


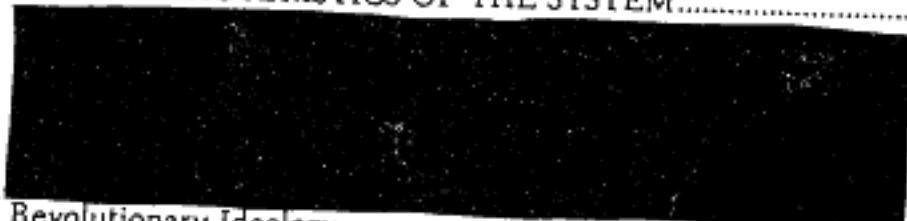

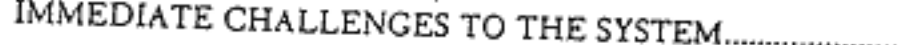
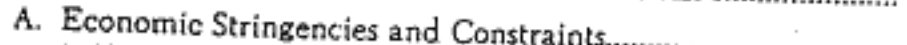
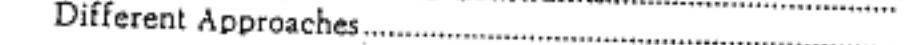












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THE OUTLOOK FOR MEXICO

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

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## DISCUSSION

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

Figure 1  
Principal Cities and Administrative Units



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

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