

Mexico in Progress and Crisis: From Cortés to NAFTA

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1. Introduction: Managing the Four D's

Mexico, with a **large population (over 103 million)**, **diversified resource basis**, and a **growing manufacturing sector**, might seem a success story among developing nations. Yet Mexico has not yet fully escaped from the **four D's that remained part of the crisis of Latin America during the 1990s: 'debt, drugs, development, and democracy.'** (Fuentes 1992, p328) Nor has its location next to the United States and membership in NAFTA (the North American Free Trade Agreement) been an automatic solution to economic development. Further, **promises of future high growth rates** (of around 7%) initially made by the government of President Fox from 2000 have been hard to achieve (Pastor & Wise 2005, p144). In spite of some general per capita GDP income through 1999-2004 (rather low through 2001-2003), with 4.4% growth in GDP through 2004 and 3.2% in 2005 (DFAT 2005), these recent gains have probably been led by high petroleum prices, and **concerns remain about the balance and competitiveness of the Mexican economy** as a whole (Pastor & Wise 2005, p145). **Political reform**, competitive democratic elections, and diverse parties have also emerged over the last two decades. However, **Mexico faces major political and social challenges, as well as a need to develop a more robust economy that can endure the shocks of globalisation.** Mexico's unique location, **abutting the developed U.S. economy but also acting as a bridge to central and South America**, gives it a unique role in regional and hemispheric affairs. It gives it major advantages but also produces **major challenges for a developing country with diverse layers of identity.** We will look at some of these social, political and indigenous challenges in the seminars.

2. The Indigenous Legacy and Spanish Colonialism

There will not be time to go through the ancient and modern history of Mexico in detail (see Williamson 1992). Pre-Columbian Mexico (i.e. before European discovery) had a **long history of civilization**, of artistic and religious development, and various phases of state and empire building. Key cultures included the Olmec, Toltec, Aztec - that is, Mexica tribes speaking the Nahuatl (Clendinnen 1993, p1; Palfrey 1997), as well as Mixtec, Zapotec, Tarascan and Maya (Ruiz 1992, p89). Not all of these cultures have been lost, with some of

books, architecture, art and social attitudes still surviving in the bedrock of both indigenous culture and as part of the **complex mestizo (mixed) cultures** of modern Mexico. It must be emphasised that the Americas were in no sense 'empty' before the European arrived: modern estimates suggest that the total population of the indigenous Americans before European arrivals may have been as high as 57 million (Williamson 1992, p38).

Box: Key Words and Acronyms

Mexico has a rich political language. A few key terms and facts include the following: -
Campesinos: = peasant, 'dirt farmer'.

Ejidos: = communal lands, or communal farms (Hackenberg & Alvarez 2001)

EZLN: the Ejército Zapatista de Liberación Nacional = the Zapatista National Liberation Army

Vincente Fox: leader of the PAN (Partido Acción Nacional = National Action Party), and the current President of Mexico, taking office in 2000.

Maquiladoras = A bonded production plant, especially designed to produce products or components for export. Originally, these factories were twined to U.S. plants, producing components that underwent final assembly in the U.S. (Hackenberg & Alvarez 2001, p99), but their range of operations have greatly increased since the NAFTA process.

Mexicanidad: 'Pride in things Mexican' (Ruiz 1992, p264)

NAFTA: = North American Free Trade Agreement, opening trade among the U.S, Canada and Mexico from 1994.

Neoliberalism: A view now dominant in Western economies and many international institutions and 'an economic model that advocates a minimalist state, market allocation of goods and services, and openness to international capital and markets' (Sharma 2001, p85, footnote 2).

PAN: Partido Acción Nacional = National Action Party

PARM: Partido Auténtico de la Revolución Mexicana = Authentic Party of the Mexican Revolution, which emerged as a real opposition party to the PRI, winning the mayoralty of Matamoros (Cooney 2001, p67).

PRD: Partido de la Revolución Democrática = Party of the Democratic Revolution

PRI: Partido Revolucionario Institucional = the Institutional Revolutionary Party, a revolutionary party whose current name was taken in 1946, but derived from earlier parties going back to 1929, thereby giving it continuous rule of Mexico for 71 years (Ruiz 1992, p423). It controlled Mexico, only allowing limited opposition parties until the late 1980s, and finally dislodged from control of the presidential office in 2000.

PVEM: = Mexican Green Party

The **Aztecs** themselves were relative late comers into the Valley of Mexico, establishing the marvellous city of Tenochtitlán in 1325 (Ruiz 1992, p21; Clendinnen 1993, p19). They would go on to found an **empire based on military force, religious power, the appropriation of elite symbols, a strict legal system, access to tribute from vassals, and the development of a secure agricultural and trade base** (see Prescott 2002). The Aztec empire was founded on the Triple Alliance of the three cities Tenochtitlán, Tlacopan and Texcoco, with central Mexico having about 25 million people in 1521 (Ruiz 1992, p21).

External Resource:

For maps of Classical Mexico - 900-1521 A.D., go to
http://www.mexconnect.com/mex_/history/postclassic.html

The Aztecs would in turn be defeated by a small **invading Spanish army**. Hernán Cortés' band (initially 508 soldiers and 16 horses) were victorious for several reasons, including European horses and guns, the support of tribes hostile to Aztec dominance (such as the Tlaxcalans), religious superstition concerning the arrival of Europeans, and the fact that many Aztec warriors were soon affected by European diseases, especially smallpox (Williamson 1992, p13; Ruiz 1992, p21, p41, p52; Palfrey 1998). Indeed, within a century the native Mexican population may have dropped from 25 to 1 million, though estimates of the original population vary strongly (Ruiz 1992, p77). The main causes were disease, military conquest, and the dislocation of native populations from their agricultural and economic resources bases (Ruiz 1992, pp78-81).

Selected Timeline 1519-2000: (based on Ruiz 1992; Weaver 2001)

1519: Cortés arrives in Tenochtitlán, centre of the Aztec empire

1540: Francisco Vázquez de Coronado explores current southwest of future U.S.

1541-1547: Major indigenous revolts, eventually suppressed by Spaniards

1609: Juan de Onate lays the foundations of Santa Fe

1712, 1761: Various native revolts (Tzeltal, Maya)

1808: Spain invaded by French forces of Napoleon - debate in Mexico over rejecting authority of captive Spanish Crown

1810: Miguel Hidalgo y Costilla (and others) rebel against Spain

1821: First phase of Mexican Independence, under the Plan de Iguala

1846-1848: Conflict with the United States in which Mexico lost much of its northern territory.

1858-1860: Fierce civil war between liberals and conservatives (Guerra de la Reforma)

1864-1867: France intervenes to place Ferdinand Maximilian on the Mexican throne

1867: Restoration of the Republic (República Restaurada)

1876-1910: Porfiriato, the regime of Porfirio Díaz, during which Mexico experienced economic growth but a lack of political freedom

1903-1907: Full scale war with the Yaqui Indians

1911: Francisco I. Madero becomes President of Mexico

1911-1917: Revolutionary War period

1917: Partial stabilisation under the Constitution of 1917

1918-1925: Continued industrialisation

1927-1929: Cristero Rebellion with armed campesinos supporting church rights

1929: Start of institutionalised control of Mexico under a single party

1929-1933: Economic decline due to impact of Great Depression

1934-1965: Period of industrial and agricultural modernisation

1938: Nationalisation of oil industry

1963: Reform of electoral procedure to allow proportional representation for different parties, but these have no real strength until the late 1980s

1968: Massacre of student protesters in Mexico City

1988-1994: Carlos Salinas de Gortari president

1994-2000: Ernesto Zedillo president.

A listing of a few **central themes** might help set the stage for Mexico's role in the modern period: -

* Generally, the culture of modern Mexico is as seen as the product of the **conflict and dialogue among the indigenous 'Indian' cultures and Spanish/European culture** (Ruiz 1992). In general terms this is true. Particularly in areas of art, painting, sculpture, crafts, music and literature, there has been a strong influence from the indigenous people, or from European reactions to them (Ruiz 1992, p72; see also Madrid 2005). There is strong evidence of social and cultural continuities in many local communities (Williamson 1992, p85). As noted by the classical composer Aaron Copland, 'Mexico possesses a very strong folk art derived from its own Indian civilization' (Copland 1999). In general terms, it is possible to argue that 'out of the exploitation of Indians by Spaniards, there emerged a new people, the Mexicans, and with them a distinct way of life' (Ruiz 1992, p73). However, to these two main themes we should add three other ideas. Firstly, **debate has emerged to what degree Afro-Americans were involved in the formation of Mexico**, with claims that they have had a larger role than often found reflected in the national memory and identity politics of Mexico (Rodriguez & Gonzales 1996), as well making key contributions to musical traditions (Ruiz 1992, p90). Perhaps a quarter of a million African slaves were brought into Mexico, and by the end of the colonial period Mexico had about 10% of its population partly descendant from various African groups, most then free (Ruiz 1992, p89). Thus, in Latin America generally, it is important to speak of a tricultural influence: India, African and European (Fuentes 1992, p249). Second, Mexico was influenced by the **wider trends of nationalism and independence that swept through Latin American in the early 19th century**. Third, for over two centuries Mexico has both been **influenced by and at times repelled by the strong influence of U.S.** politically and culturally.

* For most of its history, Mexico remained a strongly **status conscious society**, with a large number of terms used to distinguish rank. *Peninsulares* were those Europeans who came from Spain, and were viewed as haughty and arrogant by *criollos* (= creoles), those born in Mexico of European descent (Williamson 1992, p116; Ruiz 1992, p85). Beneath them in status were *mestizos*, who had limited social mobility and were of mixed Indian and European descent, followed by Indians, various mixed blood groups, and lastly African slaves and their descendants (Ruiz 1992, p88). These distinctions would for some centuries hinder the creation of a strong national identity, and complicate loyalty towards a republican ideal in Mexico, which emerged from the early 19th century onwards. Even down till the early 20th century, 'caste' remained important, with Mexico a 'shaky social pyramid' resting on a 'bronze base, with mestizos exploiting Indians and both criollos and light-skinned mestizos of the upper strata riding herd over both' (Ruiz 1992,

p195). In fact, mestizos groups have indicated trends of bi-culturality and high adaptability from the 17th century onwards (Williamson 1992, p91).

* A major **debate has raged historically about the basic nature of Mexican culture and national life**. Some would see it as derived almost entirely from European models (Ruiz 1992, p37), while others would like to see a central and inspirational place for indigenous culture, especially in the areas of artistic endeavour (i.e. *Indianismo*, Ruiz 1992, p365). This dilemma is captured by the different historical images of the Náhua woman who helped act as Cortés' translator, known to the Spaniards as Dona Marina. In Mexican legend she is known as Malinche, symbolising betrayal or someone who is willing 'to prostrate themselves before foreigners' (Ruiz 1992, p44) and things foreign (see further Chasteen 2001). Thus the term *malinchista* has come to indicate a fawning on foreigners and things foreign, a kind of 'colonial inferiority complex' which many Mexicans scorn (Ruiz 1992, p368). In contrast, the intellectual José Vasconcelos would see later day Mexicans as a 'cosmic race' based on both Indian and Spanish backgrounds, i.e. essentially mestizo (Ruiz 1992, p54).

* Historically, **Mexico was born in reaction to the strong, rather absolute monarchy of 16th century Spain** (Ruiz 1992, p30), and to the efforts of Spain to keep control of resources in the New World through the 17th and 18th centuries. In particular, Spain tried to both control the wealth of New Spain (from 1790 these royal monopolies began to be eroded), by limited trade with other European and American states, and to reduce the political independence of those born in the colonies (Ruiz 1992, pp134-135). Hence, **Mexico was born as part of an ongoing revolution**.

* Mexico also had to cope with the evolution of **a strongly Hispanised Church**, which came to be **very wealthy and controlled huge amounts of land** both in Spain and in Mexico, as well as being a major commercial lender to merchants and mine-owners (Ruiz 1992, p31, p141, p202). Partly under this influence, much indigenous culture and art, including the original structure of Mexico City, was destroyed. Later, a few priests and monks became deeply involved in preserving native life and welfare. Friars such as Vasco de Quiroga (a Franciscan friar) and Bartolomé de las Casas (a Dominican) were deeply concerned about the welfare of the indigenous people, and argued against their exploitation (Williamson 1992, p15, p65). Debate raged among the different religious orders about the moral status of the Indians: the Franciscan order was the most paternalistic, while the Augustinians viewed the natives as morally ready for Christianity (Ruiz 1992, p67). Of course, as the Church engaged in education and instruction in Spanish, it also tried to convert the Indians to their own world-view. Although in time Christianity would take a deep root in Mexico, many natives fused it with their own images, customs and beliefs, i.e. a **syncretism of Christian belief and native customs** (Williamson 1992, p101). For example, the appearance in 1531 of a miraculous visitation of Mary led to the 'essentially Indian' worship of

the *Virgen de Guadalupe* (Ruiz 1992, p69). By the early 19th century, as 'the Virgin of criollos, mestizos, and Indians, she was the cornerstone of *mexicanidad*, the emerging Mexican nationality' (Ruiz 1992, p151). The Church in time would be **stripped of much of this wealth and influence by the Mexican state**, both in the middle class laws of the Reforma period of the 1850s and during the later Mexican revolution (Ruiz 1992, p203, pp228-230). However, it would remain an important cultural and religious force, even when its educational and legal privileges were further reduced in the 20th century. For some centuries, Catholicism was the only glue that provided some sense of shared culture among the diverse groups within New Spain, including communal bonds at the local level (Williamson 1992, p138; Ruiz 1992, p107).

* Mexico and Peru both became major **sources of bullion**, gold and especially silver, which began to flood back to Spain and then cause massive inflation within Europe. This silver was also taken across the Pacific Ocean to the Spanish colonies in the Philippines and thence traded into China and Japan (Williamson 1992, p104). This **massive injection of wealth changed the nature of global trade**, and in the end made Spain overly dependent on primary resources in the Americas. Spain did not develop its own productive industries at the very time when other European nations benefited greatly from the Industrial Revolution, leading in the end to a decline in Spain's global power (Ruiz 1992, pp33-35, p138; Williamson 1992, p106).

* At first, wealth from Mexico was based on stripping the assets of the Aztecs and other cities, and then relied in part on mining. However, the main source of wealth soon became the **land and a labour force** to work the land. Control of these resources went through several stages. The first system was the *encomienda*, large areas handed out to the control of the conquistadors, who had use of its labor and produce, but in theory the land was still owned by the Spanish crown (Ruiz 1992, p59). These holdings, however, were soon passed on to descendants, and also led to the virtual enslavement of Indians who traditionally lived there (Ruiz 1992, p61). For a time Indian communities (*pueblos*) were allowed control of some **communal lands called *ejidos*** (Ruiz 1992, p64), but these local communities and their tradition of self-government were always under the threat of appropriation or exploitation (Fuentes 1992, p285). Later on the **creation of small and large haciendas also centralised agricultural wealth**, often supplying the needs of towns and cities (Ruiz 1992, p82). The idea of a gentleman (*caballeros* and *hidalgos*) controlling large estates was a traditional ideal in Spain, and formed one of the main social forces in the New World (Williamson 1992, p58). Indian workers now often found themselves tied down to these haciendas due to loans made to them, a system of debt peonage (Ruiz 1992, p104, p189) from which few would escape, and which was passed from generation to generation (Fuentes 1992, p300). The **revolutionary governments would often proclaim land reform as a major policy, but in fact distribution of land to the poor was a very slow and incomplete process** - by 1919 only 0.5% of land had be redistributed,

though the pace of reform accelerated slightly down to 1924, and began serious expansion during the late 1930s (Ruiz 1992, pp356-357, p397). It then tailed off again in the 1941-1945 period (Ruiz 1992, p434). Land redistributed between 1952 and 1982 was often of marginal quality or poorly watered (Ruiz 1992, p462).

* **Urban development** was also a major aspect of European control of the New World, with Mexican cities at first built on older Indian centres (as in Mexico City) or built anew as commercial centres, ports, or to support mining operations (Ruiz 1992, p83). On the fringes of many of these settlements Indian 'ghettoes', or barrios, were formed (Williamson 1992, p81; Ruiz 1992, p83), a pattern of informal settlement that would create major urban problems in the rapid population growth of the 20th century. At the same time, it must be remembered that Mexico is a large country with rough terrain, with different areas often divided by mountains, deserts or jungles. On this basis, **it took a long time for a truly integrated economy and transport system to develop**, e.g. the railway between Mexico City and the important port of Veracruz was not completed until 1872 (Ruiz 1992, p260). From the late 19th century, railways also linked Mexico to emerging major markets and its trade partner, the United States (Ruiz 1992, p277). Alongside urban development, a sizeable middle class developed in Mexico by the 1970s, soon comprising almost 20% of the population (Ruiz 1992, p419). Today, urban development, especially in a megacity such as Mexico City, remains a major problem for development and resource maintenance (see for example (Barkin 2004).

3. The Institutionalised National Revolution: Compromise and Crises

The first task for Mexico was to develop **independence from Spain**, and from other interventionist powers such as France. **Earlier phases of rebellion had begun in 1810** with a Miguel Hidalgo y Costilla, a 'criollo priest', leading a popular rebellion (Ruiz 1992, p144) that in the end failed to seize control of Mexico City (Tuck 1999). Though the revolt failed, Hidalgo, for all his faults, is remembered as a revolutionary hero (Ruiz 1992, p147). Other revolutionary leaders such as Morelos and Vicente Guerrero followed. Although a formal Declaration of Independence from Spain was made in 1813, the first phase of independence could only be effectively established from 1821. **Mexico was effectively declared independent in 1821** under the Plan de Iguala by Agustín Iturbide, under the three guarantees of 'independence, religion, and union', thereby creating an independent, unified Mexico under the Catholic religion (Ruiz 1992, p164). However, **stable government did not follow**, with authoritarian rule being established by leaders such as Iturbide and then Antonio López de Santa Anna (see Tuck 2001). Elected presidents such as Guadalupe Victoria were exceptions to the rule of military coupes, rebellions, and **contests among Federalists and Centralists, Liberals versus Conservatives** (Ruiz 1992, pp177-178).

The early and mid-nineteenth century period was a confused one of **liberal verses conservative** forces competing against each other and dealing with repeated foreign interventions, including a French invasion of Veracruz in 1838. Perhaps the most disastrous of these was the conflict with the United States (1846-1848) in which Mexico lost almost half of its territory, including the current U.S. states of California, New Mexico, Arizona, and parts of Colorado, Nevada and Utah (Fuentes 1992, p269), while Texas had seceded from Mexico in 1836. In large measure, this was a side-effect of the concept of Manifest Destiny in U.S. thinking, whereby territory adjoining the U.S. but not 'governed effectively' by Mexico should become part of the expanding United States (Ruiz 1992, p205). This and other **U.S. interventions in the region left a curious mixture of dependency on and fear of the U.S. in Mexican political history** (Fuentes 1992, p278), a factor that would continue down till the late 20th century (see below). As noted by Mexican writer Carlos Fuentes: 'Our perception of the United States has been that of a democracy inside and an empire outside: Dr. Jekyll and Mr. Hyde. We have admired democracy: we have deplored empire.' (Fuentes 19892, p325).

After this, Mexico had to cope with a fierce civil war, and then in the 1860s a French intervention to put a prince on the Mexican crown. When at last **President Juárez** secured control of Mexico, he had triumphed over 'Conservatives, monarchists and clericals', a Liberal triumph' in which the **seeds of a bourgeois, capitalist state** were planted (Ruiz 1992, p254). After the **Restoration of the Republic in 1867**, decades of relative peace followed, with a strong middle class supporting capital growth, urban population growth, the development of professional classes, education, schooling and science (Ruiz 1992, p255). Under the **presidential regime of Porfirio Díaz, Mexico (1876-1910) would continue to develop** its infrastructure and national wealth, in large measure based on its primary resources (including agriculture, mining and the oil industry) which were in demand in world markets (Ruiz 1992, p269). A 'popular' dictator who was repeatedly re-elected, Díaz believed order and effective administration was more important than a free-wheeling political system (Ruiz 1992, p272, p275). In effect, Díaz moved from being a popular democratic to being an autocrat (see Tuck 1996b).

The 20th century shape of the modern Mexican state was forged in a new **revolutionary period beginning in 1910-1911**. The Mexican revolution was really driven by two not entirely compatible forces: demands for land reform, self-rule and social justice for the poor (as pushed by leaders such as Pancho Villa and Emiliano Zapata), and a second thrust 'led by middle-class professionals, intellectuals, ranchers, and merchants, who envisioned a modern, democratic, progressive Mexico ruled from the center by a strong national government' (Fuentes 1992, p299).

With partial down-turns in the world economy, with growing tensions between Mexican workers and foreign companies, rising food prices, rural rebellions, marginalisation of Indians and the poor, and a financial crisis in 1907 meant that the regime of 'Don Porfirio' could not continue. His re-election yet again in 1910 would be challenged, in large measure by Francisco I. Madero, who sought to run in presidential elections was imprisoned on false charges (Ruiz 1992,

pp314-315). Díaz was elected again, but Madero fled to Texas and started an uprising. Other revolutionary leaders soon emerged, including Emiliano Zapata and Pancho Villa. Although Madero would be elected president in 1911, **a period of instability and revolutionary war** would follow, with Madero being killed in 1912, ushering in years of bloody civil war. **Partial stability would return under the Constitutional of 1917**, a compromise which allowed President Venustiano Carranza to rule a supposedly revolutionary Mexico (Ruiz 1992, p338) which also had liberal and capitalistic features.

From 1929, in order to end the economic and social chaos of the 1920s that followed the Mexican Revolution (Leiken 1998), Mexico opted for a kind of **institutionalised, state system based on the dominance of one political party and strong presidential powers**. The term *Revolución* took on a vague nationalistic meaning, indicating something modern, Mexican, and authentic, but not tying down the government to particular policies (Ruiz 1992, p341). This compromise was largely based around the dominant party, called the ***Partido Revolucionario Institucional* (the Institutional Revolutionary Party, or PRI)**:

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PRI's hegemony began when it was founded as the National Revolutionary Party in 1929. The party took on a corporatist organizational structure when President Lázaro Cárdenas . . . renamed it the Party of the Mexican Revolution in 1938, when 'pillars' for the peak associations of peasants, workers, and the "popular sector" (primarily teachers and state bureaucrats). The party took its current name in 1946, the same year that the Mexican congress passed a highly restrictive law that gave PRI the capacity to cancel the registration of its rivals and essentially oversee its own elections by controlling the Federal Electoral Commission (now known as the Federal Electoral Institute [IFE]). (Klesner 2001, p107).

The PRI based its dominance on 'repression and co-option to stay in power, buying off rivals with juicy government posts or the chance to fill one's wallet' (Ruiz 1992, p449), but also by **controlling labour, business and professional interests under the rhetoric of nationalism and progress**, thereby seeking 'incorporation of national worker, peasant, and popular organizations in the PRI' (Teichman 2004,



Mexico Map (Courtesy PCL Map Library)

The political system of Mexico was also based on the **strong central powers of the president**, who, though not always a charismatic individual, was at the nexus of the **PRI's system of influence and patronage**: -

For good reasons, the post-revolutionary Mexican political system has often been described as presidentialist. In this system of governance, the chief executive has traditionally exercised ample constitutional powers. Presidents originate foreign and domestic policy. Ultimate authority rests in them on issues such as fiscal and monetary policy and social spending. In addition to these legal powers, Mexican presidents possess other extralegal powers, most emanating from their control of the ruling party. (Sharma 2001, p78).

The dominance of the PRI and a **move towards a more competitive political system** would only seriously evolve in the late 1980s, with a partial opening of the electoral system through the early 1990s under President Carlos Salinas, and then lead to a non-PRI president in 2000 (see below; see further Hernandez-Rodriguez 2003; Teichman 2004). At the same time, the PRI in general relied on the 'politics of future prosperity', while in reality there was

'insufficient welfare coverage, wasted resources, and a highly skewed distributional pyramid' with **limited investment in human resources, education**, and limited national focus on research and new technologies (Pastor & Wise 2005, p139).

4. Relations with the U.S.: Migration and Trade

Early efforts to develop the economy of Mexico rested first upon **mining**, then upon **agriculture**, and only in the 20th century on industrial production. In the 19th century Mexican mining remained strong, though British, French and German interests owned most of Mexico's 'mining output' (Ruiz 1992, p187). **Early manufacturing** areas included textiles and tobacco factories, followed by steel production plants from 1890 onwards (Ruiz 1992, p279). During the 19th century, textile and mine workers also formed the first mutual-aid societies, and from the 1870s developed a militant labour politics that sought to improve wages and conditions (Ruiz 1992, p261).

In the post-World War II period and down into the 1960s Mexico developed an **import-substitution industrialisation** (ISI) designed to boost local productive and technical capability (Weaver 2001, p105). The idea here was that **state intervention** was needed to build strong industries, and during this period Mexico built up large state-funded enterprises which controlled key sectors of the economy, e.g. the steel industry (Ruiz 1992, p458). From 1989 these *paraestatales*, as they were known, in the steel, airline, mining, and communication industries were dismantled or privatised and sold off (Ruiz 1992, p458; Teichman 2004, p48).

However, these reforms were also taken in the context of **large debts** incurred through earlier cycles of massive loans to Mexico, borrowed in part against the prospect of exploiting petroleum resources. As a result, Mexico's debt tripled in the 1970s (Vadi 2001, p130). Mexico, in effect, **became more dependent upon its petroleum resources, and also more reliant on strong exports**. Petroleum began to be important for Mexico from the early 20th century, drawing foreign investors and eventually becoming a mainstay of the economy. However, developing oil fields would also require importing new machinery, as well as engaging in new cycles of from loans for this investment from 1977 onwards (Ruiz 1992, p454). By 1980, oil accounted for 75% of Mexican exports (Vadi 2001, p132). In 1996, the oil sector returned US\$9.9 billion in foreign earnings, compared to 3.5 billion for tourism (Cypher 2001, p17), though it been suggested that a new round of investment will be needed if Mexico is remain strong in this area after 2017 (*Oil Daily* 2004a). However, the petroleum industry, especially after the oil shocks of the 1970s and the growing foreign debt of Mexico through the 1980s, could not by itself solve all of Mexico's economic problems. By the late 1990s this picture began to change, with **manufactured goods accounting for the large majority of export earnings**, up to 90%, and with an emphasis on automobiles, machinery and electronics. However, even though through 2004 the **government budget still relied strongly on income from energy resources**, mainly via the **state oil company Pemex** (see *Oil Daily* 2004b). Major concerns have been raised about a **lack of re-investment into new technology and infrastructure in**

Pemex over the last several years, and President Fox's plans to partly privatise parts of its operation met sustained congressional resistance through 2003-2005 (Pastor & Wise 2005). In early 2006, there was some **limited reform** in this area: -

Last week Luis Ramírez Corzo, general director of Petroleos Mexicanos (Pemex), signed an international agreement. It is basically a promise to address some — though not quite all — of the lamentable practices that have dogged the oil monopoly's performance in the past and continue to do so.

Called the United Nations World Agreement, the document Ramírez signed is a code of ethics embracing the participation of governments, corporations and individuals.

Like many such statements, it's a fine set of ideals. Three of its 10 principles relate to environmental responsibility, four to fair labor practices, two to human rights, and one to the eradication of corrupt practices. (Emmond 2006)

From the mid-1980s, Mexico moved **towards a neo-liberal, export-led model** of development, at first tentatively, and then full ahead under the Presidency of **Carlos Salinas** (1988-1994). Even by 1987, transnational companies made more than a third of Mexico's industrial output, with Mexico hosting more international corporations than any other Latin American country (Ruiz 1992, pp444-445). During this period Mexico reformed itself in a way that it hoped would allow it to open successfully to the forces of globalisation and move towards a more developed economy: -

Salinas's ambitious neoliberal or market-oriented reform program - with its emphasis on (a) opening the economy to international competition, (b) comprehensive privatization and deregulation of state-owned enterprises, (c) an economic stabilization program centered around a predetermined nominal exchange rate and backed by restrictive fiscal and monetary policies, and (d) a broad tripartite socioeconomic agreement called the Pacto de Solidaridad Económica (or the Pacto) between the state, the private sector, and labour unions - was credited as the catalyst behind Mexico's economic resurgence. (Sharma 2001, p57).

It was during this period, too, that the **U.S. was re-affirmed as Mexico's major trade partner**, taking up to 84% of Mexico's exports (Cypher 2001, p11). Through 2003 the U.S. was still the destination for 81% of Mexico's exports and 64.8% of her imports (DFAT 2004). In preparation for NAFTA, Mexico also went through a wave of **trade liberalisation** and **privatisation**, undoing its earlier policies of export-replacement and nationalisation, with some 252 state-run companies being privatised including banks and the Mexican Telephone Company Telmex (Gilbreth & Otero 2001, p12).

These policies did generate some successes: inflation was sharply reduced down to less than 10%, and during 1989-1994 GDP grew at an average of 3.9% (Sharma 2001, p57). For a time real wages began to increase in the manufacturing sector between 1988-1992, and there was some reduction in poverty (Sharma 2001, pp57-58). Until 1994, neo-liberal economists praised Mexico as a successful model for transition to an open, market-oriented economy with strong export orientation. It would join NAFTA, and later on the OECD (Organization for Economic Cooperation and Development) and APEC (Asia-Pacific Economic Cooperation). Through 1990-1994 **external investment** in Mexico was among the highest for all developing countries: some \$104 billion dollars came into the country (Sharma 2001, p58). However, much of this investment (until 1997) was in **portfolio and short-term investments** which could also be readily pulled out of the country once confidence declined in the supposed Mexican 'miracle' and in the value of the peso (Sharma 2001, p59, p69; see further below). It was hailed as a leading third world economy with high quality exports in textiles, automobiles, computer components, electronic equipment and petrochemicals (Leiken 1998).

From 1994 the NAFTA agreement opened up the three countries of the U.S., Canada and Mexico to the open trade of goods and services. In the case of Mexico, the U.S. administration argued that the already strong and roughly balanced trade flows among Mexico and the U.S. made the agreement sensible, and that such trade should reduce undocumented migration into the U.S. A labour side agreement, the **North American Agreement on Labor Cooperation (NAALC)**, also allowed options for 'labor rights advocacy' and the maintenance of human rights for workers (Compa 1999), though the effectiveness of this Agreement has been contested (see Human Rights Watch 2001) and remained weak through 2001-2005.

In particular, after NAFTA (see further below), the economy was further bolstered by large **foreign companies building and investing in Mexico:** -

Making the model less grim was the fortuitous restructuring of the U.S. auto industry, which brought a welcome inflow of foreign direct investment of considerable magnitude. This inflow allowed Mexico to claim the leading position among the Latin American nations as a site for foreign direct investment in the 1990s. A globally integrated production system of substantial technological sophistication now exists in the auto sector. General Motors, for example, operates more than 50 maquiladoras. Overall, the auto sector (including 500 auto parts companies) employed over 611,000 workers in 2000 (a 50 percent increase since 1995) with annual exports estimated at US\$33 billion - equivalent to roughly 6 percent of Mexico's gross domestic product. (Cypher 2001, p12)

Foreign companies that became active in Mexico include General Motors, Chrysler, Ford, Volkswagen, Nissan, IBM, Hewlett Packard, Sony, Kodak, Xerox, Motorola, and Mexinox (steel) (Kunhardt 2001, p42). Likewise, **major agricultural and food processing corporations** such as Anderson Clayton, Nestlé, Ralston Purina, Carnation and United Brands had already become

active in Mexico (Ruiz 1992, p436). At first, the NAFTA agreement boosted Mexican and U.S. trade. During the first years 'exports from Mexico grew by 22% and those from the U.S. by 23%, with a surplus of 1.8 million dollars and a growth of 130,000 new jobs for the U.S. (Weaver 2001, p109). However, there was **no indication that NAFTA has seriously reduced illegal immigration** from Mexico into the United States, while in turn some industrial jobs moved south of the border.

One of the other major issues for U.S.-Mexico relations has been the issue of documented and non-documented **migration**. While many poor Mexicans have seen opportunities across the border, it is also true that the U.S. firms have been willing to utilise both legal and illegal labourers. From 1942 the **Bracero Program** was set up to control the use of Mexican labour, especially for agriculture in south-western states of the U.S., with some 4 million migrant farm workers coming into the U.S. legally (Weaver 2001, p110). It came to an end in 1964. The Bracero Program was followed in by the **Border Industrialization Program**, setting up assembly plants in Mexico's northern border region, importing parts from the U.S. which are assembled and then sent back to the U.S., with 'import dues being paid only on the value added' by Mexican labour (Cooney 2001, p63). These maquiladoras assembly plants at first used largely women employees of less than 35, earning low wages, and producing automobile components, computer chips, medical supplies, and later on plastic utensils (for fast food chains) and packaging sheds (Hackenberg & Alvarez 2001, p99).

Likewise, this border trade boosted the existence of **twinned towns** that straddled or were linked across the border and which began to grow rapidly, e.g. 'Tijuana-San Diego, Mexicali-Calexico, El Paso - Ciudad Juarez, Laredo-Nuevo Laredo, McAllen-Reynosa, and Brownsville-Matamoros' (Weaver 2001, p110). These urban and manufacturing centres have boomed, but often **without adequate infrastructure** (energy and sewage), with extra pressure on water supplies, a lack of health services, housing and transport (Hackenberg & Alvarez 2001, p99) and increased local environmental pollution. This has only been partly moderated by new urban planning projects, e.g. the World Bank's \$170 million 'multisectoral program' in Tijuana (Hackenberg & Alvarez 2001, p103).

Up to a million legal workers commute across the border each year, while the U.S. Department of Agriculture issues permits for up to 530,000 workers, especially seasonal labour (Weaver 2001, p110). With some half a billion legal crossings each year, **the border is one of the busiest in the world** (Leiken 2000). This legal flow is augmented by a large flow of undocumented/illegal workers, who are aided and exploited by a well-established 'people-smuggling industry' (Weaver 2001, p111). Approximately 2.54-2.7 million 'unauthorised' Mexicans resided in the U.S. in 1996 (for the complexity of this assessment, see Bean 2001), while others suggest up to **4-6 million through 2004** (*Economist* 2004a).

The **issue of undocumented or illegal labour flows** has seriously strained U.S.-Mexican relations. These flows have included not just Mexicans, but also

Central Americans and 'undocumented migrants from places like China, Iraq, Yemen, India, Pakistan, Ecuador, and Colombia' who for a time found Mexico a possible route of migration (see Flynn 2002). The surveillance along the border, and heavy policing has resulted in routine captures of Mexican immigrants, along with episodes of police violence, and deaths due to exposure during illegal crossings (in Arizona during 2000 some 59 Mexicans died while trying to cross the harsh frontier, Hackenberg & Alvarez 2001, p100). Negative images such as the Riverside beating by police of migrants in 1996 have also intensified tensions about race relations in the U.S. (Malkin 2001, p114). Regardless, the **need for labour in the U.S. and the need of Mexicans to find work** has resulted in millions of people attempting to cross over each year. In 1996, for example, 1.6 million Mexicans were deported, a peak year (Morris & Passé-Smith 2001, p129), with expensive detention and return programs being run by the U.S.'s Immigration and Naturalization Service (INS). Indeed, many young Mexicans in the northern states find that if they cannot find work in the new export plants, their only hope of having enough money to get their own house and marry is to travel north, either legally or illegally. In fact, there is ongoing circular movement of undocumented workers across the border, the flow only partially regulated by border inspections and deportations. In recognition of this reality, Presidents Fox and Bush in 2001 began talks designed to address this problem. Proposals included the widening of documented migration, documenting those already illegally in the U.S. through an amnesty scheme, or a new *bracero* program (Hackenberg & Alvarez 2001, p100). The offer of a three year **guest work permit scheme** and amnesty for illegal workers who registered themselves in the U.S., made by the Bush administration in early 2004, is a sensible approach to this issue. In theory, the permit could be renewed at the end of three years (*Economist* 2004a). However, the question of what will happen at the end of the three-year period, and fears of being registered, may well limit the number of migrants the come forward to benefit from the scheme. Likewise, the policy has been viewed as being driven by attempts to win Latino votes in 2004 presidential elections (*Economist* 2004a).

It can be suggested, therefore, that **increased economic activity** across the border has been a mixed blessing for the U.S. and Mexico. **Mexico's economy has not yet emerged as a strong, balanced example of developmental success.** In part, the economy relied through the 1990s on oil, maquiladora exports, emigration flows, while remittances of emigres remaining a substantial part of the economy. Thus in 1994, the 6.68 million Mexican-born living in the U.S. They remitted US\$3.7 billion to Mexico, about four times Mexico's tourism earnings (Cypher 2001, p11). In 2003, some \$13 billion was sent back, the second largest source of income after oil, and above flows from tourism - on one view remittances might be more important to Mexico than enhanced trade benefits from NAFTA (BBC 2004a).

Another foreigner exchange earner has been that of **narco-capitalism**, with large but uncertain amounts flowing into Mexico due to the **international trade in drugs** (Cypher 2001, p11). About 2% of Mexican GDP may have been based on drug-trafficking through the late 1990s (Malkin 2001, p122), while in recent years Mexican 'mobs' might make something in the order of \$6-12 billion a year

(*Economist* 2004b). This has been a major irritant in the relationship with the U.S., which has been concerned about drug-cartels operating in Mexico, shipping of cocaine, heroin and methamphetamines, as well as marijuana. Some U.S. critics have even suggested that the U.S. should decertify Mexico's efforts in the 'drug war' (Morris & Passé-Smith 2001, pp144-145; for some of the politics of this 'drug war' and related money laundering issues, see Shapiro 2001), thereby reducing various forms of military aid and police training. However, both U.S. and Mexican enforcement procedures can be criticised in a number of areas (see Nelson 1998). Indeed, the Mexican official appointed in 1997 to run the war against drugs (with U.S. approval) was General Jesus Gutierrez Rebollo - it soon emerged that General Rebollo was in the service of one of the two top Mexican drug cartels and using the army to eliminate competitors (Leiken 1998). Popular images of corruption and drug running in films such as the recent box-hit *Traffic* have also highlighted this theme. In 2003, one special anti-drugs squad was disbanded due to possible engagement in drug-related corruption. Since then, President Fox set up 'the Federal Investigations Agency, a 6,000-strong force' to fight the drug flows, while up to 1,000 people may have died in 2003 in drug related crimes and shoot outs with police and the army (*Economist* 2004b). However, these efforts have not stopped the flow of drugs across the border. Likewise, **tensions over control of drug networks** flowed into major crises in Mexican jails through early 2005. Through December 2005, the **Federal Investigations Agency was rocked by scandal** as 457 of its members (now totally 7,000) were indicted for a range of charges, including corruption, kidnapping, and helping one drug network fight against its competition, the Sinaloa verses the Gulf cartels (McKinley 2005). The Agency claim that these problems have been used as part of a wider smear campaign and are part of a war of disinformation (McKinley 2005).

The illegal drug traffic, however, needs to be understood in its real context. The **enduring market for drugs** among both the poor and rich, in western as well as developing countries, has created a demand which means that closing down one supplier is not enough to change the overall dynamics of the trade. The partial success of the drug war in Colombia simply meant that more export routes were opened through Mexico, and that traffickers became 'even more professional and entrepreneurial in their efforts to build an economy of scale that can ensure adequate compensation for their risks' (Malkin 2001, p102). Through 2000-2001, 50-70% of all cocaine then entering the U.S. was re-shipped through Mexico (Malkin 2001, p109), though Caribbean routes, once closed, may be re-opened as transit routes as well. Furthermore, many growers of narcotics are poor rural farmers who have been impoverished, and are therefore readily encouraged by drug cartels to begin growing these high return crops (Malkin 2001, p101). In Mexico, cartels sometimes supply seed, tools, cash advances, protection and weapons to these impoverished farmers (Simonett 2001, p323), making the switch over to narco-production very tempting. In other cases, exploitation and violence have been used against indigenous people (Weaver 2001, p113). Certain upland areas of Mexico are suitable for opium and marijuana production (Simonett 2001, p323), while chemical production of methamphetamines has a major source base in Mexico. Likewise, the opening up of trade through NAFTA agreements may also have helped the rise of Mexican drug cartels who can now use multiple routes into

the U.S. that are hard to thoroughly check (Malkin 2001, p120). Increased monitoring of the Mexico-US border since late 2001, in part reacting to the issue of homeland security, only temporarily slowed some of these drug flows.

Likewise, the **social position of narco-traffickers** has to be put into its local context. Impoverished young men were often willing to act as 'camels' (*camellos*) in the trade, since they perceive this as their only chance for wealth and status (Malkin 2001, p110). Many of them believe that 'an honest job' will get you exactly nowhere (Malkin 2001, p114). High level traffickers also have created their own counter-image to erode the mainstream messages put out by the government and police. They engage in local charities, present images of themselves as generous helpers to friends and clients (Malkin 2001, p113), and assert a macho image against competitors and police. They also invest in swimming pools, discos and bars in local towns, making themselves a key element in the diversions of local youth (Malkin 2001, p116). Indeed, an entire type of music, *narcocorridos*, has become popular in northern Mexico and among some sub-cultures California, promoting the image of the narco-trafficker as a kind of anti-hero who demands respect. These songs have begun to penetrate the mainstream music culture in Los Angeles, while individual drug dealers sometimes commission songs glorifying their character (Simonett 2001).

It must be stressed that the NAFTA process, along with bilateral agreements, has strongly opened up the U.S. and Mexican economies to each other, increasing the **inter-linkage of national issues**. Along with the reduction in tariffs, this has also begun to open up the border and increase its porousness. Thus U.S. companies have invested heavily in the northern states of Mexico. Critics in the U.S. have suggested that this had led to some loss of U.S. jobs, replaced by much cheaper Mexican labour. Indeed, one study suggested that up to 1996, up 98,000 U.S. jobs had been lost due to NAFTA opening up the cheaper Mexican labor market (Morris & Passé-Smith 2001, p129). This trend may also soften union demands in the U.S., since unions can be threatened with the possibility of production relocation into the cheaper Mexican labour zone (Cooney 2001, p71). Also, laws coming into force in late 2001 allow Mexican trucking firms to operate freely in the U.S., once again raising concerns about U.S. jobs, safety standards (see Aynesworth 2001), and the increasingly difficult job of intercepting contraband. As of 2000, about 4.5 million truck crossings were made in that year (Aynesworth 2001). Whether this will be offset by enhanced productivity across the NAFTA zone remains to be seen.

Likewise, environmental enforcement (as distinct from environmental protection law) is much weaker in Mexico than the U.S., leading to claims of rapid **environmental pollution** in this new wave of industrialisation, especially along the border with the U.S. (Sawicki 1998; see further below). Of particular concern has been the failure to adequately track the disposal of hazardous waste, especially by the maquiladora assembly plants (Cooney 2001, p73). Another issue of concern has been the way NAFTA has led to **uneven geographical development** within Mexico, with the north and center-west developing while the south of Mexico becomes more marginalised (Klesner 2001, p113). Although the U.S. has sought a free movement of 'goods, capital and

information' but not free movement of labour, in reality NAFTA will also promote emigration of all kinds from Mexico (see Massey 1998).

5. Engaging Globalisation: from Nationalisation to a Neo-Liberal Export Strategy

In the early 19th century, a debate raged between those who wished to build up strong Mexican industries, e.g. in textiles, protected by high tariffs, and those who thought instead that free trade would allow a strong source of government income based on the export of mineral and agricultural resources. This **debate between 'free' trade and a nationalised control of the economy** emerged again in the 1980s, with Mexico heading firmly towards a neo-liberal free trade agenda from the 1990s onward. Mexico also sought to **develop its agricultural resources**, both to meet its growing population, but also for export. During the period from 1940-1955 there was strong growth in Mexico's agricultural sector, while from 1973-1982 Mexico continued to invest heavily in spending on agricultural development (Kelly 2001, pp86-87). Agriculture in the 1973-1982 period did grow by 3.3% a year, but this did not keep up with domestic demand (Kelly 2001, p88). Likewise, **large, mechanised agro-industries competing for international markets** and in competition with NAFTA imports, are now a major part of the production system in Mexico (see Cabello 2003; Burfisher et al. 2002). At the same time, land redistribution was ended, and farmers on communal lands (ejidos) were given private titles to land, thereby allowing them to sell it (Teichman 2004, p48). This led to a major debate as to whether this would be an incentive for better agriculture, or whether it would run the risk of impoverishing **poor farmers** that would be unable to compete in the new conditions (Teichman 2004, p52). Peasant organisations in the south of Mexico were not given a chance to enter discussion on this reform, leading to serious discontent concerning these policies (Teichman 2004, p64).

From the 1980s, **Mexico began to open itself to the world economy**, basically accepting the idea that a free market approach was the only way to prosper under the current conditions of globalisation, though seeking to restrict reform in some areas (electricity production, petroleum, financial institutions). Neo-liberal free trade policies argued for the market as a creator of wealth, for limited government intervention in the economy, and for the idea that 'exports drive growth' (for a critique, see Brunelle 2001). This path would turn out to be a rather rocky road for Mexico, especially as it opened weak institutions to international influence and interdependency flows in the global economy.

In 1994-1995, for example, the **peso crisis** led to a 70% devaluation of the national currency over a three month period, with GDP dropping by 7.5% in that year, and with unemployment climbing from 3.9 to 7.4% while under-employment may have affected up to half the working population (Ochoa & Wilson 2001, p4). The peso would drop from 3.45 to the dollar in November 1994 to 7.65 in late 1995 (Sharma 2001, p60). The peso crisis also indicated the strong interlocking of the U.S. and Mexican economies. The total of **US\$52 billion bailout** of the peso provided by the U.S. administration, the IMF, the World Bank and the Inter-American Development Bank helped stabilise Mexico (Sharma 2001, p60). It was based on the rationale of avoiding massively

increased 'undocumented migration', but critics have suggested that the bailout involved a virtual 'mortgaging of Mexico the United States' with Mexican petroleum resources being used as collateral (Ochoa & Wilson 2001, pp5-6). Furthermore, a total collapse of Mexico would have threatened U.S. companies and investments, as well as resulting in bad loans accumulating to international banks and other institutions.

The **causes of the peso crisis** involve a chain of linked problems including: -

- Ongoing crisis due to the **instability of the Mexico's nationalised banking system, privatised from 1990-1991**. The following credit and loan boom, however, was not always well-managed (Sharma 2001, p75). Non-performing loans of up to US\$65 billion put the entire financial system in crisis, and the administration's plan to have the government take over this debt greatly eroded its political support (Cypher 2001, p13). Some of these loans had been made 'extra-officially' among Mexico's leading families and party candidates, and many non-performing loans were concealed within a not very transparent accounting and banking system (Williams 2001, p30; Sharma 2001, pp72-77).
- Overspeculation by 'domestic and foreign investors', leading to an **overly strong peso** and higher prices (Cooney 2001, p56).
- This expansion of credit in Mexico was in part based on a liquid international financial market which readily loaned to Mexican private banks, which in turn often loaned to non-performing business or to corrupt connections. Once this **network of bad debt and false growth began to become visible, many foreign and international business elites began to drop the peso** (Cypher 2001, p13), especially in favour of the U.S. dollar.
- A resulting **drop in foreign exchange reserves**, going down to US\$2 billion during the crisis (Cooney 2001, p56). In 2003, Mexico's central bank had about \$48 billion in foreign reserves (*Miami Herald* 2003c).
- Investment in the early 1990s tended to be of the portfolio type (Sharma 2001, p69), often denominated in dollars (Cooney 2001, p57), many of the **investments were mobile** (Soederberg 2001, p113) and did not translate into confidence in the peso. **Foreign Direct Investment (FDI) only became the dominant pattern for Mexico from 1997-2005** (see Pastor & Wise 2005, p137).
- In general, throughout the 1990s, Mexico tended to rely on '**foreign, dollar-denominated loans**', still totalling some US\$68 billion in 2000 (Cypher 2000, p20). This, of course, exposed the country to greater debt when the value of the peso weakened.
- In 1994, **political shocks**, including the Chiapas rebellion in January 1994, and the assassination of the PRI presidential candidate (Luis Donaldo Colosio) in March 1994, led to increased investor nervousness and capital flight from the country (Sharma 2001, p70).
- The Mexican government of the early 1990s had **strong political reasons to sustain an overvalued, pegged peso, all linked back to keeping the PRI in power**: 'For the rapidly growing middle class, a strong peso meant greater purchasing power - as the fixed exchange rate reduce the price of imported consumer and luxury goods. Labor unions supported the exchange-rate peg as a means to control prices and the inflationary

pressure on salaries. Mexico's leading financial and industrial conglomerates supported the policy because it provided easy access to foreign credit. And since Mexican manufacturers purchased a large proportion of industrial inputs abroad, a weakened peso would raise production costs, thereby offsetting increases in international competitiveness.' (Sharma 2001, p80)

- The effort to sustain the partially pegged value of the peso was difficult, and when the **government shifted to devalue** an over-strong currency, this led to **further lack of confidence** in its market value, a problem not solved by the decision to abandon 'the exchange rate target band' and allowing the peso to float (see Sharma 2001, p72, p81).

The result was an **immediate depression of the Mexican economy**, which experienced a decrease of GDP of 6.2% in 1995, and for a time the value of the peso was halved (Cooney 2001, p57). With the drop in internal consumption and credit squeeze, many small and medium business collapsed, some 28,000 between 1994 and 1997 (Cooney 2001, p58). The peso crisis was so serious that it threatened not only the economic survival of Mexico, but also threatened U.S. interests there. A US\$50 billion plus package (at that time the biggest yet deployed) was provided by the U.S. Treasury and the IMF (Cooney 2001, p57). **Structural adjustment** was part of the package, including reducing wages, reducing government spending, and increasing taxes (Cooney 2001, p57).

Long term outcomes of the peso crisis have included the merger of Mexico's top 19 banks into 8 banks, with some US\$70 billion being added to public debt over the 2000-2020 time period (Cypher 2001, p13). Likewise, through 1998 international capital continued to flee from developing countries such as Mexico, with the stock market's value being severely reduced and through 1998 with a devaluation of the peso by some 24% (January-August 1998), also resulting in a credit squeeze (Cypher 2001, p14) and heightened cost of imports. In order to sustain a competitive industrial base, Mexico **had to sustain imports**, leading to a decreased positive balance of trade through 1997 in spite of strong exports (Kunhardt 2001, p51). By the late 1990s Mexican foreign debt approached \$US150 billion and by 2000 had reached 166 billion (Kunhardt 2001, p38; Cooney 2001, p69), the second largest among 'developing' countries. This debt has had to be serviced with a significant proportion of GDP derived in large measure from exports.

The peso crisis was also one factor that stripped away legitimacy from the PRI government, and allowed opposition parties to gain a stronger showing through the late 1990s (see further below). It also seriously undermined popular Mexican support for NAFTA, and also suggested that Mexican nationalism, as expressed in the rhetoric of PRI governments, could not effectively resist pressure from the U.S. The 'crisis prompted many Mexicans to alter their views regarding Mexico's ability to compete, the perceived threat of U.S. influence on Mexican culture, U.S. relations, and unfair competition.' (Morris & Passé-Smith 2001, p127). Though increasing NAFTA flows in the long-run may have helped recovery from the crisis, this would not be apparent until the late 1990s, and was masked by some slowing in growth in the Mexican economy through 2001-2003.

However, **by 2000-2005 some of this negative trends were partially reversed**, especially with a spillover from the strong growth from the U.S. economy through mid-2000, with Mexican exports growing at 16% in 1999 and 24% through early 2000, with some slight increase in wages in 1999-2000, circa 5% in 2000 (Cypher 2001, p15). From late 2001, with some slowing of the U.S. and World Economy, the demand for Mexican exports were also effected. For 2003, the Mexican government developed a **strict budget** aiming for 3% growth in GDP, inflation to be kept at 3%, and for a restriction of the budget deficit to around 0.5% of GDP, indicating a strong economy in developing terms, and with relative though not perfect political stability (see Lloyd 2003; see further below). This helped retain GDP growth of 4.4% in 2004 and 3.2% in 2005, with inflation of around 4.7-4.4% (DFAT 2005). However, mid-term elections also meant that Fox's PAN party lost control of the congress in mid-term elections, leading to **policy grid-lock** whereby the President's reform progress in a number of areas, e.g. reform of the state energy sector, was severely slowed down (Pastor & Wise 2005).

Although **NAFTA might be viewed as a success from the neo-liberal (free-trade) point of view**, other commentators have pointed out **mixed side-effects of this opening of the Mexican economy**: -

The introduction of the North American Free Trade Agreement (NAFTA) in 1994 sought to accelerate transnational access to the Mexican economy by deregulating financial services and chipping away at sectors of the economy that had been protected historically, such as corn and petroleum. The extent of this global penetration has served to disrupt broad sectors of Mexican society and tear an already threadbare social fabric. (Ochoa & Wilson 2001, p4)

Another aspect of modern trade relations has been a reliance on investment to build **foreign owned and controlled plants** (*maquiladoras*) in Mexico. Even by the 1980s, both American and Japanese investors began to build plants along the U.S.-Mexican border (Ruiz 1992, p445). This has been the case especially in the car and electronics industries. Although **boosting trade, GDP, and in part justifying the NAFTA process, there are some down-sides to this model**. First, most new employment is based on the maquiladora model (employing 800,000 in over 3,000 plants by 1997), that is, part-time or contingent work on low wages with little security for workers, few benefits, and limited union representation (Ochoa & Wilson 2001, p7; Kunhardt 2001, p53; Cooney 2001, p55; French 2002). This complements an increasing trend towards part-time work in the Mexican labor situation as a whole, up to 28% of the working population by 1996, while workers without benefits grew to 49% (Roman & Arregui 2001, p55). At first, these plants mainly employed women, but by the late 1990s this ratio had dropped to 60% (Cooney 2001, p71).

In 1996, the Mexican minimum wage was 41 U.S. cents an hour, compared to \$4.75 in the U.S. (Cooney 2001, p59). Working hours also vary widely, in 1995 33.8% of these workers were employed for less than 15 or more than 49 hours in the week, creating **a more 'contingent' labour force** (Cypher 2001, p21). In spite of being claimed as non-skilled labour, in fact many of these workers have

become well-skilled in the industrial context, with high levels of productivity (Cooney 2001, pp64-65). In part due to the intensification of work in these plants, there have been **several legal cases concerning the right to unionise which have been considered through the labour side accord of NAFTA**. Most have been unsuccessful, with the exception of an independent union recognised in Han Young (Hyundai subsidiary) maquiladora (Cooney 2001, p65). Through 2001, the North American Agreement on Labor Cooperation (NAALC) has received submissions and complaints, but did not seem to have been highly effective in protecting workers conditions or jobs (Cooney 2001, p71). Various forms of human rights abuses and sexual harassment have also been reported from these plants (Cooney 2001, p72; Bowdish 1995). A somewhat different view is provided by Singh of the NAALC: -

The cases, and the threat of a case, have had positive effects in protecting labor rights, and the cooperative activities have served to educate and highlight labor practices and policies in the region. However, its potential has not been fully realized due, in part, to the opposition by organized labor and some provincial governments. There is a need for a radical change of attitudes; without the NAALC, labor rights would be in greater jeopardy. (Singh 2002)

Likewise, while foreign-owned plants modernise, there was **limited technological or managerial transfer of skills into the wider Mexican economy**, and in many cases little integration into existing Mexican manufacturing sectors (Cypher 2001, p25). Domestic Mexican inputs into the maquiladoras remained low, circa 2%, much lower than the domestic input of Asian tigers when they began to industrialise using foreign investment (Cooney 2001, p75). As a result, Mexico became even more reliant on the U.S. and NAFTA industrial system, and most Mexican firms became less able to compete either in regional or global terms. This trend has been reduced to some degree by the **success of a few Mexican conglomerates, with Mexican owned firms generating 19-20% of manufacturing exports in the late 1990s** (Cypher 2001, p28). Relatively successful Mexican 'private exporters' included Vitro (glass), TELMEX (communications), some textile groups, CEMEX (cement), metal producers, and Televisa (television network), the Jumex fruit-drink company, among others (Kunhardt 2001, p46; Contreras 2003).

In summary, there were **winners and losers in the maquiladora export strategy**: -

The Mexican government benefits by obtaining revenue in the form of foreign exchange that helps to pay off the foreign debt. The latter in turn is beneficial to the IMF and the international (predominantly U.S.) banks. The transnational corporations clearly benefit in terms of profit and improving their ability to compete internationally. Workers benefit from employment and some improvements in skill levels, but the quality of such employment needs to be improved and many worker's rights, such as the right to independent unions, workers' benefits, health and safety, and so on, have a long way to go. Although it was predicted that the environment in Mexico would benefit from NAFTA, the reality is that the

expansion of the maquiladoras has led to a greater degradation of the environment and increasing risks to workers' health and safety. Lastly, despite encouraging claims of increased forward and backward linkages between the maquiladoras and the rest of Mexican manufacturing, there are evidently minimal gains for the latter, and the threat of competition from the maquiladoras means that further decline is to be expected if the current trends continue. (Cooney 2001, pp75-76).

It is not surprising that after 1994, Mexican public opinion has begun to turn against NAFTA, 'eroding U.S. cultural hegemony in Mexico' (Orchoa & Wilson, p9). Indeed, major problems with economic reform, a collapsing banking system, and exposed corruption helped undermine the legitimacy of the Zedillo administration. The PRI electoral lead narrowed somewhat in the presidential elections of 1988 and 1994, with a further slide in congressional elections in 1997 to about 40% of total votes (Klesner 2001, p107). **A number of factors eventually brought down the PRI in the 2000 elections**, including concerns about corruption and popular frustration with the Mexican government (Klesner 2001, p108). Ironically, the new **Vicente Fox** government itself, though **trying to present a more humane face, was also a strong supporter of neoliberal policies**, especially through economists Francisco Gil Diaz and Carlos Abascal (Cypher 2001, p16). In this context, President Fox is sometimes described as a 'modernising internationalist', at times leading to strong divergences in foreign policy with the US, e.g. differences over the intervention in Iraq (*Economist* 2004).

From the point of view of U.S. companies and workers, many have argued that there are hopes for improved production and job creation out of NAFTA. Concerns have been raised over the **impact on the environment**, with increased water and air discharge often not tightly controlled to meet health standards (Public Citizen 1997). Efforts to monitor and limit environmental and social problems that might emerge from the NAFTA process have been run through the *Commission for Environmental Cooperation* (CEC) and the *Border Environmental Cooperation Commission* (BECC), but only a few projects have been initiated via these agencies (see Hackenberg & Alvarez 2001, p99). Pollution problems in the Gulf of California and the Salton Sea have also become noted (Hackenberg & Alvarez 2001, p101). Neither the earlier La Paz Agreement (1983) nor the current Border XXI program from 1996 (see Border XXI 1999) have been fully effective in this regard. At a more general level, it has also been argued that agreements made through NAFTA which try to create harmonisation of business and legal standards between Mexico and the U.S. do not always in the end meet public standards expected in the U.S., e.g. issues concerning Mexican trucking firms and their future operation on U.S. roads (Public Citizen n.d.). Indeed, in the worst-case scenario, gains from NAFTA are also offset by intensified environmental damage, suggested by Mexico's National Institute for Statistics, Geography and Information Systems to be in the order of \$36 billion a year in soil, water and waste problems (Gallagher 2004). This will need to be better managed by NAFTA in future: -

NAFTA's "Environmental Side Agreement" created institutions, including the North American Commission for Environmental Cooperation

(NACEC), to monitor and ensure that member states follow environmental regulations. They have set some important precedents, but they are not equipped to deal with Mexico's environmental crisis. At most, Mexico receives only a third of the NACEC's \$9 million annual budget. NACEC has been effective in carrying out its limited mandate, enabling citizen groups to monitor environmental progress and convening cross-national information sharing and research efforts in North America. But the \$3 million budgeted for Mexico is dwarfed by the country's budget shortfalls and is buried beneath environmental degradation's \$36 billion price tag. Mexico's environmental crisis clearly underscores the fact that, without the proper environmental policies in place, the environmental consequences of trade-led growth could undermine the very goals of economic integration. (Gallagher 2004, p47)

From the early 1990s **Mexico continued to open itself to the world economy and the influences of globalisation**. Although the U.S. remained the dominant trade partner, imports from East Asia continued to expand and replace Mexican goods and labour (de la Rocha 2001, p88), while France planned to increase investment in Mexico through the late 1990s (Ochoa & Wilson 2001, p5). However, ironically, as Mexico adapts to the world economy, the share of GDP based on domestic manufacturing began to drop, from 23.4% in 1981 to 17.3% in 1994, suggesting a phase of **de-industrialisation** (Cypher 2001, p20) as local firms find they could not adequately compete, pay for expensive machines and technology imports, and find investment capital difficult to raise. In summary: -

While incomplete, these data are suggestive. Mexico is experiencing a shrinking and polarization of its industrial base. Foreign-owned firms have clear technological mastery but few links to and spillover effects for the rest of the economy. They share the commanding heights of the industrial system with Mexican-owned conglomerates that may compensate for their lower level of technological mastery and control over the production process with their greater ability to harness the benefits available through the state apparatus - including the sidestepping of many taxes and regulations, access to subsidized credits and developmental programs, and control of the labour force. (Cypher 2001, p28).

Another way to view these trends is to suggest that **although exports and GDP are increasing, that Mexico 'is not in control of the wealth generated within the country'** (Cooney 2001, p77). There have also been recent concerns about the need for **another phase of reform**: further labour law reform, the need for further private investment in the energy sector, and concern over low tax returns impacting on government revenue, with the government running at a low 11-12% of GDP in returns and needing 25-30% to match Chile and most OECD countries (Pastor & Wise 2005, p145; *Economist* 2004). Without improved income the government cannot adequately improve infrastructure, reform education (*Economist* 2004), or meet a range of other pressing social needs. This forms the background to strong protests at 2003-

2004 meetings of the WTO and Summit of the Americas in Mexico (Ramirez 2003).

On this basis, there are **limited returns** of generated wealth both to the government, which has to cover international debt and increased social instability, and new uncertainties for wider Mexican population, who find that wealth has not trickled evenly through the society and that their labour has to be competitively priced against other workers in the globally linked system of production. The Fox government began the process of **economic restructuring** and for increased export competitiveness (especially for small and medium enterprises), but **needed to go further** to build 'more innovative and pragmatic state policies, the need to pay attention to the country's sharp income inequalities, and the challenge of crafting a political strategy that could build a middle ground and foster policy consensus' (Pastor & Wise 2005, p135). In such a setting, **presidential elections in July 2006 will be a tough contest**, with figures such as Andres Manuel Lopez Obrador of the 'left-leaning Party' of the Democratic Revolution (PRD) being very popular, in spite of effort to derail his political career (Pastor & Wise 2005, p142).

Throughout the modern period, Mexico has struggled with the **effort to build a modern national identity** that can find its place both in the Western Hemisphere of the America's, as well as a place in the global system. This has proved problematic throughout the last three centuries, with only brief boom periods of relative prosperity and social stability. Even though Mexico has become more democratic in the last fifteen years, it is not yet clear that the government has been able to take a central role in fairly aggregating the 'competing societal interests' of most Mexicans (Teichman 2004, p65), a crucial task if reforms are to succeed.

6. Bibliography and Further Resources

Internet Resources:

A wide range of official and cultural information on Mexico and NAFTA will be found at *Mexico-Info: The Gateway to Mexico* at <http://www.mexico-info.com/>

A fair overview of Mexican history, based on numerous short articles, will be found on the *Mexico Connect* website at: http://www.mexconnect.com/mex_/history.html

The *Center of Economic Policy Analysis* publishes papers (available online in Adobe pdf format) that cover a range of economic and development issues, many of which relate to Mexico and Latin America. An index of papers will be found at <http://www.newschool.edu/cepa/papers/index.htm>

A newspaper with fair coverage of Latin America, plus a searchable archive, is the *Miami Herald*, located at <http://www.miami.com/mld/miamiherald/>

Information (mainly in Spanish with some English) on the Chiapas rebellion from the point of view of the 'rebels' can be found at the EZLN website at <http://www.ezln.org/>

Further Reading:

If you want to explore these issues further, start with one or more of the following: -

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