

HISTORY OF MEXICO (cont'd)

CONTEMPORARY MEXICO

In 1929, the *Partido Nacional Revolucionario (PNR)*, National Revolutionary Party, was founded as a broad-based organization that drew support from all social groups and regions in Mexico. The PNR became the *Partido Revolucionario Institucional (PRI)*, Institutional Revolutionary Party, and has held federal power to this day. In 1938, President Cárdenas nationalized the petroleum industry and the railways, which one year later were turned over to the unions. This initiated a period of economic nationalism, protectionism and state intervention that lasted until the late 1980s.

The discovery of significant new oil reserves made Mexico one of the world's oil-exporting countries. The new-found wealth led to a boom economy with shallow foundations. Things rapidly turned sour after oil prices collapsed in the early 1980s. Having borrowed on the strength of its oil wealth, the Mexican government found itself increasingly hard-pressed to honour its international financial obligations. In 1982, it announced that it could no longer make payments on its debt.

The debt crisis was the most visible sign of a malaise that had spread throughout the Mexican economy. Low productivity, an inefficient state sector, a top-heavy government and hyperinflation all characterized Mexico in the mid-1980s. Even so, there were signs of change. Under former president Miguel de la Madrid, a policy of economic openness was initiated and, in 1986, Mexico joined the General Agreement on Tariffs and Trade (GATT). President Salinas came to power in 1988 and began to introduce reformist economic policies to privatize industry, liberalize economic institutions and address needed social reforms. Despite a temporary economic and financial crisis in 1995, the reform and modernization process is continuing under President Zedillo, who assumed office in late 1994.

Source: *Canada-Mexico Partnering for Success*, Fourth Edition. Ottawa: Prospectus Inc., 1996, p. 21.

market, Canadian companies must be prepared to be flexible and sensitive to the cultural differences of their Mexican counterparts. There is a lot more to this than just working in another language. Mexicans like to do business with people they know. Developing the necessary relationships will take time and patience.

RECENT ECONOMIC DEVELOPMENTS

The government of Ernesto Zedillo assumed office on December 1, 1994, following an election in August. Zedillo represents the

Partido Revolucionario Institucional (PRI), Institutional Revolutionary Party, which has been in power for almost 70 years. Under the Mexican constitution, presidents are elected for single six-year terms. A period of uncertainty is normal during the first year of each presidency, because traditionally, top officials are replaced with people loyal to the incoming president. In this case, however, President Zedillo inherited an unusually complex situation.

The Devaluation of the Peso

Mexico's economic conditions cannot be separated from the political environment. A devaluation

of the peso would have been inevitable given Mexico's trade imbalances. A crisis might have been averted if the government had elected to orchestrate an orderly devaluation. Nonetheless, it is hard to minimize the effect of political factors.

In March 1994, Luis Donaldo Colosio, the front-runner in the presidential election campaign, was assassinated. Ernesto Zedillo, an advisor to Colosio, stepped in to take over as the candidate for the the *Partido Revolucionario Institucional (PRI)*, Institutional Revolutionary Party. An important banker was kidnapped, another top politician was also assassinated, and to make matters worse, prominent political figures were implicated in both assassinations. Meanwhile, the peasant uprising by the Zapatista movement in the southern state of Chiapas created further destabilizing pressures throughout 1994. The resulting flight of capital exacerbated Mexico's currency problems, forcing the government virtually to deplete its currency reserves. In late December 1994, the government stopped supporting the peso, and within days it lost one-third of its value. Only a US \$50 billion international bailout, led by the United States, with contributions from Canada and other countries, averted the collapse of the Mexican financial system.

The Economic Crisis

The abrupt devaluation of the peso in December 1994 led to a sudden rise in the price of imports. This had a devastating effect on Mexican industry, which had greatly increased its use of foreign inputs over the previous few years. By April 1995, industrial production was down by 14 percent compared with the same month in 1994. For the year as a whole, the gross domestic product (GDP) fell by about 6 percent. The unemployment rate for 39 key urban areas peaked at 7.6 percent in