include the International Meeting on Cooperation and Development, informally known as the North-South Conference, which took place at Cancun, Mexico, on October 22 and 23, 1981. Under the sponsorship of the Mexican and Austrian governments, leaders of eight industrialized and fourteen developing nations met to discuss international problems related to issues of food, energy, trade, and finance. "Third World" countries would like to obtain more favorable terms of trade, a stronger voice in the World Bank and the International Monetary Fund, and in general better bargaining conditions.[219]

The position of the United States on these issues, as expressed by President Reagan at Cancún, relies on free trade and free enterprise as the key to development. Reagan emphasized that discussions must remain within the framework of international agencies, contrary to the wish of delegates from developing countries of consolidating the debates into a single forum, ideally the United Nations General Assembly.[220] By contrast, President López Portillo stressed the need to move towards a transfer of resources from the North to the South, and to establish guaranteed prices for raw materials and easier access to finance.[221]

Specifically, one of the demands of developing nations, their economics strapped by the high cost of imported oil, refers to the estab-

lishment of an energy agency connected to the World Bank, with a $30 billion fund to promote exploration and development of energy resources. Mexico strongly supports this scheme. At the end of the conference, spokesman reported a "near consensus" in favor of the creation of the energy affiliate. However, the Reagan administration opposes this idea, emphasizing rather the efforts by private enterprise.[222]

In the end, even though no specific agreements were reached concerning energy, nor in regard to food distribution, financing and trade, the conference was unanimously hailed as constructive and positive. The presence of President Reagan at Cancún pleased and encouraged Third World delegates, and a vague compromise appeared to develop, as well as the apparent decision to meet again in the future. As host to the meeting, Mexico reaped very definite diplomatic rewards.[223] President López Portillo, in September, 1981, referred to the North-South Conference at Cancun as

> "the most important international action attempted by Mexico during the last year, and that which best reveals the active and dynamic character of its realistic policy to influence events and not only to invoke principles."[224]

Mexican policies and increasingly important not only in regard to North-South, but also South-South relations. This is clearly illustrated by Mexico's stand vis a vis the Organization of Petroleum Exporting Countries. There are several points worth mentioning here. Pemex has considered OPEC's prices as the basic reference for adjustments in its price and exports levels. In this respect, the presence of Mexico in the international petroleum market could be argued to represent a stabilizing factor, as long as Mexico follows a policy consonant

with that of OPEC.[225]

On the other hand, Pemex's growing exports since the mid 1970's have tended to diminish the bargaining strength of OPEC. Mexico has refrained from selling its oil in the "spot" market, where immediate delivery schemes determine prices according to the supply and demand of crude outside official national and international controls. However, by July, 1981, the OPEC Bulletin, the official publication of that organization, was denouncing that Pemex was, in fact, selling "Istmo" crude directly to companies and governments, in Notterdam, London, and New York. The "spot" market is anathema to OPEC since it lessens that organization's control over the market. Pemex insists that it only sells petroleum through bilateral accords, and that no significant volumes of Mexican oil have been detected in the "spot" markets.[226]

Some Mexican analysts argue that Mexico should join OPEC, as a measure of solidarity with "Third World" countries, and in order to strengthen the position of that organization in other questions such as international trade and financing.[227] However, while indirectly supporting the price-levels set by OPEC, the Mexican government has no plans to enter that organization.[228] The reasons for this attitude are to be found in the traditional Mexican policy of self-reliance and independence in foreign matters. Furthermore, in the past Mexico has publicly criticized the "oligopoly commercialization practices" prevailing in OPEC, especially as these have adversely affected development programs in poor countries.[229] It is not likely that there will be any variations in Mexico's policy of remaining outside OPEC.

Mexico is delineating a coherent connection between its regional and global policies. In September, 1981, President López Portillo explained the reasons for Mexico's greater attention to international relations:

> "...(there is) the clear conscience of an active interaction between domestic and international affairs. Much of what occurs in the rest of the world affects us decisively, and a great part of the principal solutions to our problems lies outside."230

In his Annual report, President López Portillo underscored Mexico's opposition to "a new and unacceptable bipolarity," based on a huge weapons buildup by the super-powers. Likewise, he lamented the apparent demise of the Salt II treaty as a return to "Cold War" conditions, and singled out the ominous neutron bomb as an added threat to mankind. In regard to Mexico's traditional support for non-intervention, the Mexican President demanded the withdrawal of foreign troops from Afghanistan and Cambodia, and a peaceful resolution of the Middle East crisis, according to United Nations resolutions. He also expressed the support by the Mexican government of the independence of Belice, which Guatemala does not recognize as a sovereign state, and the censure of South Africa's occupation of Namibia and its apanther'd policies.[231]

As Mexico pushes on with a more vigorous foreign policy, it would appear that growing differences with Washington might undermine U.S.-Mexican relations Mexican stands on certain worldwide issues and regional questions are at odds with those of the Reagan administration.[232] The Mexican government has made friendly gestures towards the Soviet Union which, according to some American observers, means that "Mexico is more

fearful of the United States," due to geographical proximity.[233] The Mexican position on Central America has echoed in NATO, as several European allies of the United States, i.e. Greece, Denmark and the Netherlands, have supported the French-Mexican resolution urging the ruling junta in El Salvador to negotiate with the guerrilla forces there.[234]

However, visible areas of dispute may obscure the underlying fact that, ultimately, both the United States and Mexico share views on the need for political stability as the basis for peaceful development. In this regard, President López Portillo has expressed that,

> "the relations between Mexico and the United States must transcend their traditional mold and look for shared criteria and solutions."[235]

NOTES TO CHAPTER VII

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CHAPTER VIII

PERSPECTIVES

Forces at Work in Mexican Development

By the early part of the 1980's, Mexico's process of development appears to have reached a crucial juncture, propelled to a great extent by its petroleum resources. A number of factors qualify the situation.

It is clear by now that Mexico has substantial oil and natural gas reserves, which guarantee for the short and medium ranges a steady expansion of its petroleum industry. This fact represents a wide flexibility for governmental policy, in regard to both the rate and modalities of production of hydrocarbons, and the overall process of development. Conversely, petroleum exploitation is having a strong impact on development, which remains unbalanced, and its fruits unevenly distributed. Furthermore, the exports sector of the Mexican economy relies overwhelmingly on petroleum and its derived products, with the subsequent inflationary effects on the domestic market, and the danger of "petrolization" of the economy.

Mexico remains today a dependent society, in economic, social, and cultural terms, with its corresponding political implications. This dependency takes place primarily vis a vis the United States. However, Mexico has also achieved by now a significant degree of national integration. Nationalism is

the most powerful political force in Mexico. Historically, petroleum has been a rallying point of Mexican nationalistic elan, and is likely to persist. Thus, paradoxically, a consolidation of dependency, linked to petroleum exploitation, would exacerbate nationalism. The Mexican State, obviously, is bound to play a critical role in such a scenario, both as a promoter of, and benefactor from nationalism.

Mexican nationalism is reinforce by the perception of a U.S. official approach that borders on ethnocentrism. American official and academic circles still, and inexcusably, tend too often to see Mexico as just an extension of the American model of development. This is, clearly, a biased perspective that does not engender good will among Mexican decision-makers and public opinion in general. There is a need to approach Mexico, and Mexican domestic and foreign policy, on their own terms, for what the country is intrinsically as a society and a polity.

Likewise, the imperative and momentum of economic growth can not explain everything in Mexico. Due partly to that same econcmic growth, stability and orderly change are being constantly challenged by social and political tensions. Ideology, for example, whether in substance or just rhetorically, plays a wider role in Mexico than in the United States. All these factors, nationalism, dependency, social and political forces at work towards greater participation, ideology, must be taken into account in order to better understand Mexico as a nation, the import of its petroleum resources, and the shape of its foreign and domestic policy.

Most important, it is crucial to recognize that solutions to these problems must originate starting from Mexico's own reality, from its historical and societal processes. In this context, dependency represents a source of stress and tension for the system, since it undermines the very basis of the nationalism which glues together Mexican society. Mexico's stability and orderly development are directly related to whether its political system can overcome the gnawings of domestic and international flux, and whether it can be flexible enough to accomodate new groups and sectors of the population into an "inclusionary" scheme. One of the keys to the viability of the system will be the degree of success in achieving a more just distribution of income during the 1980's.

The possibility of greater equilibrium for the Mexican system is directly bound to the facts of dependency. To the degree that dependency increases, tensions are likely to mount, too, out of a basic discord between external influences and Mexico's unique characteristics. The project of the Mexican State is geared to achieving the stability of the polity under conditions of rapid development, and a peaceful adjustment among its component groups. An abatement of dependency would give the Mexican government more maneuvering room in the charting of an appropriate and more equitable course of development. In this context, the resources from hydrocarbon exploitation may propitiate a more acceptable level of economic and political autonomy. However, this objective emerges

within a narrowing historical margin of action, the result of a confluence of domestic and global trends, and the scenario for a reappraisal of U.S.-Mexican relations.

Prospects for U.S.-Mexico relations

There appears to be an overriding tendency in the United States to equate increased Mexican oil production with closer U.S.-Mexican relations, and a healthier process of development in Mexico. This view, widely spread among officials as well as academic circles, is highly simplistic, and misses the general, complex dimension of the problem.

Representative of this position is Richard B. Mancke. Mancke argues that rising oil production and exports by Mexico would imply benefits for the United States in strategic, economic and environmental terms. Additionally, a deeper reliance on expanding Mexican oil and gas production would mean that the United States could postpone the costly search for alternative domestic fuels, which require high-risk, long-term capital investments. On the other hand, an increase in petroleum output would foster economic growth and general prosperity in Mexico, which in turn would help reduce the flow of illegal Mexican workers to the United States. Mexico, says Mancke, unlike other oil-exporting countries such as Saudi Arabia and Kuwait, has a sizable population and a relatively developed infrastructure, which would allow it to spend its oil earnings in acquiring foreign goods and services.[1] Explains Mancke,

> "In sum, since both Mexico and the United States would profit from a policy to expand production of Mexico's crude oil and natural gas at the highest technically feasible rate, the crucial question becomes: what policies are available to each country for promoting achievement of this goal?....The principal constraints slowing down the rate of long-term expansion are current shortages of capital and technical expertise -resources of which the United States has an abundance. Since both countries would reap large gains from accelerating the rate of expansion, policies should be aimed at alleviating these constraints."[2]

Like so many arguments caught up in the fallacy of the "growth paradigm," Mancke's views suffer from serious shortcomings, and can not stand the weight of evidence. At first sight, the United States would indeed seem to gain in economic and strategic terms, from a rapidly expanding Mexican oil production. But, on a middle and long range basis, possible advantages are likely to amply offset by a series of potential dangers to the stability of U.S.-Mexico relations.

The view that intensified oil exploitation will redound in clear benefits for both the United States and Mexico can be effectively challenged in regard to two criteria. First, the present domestic situation in Mexico would seem to lead to the conclusion that the more petroleum-bound its economy and society become, the more likely that dormant social and economic tensions will reach a critical level, with the obvious negative political implications. Of course, it could be argued that this would be the situation even more so without rapid

oil exploitation. But the point is that petroleum might easily tend to aggravate disequilibriums present in Mexican society, and to become, indeed, a mirage of apparently "easy" solutions to deep-seated structural problems.

Looking at the strategic questions more carefully from the previous perspective, it is clear that a restless Mexico would be a thorn for U.S. security and strategic interests. In other words, the benefits accruing to the United States from a Mexico somewhat less formidable as an oil producer and exporter, but politically stable, would seem to outweigh by far the ephemeral benefits of a larger flow of petroleum, at the expense of a politically volatile situation.

In this respect, a word of caution has already been expressed by several respected critics of U.S.-Mexican relations. In a 1977 article, Richard R. Fagen acknowledged that oil represents, indeed, a way out for Mexico from its immediate social and economic problems, but also warned that

> "Oil may allow Mexico to slip away from the IMF but not from history. Oil exports, the related relaxation of debt limits, and the easing of some aspects of the austerity program give breathing space, another chance for hard-pressed Mexican politicians. But oil by itself cannot respond to peasants' demands for land; nor can it create hundreds of thousands of new jobs each year; nor can it keep millions of Mexicans from crossing the border; nor make rapid inroads on redressing a distribution of income that is one of the most unequal in the world; nor reduce public and private corruption; nor deal with the human and social problems

> generated by a population that doubles in size every 20 years. All that oil can do -and this is not to be scoffed at- is soften and perhaps postpone for some years the sharpening of the contradictions that are inherent in the Mexican development model. It cannot solve them."3

Reinforcing the previous views, in another 1977 article, George Grayson pointed out that, unless decisive political leadership was effective, by the middle of the twenty-first century Mexico might find itself with exhausted oil reserves and the same distorted economy.[4]

More recently, David F. Ronfeldt, Richard Nehring and Arturo Gandara, in a study prepared for the Rand Corporation, have warned that, under high production levels, Mexican oil reserves might wane within 15 to 20 years. On a long range basis, for the United States to see Mexican oil primarily as a cheap and convenient solution for its energy-related security problems, might prove to be very costly. The danger lies, say the authors, in the political and economic instability that might result from an excessively rapid development of the oil industry, and which might turn Mexico from a secure to an insecure source of petroleum.[5]

In this respect, Olga Pellicer has emphasized the need for the United States to be aware of these ominous possibilities and to contribute to prevent them. It is a question, says Pellicer, for American political leadership to place the goal of balanced Mexican development before certain U.S. particular interests that favor short-range capital expansion and fully irrestricted trade. In the

long range, U.S. security will be better protected by paying due attention to the requisites for a peaceful, stable development of its southern neighbor.[6]

Secondly, it would seem that the more important Mexico becomes as an oil producer and exporter, the more likely that its government will continue to pursue an assertive and dynamic presence in international affairs. Mexico's foreign policy, partly because of a defensive reaction due to wariness of the overwhelming U.S. proximity, and also because of an impulse born of its nationalistic propelling elan, will probably be antagonistic, or at least not acquiescent to U.S. overtures in Central America and the Caribbean. And it is here that the greatest danger to the relations between the two countries resides. Paradoxically, but only seemingly so, the more economically dependent Mexico becomes on the United States, the greater its compensating efforts will be to implement an independent foreign policy.

There would seem to be a cause-and-effect relationship between Mexico's foreign policy and its domestic situation. At present, the two are negatively related. That is, a tenser and more unstable internal situation is bound to result in a more forceful and nationalistic foreign policy. Already, from the American perspective, Mexico's foreign policy towards Central America and the Caribbean, in spite of following traditional principles, would appear to be going beyond the limits of propriety established in the past in the relations between the two nations. But, it must be remembered that this is a region very close to Mexico's national interest, too.

In other words, Mexican foreign policy is, at least partly, the counterbalance to Mexico's uneasy domestic cauldron. The Mexican government, with growing oil revenues, is bound to try to patch up some of its shortcomings in the domestic milieu, through a more aggressive presence in the international scenario. On the other hand, because of that same nationalistic behavior, and because it follows the price policies of that association without the political hindrances of formal membership, Mexico will not join OPEC. Such a move would be feasible only under conditions of an extreme deterioration of its relations with the United States.

A Recapitulation

By the early 1980's, the Mexican government would seem to be caught in the vicious circle of high levels of oil production-recrudescence of shortcomings in old and new economic sectors as well as in regard to the social situation-and still higher levels of oil production. This impasse will prove to be hard to overcome. In spite of the Energy Program, and the protestations of Mexico's political leadership in regard to a firm oil production and exports platform, self-imposed levels of output are likely to be surpassed. Increases in oil production and exports are bound to take place because of the distortions in Mexico's process of development, and the need to earn foreign currency to pay for domestic programs.

The fact is that Mexico's model of development remains deeply unbalanced and distorted. Easy oil money is bound to underline the negative aspects of the Mexican system. The challenge to Mexico's political leadership, still, is to create a proper model of development, congruent with Mexico's traditions, available means, and national goals.

The Mexican State has been evolving since the Reform period in the 1850's. Petroleum wealth represents a big, and probably the last, opportunity for the Mexican State to give new sustenance, and justice, to the national process of development, under its auspices. If it fails, then the initiative will pass to private enterprise, or to the military. The potential implications of either course are grave: deep instability originating in Mexico's nationalistic and leftist groups as they see the private sector take over increasingly the control levers of the economy, or repression a la South America, with its impact on Mexican migration to the United States, and other various border problems.

These ominous possibilities should motivate the U.S. government to devise and implement comprehensive policies that take into account the entire scope of its relations with its southern neighbor, and promote the maintenance of a moderately fluid interplay of political forces within Mexico. At present, U.S. policies that encourage increasingly higher levels of oil production in Mexico, and at the same time thwart Mexican foreign policy initiatives, are myopic and counterproductive.

U.S.-Mexican rapprochement must tread, by necessity, a path geared towards conciliation and compromise. This path is located somewhere between Mexico's hypersensitive historical memory, and the U.S. historical amnesia, between American attempts to achieve total control of its sphere of influence, and Mexico's need to uphold its sovereignty. A true partnership is required. As the stronger partner, the United States must have, at the center of its Mexican foreign policy, a special concern for the process of development in Mexico. As Fagen asserts,

> "At one level this means a frank recognition of the 'specialness' of the U.S. relationship with Mexico by virtue of the 2,000-mile frontier, the weight of the U.S. presence in the Mexican economy, and the scale and importance of Mexico to the United States....an even greater challenge in the long run will be to find ways of supporting those aspects of Mexican development and political practice that promise to increase social justice ....to fail to understand that a Mexico in which the fruits of development are not more equitably shared is also a Mexico which cannot indefinitely continue to be a 'good neighbor' is to misread history and to ignore geography."7

In any case, confrontation over foreign policy matters will continue to be a fact of life in U.S.-Mexico relations, at least in the short run. The challenge for both countries is to keep confrontation within manageable limits, and to set the basis for more amicable and mutually satisfying relations in the long run. In this context, U.S. energy needs must not blind Washington to the increasingly complex scenario in Mexican domestic politics, and its external reverberations.

Ultimately, Mexican nationalism does not need to be incompatible with the national interest of the United States, as long as the latter understands the nature of ongoing changes in Mexico, and the need to go beyond dependence towards a new form of interest association. Mexico is trying to consolidate its political and economic autonomy, and to widen the radius ot its external actions. But a strong, self-reliant Mexico, and not a dependent Mexico, is the best insurance for good, stable bilateral relations.

On the other hand, Mexican initiatives in foreign policy matters may pave the way for greater cooperation. Under a more imaginative policy framework, the U.S. government would encourage Mexico to play a greater role in bringing peace and reconciliation between the warring factions in El Salvador. Likewise, it could be argued that, perhaps, American interests would be best served by improving relations with Cuba, and thus reducing its reliance on the Soviet Union, or by increasing economic and political contacts with the Sandinista government in Nicaragua. In both scenarios, Mexico would play an extremely useful role as a mediator.

In any case, petroleum constitutes a watershed in U.S.-Mexican relations. For the United States, it means a change it its conduct and patterns of action towards Mexico and, for the latter, a definition of its project as a nation. This will require the demise of ethnocentric approaches on the part of the United States. In the words of Michael and Nanneke Redclift:

> "...If Mexican policy is characterized by a search for greater economic independence, more attention to resource conservation, redistributive policies at home, and an active foreign policy in Central America and the Caribbean, Washington should recognize that these policies are consistent with long-term U.S. interests."[8]

If an association based on mutual interests and benefits is to evolve, the U.S. government must understand and accept the changes that are taking place in Mexico, and the emergence of the Mexican State as a middle power with autonomous goals of its own. Under other circumstances, the temptation of economic and political interventionism may effectively obstruct this unique opportunity.[9] The setting is thus ready for closer friendship or escalating confrontation in the relations between Mexico and the United States. In this context, petroleum constitutes both a source of confidence, and a quandary. It may turn out to be a propelling force, or a quagmire. It corresponds to decision-makers in both nations to seize this historical challenge and turn it into a stepping stone for cooperation.

NOTES TO CHAPTER VIII

1- Richard B. Mancke, Mexican Oil and Natural Gas (New York: Praeger Publishers, 1979), pp. 4-13.

2- Ibid., p. 12.

3- Richard R. Fagen, "The Realities of U.S.-Mexican Relations," Foreign Affairs, Vol. 55, No. 4, July, 1977, pp. 685-700.

4- George Grayson, "Mexico's Opportunity, the Oil Boom," Foreign Policy, December, 1977.

5- Cited in "E.U. no debe ver al petróleo mexicano como solución a sus problemas: Rand," Excelsior, June 20, 1980, p. 9-A.

6- Olga Pellicer de Brody, "La Política de los E.U. hacia Mexico en la coyuntura actual: Una relación muy especial?" Working Paper No. 7, Colloquium, The Woodrow Wilson International Center for Scholars, April, 1978, Washington, D.C., pp. 14 and 15.

7- Fagen, op. cit., pp. 699 and 700.

8- Michael and Nanneke Redclift, "Unholy Alliance," Foreign Policy. No. 41, Winter, 1980-81, p. 133.

9- See Oscar González, "Entenderán los Estados Unidos?" Proceso, No. 237, May 18, 1981, p. 30.

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