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Polarizing Mexico

The Impact of Liberalization Strategy

Enrique Dussel Peters

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For Ana María and Mariana

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For Ana María and Mariana

Contents

Introduction

Since the 1980s Mexico has been regarded as an international example of sound economic policy, particularly by multilateral agencies such as the World Bank. The country has apparently been able not only to solve the 1982 debt crisis, but also to emerge successfully from the crisis that erupted in December of 1994. Since the 1997 Asian economic crisis, Mexico has again been cited as an example to follow. The international acceptance of Mexico's economic success was further demonstrated in 1994 when Mexico's former president, Carlos Salinas de Gortari, was seriously considered as a candidate to head the World Trade Organization, a candidacy backed by the U.S. government and most nations in the Organization for Economic Cooperation and Development.

Mexico's economic and social development during the 1990s is of utmost interest for several reasons. On the one hand, economic and social policies since the end of the 1980s have been, with few exceptions, some of the most coherent and consistently applied in not only Latin America but on other continents. New policies implemented since the end of the 1980s present the possibility for evaluating more than a decade of the results of Mexico's new development strategy. Mexico's export-led growth, the profound restructuring of its economy, and the North American Free Trade Agreement initiated in 1994, as well as the crisis of 1994–1995, make the Mexican experience a complex and interesting case study from both theoretical and policy perspectives.

Mexico's economy and society have been transformed substantially since the end of the 1980s. The overall departure from the import-substitution industrialization model, constitutional and macroeconomic changes, the increasing importance of trade, and the impact of global trends are some of the striking features of Mexico's transformation during the 1990s. Simultaneously, recurrent economic and political crises, continual financial and foreign exchange uncertainties, and poverty and social disarray continue to be integral aspects of Mexico's reality. How do these trends converge? What are the prospects for Mexico's economic and social development in the twenty-first century?

What is the theoretical foundation of Mexico's post-1988 strategy? Is it related to "neoliberalism"? What has been the legacy of import-substitution industrialization, and how has the Mexican economy been restructured since the late 1980s? What, after more than ten years, are some effects of this new strategy? What are the economic and social potential and sustainability of this strategy? Are there any general theoretical and policy lessons to be learned from Mexico that might be useful to other nations following similar development paths?

One of the main hypotheses of this book is that the impact of Mexico's new development strategy since 1988, defined as liberalization strategy, can be understood and evaluated in terms of an increasing economic, social, and territorial polarization. Thus, although specific segments of Mexico's economy and society are able to respond to the new challenges of liberalization strategy, which have so far resulted in moderate positive economic outcomes at the aggregate level, a majority of firms, branches, households, and regions have not benefited and pose overall economic and social sustainability problems.

Another premise of the book is that the effects of liberalization strategy have to be presented and evaluated both from a theoretical and an empirical perspective. It is not a coincidence that liberalization has become the main conceptual and policy framework in most Latin American countries and in many other nations since the 1980s. Thus, the book presents the socioeconomic conditions of Mexico at the end of the 20th century in its full complexity and avoids the simplistic approaches and models that have been developed by economists and politicians. This complexity encompassed elements such as the implementation of NAFTA and the simultaneous social and military uprising of the Ejército Zapatista de Liberación Nacional (EZLN) in 1994, as well as world-class manufacturing facilities in the computer and pharmaceutical industries, alongside a majority of Mexico's population who remain in poverty.

Although the book presents historical developments of the respective issues, the primary objective herein is to understand Mexico's present socioeconomic conditions and challenges. Based on a detailed and in-depth analysis of the government's economic and social policies, the book includes—implicitly and explicitly—alternatives to policies imposed in Mexico since the 1980s. However, the presentation of detailed alternatives to the topics raised in the respective chapters goes beyond the scope of the book.

With these sorts of questions in mind, Chapter 1 considers the recent discussion in development economics on the theoretical legitimization and background of liberalization strategy in Mexico. This chapter is relevant in presenting the theoretical justification of a liberalization strategy, as well as in highlighting the richness of current debates in economic development theory and the impact on potential alternatives to liberalization. The increasing consensus on generating endogenous growth conditions or the lack of them, that is, of polarization, are significant for the discussion in later chapters. Departing from conventional criticisms of neoliberalism in Mexico and other nations, the chapter argues that it is not possible to discuss Mexico's current development strategy in terms of neoliberalism. Mexico's liberalization strategy differs both historically and conceptually from neoliberalism. Moreover, this chapter is relevant for understanding different theoretical and policy alternatives to liberalization.

Chapter 2 outlines the general economic and social background of the liberalization strategy implemented in Mexico, arising from an interplay between theoretical, economic, and political domestic and international tendencies. The genesis of liberalization in Mexico and its causes, including the emergence of the private sector as a politically active social sector and the overall critical political situation in Mexico, are relevant in this context. Moreover, this chapter elaborates on the priorities and pillars of the liberalization strategy in Mexico since 1988 and concludes by discussing the relationship between neoliberalism, export-oriented industrialization, and liberalization. Chapter 2 is crucial for associating the more theoretical discussion in Chapter 1 to the specific strategy followed in Mexico and impact of the strategy, as analyzed in the next chapters.

Beginning with Chapter 3, the impact of liberalization is evaluated from several perspectives. First analyzed are the main macroeconomic policies introduced since 1988 and an examination of the evolution of the main macroeconomic variables since then. This chapter also includes a brief analysis of the 1994–1995 crisis from the government's perspective: this crisis, as we shall see, is critical for understanding Mexico's new development path. Because of the importance of the crisis to liberalization's macroeconomic priorities, the chapter also examines the evolution of other macroeconomic indicators, such as the real exchange rate, GDP, inflation, and fiscal deficit.

Chapter 4 looks at the general development and performance of Mexico's manufacturing sector, liberalization's self-proclaimed engine. In its first section, this chapter presents general and specific government policies for the manufacturing sector and its relationship to foreign trade since 1988. Subsequent sections of Chapter 4 provide a more in-depth analysis at the industry level of the manufacturing sector. The characteristics of the most dynamic branches since 1988, including variables like GDP, productivity, employment, real wages, imports, and exports, are highlighted.

Chapter 5 discusses the main financing sources for liberalization beyond cheap labor power: foreign investments. The chapter begins with an overview of the legal and constitutional changes regarding foreign investments and the general trends of foreign direct investments since the 1980s. The third section of this chapter analyzes three different sectors: automobiles, electronics, and telecommunications. These more specific sectorial examinations allow for an understanding of the profound changes occurring in particular segments of Mexico's economy and the impact of economic restructuring for the integration of these sectors into the global economy. This chapter is also complementary to Chapter 4, which examines in more detail the rationality, performance, and specificities of the new industrial organization that has emerged in Mexico since the adoption of a liberalization strategy.

In an effort to understand the social impact of liberalization, Chapter 6 begins by examining recent changes in social policy. The chapter focuses on the social challenges that have emerged in the era of liberalization and evaluates the impact of the strategy on general social indicators, income distribution, and employment generation. Particular attention is given to the evolution of poverty since 1984. This chapter also examines the shift in Mexico's economic and political structures against labor.

Chapter 7 discusses the implications of globalization for Mexico. Beginning with a brief summary of this issue, it is argued that in the future local and regional issues will be of increasing economic, social, and political importance. The chapter explores regional trends

in Mexico, as well as the country's overall polarization, focusing on two specific regional experiences: the electronics industry in Jalisco and the pharmaceutical industry in Mexico City. These specific case studies cannot be generalized to the rest of Mexico, but they do reflect a search for confronting globalization at the local and regional level, a rather new tendency in a country with a historically centralized and authoritarian political structure. This chapter is also closely linked to Chapters 4 and 5. Chapter 4 analyzes the general performance of manufacturing and the emerging structures of export orientation; Chapter 5 expands the discussion of Mexico's economy in the context of a North American industrial network, particularly those activities that have been dynamic since liberalization. In Chapter 7 the analysis of two sectors and their respective industrial organizations is helpful in understanding the polarization of Mexico's economy and its increasing dependence on imported goods and services.

Chapter 8 presents the general conclusions of the book. Since all the chapters already include preliminary conclusions, this last chapter elaborates on general guidelines and addresses the need for further analysis. This chapter also addresses the broader lessons drawn from the Mexican experience and discusses general alternatives to the liberalization model in Mexico.

billion, out of which $350 million is reserved to auxiliary products for health (BANCOMEXT 1994).

11. In spite of these general trends, it is important to stress that several Mexican firms with between 400 and 500 workers and annual sales of between $20 and $40 million have been successful and have important potential. Firms such as Proquifin and Armstrong have developed their own pharmaceutical products and entered market niches in biotechnology.

12. Author's calculations based on SECOFI (SIEM).

8

Conclusion: A Look to the Future

Recalling the main questions in the introduction of this book, What are the lessons of Mexico's economic and social "success"? Is it that the crisis and some other "mistakes" were the result of a single Machiavellian mind? Is it simply that a second generation of reforms is required? Or is it the failure of neoliberalism, the "mother of all evils" during the 1990s, as some analysts have even suggested? Have there been any theoretical and policy learning processes? What are the implications for Mexico and other nations that have followed a liberalization strategy through the 1980s and 1990s?

This book attempts to answer these questions from different perspectives. It suggests, on the one hand, that the liberalization strategy implemented in Mexico since 1988 has been extremely coherent *within its own conceptual framework* and implemented policies. *On its own terms,* liberalization has been relatively successful.

On the other hand, the conceptual and policy framework of liberalization strategy has significant conceptual and policy flaws. Theoretically, the proponents of liberalization argue, along with export-oriented industrialization proponents, that in a market-friendly context and stable macroeconomic conditions, exports are sufficient for social and economic efficiency, economic growth, and overall development.

However, as discussed in Chapter 1, this reasoning is rather primitive even from a strict neoclassical perspective, since it does not consider many other textbook variables such as employment, wages, trade, and current-account variables, as well as investments and technological development.

Moreover, there is no definitive consensus over the causal relationship between exports and economic growth. Even if a positive association (or correlation) could be found between exports and economic growth, "for all countries at all times," the causal relationship cannot be considered conclusive in the absence of sophisticated econometric techniques and modeling. The policy implications are extremely relevant because exports could explain economic growth and development or, to the contrary, economic growth and development could be responsible for export growth.

Yet, at least since the 1980s, several schools of thought—from regulation theory to structuralism and newer neoclassical approaches such as the new growth and new trade theories—have reached a basic consensus that goes far beyond export-oriented industrialization and liberalization. From the perspective of these schools of thought, development and economic growth can only be achieved based on territorial endogenous growth conditions, in the context of globalization. There are important differences in the variables that affect endogenous growth conditions—from human capital to gaps in the current account to differences between productivity and real wage growth—but they all stress that export growth per se is not sufficient for economic sustainability. Furthermore, and as proposed by some proponents of regulation theory, an export orientation not embedded economically and socially might lead not only to socially and economically unsustainable conditions, but also to economic, social, and territorial polarization. Thus, economically "efficient" units might be successful in terms of integration through exports to the world market, yet generate unsustainable social and economic conditions in the medium and long term. High-ranking officials at the World Bank (Stiglitz 1998) have even acknowledged some of these criticisms. Sadly enough, these criticisms come after 20 years of implementing the policies, and yet it is still doubtful that any of them will have a real impact on multilateral agencies' policies.

Independently of this rich conceptual discussion, with vast policy implications, most of the governments and government officials in Latin America (as shown in detail in the Mexican case) have not seriously engaged the criticism, and have, so far, preferred to legitimize their economic policies with rather primitive and outdated theories. The learning process of the Mexican government in the past decade, as well as that of multilateral agencies, particularly of the IMF and the World Bank, has been very slow in the best of the cases.

Chapter 1 argued that liberalization strategy has its theoretical roots in export-oriented industrialization, as developed by authors

such as Balassa, Bhagwati, and Anne Krueger, among others. From this perspective, it is both theoretically and historically wrong to argue that policies in Latin America, and particularly in Mexico, are neoliberal. Neoliberalism, particularly based on the work of such authors as August Friedrich von Hayek and Milton Friedman, whose principles were applied under some dictatorships in South America during the 1960 and 1970s, has no direct connection with the liberalization strategies followed in Latin America since the 1980s. No doubt there are theoretical linkages between neoliberalism and liberalization; however, the concepts, interests, historical context, and policy implications of each are very different.

Thus, arguing against neoliberalism is worse than Don Quixote's tilting at windmills. Don Quixote, at least, had a windmill to fight, but there are no neoliberals to be found. Specifically in the case of Mexico, no Mexican government since 1988 would describe itself as neoliberal. Even former president Salinas de Gortari, rather cynically recently presented his own alternatives to neoliberalism. In this context, the differentiation between liberalization and neoliberalism is of critical importance for discussing future alternatives. The critique that mentions the "perfect Latin American antineoliberal idiot" has to be taken seriously, and clearly this stereotype does not only refer to Latin Americans. Without such a critique, discussions of alternatives are difficult or even impossible.

Chapter 2 discussed the origins, arguments, and effects of liberalization in Mexico since 1988. This discussion, in the context of the earlier theoretical debate, is relevant because it follows very strictly liberalization's arguments and their effects.

This text has highlighted the social and political trends and events that have led to liberalization in Mexico. The crisis of the corporatist structures after the 1960s, reflected in the rise of business that was not formally integrated into PRI and the respective governments partly explains the quick rise of liberalization since 1988. Liberalization was further promoted by the decline of labor, particularly after the 1980s when corporatist leaders decided to accept practically all economic, social, and political changes in exchange for being able to hang on to their economic, political, and social status. Moreover, the legacy of presidentialism and authoritarian political structures in PRI and the government, in which PRI maintained a relative and absolute majority in all relevant chambers until 1997, is of utmost importance in understanding the rapid and relatively undiscussed proposal of liberalization and its imposition in 1988, including important legal, economic, and institutional changes that have deeply affected the Mexican economy and society. Finally, the rise of export-oriented industrialization and economists in key government posts was also parallel to and significant for understanding the genesis of liberalization. Such issues, as analyzed in Chapters 2 and 6, are meaningful since they explain the relatively stable political and social conditions in Mexico since the 1980s, and particularly since the adoption of liberalization, in spite of the dramatic deterioration of income distribution and a decline in real wages and overall living standards. The ongoing cooperation of corporatist leaders, with important exceptions and oscillations (see Chapter 6), is different from the situation in some other Latin American nations, since more federalist political structures like those in Brazil, for example, have not allowed such a quick imposition of liberalization. Thus, the crisis of corporatist structures and the rise of new political and social actors, including business, is not only relevant for the development and future of liberalization, but also for the search for more democratic political alternatives in the future.

Other issues are significant in this respect. On the one hand, liberalization in Mexico, as in most Latin American countries, arose as a response to the crisis of ISI and resulting political and social unrest. On the other hand, although ISI is considered an "anti-Christ" by most governments that have embraced liberalization based on export-oriented industrialization, it is critical to evaluate the era of the ISI. In spite of multiple economic and political limitations, discussed in Chapter 2, ISI did result in significant employment generation and a tendency to improve the income distribution in Mexico. Added to this, GDP and GDP per capita rose. Import-substituting industrialization generated an industrial structure that would later serve as the basis for liberalization. Sectors such as automobiles, electronics, and maquiladoras, among others, were developed under ISI.

This last point is relevant because it is not possible to argue that the apparent economic success of liberalization in specific branches is "only" a result of the policies since the 1980s, but rather that the process of import-substitution laid the foundation for this new industrialization. Cases such as the automobile industry in Mexico, among others, with multiple efforts, resources, decrees, and instruments, are very persuasive in this sense.

Another important issue highlighted refers to the cause of the crisis of ISI. As stressed in detail in Chapter 2, the private manufacturing sector in particular proved unable to respond to import-substitution expectations. The "peaceful coexistence" between TNCs and the private manufacturing sector resulted in an industrial organization with an increasing trade balance deficit in the private sector that could not be financed by the rest of Mexico's economy during the 1970s, erupting in the crisis of 1982.

Interestingly, and as under ISI, liberalization since 1988 has also supported the private manufacturing sector, based on its export-led growth, expecting this sector to push the rest of the economy. Liberalization has been relatively successful *in its own terms*. Since 1988—and keeping aside the crisis of 1994–1995—macroeconomic stabilization has been impressive. Moreover, Mexico's economy has been dramatically transformed, and a rather small segment of Mexico's economy has been able to integrate itself successfully into global markets. In the Mexican case these branches and firms have performed outstandingly in terms of GDP growth, productivity, and exports, as well as in the attraction of foreign direct investments.

The branches and firms of this small segment, since the 1990s and before NAFTA, have been able to generate a North American industrial organization and network in such sectors as automobiles, auto parts, electronics, telecommunications, maquiladoras, and pharmaceuticals. Based on the firms' strategies, their networks are fully globalized. Globalization in the Mexican case means, however, that Mexico's economy has been increasingly functional for the strategies of U.S. firms to confront Asian competition. Liberalization's priorities, such as macroeconomic stability, import and FDI liberalization, and property ownership laws, have been of critical importance for permitting the establishment of such firms' activities in Mexico. However, and as described in most of the cases, their activities were triggered before NAFTA.

As has been discussed for some industries, sectors, and regions specifically, the integration of a small segment of Mexico's economy into global markets, or more specifically into the U.S. economy, has generated a rather paradoxical result: Mexico has specialized in capital-intensive activities for the rest of Mexico's economy, while the same processes and services represent the lower end of the value-added chain globally. This is specifically the case for such export-led growth activities as the automobile, electronics, and even parts of the maquila sectors.

From this perspective, it is not possible to argue that liberalization in Mexico has been a failure. On the contrary, and this is continually pointed out by government and multilateral institutions, *in terms of their own concepts, visions, and expectations* liberalization looks promising. International recognition supports this positive attitude toward liberalization. However, added to a strict conceptual and policy review of liberalization, it is at least as important to pay attention to critiques and alternative proposals.

The results of of liberalization strategy on Mexico's society and economy are impressive. Keeping in mind that all the information used in this book is from official sources, several general issues stand out. The most relevant issue refers to the increasing polarization of Mexico's economy and society since the adoption of a liberalization strategy in 1988 at the household, firm, branch, sectoral, and regional levels, including both economic and social indicators. From a strict economic perspective, liberalization has resulted in an economic, social, and regional disintegration in which relatively few firms—around 300 plus maquila activities—have pushed the export orientation of Mexico's economy. These firms represent only 0.12 percent of Mexico's 3.1 million firms in 1998.

Probably the most relevant trend since 1988 refers to the issue that not only manufacturing in general but also the most dynamic branches of manufacturing have tended to deepen net imports since 1988 to allow for GDP and export growth. This topic is important macroeconomically because the trade deficit has to be financed by other sectors of Mexico's economy: specifically since 1988 the trade deficit has been financed through foreign investments, which has resulted in an increasing dependence on rather volatile international financial markets and uncertain strategies of firms.

However, and as examined in detail in Chapters 4, 5, and 7 for manufacturing in general as well as for specific industries, a perverse industrial organization has evolved since 1988 in which the activities of Mexico's most dynamic branches, firms, and regions have increasingly lost value-added linkages with the rest of Mexico's economy. As covered in discussing the electronics and pharmaceuticals industries, and manufacturing in general, initial EOI has given way to an import-oriented industrialization, also as a result of the macroeconomic disincentives.

The latter trends show, surprisingly, similar economic unsustainability patterns for import-substitution and export-oriented industrialization. In both cases, it is the private manufacturing sector that lacks territorial endogenous growth conditions. Nevertheless, the high degree of this economic, social, and regional disintegration is

new since 1988. In the case of industrial organization, detailed sectoral- and branch-level descriptions reflect the "rationality" of the respective firms. While dynamic and export-oriented sectors do not find national suppliers (with some exceptions), potential domestic suppliers have a huge quality and technological gap to overcome. Given overall economic and political uncertainty, macroeconomic disincentives, and uncertainty about the specific interfirm relationships, most domestic firms do not have the options to close this gap to integrate with the existing and emerging global commodity chains and networks. Horizontal industrial policies, based on liberalization's assumptions, are not only conceptually primitive but also far behind the challenges that face most of Mexico's manufacturing firms.

The former issues are of utmost importance for development theory in general, and specifically for economic theory. Economic theory's preponderant approaches, particularly in neoclassical theory, assume that relative and international prices are the main signal for consumers and producers to allocate resources efficiently. The multiple market imperfections analyzed by neoclassical authors, analysis of Mexico's industrial and trade structure, and branch- and firm-level analysis show that prices, in the best of cases, are only one more variable to understand firm-level activity and decisions. Overall infrastructure, proximity to markets and to "factors of production," skilled labor, firm strategies affecting investments and trade (intra- and interindustry), and particularly the quality, just-in-time delivery, and overall certainty of a long-term interfirm relationship are at least as important as price signals and macroeconomic stabilization. Theoretical and policy implications for economic theory and policy are devastating, given the inflation-obsession of liberalization.

Chapter 6 evaluates in detail the social impact of liberalization. Although such general social indicators as life expectancy and infant mortality have improved, others have maintained their levels or worsened since 1988. Income distribution has worsened in relative terms since 1984. New income distribution patterns have particularly benefited the richest deciles of Mexico's economy: their share of total income increased from 49.50 percent of total income in 1984 to 53.70 percent in 1996. Moreover, in absolute terms, in 1996 more people live in extreme poverty and poverty than in 1984 and 1988. Added to this trend, the absolute amount of households under total poverty in 1996 (i.e., the sum of extreme poverty and poverty) is impressive: 73.32 percent of all Mexican households.

At least as important is the fact that employment generation during 1988–1996 was dominated by branches with little weight in Mexico's trade, and with lower productivity and real wage levels than the rest of the economy. Thus, significant employment generating branches are not the export-oriented sectors and firms; in other words, the most dynamic firms in terms of exports and GDP generate little employment in terms of Mexico's social requirements. Worsening income distribution, especially for the lowest deciles, is from this perspective linked to low-quality employment generation and the dramatic fall of overall real and minimum wages. From this perspective, the 1990s have been at least as bad, or even worse, than the "lost decade" of the 1980s.

Finally, Chapter 7 elucidates some of the new challenges that have emerged from recent globalization tendencies. Globalization, defined as a historical trend that emerged in the 1980s and included flexible production and global commodity chains, has significantly affected Mexico's society and economy. Not surprisingly, in the context of liberalization, globalization has increased regional polarization in Mexico since 1988. Although these issues will have to be analyzed much more in depth and with better regional information, GDP and GDP per capita indicators reveal regional divergence patterns since 1988. Northern regions, and particularly the traditional economic and political centers of Mexico, especially the Distrito Federal, have substantially regained their weight in Mexico's economy since 1988.

The discussions in Chapter 7 also highlight the increasing challenges that have emerged from globalization for the nation-state. In the context of globalization and the overall opening of economies, globalization generates, simultaneously, local and regional effects. The relationship between the centralist nation-state and local and regional institutions has been increasingly chaotic, overlapping, and, in some cases, openly in conflict. Moreover, it is more difficult, if not impossible, for local, regional, and even national institutions to affect and promote global strategies of firms. The latter relationship will be of critical importance for defining Mexico's social and economic future.

These issues attempt to reanimate the discussion of alternatives to liberalization, the apparent end of history, and the irreversibility and lack of alternatives to globalization. Much of the terms of the discussion are permeated by a lack of conceptual clarity. Moreover, there are no formulas transcending time and space to counter liberalization and globalization.

Nevertheless, Mexico's experience allows for important lessons. Liberalization's priorities can easily be criticized and questioned on their coherence and economic and social relevance. What are the main economic and social variables for a nation such as Mexico? Inflation, fiscal deficit, and the attraction of foreign investment or the generation of sustainable growth conditions, employment, real wage recovery, investment, and an overall social and economic integration to globalization? Is it justifiable—theoretically, economically, and politically—in terms of the fiscal deficit that no additional resources can be found for industrial, social, and educational expenditures, while generously rescuing the financial sector? And, what if, *in terms of liberalization*, "the operation was successful, but the patient died"? Are there any responsible theories, government officials, and other persons at all? Clearly, questioning these priorities in terms of recent social and political developments is at the center of this discussion. By no means can it be assumed that liberalization has the unique, or even coherent, response.

From this perspective, the nation-state will not only have to rethink its political and economic foundations and functions, as a result of globalization and regionalization,[1] but also set new economic and political priorities. Liberalization lacks territorial endogenous growth conditions, thus reflecting unsustainable macroeconomic conditions and increasingly depending on foreign investments and exports. Domestic and external constraints for future macroeconomic policymaking—including the economic and political power of firms and classes that have benefited since 1988, the relationship with the United States particularly through NAFTA, the performance of the U.S. economy, and particularly the economic legacy of liberalization—will be massive, but future policies and alternatives will have to face the new challenges of Mexico's economy since liberalization. The generation of endogenous growth conditions from a macroeconomic perspective will have to reconsider some of the decisions made at least 10 years ago, including the bailout of the banking system, which will have significant costs for Mexico's society for the next decades, as well as the renegotiations of trade and foreign debt agreements. Seen this way, the macroeconomic challenge is to allow an increasing economic domestic activity, particularly generating linkages between export-oriented activities with the rest of the economy, and not excluding and discouraging the integration process in North America and the rest of the world. However, the increasing polarization and exclusion of the majority of Mexico's population, households, firms, and regions will also significantly shape macroeconomic policymaking in Mexico, as the social and armed uprising in Chiapas has demonstrated since 1994. The macroeconomic and social sustainability of Mexico, in the long run, has to go far beyond the goals of liberalization.

More specifically, the book proposes that alternatives to liberalization have to be considered for Mexico and other Latin American nations. In the future, it is not possible to continue dismissing such variables as employment, real wages, industrial organization, economic integration, and overall value-added linkages for future development. In this respect, any future development strategy has to include increasing or creating local, regional, and national endogenous growth conditions.

All the latter issues will no doubt have costs and an impact on government's expenditures, which is anathema for liberalization. Moreover, and given the massive polarization since 1988, it is difficult, if not impossible, to imagine that any government could implement economic and social policies, given the massive challenges that have emerged since liberalization, including the high concentration of private and export-led dynamic economic activities, an estimated 67.8 million inhabitants living in poverty, and more than 6.5 million persons who have not found a place in the formal job market during 1988–1996. The topics analyzed will not improve in the near future, given the overall general conditions and incentives of the economy and the industrial organization that has prevailed since 1988. On the contrary, if the U.S. economy begins to slow down or even goes into a recession after its longest growth period since World War II, Mexican exports would be severely affected, particularly intrafirm and maquila activities, thus having an impact on the most significant and almost only source of growth for the Mexican economy since liberalization.

However, what are the alternatives to liberalization in Mexico at the beginning of the twenty-first century? First, a serious theoretical, economic, social, and political discussion of liberalization has to take place. Given the enormous challenges that have emerged in Mexico as a result of liberalization, different single policies can do little under these circumstances. Thus, even if the government would be willing to significantly increase resources for industrial and social policy, for example, little could be done if liberalization continues unchanged, with relatively high real interest rates, continuing a tendency to overvalue the real exchange rate, incentives to favor

imports over exports, nonintegration of an important part of EAP into the formal job market, and falling real wages. The pillars of liberalization have to be reconsidered. Any such discussion will face important opposition because certain economic and political sectors have benefited substantially from liberalization and will be strongly against any change.[2]

This latter issue brings us back to Mexico's current political structures. Aside from the existing presidentialism and vertical political decisionmaking process in Mexico, one of the most relevant tasks for Mexico's society and economy is to maintain and generate long-term institutions at the local, regional, and national level. Given the legacy of presidentialism and authoritarian political structures of the past decades that controlled civil society (Bizberg 1990), there is a complete lack of representative and functioning institutions at the meso-level.[3] Thus, Mexico's society and economy face an initial challenge that goes far beyond any economic issue: the creation of government, private, and nongovernment institutions that represent Mexico's society at all levels. In the context of a lean but also "anemic" state, and given the legacy of authoritarian and vertical political and social structures, few parties, unions, business chambers, social movements, or nongovernment institutions have been able to increase representativity and accountability in assuming a more active role in economic, social, and political development. This issue is of utmost relevance because these institutions will be the ones to support and implement future development alternatives.

In general, a future development strategy in Mexico will have to focus on generating territorial endogenous growth conditions to reverse the overall economic and social polarization that results in economic and social unsustainability. Given the impact of liberalization since 1988, a new development strategy will have to center on the economic and social integration of households, firms, sectors, branches, and regions in Mexico—that is, linking the export-led growth firms, branches, sectors, and regions with the majority of Mexico's territory. Such a vision does not represent a magic formula for development and success, but it is absolutely necessary for any kind of policy implementation. Added to the existing and increasing local and regional social and economic disparities, the specificity of the automobile, electronics, and pharmaceutical industries in Aguascalientes, Jalisco, and Mexico City are too deep to allow for one national industrial policy, for example. The same applies, however, to such issues as education, poverty, and technological development. Moreover, according to the current theoretical consensus reached among several different schools of thought, as well as to policy experiences internationally, a local and regional vision of development is a necessary but not sufficient condition for generating long-term and sustainable social and economic development conditions. Finally, in this line of thought, it is important that localities and regions propose and develop their own strategies: a territorial vision and perspective of development does not necessarily correspond with a "decentralization" process in which the economic and political center allocates resources to regions according to the center's economic and political interests. The proposed territorial decisionmaking process is embedded in economy and society, and has vast implications for the political structures, particularly in a country such as Mexico with its centralist and authoritarian structures.

Alternative economic development policies, and specifically those for Mexico, will have to emphasize endogenous growth conditions and "rediscover" the domestic market, while not excluding the performance of export-led growth activities. The basis for such alternatives implies that neither inflation nor the attraction of foreign investment can continue as the main pillars of a development strategy, neither from a macroeconomic nor a microeconomic perspective. Moreover, some of the instruments and mechanisms proposed will definitively have costs and impact on the fiscal deficit. Most important, it is not a matter of either returning to ISI or maintaining liberalization. It is historically not possible to return to ISI, but neither is it socially or economically sustainable to continue with liberalization. New forms to counter polarization and the specific challenges of Mexico's society and economy will have to be found and developed.

A final general issue refers to the need to implement long-term institutions and mechanisms that include a variety of elements such as education, technological development, administrative support, qualification of labor and business, and, particularly significant for the Mexican case, financial instruments and credits. The latter are of utmost importance since, at least in the medium term, it is not expected that Mexico's banking and financial institutions will be able to channel credits sufficiently and efficiently to the economy, particularly to the micro, small, and medium firms oriented toward the domestic market. As already discussed in detail, the creation of new institutions and/or support of already existing ones carry costs that, at least initially, will have to be financed with public and/or private funds. The political discussion and the consensus-seeking

process on the priorities of a development strategy—either spending on the socialization of losses from the financial and banking sector or on micro, small, and medium enterprises, social policy, and employment generation—is essential for such developing vision of a new development strategy.

The recovery of the domestic market requires the development of instruments and policies oriented to practically all firms, excluding the approximately 3,500 big and export-oriented firms in Mexico. Several issues are relevant in this respect. For instance, Mexico needs to create and strengthen value-added commodity chains, particularly those incorporating the micro, small, and medium firms, which have been the main losers to liberalization. Institutions specifically dedicated to this segment, including productivity, technological, and administrative support in their activities, are required. The development of local and regional agencies, private and public, preponderantly dedicated to the support and creation of subcontracting mechanisms is one of the keys for endogeneity in the long run.

These latter priorities are the basis for positive effects on GDP growth and learning processes, particularly at the local and regional level. Increasing value-added linkages and subcontracting forms with firms established in Mexico can have a tremendous positive impact on localities and regions as well as on macroeconomics. Just doubling the domestic value-added in activities such as maquila (with around 2 percent of all Mexican value-added on average) would have important employment and learning effects, for example. However, most of the export-oriented firms have a low and decreasing domestic value-added; so, strengthening value-added linkages and subcontracting forms go far beyond the maquila sector. The analyses of the electronics industry in Jalisco and the pharmaceutical industry in Mexico City reflect, for example, an enormous learning and employment potential that has not been used or has even been lost during the last decade. Thus, the recovery of the domestic economy could be the basis for enormous employment generation, the rise of real wages, and the integration of Mexico's economy with higher value-added global commodity chains. These last issues, as discussed in detail, run strictly against liberalization's EOI, overall horizontal policies, and a lean and anemic state.

Even if these alternatives would be implemented coherently, with continual evaluations and strict accountability mechanisms, Mexico's social and regional polarization will not be solved in the medium run, given the dimensions of challenges in regional disparities, income distribution, and employment polarization and gaps. A local and regional policy to promote micro, small, and medium firms can be significant. However, important fiscal resources will have to be channeled increasingly to infrastructure, education, and the fight against widespread extreme poverty and poverty. As the Mexican case shows, extreme poverty and poverty are not "individual" problems that can be solved by a "focus policy"; they affect the majority of Mexico's population. Liberalization has polarized and systematically excluded the vast majority of Mexico's population from the few benefits of the strategy and of globalization, all of which brings us back to the issue of completely rethinking the priorities of the current development strategy. More participative local and regional institutions and movements will play a key role in demanding resources and mechanisms that are relevant for their communities and territories. This also runs against the current centralist and technocratic decisionmaking process in social policy, as exemplified by PROGRESA.

It is not difficult to imagine that further economic and social polarization will be accompanied by regional polarization. Are there any economic, social, political, or even ethical limits? After the disastrous effects of the first generation of reforms, will a second generation reverse them or, more probably, deepen them? How much further can social and labor market "flexibilization" go, as proposed by multilateral agencies? How much wider can the gaps between Mexico's north and south stretch? It is no surprise that social turmoil and even guerrilla movements have arisen during the 1990s in the poorest regions of Mexico.

Otherwise, let us imagine a Mexico with increasing GDP and exports, segments of Mexico's economy linked to global commodity chains with state-of-the-art factories, stable inflation rates, and huge foreign investments, but with little or no impact on the majority of Mexico's firms and regions, with falling real wages and employment, and a worsening income distribution. Such an economic, social and political scenario, the continuation of polarization, should worry not only Mexico but neighboring nations such as the United States.

Notes

1. This particular discussion goes beyond the scope of the book. Nevertheless, both the experiences of the increasing regionalization of the European Union in decisionmaking processes at social, political, and economic levels and the current economic, political, and economic disintegration of the ex-Soviet Union are different extremes of facing globalization.

2. One of many striking examples of this massive and doctrinaire view against any social and economic change is the, so far preliminary, rejection by government officials of the proposed Law to Develop the Micro, Small and Medium Industries, unveiled on October 12, 1999. The main business chamber in Mexico, Confederación de Cámaras Industriales de la República Mexicana (National Confederation of Microindustries of the Republic of Mexico) proposed this text after more than a year of consensus-seeking negotiations among businessmen and leaders, as well as with high-level and experienced researchers and former government officials. Nevertheless, and in spite of the general consensus among Mexico's society, parties, and business in favor of this segment of firms, SECOFI's secretary rejected the law outright as a proposal to return to the old and inefficient ISI-style industrial policy—without any further argument. Under these circumstances, and given the existing vertical and authoritarian political structures, the case has apparently been dismissed by the federal executive power, without any further discussion. At the end of 1999, it is not possible to foresee whether this law will even be presented to the relevant legislative institutions.

3. For authors such as Messner (1995), mid-level institutions are those local and regional institutions intermediate between the macro and micro levels (i.e., between national and firm- and household-level institutions). These public or private institutions allow for a communications and consensus-seeking process among local and regional actors.