"Economic, social and cultural relations are becoming increasingly interdependent. There is a greater interdependence between rich and poor, between the powerful and the weak, between North and South, and between East and West. Modernizing the country in this sense means opening up to the contemporary world while reaffirming our identity."

Carlos Salinas de Gortari

To understand the new Mexico, one must begin with the old. To some extent, Mexico today is grappling with the consequences of decisions taken in the 1930s. At that time, the government adopted interventionist and protectionist policies that led to a great expansion in the state-owned share of the economy. The economic role of the state was further expanded as the discovery of huge oil reserves promised the government vast additional revenues. As a result, Mexico's development policy was heavily oriented toward state spending.

The 1980s were especially difficult. After the collapse of oil prices early in the decade, Mexico found itself facing crushing foreign debts, runaway government spending, severe inflationary pressure, and a large but uncompetitive state-owned sector that relied on protectionism for survival. The recession of 1981-82 was felt throughout the industrialized world but its impact was particularly devastating in Mexico. The country arrived at a political, financial and economic impasse in 1982 when it announced that it could no longer service its international debts. What followed was a bleak period, characterized by hyperinflation, unprecedented fiscal deficits, paralyzing external debt, and a growing lack of confidence in a devalued national currency.

Though the 1980s began in economic crisis, they ended in hope and revival. Within a single decade, Mexico has undergone a dramatic structural transformation, leading the country from bust to boom. The key milestone in Mexico's renewal was the program of far-reaching economic reform developed through the mid-1980s and pursued energetically by Carlos Salinas de Gortari after he became Mexico's president in 1988 (see box).

MEXICO'S REFORM AGENDA

Reduction in the Rate of Inflation: The government has persuaded business and labour to agree to a Pact for Stability and Economic Growth *(El Pacto)*. Under this instrument, each of the participants accepts general guidelines for increases in prices and wages and negotiates any exemptions with a Follow-up and Evaluation Commission. This approach has avoided the pernicious effects associated with a blanket freeze on prices and wages and allows for some selective relative adjustment in wages and prices. As a result, Mexico's inflation rate has dropped from 159 percent in 1987 to about 18.8 percent in 1991. It is expected to fall to the 13-14 percent range in 1992.

Renegotiation of the Foreign Debt: At the height of the crisis, Mexico was transferring the equivalent of 6 percent of its GDP abroad to service its debt. To stop the hemorrhage, the government renegotiated and restructured the debt. As a result, Mexico's foreign obligations were reduced by some 20 percent.

Reduction in Government Deficits: A combination of spending cuts, fiscal reforms, simplification of taxation and enhancements to the system of collecting taxes have all reduced the state's budgetary deficits. By broadening the tax base, the government was able to reduce tax rates while increasing total income. The federal budget has been strictly adhered to and the process by which public resources are allocated has been reformed.

Deregulation: As part of its general intention to withdraw from the economy, the Mexican government is reducing the regulatory burden on business and simplifying economic regulations.

Liberalization of Trading Relationships: Even before Salinas de Gortari came to power, Mexico had already accepted the need to end protectionism. In 1986, it joined the General Agreement on Tariffs and Trade (GATT). The policy of controlling imports through permits has been abandoned in favour of a system of moderate tariffs. As concrete expression of its commitment to trade liberalization, Mexico has concluded a North American Free Trade Agreement with the United States and Canada.

Privatization of State-Owned Industries: The bloated state-owned sector was reduced from 1155 to fewer than 250 enterprises through private sale. The proceeds have been directed into infrastructural development such as road construction.

Liberalization of Foreign Investment Regulations: The government has adopted policies to encourage the inflow of investment capital. These include simplifying the rules governing foreign investment, easing restrictions on foreign ownership, and enhancing protection for intellectual property. As a result, a record $US 9.9 billion in new investment entered the country in 1991.

Articulation of a National Development Plan: The government has announced a longer-term strategy embracing the promotion of sovereignty, democracy, economic growth and prosperity. In the economic sphere, it seeks to complement the initiatives mentioned above with measures to enhance productivity, improve competitiveness, and modernize the country's infrastructure.