# INTRODUCTION

One of the characteristics of developing economies is an intense demand for improved infrastructure. Typically, the growth and restructuring of economies are constrained by a lack of roads, power, telecommunications, water and sewers. Few developing nations have sufficient public assets to modernize and expand their infrastructure rapidly enough to support sustained economic growth. Mexico is typical in this respect.

Mexico has witnessed a remarkable economic transformation. For decades, successive Mexican governments used state intervention to protect domestic industries from competition. Exports were promoted mainly by linking foreign investment permits to export performance requirements. This situation changed dramatically when the government of President Carlos Salinas came to power in late 1988. Almost immediately, the new government implemented a series of sweeping reforms. Trade was liberalized and Mexico became a full member of the GATT. Public enterprises were sold and deregulation threw entire sectors open to competition for the first time. Investment opportunities were opened to foreigners. A program of economic stabilization improved the overall investment climate. And the implementation of the North American Free Trade Agreement (NAFTA) on January 1, 1994 increased the level of competition in the Mexican economy even further.

These developments have put intense pressure on Mexican companies to modernize and meet international standards of productivity and product quality. Gradually, larger and more efficient corporate groups are emerging from Mexico's traditional industrial structure, comprised largely of family-owned businesses. Markets are replacing bureaucracy and personal connections as the principal means of allocating resources. Companies are integrating their operations and forming alliances with both Mexican and foreign producers. In addition, Mexico is under pressure to improve its environmental record as part of its obligations under the NAFTA.

Mexico's infrastructure is inadequate to support the nation's transition into a fully-competitive free market economy. There are also serious problems associated with expanding the social infrastructure in such areas as education, housing and health care facilities. This problem has plagued Mexico for a long time. Financing problems in developing the infrastructure have emerged at a time when the government is attempting to reduce its debt. Attracting private capital in increasing volumes has become an important tool to close the infrastructure gap. A number of major infrastructure providers, including *Teléfonos de México (TELMEX),* the state-owned telephone company, have already been sold to private investors.