

THE MEXICO-U.S. BUSINESS COMMITTEE AND THE FOUNDATIONS OF THE
NORTH AMERICAN FREE TRADE AGREEMENT

by

Brian R. Brown, B.A., M.Ed.

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Committee Members:

Paul Hart, Chair

Anadelia A. Romo

José Carlos de la Puente

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LIST OF ABBREVIATIONS

Abbreviation	Description
AFL-CIO -	American Federation of Labor and Congress of Industrial Organizations
AMCHAM -	American Chamber of Commerce in Mexico
ASARCO -	American Smelting and Refining Company
Capital/Debt Team -	U.S. Council of the Mexico-U.S. Business Committee Task Team on Capital and Long-Term Debt
Capital/Flow Team -	U.S. Council of the Mexico-U.S. Business Committee Task Team on Capital Formation and Flow
Capital Advisory Group -	Advisory Group on Capital Development of Mexico
CCE -	Comité Coordinador Empresarial
CEDI -	Certificado de Devolución de Impuestos
CEMAI -	Consejo Empresarial Mexicano para Asuntos Internacionales
CEMAI-US -	U.S. Sector of Consejo Empresarial Mexicano para Asuntos Internacionales
GATT -	The General Agreement on Tariffs and Trade
GDP -	Gross Domestic Product
GSP -	Generalized System of Preferences
IMF -	International Monetary Fund

MUSBC -	Mexico-U.S. Business Committee
NAFTA -	North American Free Trade Agreement
PAN -	Partido Acción Nacional
PIRE -	Programma Inmediato de Reordenación Económica
PROFIEX -	Programa de Fomento Integral de las Exportaciones
PRI -	Partido Revolucionario Institucional
Trade Subcommittee -	Trade Subcommittee of the U.S. Council of the Mexico-U.S. Business Committee
Trade/Investment Team -	U.S. Council of the Mexico-U.S. Business Committee Task Team on Trade and Investment
UNAM -	Universidad Nacional Autónoma de México
U.S. -	The United States of America
U.S. Council -	U.S. Council of the Mexico-U.S. Business Committee
USTR -	United States Trade Representative

CHAPTER I

INTRODUCTION AND HISTORIOGRAPHY

Mexican President Sebastián Lerdo de Tejada (1872-1876) advocated direct foreign investment as a means to stimulate Mexican economic development. He was cautious in attracting foreign trade and investment, though, fearing undue foreign influence over Mexico's economy. Porfirio Díaz, who overthrew Lerdo in 1876, did not share Lerdo's reservations. During the thirty-four year Díaz regime, commonly referred to as the Porfiriato, foreign trade and direct foreign investment underpinned the Mexican economy. American businesses accounted for the majority of foreign economic activity in Mexico, and in the final years of the Porfiriato, investors and corporations from the United States of America (U.S.) controlled 81 percent of Mexico's mining capital, 43 percent of Mexico's agricultural capital and over 40 percent of Mexico's petroleum capital.¹

A popular revolution overthrew Díaz in 1911. Francisco I. Madero, the scion of a Mexican family with prominent interests in cattle, agriculture and mining, was the ideological leader of this revolution. Under the Díaz regime, the Maderos "found their mining, industrial, banking, guayule rubber, and agricultural enterprises in direct competition with foreigners who enjoyed vastly greater economic strength."² Francisco Madero expressed "hostility toward American attempts at monopoly," and his experiences mirrored the fortunes of many of Mexico's indigenous business elites. The

¹ John Mason Hart, *Revolutionary Mexico: The Coming and Process of the Mexican Revolution*, 10th anniversary ed. (Berkeley: University of California Press, 1997), 142, 159-160; Friedrich Katz, *The Secret War in Mexico: Europe, the United States, and the Mexican Revolution* (Chicago: University of Chicago Press, 1981), 161.

² Hart, *Revolutionary Mexico*, 96.

political advantages foreign investors and corporations gained at the expense of Mexican elites during the Díaz government were a major source of contention; Díaz did not include the Madero family, “the wealthiest and most powerful family in Mexico’s northeast region” into his political system.³ Madero’s resentments over the exclusionary nature of the Díaz dictatorship fueled his desire to challenge the dictatorship and led him to pen the Plan de San Luis Potosi that called for Mexicans to rebel against Díaz. *Regeneración*, the official newspaper of Madero’s Partido Liberal Mexicano, best captured this antipathy toward foreign investment with its call of “Mexico for the Mexicans!”⁴ The Mexican Revolution was, in part, a rejection of undue foreign influence and a call for greater domestic control of the country’s resources and destiny.⁵

The Mexican Revolution resulted in a period of political, social, and economic upheaval that lasted into the 1930s. The Administration of Mexican President Lázaro Cárdenas (1934-1940) attempted to realize the promises of the 1917 Mexican Constitution. In 1936, Cárdenas created the Expropriation Law, inspired by Article 27 of the constitution which reasserted Mexico’s claim to its lands and resources. The Expropriation Law provided the mechanism used to nationalize large tracts of agricultural lands and claim Mexico’s vast oil reserves from foreign interests.⁶ Over 3,000 Americans with financial interests in Mexico sought the aid of the American embassy and the U.S. State Department and filed claims with the U.S.-Mexico Claims Commission in hopes of recouping their losses. The U.S. Government did little to help

³ Hart, *Revolutionary Mexico*, 17, 33.

⁴ John Mason Hart, *Empire and Revolution: The Americans in Mexico since the Civil War* (Berkeley, CA: University of California Press, 2002), 272.

⁵ Hart, *Revolutionary Mexico*, 18.

⁶ Alan Knight, "Cárdenas and Echeverría Compared," in *Populism in Twentieth Century Mexico: The Presidencies of Lázaro Cárdenas and Luis Echeverría*, ed. Amelia M. Kiddle and María L. O Muñoz (Tucson: University of Arizona Press, 2010), 27.

recover fiscal losses due to fears of alienating Mexico during World War II. During the war, the U.S. relied on Mexico to secure its southern border, provide essential raw materials, and supply laborers for American agriculture.

In the three decades that followed World War II, Mexico established a mixed economy that included protections for domestic agriculture and industry. Mexico's economic growth during that time was due in part to the nation's petroleum profits which, importantly, insulated Mexico from reliance on foreign investment in the post-war period. Mexico enjoyed "sustained growth, low inflation, a stable exchange rate, and modest, manageable government deficits."⁷ The Mexican government instituted a policy called "import substitution industrialization" or ISI, a policy developed in the late 1940s that encouraged domestic production of industrial goods that had hitherto been imported by Mexican consumers. Under this system, the Mexican government took an active role in the nation's economy by creating state-owned corporations and fostering corporations jointly owned by the state and private individuals. This practice allowed the Mexican government to maintain sufficient employment levels through the adoption of labor-intensive production methods, and supported the creation of state-owned firms, such as hospitals, that served needed social functions.⁸ This system also helped the government stimulate private investment in specific industrial sectors.⁹ ISI, however, was not without its shortcomings, as Mexico's protected domestic market led to industrial inefficiencies and lack of competitiveness, so in 1971 Mexico adopted export subsidies as a part of a "new economic policy then concentrated on broadening the domestic market and

⁷ Knight, "Cárdenas and Echeverría Compared," 22.

⁸ James M. Cypher and Raúl Delgado Wise, *Mexico's Economic Dilemma: The Developmental Failure of Neoliberalism: A Contemporary Case Study of the Globalization Process* (Lanham, MD: Rowman & Littlefield Publishers, 2011), 34.

⁹ Cypher and Delgado Wise, *Mexico's Economic Dilemma*, 34.

deepening ISI.”¹⁰ These reforms were intended to help Mexican exports compete in international markets dominated by foreign firms with more robust manufacturing capacities. State-led economic development and export subsidies were an important element of the import substitution industrialization model. What American financiers found most troubling about ISI was its emphasis on “selective, conditioned, and minimal reliance on direct foreign investment” outlined in the 1973 Law to Promote Mexican Investment and Regulate Foreign Investment.¹¹ American corporations saw the potential for profit in the Mexican economy and were eager to enter that market and establish themselves with the growing number of middle-class consumers in Mexico, while American financial institutions were anxious to invest in Mexican corporations. To get that access, Americans would have to convince the Mexican government to alter its policy on foreign investment.

In the early 1980s a series of economic downturns led many in Mexico to call for the reevaluation of the ISI model. Mexico’s economic troubles resulted from decades of financing new infrastructure by incurring debt, a practice common among Mexico’s public and private sectors. From the 1960s to the 1970s, Mexico’s combined public- and private sector debt increased dramatically from \$2.3 billion to \$87 billion.¹² The debt was not directly related to ISI policies however. Instead, it came about as a result of dramatic increases in government spending that were based on heavy foreign borrowing, using the nation’s petroleum reserves as collateral to secure the loans. By 1981, Mexico’s foreign debt was so substantial that the nation had to incur additional debt just to service interest

¹⁰ David R. Mares, "Explaining Choice of Development Strategies: Suggestions from Mexico, 1970-1982," *International Organization* 39, no. 4 (Autumn 1985): 680.

¹¹ Cypher and Delgado Wise, *Mexico's Economic Dilemma*, 33.

¹² John M. Hart, *Empire and Revolution*, 433.

payments on its existing loans.¹³ A collapse of the petroleum market in 1982 saw the average price of Mexican oil drop from \$33.2 a barrel in 1981 to \$28.7 per barrel in 1982.¹⁴ Mexico exported 400,000 fewer barrels than had been projected for 1982, forcing Mexico to revise its projected earnings for 1982 from \$27 billion to less than \$13 billion. Meanwhile, Mexico's debt soared to \$70 billion.¹⁵ The Mexican *peso* was devalued three times in 1982, dropping from a value of 26 to \$1 in February to 150 to \$1 in December.¹⁶ Despite securing \$7 billion in emergency loans, President José López Portillo nationalized Mexico's banks in September of 1982 to curtail unprecedented rates of capital flight as Mexicans who could do so transferred money to more secure havens abroad. The bank expropriations outraged Mexico's private sector. A Monterrey bank executive, who wished to remain anonymous, argued that he and others in the private sector "have lost our freedom," and that Portillo "could have put the same restrictions on banks without nationalizing them," for this executive, Portillo "just wanted someone else to take the blame for the country's problems."¹⁷ López Portillo's successor, Miguel de la Madrid Hurtado, had to restore the Mexican economy and the faith of the nation's private sector when he took office in the fall of 1982.

The 1982 debt crisis coincided with calls from the U.S. executive branch and elements within the U.S. business community for the liberalization of trade relations between the U.S and Mexico. These demands had serious implications for Mexico and

¹³ Cypher and Delgado Wise, *Mexico's Economic Dilemma*, 31.

¹⁴ Nora Lustig, *Mexico: The Remaking of an Economy*, 2nd ed. (Washington, DC: Brookings Institution Press, 1998), 32-33.

¹⁵ Douglas Martins, "Mexico's Elusive Oil Boom: Glut Sharply Curbs Revenues," *New York Times* (New York, NY), May 13, 1982, D1.

¹⁶ "Peso Falls to All-Time Low of 150 per \$1," *Chicago Tribune* (Chicago, IL), December 21, 1982, 10.

¹⁷ Lydia Chavez, "Monterrey Executives Angry," *New York Times* (New York, NY), September 14, 1982, D1.

its people. To maximize their opportunities in Mexico, American firms seeking to invest in Mexico made every effort to ensure Mexico's long-term political and economic stability. Well aware of the expropriation of foreign assets in the 1930s, American capital sought formal legal mechanisms through which U.S. corporations could seek redress in an attempt to ensure they would not fall victim to any future stirrings of Mexican nationalism. In 1982, the Mexico-U.S. Business Committee (MUSBC) headed by Rodman C. Rockefeller and Enrique Madero Bracho formed a strategic alliance between American and Mexican business leaders, combining the efforts of members including Agustín F. Legorreta CEO of Banco Nacional de México, and Charles F. Barber CEO of American Smelting and Refining Company, to eliminate the barriers inhibiting trade and free investment between the United States and Mexico and, in doing so, played an essential role in integrating the Mexican and U.S. economies through the eventual signing of the North American Free Trade agreement in 1992 and its implementation in 1994.

In 1981, President Ronald Reagan made the reduction of "trade barriers" a cornerstone of U.S. economic and foreign policy. Speaking before a group of Senators in July of 1981, United States Trade Representative (USTR) William Brock revealed the extent of Reagan's agenda when he asserted that protection of open markets, both foreign and domestic, was a fundamental prerequisite of a robust U.S. economy. Couched in the rhetoric of domestic job creation and consumer choice, Brock insisted that the U.S. would challenge "trade distorting interventions by government," and "strongly resist protectionist pressures."¹⁸ Reagan intended to hold foreign governments accountable to

¹⁸ "Opening Statement of Ambassador William E. Brock United States Trade Representative Before a Joint Oversight Hearing of the Senate Committee on Finance and the Senate Committee on

all international trade agreements to which they and the U.S. were party. The U.S. government would renegotiate trade policies deemed unfavorable. This new vigor, it was said, would allow American citizens and corporations to reap the benefits of open markets.¹⁹ These policies, however, were designed to advance specific American interests, and they had a profound influence on Mexico and its citizens.

American insistence on trade liberalization in the 1980s came at a time when the Mexican economy was unusually vulnerable, as 1981 marked the first stages of a Mexican economic downturn that resulted in the collapse of the Mexican economy in 1982. Mexico's mixed economy was also under assault from domestic interests. Mexico's most powerful corporations called for "a reduction in the state sector and a total rejection of the state-led economic policy that had defined Mexico since the day of President Cárdenas."²⁰ Deeply in debt and desperate for capital, Mexico accepted extensive emergency loans from the IMF, the World Bank, and the U.S. government, and secured large loans from private banks in the U.S. and abroad.²¹ However these loans came with demands from the IMF for the Mexican government to institute a series of policy changes that included the deregulation of the Mexican economy, the privatization of Mexico's state-owned corporations, the reduction of trade barriers, and the reduction of government spending on social programs and subsidies. The Reagan administration supported demands made by the IMF and attempted to secure an agreement with Mexico that would eliminate the export subsidies provided to Mexican corporations in February

Banking, Housing, and Urban Affairs on U.S. Trade Policy," July 8, 1981, Folder 1, Box 7, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

¹⁹ "Opening Statement of Ambassador William E. Brock"

²⁰ Cypher and Delgado Wise, *Mexico's Economic Dilemma*, 32.

²¹ Cypher and Delgado Wise, *Mexico's Economic Dilemma*, 32; Hart, *Empire and Revolution: The Americans*, 433.

of 1982.²²

While the Reagan administration and the IMF called for increased trade liberalization, not all Americans agreed with Reagan's vision. Opposition to economic liberalization united vocal critics of diverse political backgrounds including Republican Patrick Buchanan, businessman H. Ross Perot, and consumer advocate Ralph Nader. Opponents maintained that a commercial agreement that liberalized trade and investment between Mexico and the U.S. would "endanger the sovereignty of the United States," and would result in "U.S. Capital and jobs fleeing to Mexico."²³ U.S. trade unions were outspoken critics of trade liberalization, the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) launched a campaign against policies that would encourage "liberal trade and investment rules" arguing that such measures would "not only weaken the bargaining power of workers in wage negotiations, but also undermine workplace health and safety regulations."²⁴ In 1992, the AFL-CIO "conditioned financial support to several Congressional candidates based on their willingness to oppose NAFTA (the North American Free Trade Agreement)."²⁵ This may have influenced the decision of 57 percent of Congressional Democrats to vote against the ratification of NAFTA in 1993.²⁶

Mexican critics saw trade and investment liberalization as a threat to Mexican

²² William E. Brock to Private Sector Advisors, memorandum, "Bilateral Subsidies Agreement with Mexico," October 21, 1982, Folder 5, Box 7, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX

²³ Gary Clyde Hufbauer and Jeffrey J. Schott, *NAFTA Revisited: Achievements and Challenges* (Washington, DC: Institute for International Economics, 2005), 6.

²⁴ Hufbauer and Schott, *NAFTA Revisited*, 90; Susan W. Liebler, "The Politics of NAFTA," in *Foreign Investment and NAFTA*, ed. Alan M. Rugman (Columbia, S.C.: University of South Carolina Press, 1994), 40.

²⁵ Liebler, "The Politics of NAFTA," in *Foreign Investment and NAFTA*, 40.

²⁶ Hufbauer and Schott, *NAFTA Revisited*, 8.

national sovereignty. Throughout the 1980s, many Mexicans argued that an agreement that liberalized trade and investment represented “dangers to autonomous economic development,” as well as to Mexican national identity.²⁷ Mexican intellectual Jorge G. Castañeda was an outspoken critic of the liberalization of the Mexican economy. In 1993, Castañeda asserted that an agreement that served to liberalize commercial relationships between Mexico and the U.S. represented a significant risk for Mexico, noting, “no nation has ever attempted to develop an export manufacturing base by opening its borders so quickly and indiscriminately to more efficient and lower-cost producers.”²⁸ Concerns regarding the loss of sovereignty also played a critical role in influencing the actions taken by Mexican state officials. During the 1980s policy makers, including Mauricio de María y Campos and Héctor Hernández Cervantes, of the Mexican secretariat of trade and industrial development, advocated a revision of the state-led development model, based in export led growth, rather than “indiscriminate opening to imports and foreign capital.” They believed that modifying ISI offered a better means of revitalizing the Mexican economy while maintaining national sovereignty.²⁹ Any attempt to liberalize the Mexican economy would have to account for vocal critics from Mexico’s intellectual community and from officials in the Mexican government.

Historiography

Political scientists, economists, sociologists, and historians have come to a consensus that the near collapse of the Mexican economy in the early 1980s was the event that initiated a series of economic reforms in Mexico. In just over a decade, the

²⁷ Edgar Ortiz, "NAFTA and Foreign Investment in Mexico," in *Foreign Investment and NAFTA*, ed. Alan M. Rugman (Columbia, S.C.: University of South Carolina Press, 1994), 157.

²⁸ Jorge G. Castañeda, "Can NAFTA Change Mexico," *Foreign Affairs* 72, no. 4 (September 1993): 60, accessed November 20, 2013, EBSCOhost.

²⁹ Cypher and Delgado Wise, *Mexico's Economic Dilemma*, 32.

Mexican government reduced its involvement in the Mexican economy and instituted new policies that liberalized Mexico's trade relationships, privatized the majority of the nation's state-owned corporations (commonly referred to as *paraestatales*) and relaxed restrictions on direct foreign investment. There has been considerable scholarly debate over what influenced the Mexican government's decision to implement reforms designed to liberalize Mexico's trade and investment. Over the past twenty years, scholars have theorized that Mexico's economic reforms were the result of a number of factors ranging from conditions imposed on Mexico by foreign lenders to the Americanization of Mexico's economic profession.

María de los Ángeles Pozas's 1993 *Industrial Restructuring in Mexico: Corporate Adaptation, Technological Innovation, and Changing Patterns of Industrial Relations in Monterrey* was one of the first books to explore Mexico's economic realignment in the 1980s. Pozas maintained that the Mexican government was solely responsible for directing the nation's economic reforms following the nation's 1982 economic crisis. Pozas acknowledged the "undeniable influence of neoliberal discourse in defining Mexico's new development model," but concluded, the Mexican government "holds the reins of change, despite its sale of important *paraestatal* firms and its concessions to the business sector."³⁰ In subsequent years, scholars emphasized the role external lenders played in influencing policy changes adopted by the Mexican government, however scholarship produced before 1998 agreed with Pozas's assertion that the Mexican government was the sole domestic interest responsible for shaping the Mexican economy

³⁰ María de los Angeles Pozas, *Industrial Restructuring in Mexico: Corporate Adaptation, Technological Innovation, and Changing Patterns of Industrial Relations in Monterrey* (La Jolla, CA: Published by the Center for U.S.-Mexican Studies, UCSD in association with El Colegio de la Frontera Norte, 1993), 84.

in the 1980s and 1990s.

Unlike Pozas, Judith Teichman's 1995 *Privatization and Political Change in Mexico* claimed that external pressures such as those imposed by "international lending agencies [the IMF and World Bank] for policy reform" were responsible for influencing Mexico's economic policy changes. However, Teichman argued that after 1986 "Mexico's economic liberalization program acquired its own internal momentum."³¹ Teichman maintained the alliance between Mexico's ruling Partido Revolucionario Institucional (PRI) and labor organizations that had existed since the 1940s disintegrated as the Mexican government was forced to reduce wages and divest itself of state-owned industries. In an effort to maintain its authority, Teichman contended, the Mexican government used privatization programs to attract support from Mexico's business elites, creating a new coalition between the government and the private sector. Teichman believed, "while the initiative for public enterprise restructuring did not come from it business enthusiasm helped propel the [liberalization] program forward once it was under way."³²

"State Policy, Distribution, and Neoliberal Reform in Mexico," published by Manuel Pastor and Carol Wise in 1997, asserted the economic reforms implemented in Mexico during the 1980s and 1990s were undertaken at the direction of the Mexican government. For the authors, the policies implemented by the Mexican government were designed to ensure Mexico's macroeconomic stability and "ameliorate the external debt problem through a reduction of government spending and a large one-time devaluation of

³¹ Judith A. Teichman, *Privatization and Political Change in Mexico* (Pittsburgh: University of Pittsburgh Press, 1995), 95.

³² Teichman, *Privatization and Political Change*, 97.

the peso.”³³ Pastor and Wise reveal that the Mexican government’s policy of economic liberalization saw “the wealthiest 10 percent of Mexicans” increase their share of the nation’s income “from around 34 percent to more than 41 percent,” in ten years. However, the authors did not explore the relationship between the Mexican government and the nation’s private sector or any political motivations for ensuring the PRI retained power.³⁴

Nora Lustig’s 1998 *Mexico: The Remaking of An Economy* argued the Mexican government was responsible for implementing policies designed to open the Mexican economy to foreign trade and investment.³⁵ Lustig also maintained “Economic mismanagement, not the cumulative effect of thirty years of inward-oriented industrialization was the root of the 1982 crisis.”³⁶ *Mexico: The Remaking of An Economy* presaged a new trend in which scholars assigned Mexico’s private sector some agency in shaping Mexico’s economic policy in the 1980s. Lustig outlined the ways in which the private sector influenced policy through investment or capital flight, but did little to suggest that any collaboration existed between the Mexican government and members of the nation’s private sector.

Norman Caulfield’s 1998 *Mexican Workers and the State: From the Porfiriato to NAFTA* contended that the Mexican government’s economic policies in the 1980s were “the beginning of an informal political pact between the private sector and state technocrats,” who had been trained “in the free-market school of economics at major U.S.

³³ Manuel Pastor and Carol Wise, "State Policy, Distribution, and Neoliberal Reform in Mexico," *Journal of Latin American Studies* 29, no. 2 (May 1997): 421, 440.

³⁴ Pastor and Wise, "State Policy, Distribution, and Neoliberal Reform," 426.

³⁵ Lustig, *Mexico: The Remaking of an Economy*, 117, 128.

³⁶ Nora Lustig, *Mexico: The Remaking of an Economy*, 2nd ed. (Washington, DC: Brookings Institution Press, 1998), 3.

universities.”³⁷ Caulfield believed these academic programs “were tied ideologically to multilateral agencies like the IMF and World Bank.”³⁸ For Caulfield, this pact between the state and business interests served to accelerate links between privatization and the growth of non-petroleum exports and caused a “shift toward the right in policies.”³⁹

Unlike earlier scholarship into Mexico’s liberalization, Caulfield’s research indicated that foreign-owned corporations such as RCA, Ford, and General Motors also benefited from Mexico’s economic transition as the Mexican government began to expand low-wage export production, especially in the maquiladora industry.⁴⁰

Ferderick W. Mayer’s *Interpreting NAFTA: The Science and Art of Political Analysis*, published in 1998, indicated that Mexico’s economic reforms were partially due to strategic ties between the Mexican government and prominent Mexican business associations including the Comité Coordinador Empresarial (CCE). Mayer also revealed ties between key members of the Mexican private sector such as Agustín Legoretta, the CEO of Banco Nacional de México, and officials in the Mexican government.⁴¹ Mayer’s work showed that U.S. politicians had attempted to influence Mexico’s economic policy; for example, New Jersey Senator Bill Bradley urged Carlos Salinas de Gortari, a member of the Mexican cabinet at the time, “to consider a free trade agreement with the United States.”⁴² Mayer indicated that the governments of Mexico and the U.S. collaborated on measures designed to open the Mexican economy to foreign trade and investment.

Negotiating NAFTA revealed that, in the 1980s, delegations from both states began

³⁷ Norman Caulfield, *Mexican Workers and the State: From the Porfiriato to NAFTA* (Fort Worth, TX: Texas Christian University Press, 1998), 126.

³⁸ Caulfield, *Mexican Workers and the State*, 126.

³⁹ Caulfield, *Mexican Workers and the State*, 126.

⁴⁰ Caulfield, *Mexican Workers and the State*, 126-127.

⁴¹ Frederick Mayer, *Interpreting NAFTA: The Science and Art of Political Analysis* (New York: Columbia University Press, 1998), 34-35.

⁴² Mayer, *Interpreting NAFTA: The Science*, 37.

“quietly” working on the “groundwork for more extensive trade and investment cooperation.”⁴³ Mayer’s efforts to connect the ties between business organizations, such as the CCE, and the Mexican government marked the beginning of a new scholarly trend that argued that the Mexican private sector enjoyed more influence over Mexico’s economic policy in the late twentieth century than had been previously supposed.

“Strategic Alliances: State-Business Relations in Mexico under Neo-Liberalism and Crisis,” by Remonda Bensabat Kleinberg, and “NAFTA Coalitions and the Political Viability of Neoliberalism in Mexico,” by Strom C. Thacker, both published in 1999, expanded scholarly understandings of the relationship between the Mexican government and the nation’s private sector. Kleinberg argued that the nationalization of Mexico’s banks in 1982 resulted in a “preponderance of radical right wing leadership in CCE and other major business organizations” that sought an “institutional guarantee that private sector interests would not be adversely affected by autonomous state action.” “Strategic Alliances” claimed De la Madrid’s reforms, which were designed to liberalize Mexico’s trade and investment policies, created a rift between organizations representing large corporations and those representing small and medium-sized firms. For Kleinberg, “preponderance was ultimately given to the policy preferences of international lending institutions [the IMF and World Bank] and sectors of business which demanded an accelerated pace towards liberalizing and deregulating the economy [large corporations].”⁴⁴

Thacker’s research also tracked the creation of the political coalition between the Mexican government and large Mexican businesses. Thacker maintained “the

⁴³ Mayer, *Interpreting NAFTA: The Science*, 36.

⁴⁴ Remonda Bensabat Kleinburg, “Strategic Alliances: State-Business Relations in Mexico under Neo-Liberalism and Crisis,” *Bulletin of Latin American Research* 18, no. 1 (January 1999): 74.

consolidation of a free trade coalition between state and big business elites,” though “economically and politically narrow,” assisted in cementing “the neoliberal reform agendas of the governments of Miguel de la Madrid and Carlos Salinas de Gortari.”⁴⁵ Thacker asserts this coalition directed the policymaking bureaucracy of the Mexican government while ensuring the continued success of the PRI, which faced a number of political challenges throughout the 1980s. Thacker’s research emphasized the influence of CCE, which he asserted, “disproportionately favored the concerns of the largest [Mexican] firms.”⁴⁶

Sarah Babb’s 2001 *Managing Mexico: Economists from Nationalism to Neoliberalism* asserted “multilateral and U.S. governmental agencies, such as the World Bank, IMF, and U.S. Treasury were committed to using debt relief as a lever to win market-oriented policy reforms” in “Mexico and other debtor nations.”⁴⁷ Babb also recognized that members of the Mexican private sector encouraged policies that favored liberalization during the 1980s and 1990s. Babb’s research expands Caulfield’s argument that Mexican technocrats educated in the U.S. were ideologically disposed to favor policies that encouraged liberalization. *Managing Mexico* suggests a new set of economic assumptions which favored trade liberalization, direct foreign investment, and privatization caused “a number of fundamental and mutually related changes in [Mexican] economic policy making,” which included “an array of neoliberal reforms, the ‘technocratization’ of policymakers and the Americanization of national economics

⁴⁵ Strom C. Thacker, "NAFTA Coalitions and the Political Viability of Neoliberalism in Mexico," *Journal of Interamerican Studies and World Affairs* 41, no. 2 (Summer 1999): 57.

⁴⁶ Thacker, "NAFTA Coalitions and the Political," 61.

⁴⁷ Sarah L. Babb, *Managing Mexico: Economists from Nationalism to Neoliberalism* (Princeton: Princeton University Press, 2001), 9, 10.

professions.”⁴⁸ Contributing to her analysis, Babb offers a detailed analysis of the educational background of officials within the Mexican government. She maintains that economic policymakers educated in the U.S., such as Francisco Gil Díaz, a graduate of the University of Chicago, and Gustavo Petricioli, who had been educated at Yale, dominated Mexico’s Finance Ministry during the De la Madrid Administration. These U.S.-trained officials favored policies that emphasized economic liberalization, and gained prominence over Commerce Ministry officials who had been educated outside the U.S., such as Héctor Hernández Cervantes, who “advocated gradual and selective opening to international free trade,” and “an active state in a mixed economy,” over the course of the 1980s.⁴⁹ For Babb, the ascendance of U.S.-educated policymakers resulted in an alliance between officials in Mexico’s Finance Ministry and officials in the World Bank and the IMF, which “led Mexico to join the General Agreement on Tariffs and Trade (GATT) in 1986” and “culminated in the North American Free Trade Agreement (NAFTA).”⁵⁰

Christina Puga’s 2004 *Los empresarios organizados y el Tratado de Libre Comercio de América del Norte* contends that an alliance between officials in the Mexican government and Mexican business leaders hastened policy reforms that favored liberalization and privatization. Puga argued that, during the economic crisis of the 1980s, business leaders developed a new political attitude, which sought to use business associations as a means to create new forms of communication with officials in the Mexican government and to involve business leaders in the design and institutionalization of a new model for the Mexican economy. Puga maintained these

⁴⁸ Babb, *Managing Mexico*, 11.

⁴⁹ Babb, *Managing Mexico*, 180.

⁵⁰ Babb, *Managing Mexico*, 11.

efforts created a network that allowed Mexican businesses to participate in public policy.⁵¹ Puga provided considerable insight into the relationships that existed between prominent Mexican business associations, noting that CEMAI served as an advisory board within CCE and that CEMAI acted as a sort of foreign secretary for Mexico's private sector.⁵² Puga's research uncovered connections between members of Mexico's business elite and members of the Mexican government such as the fact that Claudio X. González, the vice president of Kimberly Clark and past president of the Mexican section of the MUSBC, served as an advisor to Carlos Salinas on economic issues in the late 1980s.⁵³

In their 2010 book, *Mexico's Economic Dilemma: The Developmental Failure of Neoliberalism*, economists James M. Cypher and Raúl Delgado Wise argued that the liberalization of the Mexican economy was a "codetermination process" that involved "power elites both of Mexico and the United States."⁵⁴ Cypher and Delgado Wise asserted this process was the result of a number of factors including: conditions imposed on the Mexican government as pre-requisites for loans from the IMF, World Bank, and other foreign lenders; the Americanization of Mexico's economic profession; and the influence over the nation's economic policies that business elites had acquired through business organizations such as CCE, which they dub Mexico's "peak business association." Cypher and Wise contended that the liberalization of the Mexican economy "was constructed to serve the ends of oligopoly power - the control of markets - by displacing significant portions of the U.S. production system to Mexico," and find that

⁵¹ Cristina Puga, *Los empresarios organizados y el Tratado de Libre Comercio de América Del Norte* (México, D.F.: Miguel Ángel Porrúa, 2004), 62-64.

⁵² Puga, *Los empresarios organizados y el Tratado*, 132-133.

⁵³ Puga, *Los empresarios organizados y el Tratado*, 118.

⁵⁴ Cypher and Delgado Wise, *Mexico's Economic Dilemma*, 29.

the culmination of the process, NAFTA, was “not a trade agreement,” but rather “an investment/production restructuring agreement.”⁵⁵ Mexico’s Economic Dilemma maintained that American power elites who benefited from Mexico’s economic opening were manufacturers such as Ford, RCA, General Motors and Chrysler.

In the two decades since the publication of María de los Ángeles Pozas’s *Industrial Restructuring in Mexico*, scholars have developed a number of theories that account for the forces that led the Mexican government to abandon the nation’s ISI model and open the Mexican economy to foreign trade and investment. Since 1998, scholarly trends have viewed the relationship between the Mexican government and Mexico’s private sector elites as one of the most significant factors in determining the nation’s public policy in the 1980s and 1990s. James M. Cypher and Raúl Delgado Wise emphasize the benefits U.S. manufacturers and financiers enjoyed from the deregulation of the Mexican economy and imply that Mexico’s economic transformation resulted from the collaboration of powerful elites in the U.S and Mexico. However, to date George Grayson’s *The Mexico-U.S. Business Committee: Catalyst for the North American Free Trade Agreement*, published in 2007, remains the only scholarly work to explore the specific ways in which a broad range of private sector elites from the U.S. and Mexico collaborated to direct Mexico’s economic reforms for their mutual benefit.

In *The Mexico-U.S. Business Committee*, Grayson asserted that the work of the MUSBC “has been largely overlooked” by “journalists, academics and other observers.”⁵⁶ Grayson contends this is a glaring omission as without the efforts of the MUSBC in the 1980s, “the negotiation of NAFTA in the 1990s would have been

⁵⁵ Cypher and Delgado Wise, *Mexico's Economic Dilemma*, 169.

⁵⁶ Grayson, *The Mexico-U.S. Business Committee*, 8.

unlikely, if not impossible.”⁵⁷ The thesis of Grayson’s monograph is that “politicians and other public servants lagged far behind many corporate executives, bankers, and lawyers in advancing” reforms that would result in “a continental free trade zone.”⁵⁸ Through a series of interviews, limited archival research, and personal correspondence with key figures in the MUSBC, including Enrique Madero Bracho, Guy F. Erb, and Robert Herzstein, Grayson recreated the efforts undertaken by the MUSBC to ensure the passage of the “Agreement between the Government of the United Mexican States and the Government of the United States of America Concerning a Framework of Principles and Procedures Regarding Trade and Investment Relations” in 1987, to support the negotiation of NAFTA in 1992, and the approval of NAFTA by the U.S. Congress in 1993.

Thesis Statement and Historiographical Contribution

My research into the archives of the U.S. Council of the MUSBC conducted at the Benson Latin American Collection at the University of Texas at Austin reveals that George Grayson was correct when he argued the MUSBC had played a vital role in shaping Mexico’s economy in the 1980s and 1990s. This thesis builds on Grayson’s work by demonstrating that the collaborative efforts undertaken by members of both the Mexican and American private sector elites were instrumental in pressuring the Mexican government to alter its trade and investment policies. Furthermore, this thesis expands Cypher’s and Delgado Wise’s assertion that Mexico’s economic alteration benefited American corporations with interests in establishing manufacturing plants in Mexico by revealing that a diverse group of corporations including those from the pharmaceutical

⁵⁷ Grayson, *The Mexico-U.S. Business Committee*, 8, 10.

⁵⁸ Grayson, *The Mexico-U.S. Business Committee*, 9-10.

industry, the financial sector, and the mining industry had a vested interest in opening the Mexican economy to American trade and investment.

As earlier scholars have revealed, the story of Mexico's economic liberalization can be told from a number of distinct viewpoints. These perspectives include, but are not limited to, Mexican and American workers, officials in the governments of the U.S. and Mexico, small business owners in the U.S. and Mexico, leaders of organized labor movements in both nations, and small to medium-sized producers, especially those who produced staple crops like corn in Mexico. Scholars have also used the deregulation of the Mexican economy as an example in larger narratives of regional and global economic integration. This piece contributes to the existing historiography of the liberalization of the Mexican economy in the 1980s by adding the perspective of specific American corporate entities and their Mexican allies to the broader historical narrative. This thesis acknowledges the pressures that external financiers including foreign commercial banks and international lending agencies such as the IMF and the World Bank placed on the Mexican government and the influence these demands played in shaping Mexico's economic policies.⁵⁹ However, my research suggests that the changes that were made to Mexico's economic policy in the 1980s and 1990s were influenced by a number of internal and external factors. These factors included the work of the MUSBC. This thesis reveals that through the MUSBC, elite members of both nations' private sectors

⁵⁹ For more further information on the ways in which commercial banks and international lending agencies played in determining economic policies in Mexico, Latin America, and Asia in the late twentieth century see Vinod K. Aggarwal, *Debt Games: Strategic Interaction in International Debt Rescheduling* (New York: Cambridge University Press, 1996); Maria Lorena Cook, Kevin J. Middlebrook, and Juan Molinar Horcasitas, eds., *The Politics of Economic Restructuring: State-Society Relations and Regime Change in Mexico* (San Diego, CA: Center for U.S.-Mexican Studies, Univ. of California, San Diego, 1994); Naomi Klein, *The Shock Doctrine: The Rise of Disaster Capitalism* (New York: Picador, 2008); Manuel Pastor, Jr., "Latin America, the Debt Crisis, and the International Monetary Fund," *Latin American Perspectives* 16, no. 1 (Winter 1989): 79-110.

used their understandings of the political and economic landscapes of both the U.S. and Mexico and extensive networks of personal connections to present their agenda as a plan that would serve the national interests of both countries and attempts to show the ways in which this strategy was successful. This is a story of how a select group utilized the context of Mexico's economic crisis to translate their financial agenda into specific national objectives, supported by officials in both the U.S. and Mexico. This achievement is remarkable considering the potential consequences this agenda represented, including the threat it posed to Mexican economic nationalism; the possibility that it would significantly depress the wages of U.S. and Mexican laborers; the prospective damage it might have on the Mexican environment; the financial realities that would face Mexican producers who were exposed to cheaper American products; and the real threat it presented to the maintenance of Mexico's state/capital alliances.

This thesis contends that the American section of the MUSBC, known as the U.S. Council, played a vital role in the liberalization of the Mexican economy as a result of two practices first articulated in 1982. First, the U.S. Council, with the aid of specific American interests, encouraged Mexican business leaders to lobby their government to liberalize the Mexican economy. Second, the U.S. Council created a framework for a bilateral trade and investment treaty. This treaty was viewed as essential to the Americans involved as it would establish formal legal mechanisms to redress fiscal damages incurred by American corporations in the event that Mexico underwent a period of economic nationalism similar to that experienced under the presidency of Lázaro Cárdenas (1934-1940), when the Mexican government had nationalized the holdings of United States corporations, most notably those in the petroleum industry. This history

made American business interests wary of investment in Mexico. In a strategic move that challenged the prevailing protectionist economic policy in Mexico, American financial interests including Chase Manhattan Bank, Citibank, and Goldman Sachs, all members of the MUSBC, worked with Mexican businesses such as Banamex, Grupo Embotelladoras Unidas, and Transmisiones y Equipos Mecánicos to ensure that Mexican business leaders would support increased American investment in Mexico.

The members of the U.S. private sector hoped to enjoy a number of benefits from the liberalization of Mexico's trade and investment policies, including the creation of new, American-owned manufacturing plants in Mexico that would allow corporations to shift production to Mexico to take advantage of Mexico's abundant supply of cheap labor; the ability to invest in industrial sectors that had previously been reserved for the Mexican government and Mexican citizens such as mining; the purchase of arable Mexican land that could be used for large scale agribusiness; and, for some, an increase in the number of brands and overall quantity of products for sale in the Mexican market. Members of Mexico's private sector hoped increased American trade and investment would facilitate partnerships with powerful American financiers; provide new, more profitable, market opportunities; allow for the sale of business assets and real estate to American investors; and create of employment opportunities for Mexico's growing population of potential consumers.⁶⁰ Additionally, U.S. investors may have hoped an alliance between the private sectors of both nations would preclude another instance of what the American sector deemed a nationalistic backlash against foreign investment such as that of some Mexican business leaders including Francisco Madero in 1910 or Mexican public officials such as Cárdenas in 1938. In order to realize these potential

⁶⁰ John M. Hart, *Empire and Revolution*, 433.

benefits, the MUSBC worked diligently to portray their agenda as one that would best serve the national interests of both nations and their citizens, a fact that remains a matter of considerable debate.

Organization of Chapters

Chapter Two, “The U.S. Council’s Liberalization Strategy,” outlines the formation of the U.S. Council’s strategy to liberalize the Mexican economy and the creation of the proposal that became the basis for a bilateral framework agreement on trade and investment between the U.S. and Mexico. This chapter shows how members of the U.S. Council convinced American politicians and government officials of the efficacy of the proposed bilateral framework agreement. Chapter Three, “The U.S. Council’s Ally in Mexico,” reveals the steps taken by the U.S. Council to recruit a member of the Mexican private sector who led efforts to pressure the Mexican government to liberalize its trade and investment policies and to adopt a bilateral framework agreement with the U.S. The chapter highlights the steps this ally, Enrique Madero Bracho, took to further the U.S. Council’s strategy in Mexico and the strategy’s adoption by both sections of the MUSBC. The fourth chapter, “The De la Madrid Administration Reorients the Mexican Economy,” uncovers the measures the Mexican government undertook to reorient the Mexican economy toward export-oriented growth in 1985 and the role CEMAI and the MUSBC played in this process. Chapter Five, “The Foundations of NAFTA,” details the negotiation process that was undertaken by the U.S. and Mexico that resulted in the passage of the bilateral framework agreement that provided the foundation of the North American Free Trade Agreement.

CHAPTER II

THE U.S. COUNCIL'S LIBERALIZATION STRATEGY

In 1982, the MUSBC joined the Reagan administration, the IMF, and Mexican corporate opinion in calling for the liberalization of trade and investment between the U.S. and Mexico. The U.S. Council rose from relative obscurity in the 1970s to become a leading player in American efforts to liberalize the Mexican economy in the 1980s and 1990s. Little information regarding the U.S. Council is available before 1969 when David Rockefeller, the chairperson of the Council for Latin America arranged for his organization to formally sponsor the U.S. Council of the MUSBC.¹ The American Chamber of Commerce in Mexico and the Chamber of Commerce of the United States of America also sponsored the U.S. Council.² Initially, the U.S. Council acted as a “small program of the Council of the Americas.” However, this changed in 1983 when “corporate contributions of the U.S. Section [U.S. Council] began to increase substantially.”³ In the 1980s and 1990s, the U.S. Council’s members were some of America’s most powerful corporations, banks, and legal firms. These members included AT&T, Bank of America, Chase Manhattan Bank, Chrysler Corporation, Citibank, Coca-Cola, Ford Motor Company, General Electric, General Motors, Goodyear Tire Co., Goldman Sachs & Co., Kraft Foods, Monsanto Company, Pfizer, Shearson Lehman Hutton Inc., and Texaco.⁴ Brower A. Merriam, president of Pfizer International, served

¹ The Council for Latin America would later be renamed the Council of the Americas.

² "Job Description, Chairman U.S. Council."

³ Facsimile, "U.S. Council of the Mexico-U.S. Business Committee," October 30, 1990, Folder 10, Box 8, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁴ Guy F. Erb to U.S. Council of the Mexico-U.S. Business Committee Members, memorandum, "First Quarter Meeting, U.S. Council of the Mexico-U.S. Business Committee, February, 5, 1990, New York City," March 14, 1990, Folder 7, Box 8, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX;

as the chairman of the U.S. Council's Executive Committee which consisted of top executives from AT&T International, Citibank, E.I. DuPont de Nemours, Ford of Mexico, IBM of Latin America, Monsanto International, Procter and Gamble International, Texas Instruments, and Xerox.⁵

The Mexican section of the MUSBC, the American Sector of the Consejo Empresarial Mexicano para Asuntos Internacionales (CEMAI-US), enjoyed considerable influence in Mexico's business community. Ignacio Aranguren Castiello of Arancia Industrial, Juan Thurlow Gallardo of Grupo Embotelladoras Unidas, and Claudio X. González of Kimberly-Clark, Mexico were all active members of CEMAI-US. Since its inception, the organization fervently advocated for the limitation of government tariffs and other trade restrictions, and recruited as members those Mexican corporations that had the most experience in dealing with international or transnational corporations.⁶ While Consejo Empresarial Mexicano para Asuntos Internacionales (CEMAI), a group that sponsored CEMAI-US, shared the names of active participants with the U.S. Council, CEMAI's list of member corporations was a guarded secret. Perhaps for this reason, the list of CEMAI members is not present in the archival records of the U.S. Council. Despite this tendency toward secrecy, a source confided that the CEMAI was comprised of "firms from the banking, insurance, and automotive sectors and individual companies such as Nestlé, Volkswagen, Ford, and Chrysler."⁷ The fact that Ford and

The U.S. Council of the Mexico-U.S. Business Committee, "U.S. Council Membership," July 2, 1991, Folder 3, Box 10, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁵ Erb to U.S. Council of the Mexico-U.S. Business Committee Members, memorandum, "First Quarter Meeting."

⁶ Christina Puga, *Los empresarios organizados y el Tratado de Libre Comercio de América de Norte* (Mexico City, Mexico: Universidad Nacional Autónoma de México, 2004), 133.

⁷ Strom C. Thacker, "NAFTA Coalitions and the Political Viability of Neoliberalism in Mexico," *Journal of Interamerican Studies and World Affairs* 41, no. 2 (Summer 1999): 65.

Chrysler belonged to both CEMAI and the U.S. Council suggests Mexican subsidiaries of American corporations who stood to gain from the liberalization of trade between the U.S. and Mexico found it in their best interest to join CEMAI.

Despite CEMAI's early advocacy of free trade policies, it appears the MUSBC did little to advance trade liberalization before the early 1980s. Rodman C. Rockefeller, longtime chairperson of the U.S. Council, summed up the activities of the MUSBC prior to 1980 as a group that "spent the last three decades playing golf."⁸ The U.S. Council did not have a chairperson for eleven years between 1951 and 1980, and both sections operated without a chair for five years during the same time period.⁹ For decades then, the U.S. Council and CEMAI-US "operated without a clear staff, clear priorities, or a budget."¹⁰ While leisurely pursuits marked the early years of the MUSBC, the Mexican financial crisis opened the door for the MUSBC in the 1980s and 1990s when they began to exert themselves to realize the CEMAI's vision of free trade.

In 1980, new chairs, men of considerable power and influence, were elected by both sections of the MUSBC. CEMAI appointed Manuel J. Clouthier as the CEMAI-US chair. Clouthier, a member of the Mexican State of Sinaloa's business elite would go on to serve in leadership roles for the Confederación Patronal de la República Mexicana (Coparmex), and Consejo Coordinador Empresarial (CCE). Clouthier was later chosen by the conservative Partido Acción Nacional (PAN) as their candidate for the Mexican Presidency in 1988.¹¹ The U.S. Council appointed Rodman C. Rockefeller as their

⁸ George W. Grayson, *The Mexico-U.S. Business Committee: Catalyst for the North American Free Trade Agreement* (Rockville, Md.: Montrose Press, 2007), 66.

⁹ Grayson, *The Mexico-U.S. Business Committee*, 68-69.

¹⁰ Grayson, *The Mexico-U.S. Business Committee*, 65.

¹¹ Carlos Arriola, "La campaña electoral de Manuel J. Clouthier en Sinaloa, México, 1986," *Foro Internacional* 29, no. 1 (July - September 1988): 30-31.

chairperson, a position he held for over a decade. Rockefeller's enthusiasm for economic liberalization, his longevity in office, and his influence were essential to the MUSBC's attempts to deregulate the Mexican economy.

Rodman Rockefeller, the eldest son of Nelson Rockefeller, former Vice President of the United States (1974-1977), and Governor of the State of New York (1959-1973), and the great grandson of John D. Rockefeller, Sr., founder of Standard Oil, had the connections the U.S. Council needed to be successful.¹² Rodman Rockefeller had considerable knowledge of international business. He held a Master's degree from Columbia University's Graduate School of Business Administration and had gained practical knowledge by serving as chair of Arbor Acres Farm and IBEC, Inc., corporations with international interests in agribusiness and commercial genetics.¹³ While Rodman Rockefeller's appointment as chairperson of the U.S. Council was likely influenced by his uncle, David Rockefeller, the longtime CEO of the Chase Manhattan Bank and chairman of the Council of Foreign Relations from 1970 to 1985, Rodman Rockefeller had the background and connections to succeed as the U.S. Council President.

Under Rodman Rockefeller's leadership, the U.S. Council recruited Robert Herzstein and Guy F. Erb, attorneys from the firms of Arnold & Palmer and Erb & Madian, Inc., respectively. Herzstein and Erb were responsible for the foundation of the majority of the MUSBC's strategy. Herzstein served as the chairperson of the U.S.-Mexico Bilateral Trade Agreements Project Subcommittee (the name was subsequently

¹² Grayson, *The Mexico-U.S. Business Committee*, 158.

¹³ "Rodman C. Rockefeller," November 1988, Folder 6, Box 7, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

altered to the Trade Subcommittee of the U.S. Council of the Mexico-U.S. Business Committee) and later was the principal legal advisor to Mexico during the North American Free Trade Agreement (NAFTA) negotiations.¹⁴ Herzstein had close ties to business leaders from the Mexican State of Sinaloa, having successfully represented a group of Sinaloan growers, including Clouthier, when American growers tried to block the importation of Mexican vegetables in the 1970s. This victory inspired President Jimmy Carter to appoint Herzstein as the first U.S. Undersecretary of Commerce for International Trade.¹⁵ In February 1982, Herzstein recommended Guy F. Erb to the members of the U.S. Council's Trade Subcommittee. Erb had advised on trade issues for private groups such as the Overseas Development Council and worked on Mexican affairs for the National Security agency during the Carter Administration.¹⁶ The U.S. Council was so impressed with Erb they appointed him Executive Director of the U.S. Council, a paid staff position, in 1983.¹⁷ The combined experience of Herzstein and Erb proved invaluable to the MUSBC. Not only did Herzstein and Erb provide the MUSBC with crucial information regarding public policy on international trade, but they also offered insights into official relations between the U.S. and Mexico. In fact, Herzstein first articulated the creation of a bilateral framework agreement, which was the first of many of the legal proposals that were the hallmark of the MUSBC.

Herzstein Develops the U.S. Council's Strategy

¹⁴ Robert Herzstein to Rodman C. Rockefeller et al., "Possible Bilateral Trade Agreement Between the U.S. and Mexico," February 12, 1982, Folder 2, Box 7, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX; Texas Archival Resources Online, "Robert E. Herzstein Records of the Mexico-U.S. Business Committee, 1991-1996," Robert E. Herzstein Records of the Mexico-U.S. Business Committee, 1991-1996, accessed November 2, 2013, <http://www.lib.utexas.edu/taro/utlac/00196/lac-00196.html>.

¹⁵ Grayson, *The Mexico-U.S. Business Committee*, 72.

¹⁶ Herzstein to Rockefeller et al., "Possible Bilateral Trade Agreement."

¹⁷ Grayson, *The Mexico-U.S. Business Committee*, 153.

In 1982, Herzstein penned “Elements of a Proposed Bilateral Trade Agreement Between Mexico and the United States.” This paper became the foundation of subsequent MUSBC strategies. Herzstein produced the paper at the request of Carlos Rojas Magnon, who intended to use it as a means to garner the support of Mexican officials for a Bilateral Trade Agreement between the U.S. and Mexico.¹⁸ For his Mexican audience, Herzstein revealed, “the reasons why Mexico might find an agreement attractive,” but omitted “objectives that the U.S. might be pursuing.”¹⁹ Herzstein’s omission reveals that from the beginning, members of the U.S. Council used their knowledge of the complex economic and political realities that existed in the U.S. and Mexico to create a narrative in which the interests of the U.S. Council, the MUSBC and their member corporations were portrayed in a manner that coincided with the interests of the audience the U.S. Council or MUSBC were attempting to reach.

In a February 1982 memo, Herzstein recounted the creation of “Elements” and advocated a series of practices that became the formal strategy employed by the U.S. Council and, in time, both sections of the MUSBC in their efforts to open the Mexican economy to American trade and direct investment. Herzstein’s strategy consisted of two means through which the U.S. Council could secure support for free trade and investment within Mexico. First, the U.S. Council identified potential allies in the cause for liberalization among members of the Mexican business community and, after securing allies, the U.S. Council would provide them with resources, such as position papers as Herzstein had provided Rojas Magnon, to enable their discussion of economic deregulation with officials in the Mexican government. Second, Herzstein advanced a

¹⁸ Herzstein to Rockefeller et al., “Possible Bilateral Trade Agreement.”

¹⁹ Herzstein to Rockefeller et al., “Possible Bilateral Trade Agreement.”

formal treaty between Mexico and the U.S. as the preferred mechanism through which to open the Mexican economy. In the months and years that followed, the U.S. Council employed the methods outlined in Herzstein's memo to strengthen ties between American capitalists and Mexico's business class while finding a diplomatic means to reduce Mexican tariffs on American goods and limit the role of government in the Mexican economy. High on the list were the privatization of state industries and the elimination of Mexican export subsidies. Recruiting Mexico's business leaders would provide the domestic political pressure the U.S. Council deemed necessary to advancing their liberalization of the Mexican economy. These allies would also help ensure that increased American investment in Mexico would preclude nationalist resistance like that which was suffered during the early decades of the twentieth century, when elements of the Mexican business elite rejected the privileges their government granted foreign investors. A formal free trade and investment agreement would ensure American corporations and investors a recognized legal avenue to seek reparations for any economic losses resulting from hostile actions by the Mexican government.

Using Herzstein's "Elements of a Proposed Bilateral Trade Agreement Between Mexico and the United States" as a template, the U.S. Council's Bilateral Trade Agreements Subcommittee worked over the summer of 1982 to create a formal proposal to present at the MUSBC's annual plenary meeting in October of 1982. Correspondence reveals that the members of the subcommittee used their knowledge of Mexico's political circumstances to influence Mexican economic policy to advance the interests of the U.S. Council and its members. For example, the subcommittee sought to use the transition between the administrations of López Portillo and De la Madrid to their advantage,

noting that during the fall of 1982, there would be a gap in which “no Finance Minister or other [Mexican] economic officials are in place.”²⁰ The subcommittee believed Mexican officials would seek “business’ advice on economic policy much more than is the case once they [officials] and their [the administration’s] policies are in place.”²¹

The MUSBC’s October Plenary offered the perfect opportunity for the U.S. Council to present Mexican business leaders with a formal proposal and “through them, to have an impact on Mexican policy decisions.”²² The Bilateral Trade Agreements Subcommittee also called on members to make personal connections with “the powerful people in Mexican business who may be made our [the U.S. Council’s] more natural allies.”²³ The U.S. Council was aware of periods in which Mexican politics would be more susceptible to their influence, and they encouraged their Mexican allies to portray free trade and direct foreign investment, two factors that designed to benefit private interests in the U.S. and Mexico, as the most efficient means to restore Mexico’s economic stability.

The Bilateral Trade Agreements Subcommittee submitted a formal discussion draft, “Trade Relations Between The United States and Mexico: Proposal for a Bilateral Commercial Agreement” for consideration at the 1982 MUSBC Plenary Meeting. The timing of this proposal was more fortuitous than the members of the subcommittee could

²⁰ David A. Katz to Members of the U.S.-Mexico Bilateral Trade Agreements Project Subcommittee, memorandum, "Summary of the July 7, 1982 Meeting of the U.S.-Mexico Bilateral Trade Agreements Project Subcommittee," July 23, 1982, Folder 3, Box 7, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

²¹ Katz to Members of the U.S.-Mexico Bilateral Trade Agreements Project Subcommittee, memorandum, "Summary of the July."

²² Katz to Members of the U.S.-Mexico Bilateral Trade Agreements Project Subcommittee, memorandum, "Summary of the July."

²³ Katz to Members of the U.S.-Mexico Bilateral Trade Agreements Project Subcommittee, memorandum, "Summary of the July."

have hoped. On September 4, 1982, weeks before the plenary meeting, López Portillo nationalized Mexico's banks in an effort to prevent capital flight, which totaled over \$18 billion in 1981 and 1982 alone.²⁴ This decision infuriated Mexican business leaders.²⁵ López Portillo's actions provided the U.S. Council with an audience receptive to their carefully articulated proposals, which were presented to the Mexicans as a means to improve the Mexican economy. The U.S. Council's proposal performed four tasks that were essential in securing Mexican business leaders' support for economic liberalization. First, the proposal highlighted the importance of the commercial relationship between the U.S. and Mexico. Second, the proposal portrayed a formal bilateral commercial agreement as a measure that would benefit the interests of Mexico's business leaders and improve Mexico's economic situation. Third, the proposal called for American capital and Mexican business leaders to work in unison to convince politicians of the need for a bilateral commercial agreement. Finally, the proposal provided the legal framework for the agreement.

The majority of the proposal was comprised of a detailed analysis of the "high degree of economic interdependence" between the U.S. and Mexico.²⁶ The paper discussed the economic recessions of both national economies in the 1970s and 1980s, but was critical of Mexico's decision to "ban 'nonessential' imports," as well as attempts

²⁴ Nora Lustig, *Mexico: The Remaking of an Economy*, 2nd ed. (Washington, DC: Brookings Institution Press, 1998), 40-41.

²⁵ Alan Riding, "Mexico's Affluent Elite Shudders Over Drive on Economic 'Traitors,'" *New York Times* (New York Times, NY), September 5, 1982, 14, accessed October 19, 2013, <http://search.proquest.com/docview/121946094?accountid=5683>.

²⁶ The U.S.-Mexico Bilateral Trade Agreements Subcommittee, U.S. Council of the Mexico-U.S. Business Committee, "Trade Relations Between the United States and Mexico: Proposal for a Bilateral Commercial Agreement," October 1, 1982, Folder 3, Box 7, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

to “restrict growth in demand and in the money supply.”²⁷ The members of the U.S. Council emphasized that both countries had a considerable stake in the long-term success of bilateral transactions, especially since Mexico imported just over three-fifths of its goods from the U.S. and two-thirds of all Mexican exports were sent to the U.S.²⁸ The Proposal was optimistic, stating the “Mexican market has enormous potential for the United States since, over time, gaps in income levels of neighboring countries tend to narrow as growth rates in the less developed exceed those of the more advanced.”²⁹ The paper advanced the notion that Mexico’s failure to realize its full potential stemmed from the inability of both countries’ governments to formulate an effective trade agreement that would benefit Mexico by helping maintain a strong maquiladora industry and eliminating quotas on vital Mexican exports to the United States such as textiles.³⁰

The proposal admonished both governments for failing to form “an adequate framework for their trade relations,” in light of the vital fiscal relationship that exists between Mexico and the United States.³¹ The paper lamented that the trade relationship between Mexico and the U.S. had become “highly politicized and characterized by ad hoc decision making,” a process that was “dangerously vulnerable to disruption by trade disputes that are not susceptible to informal resolution.”³² The members of the U.S. Council asserted that governmental squabbles inhibited profitability for both business

²⁷ The U.S.-Mexico Bilateral Trade Agreements Subcommittee, U.S. Council of the Mexico-U.S. Business Committee, "Trade Relations Between the United."

²⁸ The U.S.-Mexico Bilateral Trade Agreements Subcommittee, U.S. Council of the Mexico-U.S. Business Committee, "Trade Relations Between the United."

²⁹ The U.S.-Mexico Bilateral Trade Agreements Subcommittee, U.S. Council of the Mexico-U.S. Business Committee, "Trade Relations Between the United."

³⁰ The U.S.-Mexico Bilateral Trade Agreements Subcommittee, U.S. Council of the Mexico-U.S. Business Committee, "Trade Relations Between the United."

³¹ The U.S.-Mexico Bilateral Trade Agreements Subcommittee, U.S. Council of the Mexico-U.S. Business Committee, "Trade Relations."

³² The U.S.-Mexico Bilateral Trade Agreements Subcommittee, U.S. Council of the Mexico-U.S. Business Committee, "Trade Relations."

communities, and called for an agreement designed to promote cooperation rather than conflict.³³

The U.S. Council argued that a bilateral framework agreement would create long-term benefits for Mexican corporations, and that “a stable and well-defined trade policy framework would enhance Mexico’s capacity to diversify its exports” while assuring that such a framework would also encourage the U.S. to view Mexico as “a significant partner for long-term trade and investment.”³⁴ The creation of a legal framework would mean Mexican businesses and government officials would no longer have to worry about “conflicting trade policy signals from the U.S. executive and legislative branches.”³⁵ Critically, the paper portrayed a bilateral commercial agreement, a treaty that would advance the interests of the American and Mexican private sectors, as a measure that would benefit both nations and their citizen by noting that a bilateral agreement would “define the common development and commercial objectives of the two nations; and express the shared commitment of the two nations to adhere to policies consistent with these objectives.”³⁶ The proposal was clear that a stable trading relationship would be advantageous for business leaders in both nations. It portrayed American capital and Mexican businesses as “natural allies.” If American capitalists could “predict the range of possible government actions affecting their business and their future plans,” the resulting economic environment would “provide the stability that private risk-takers need

³³ The U.S.-Mexico Bilateral Trade Agreements Subcommittee, U.S. Council of the Mexico-U.S. Business Committee, "Trade Relations."

³⁴ The U.S.-Mexico Bilateral Trade Agreements Subcommittee, U.S. Council of the Mexico-U.S. Business Committee, "Trade Relations."

³⁵ The U.S.-Mexico Bilateral Trade Agreements Subcommittee, U.S. Council of the Mexico-U.S. Business Committee, "Trade Relations."

³⁶ The U.S.-Mexico Bilateral Trade Agreements Subcommittee, U.S. Council of the Mexico-U.S. Business Committee, "Trade Relations."

to function effectively.”³⁷ The proposed framework had three goals: to create partnerships between American and Mexican corporations, to provide U.S. businesses and investors greater independence within the Mexican economy, and to increase access to consumers and markets for businesses in both countries.

In general terms the U.S. Council maintained that a bilateral framework agreement should incorporate elements that accounted for the sovereignty of each nation, the desire of each nation to develop their economy, both nations’ need to increase employment, and procedures for cooperation such as consultation and the mitigation of fiscal injuries.³⁸ More to the point, however, the proposal also called for a generalized system of preferences, a bilateral investment treaty, and mechanisms to resolve potential disputes. Importantly, the proposal called for an “elimination and/or reduction of Mexican export subsidies,” assurances from the U.S. regarding provisions of offshore assembly, the creation of Mexican incentives to free-zone operations, a mutual reduction of tariffs, and an examination of the industrial policies of both nations.³⁹ The subcommittee argued a framework agreement would provide a viable means through which to pursue a bilateral commercial agreement, the ultimate goal of the U.S. Council and its members. The Bilateral Trade Agreements Subcommittee then depicted a bilateral framework agreement as a measure that would benefit the governments and citizens of the U.S. and Mexico by providing avenues to seek fiscal redress, eliminating Mexico’s foreign investment restrictions, and removing policies, such as subsidies and

³⁷ The U.S.-Mexico Bilateral Trade Agreements Subcommittee, U.S. Council of the Mexico-U.S. Business Committee, "Trade Relations."

³⁸ The U.S.-Mexico Bilateral Trade Agreements Subcommittee, U.S. Council of the Mexico-U.S. Business Committee, "Trade Relations."

³⁹ The U.S.-Mexico Bilateral Trade Agreements Subcommittee, U.S. Council of the Mexico-U.S. Business Committee, "Trade Relations."

tariffs, which, according to the subcommittee, inhibited free trade.

Shortly after the 1982 MUSBC plenary, William Brock, the U.S. Trade Representative, penned a memo to advisors from the American private sector for assistance with the bilateral subsidy agreement negotiations taking place between the Mexican government and the U.S. government that had been in process since February. Brock's memo, which made its way to members of the U.S. Council, revealed classified information from the government negotiations. The U.S. government sought to eliminate Mexico's Certificado de Devolución de Impuesto (CEDI) program, the nation's foremost export subsidy program, which offered tax credit certificates and was used to promote growth in small and medium sized firms. In addition, negotiators wanted Mexico to modify the loans secured through the Fondo para el Fomento de las Exportaciones de Productos Manufacturados, a critical Mexican export subsidy.⁴⁰ In exchange, the U.S. was willing to offer Mexico, "the benefit of the 'injury test' in any new countervailing duty cases or in those existing cases in which the U.S. Department of Commerce has not yet announced a final determination."⁴¹ In other words, if Mexico agreed to abolish export subsidies and reduce government support for small and medium sized businesses, the U.S would place the burden of proof on American corporations in any new claims asserting Mexican export subsidies had resulted in or might expose an American industry to fiscal harm.⁴² Brock assured members of the private sector that the bilateral subsidy agreement was a real possibility, but his optimism was misplaced as the bilateral talks

⁴⁰ Brock to Private Sector Advisors, memorandum, "Bilateral Subsidies Agreement."

⁴¹ Brock to Private Sector Advisors, memorandum, "Bilateral Subsidies Agreement."

⁴² Bruce A. Blonigen, "The Effects of NAFTA on Antidumping and Countervailing Duty Activity," *The World Bank Economic Review* 19, no. 3 (November 3, 2005): 410, accessed October 17, 2013, <http://www.jstor.org/stable/40282311>.

ended the following month.⁴³

The U.S. Council Seek the Support in the U.S.

A meeting between Brock and Robert Herzstein in April of 1983 created a dialogue between the U.S. Council and members of the Reagan administration. Herzstein shared the U.S. Council's proposed bilateral commercial agreement with Brock who noted the proposal effectively outlined "the range of issues that ultimately must be addressed by any commercial pact between the United States and Mexico."⁴⁴ Brock then circulated the U.S. Council's proposal within his department and shared it with other governmental agencies. The feedback Brock received from these discussions revealed that many within the Reagan Administration supported the efforts of the U.S. Council and its strategy.⁴⁵

Brock encouraged the U.S. Council to continue working with its allies in Mexico's business community. Brock hoped CEMAI-US members would "urge policymakers in their country [Mexico] to schedule new meetings of the U.S.-Mexico Joint Commission on Commerce and Trade."⁴⁶ Furthermore, Brock suggested CEMAI-US encourage the Mexican government to put the MUSBC proposed bilateral trade agreement on the Joint Commission agenda. Brock, as a representative of the U.S. government, had not been able to convince the Mexican government to resume trade negotiations. The U.S. Council, however, was free from the limitations that faced Brock.

⁴³ Brock to Private Sector Advisors, memorandum, "Bilateral Subsidies Agreement;" U.S. Council of the Mexico-U.S. Business Committee, "Key Events During the Negotiation of the U.S.-Mexico Bilateral Agreement on Trade and Investment," April 15, 1988, Folder 6, Box 7, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁴⁴ William E. Brock to Robert Herzstein, memorandum, April 29, 1983, Folder 7 Box 7, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁴⁵ Brock to Herzstein, memorandum.

⁴⁶ Brock to Herzstein, memorandum.

The U.S. Council had a network of connections with Mexico's business leaders. Brock believed that "Mexican businessmen in your group could make a significant contribution to trade liberalization... by encouraging the Government of Mexico to reopen discussion."⁴⁷ He suggested "a formal expression by the Mexican community of their desire for greater openness and discipline in trade, could be an important factor in achieving progress."⁴⁸ After confirming the support of members of the U.S. executive branch for their efforts, the U.S. Council shared a finalized version of the bilateral framework agreement with Senate Democrats Jeff Bingaman of New Mexico, Bill Bradley of New Jersey, and Lloyd Bentsen of Texas. The U.S. Council hoped to convince these Senators of the potential benefits of the framework agreement as Democratic control of the U.S. Congress ensured support from Democratic Party was "necessary for the success of the trade agreement initiative."⁴⁹ Persuading Bentsen and Bingaman to endorse the U.S. Council's plans would also prove critical in enlisting political support in Texas and New Mexico, border states who stood to benefit from the business opportunities that would result from increased American trade and investment in Mexico.

The efforts of the U.S. Council to win support among American lawmakers were successful and "a desire to see a Mexican willingness to negotiate seriously," became prominent in Washington.⁵⁰ Meanwhile, Mexican business leaders were calling for a

⁴⁷ Brock to Herzstein, memorandum.

⁴⁸ Brock to Herzstein, memorandum.

⁴⁹ Barry R. Campbell to Guy F. Erb, "U.S.-Mexico Trade Paper," June 9, 1983, Folder 6, Box 7, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁵⁰ Guy F. Erb and Robert Herzstein, "A Business Proposal for a Bilateral Commercial Agreement with Mexico," August 1, 1983, Folder 7 Box 7, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

commercial agreement, and membership in the General Agreement on Tariffs and Trade (GATT). The process was laborious and Erb and Herzstein lamented, “Mexican business leaders have not yet been able to alter the current concentration of some elements of the Mexican Government.”⁵¹ The U.S. Council correctly surmised that many government officials in Mexico feared that a bilateral agreement would “impair the highly prized autonomy of Mexican economic decision-making.”⁵² For this reason, the U.S. Council redoubled its efforts to find allies in Mexico who were willing advance the notion of a bilateral framework. After all, if members of Mexico’s private sector advanced the framework agreement as a solution to Mexico’s economic troubles, the U.S. Council hoped officials in the Mexican government would “not perceive the proposal as a U.S. initiative.”⁵³

When 1983 came to a close, the U.S. Council had a bilateral commercial agreement proposal, was actively seeking the support of members of the U.S. Congress, and had secured allies among Mexico’s business leaders. The final piece the MUSBC needed was the support of officials in the Mexican government. The most viable means to ensure this support was pressure from Mexico’s business elite. The MUSBC needed a leader who would be capable of directing the organization's efforts in Mexico. Enrique Madero Bracho, a descendent of Francisco Madero, proved to be this leader when he became the chairperson of CEMAI-US in 1984.

Under the joint leadership of Enrique Madero and Rodman Rockefeller, the two

⁵¹ Erb and Herzstein, "A Business Proposal for a Bilateral."

⁵² Memorandum by Rodman C. Rockefeller and Robert Herzstein, "Proposal for a Bilateral Commercial Agreement with Mexico," June 21, 1983, Folder 7 Box 7, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁵³ Erb and Herzstein, "A Business Proposal for a Bilateral."

sections of the MUSBC worked in unison to ensure the passage of a bilateral framework agreement. Their efforts were bolstered by Mexico's continued economic troubles, which forced Mexico to solicit loans from the IMF and foreign commercial banks. These loans were conditioned on the adoption of policies designed to deregulate the Mexican economy, privatize the country's state-owned corporations, and reduce funding for social programs and subsidies. In 1984 the nation had an inflation rate of 55 to 60 percent and a budget deficit of 7 percent despite taking out over \$1 billion in loans.⁵⁴ In October of 1984, CEMAI formally agreed to "support the bilateral framework agreement between the United States and Mexico."⁵⁵ Two months after CEMAI formally backed the framework agreement, government representatives from both nations began discussions to negotiate a common framework outlining standards and practices for bilateral trade and investment.⁵⁶

⁵⁴ Steve Frazier, "Mexico Projects 3% to 4% Growth In Plan for 1985," *Wall Street Journal* (New York, NY), November 19, 1984, 44.

⁵⁵ U.S. Council of the Mexico-U.S. Business Committee, "Key Events."

⁵⁶ U.S. Council of the Mexico-U.S. Business Committee, "Key Events."

CHAPTER III

THE U.S. COUNCIL'S ALLY IN MEXICO

The year 1980 marked the conversion of the Mexico-U.S. Business Committee (MUSBC) from an organization in which business leaders from the United States (U.S.) and Mexico met annually for leisurely pursuits to an organization dedicated to furthering the economic interests of its members in both nations. By 1984, the U.S. Section of the MUSBC, named the U.S. Council, had developed a two-part strategy designed to ensure the liberalization of trade and investment between the U.S. and Mexico. First, the U.S. Council worked to create the framework for a bilateral trade and investment treaty between the U.S. and Mexico, a task it accomplished by 1983. Second, the U.S. Council, with the assistance of specific U.S. business interests sought to recruit Mexican business leaders for the purpose of pressuring the Mexican government to liberalize the Mexican economy. In the years leading up to 1984, the U.S. Council had cultivated many allies within the Mexican business community, including Manuel Clothier and Carlos Rojas Magnon. However, Mexican support for the U.S. Council's framework for a bilateral trade and investment agreement remained elusive. In fact, Consejo Empresarial Mexicano para Asuntos Internacionales (CEMAI), the sponsor of the Mexican section of the MUSBC, American sector of Consejo Empresarial Mexicano para Asuntos Internacionales (CEMAI-US), had yet to formally support the proposed bilateral framework agreement.

In order for the U.S. Council's liberalization strategy to be successful, its members needed to attract an ally within the Mexican business community who would help the U.S. Council convince others in the Mexican private sector of the inherent

benefits that would come from the adoption of a bilateral trade and investment agreement. In 1984, the U.S. Council recruited top-level executives from its corporate members to serve on newly formed task teams. These task teams were designed to demonstrate the advantages of working with U.S. businesses and investors for those Mexican business leaders who were willing to support the U.S. Council's cause. The early efforts taken by the U.S. Council, while designed to attract Mexico's business leaders, often failed to fully consider the needs and desires of the men and women they were attempting to recruit. As a result, the U.S. Council found limited success in Mexico.

The labors of the U.S. Council did not cause the Mexican business community to embrace the U.S. Council's strategy. It was the appointment of a new chairman, Enrique Madero Bracho, of the U.S. Sector of the Consejo Empresarial Mexicano para Asuntos Internacionales (CEMAI-US), in June that caused Mexico's business leaders to consider the U.S. Council's liberalization strategy. Madero Bracho was a prominent Mexican businessman and one of the literal heirs of former Mexican President Francisco I. Madero. Francisco Madero's frustration over the favoritism shown to foreign corporations at the expense of domestic businesses inspired him to call for the Mexican Revolution of 1910. Unlike Francisco Madero, who saw foreign corporations as a threat, Enrique Madero Bracho embraced partnerships with American business interests. Madero Bracho's efforts proved invaluable in securing support for a bilateral trade agreement in Mexico's business class and with officials in the Mexican government.

While devoting the majority of its efforts to creating relationships with business leaders in Mexico, the U.S. Council also maintained close ties with allies it had worked

so diligently to recruit in the U.S. These prominent allies included U.S. business leaders David Rockefeller of Chase Manhattan Bank and Charles Barber of the American Smelting and Refining Company (ASARCO), and elected officials from border states including Dennis DeConcini, the Senator from Arizona, and Bruce Babbitt, the governor of Arizona. The U.S. Council also maintained close ties to officials within the office of the United States Trade Representative (USTR) and members of the Reagan Cabinet, including Secretary of Commerce Malcolm Baldrige. These efforts were often rewarded. Supporters of the U.S. Council provided its members with insight into ongoing trade negotiations between the U.S and Mexico, and publically advocated the adoption of the proposed framework agreement.

The collapse of the Mexican economy in 1982 provided the U.S. Council with a unique opportunity to espouse a bilateral trade and investment agreement as a solution for Mexico's economic woes. Mexican President José López Portillo's response to Mexico's economic crisis, specifically the nationalization of Mexico's banks in September 1982, created considerable animosity between Mexico's business leaders and officials in the Mexican government, a situation that inspired the U.S. Council to win the support of Mexico's business leaders. When López Portillo's term as president ended in the fall of 1982, it fell to his successor Miguel de la Madrid Hurtado to revitalize the Mexican economy and regain the support of Mexico's private sector. To this end, De la Madrid implemented the Programa Inmediato de Reordenación Económica (PIRE) in 1983. This program, implemented with the endorsement of the International Monetary Fund (IMF), was designed to restore Mexico's fiscal stability. Under PIRE, the Mexican government significantly depreciated the *peso*, announced plans to reduce the government's public

sector deficit from 18 percent of its Gross Domestic Product (GDP) in 1982 to 8.5 percent in 1983, a task that was achieved by “eliminating government subsidies on milk, bread, and other food staples, and limiting wage increases for Mexico’s workers.”¹ The Mexican government also implemented austerity measures that included increased sales and luxury taxes, which augmented Mexico's tax revenues by 124 percent.² Additional austerity measures involved the Mexican government setting higher prices for goods and services it provided such as gasoline, electricity, and telephone service.³ The De la Madrid administration believed PIRE would see an increase in revenues that, combined with a reduction in government spending, would reduce the nation’s fiscal deficit to half that of 1982 levels. This program was also created to satisfy IMF demands that the Mexican government reduce its spending on social programs. The IMF predicated its continued financial support, in the form of loans, on the adoption of economic policies that deregulated the Mexican economy, and in 1984, the Mexican government was in no position to risk losing IMF support. PIRE also required the Mexican government to modify the nation’s minimum wage and public-sector employees’ wages based on the anticipated inflation rate, rather than price increases, the government’s previous means for determining wages. The Mexican government deemed this indexation of wages as a fundamental measure for PIRE to be successful. This new policy was implemented to avert an “increase labor costs that would have fueled inflation.”⁴

In practice, PIRE failed to significantly alter the nation’s downward economic trend.

¹ "Mexico: Cause for Optimism," *Los Angeles Times* (Los Angeles, CA), September 6, 1983, sec. C, 4.

² Robert J. McCartney, "Economy is Under Control, De la Madrid Tells Nations," *Washington Post* (Washington, DC), September 2, 1983, sec. D, 8.

³ Alan Riding, "Mexicans Brace for Cheerless 1983," *New York Times* (New York, NY), January 1, 1983.

⁴ Nora Lustig, *Mexico: The Remaking of an Economy*, 2nd ed. (Washington, DC: Brookings Institution Press, 1998), 29-31.

True, some economic indicators showed improvement. For example, Mexico's inflation rate had improved from 98.9 percent in 1982 to 80.8 percent in 1983, but most economic indicators had gotten worse. Mexico's GDP growth was negative for the second year in a row, falling from a negative 0.7 percent in 1982 to negative 4.1 percent in 1983.⁵ The nation's real exchange rate had increased from 134.6 in 1982 to 143.8 in 1983, while real wages had fallen from 104 in 1982 to 81 in 1983 (both figures are based on a 1980-level of 100.00).⁶ When 1983 ended, Mexico owed \$93.8 billion in external debt, an amount that required over \$10 billion in annual interest payments. This debt accounted for 63 percent of Mexico's GDP.

The reduction in oil prices that had spurred Mexico's debt crisis continued in 1983 as the price of oil fell by \$2.4 in 1983.⁷ The decline in oil prices painted a difficult reality for Mexico, a nation that received 75 percent of its export income from petroleum exports.⁸ In need of capital, Mexico had successfully secured \$200 million in direct foreign investment during 1983; however, Mexico had lost over \$2 billion to capital flight in 1983 bringing the total loss of domestic capital since 1981 to over \$20 billion.⁹ It was apparent members of Mexico's private sector were unwilling to invest in the Mexican economy, especially while the Mexican government retained control of the banks that had been nationalized in 1982. Capital transfers, while protecting individual and corporate interests, limited the options available to the Mexican government and

⁵ Manuel Pastor and Carol Wise, "State Policy, Distribution, and Neoliberal Reform in Mexico," *Journal of Latin American Studies* 29, no. 2 (May 1997): 423.

⁶ Pastor and Wise, "State Policy, Distribution, and Neoliberal Reform in Mexico," 423; Sebastian Edwards, *Crisis and Reform in Latin America: From Despair to Hope* (Oxford: Published for the World Bank [by] Oxford University Press, 1995), 27.

⁷ Nora Lustig, *Mexico: The Remaking of an Economy*, 32-42.

⁸ Richard J. Meislin, "As Mexico Pumps Its Oil, the Graft Flows Freely," *New York Times* (New York, NY), January 18, 1984, A2.

⁹ Pastor and Wise, "State Policy, Distribution, and Neoliberal Reform in Mexico," 423; Nora Lustig, *Mexico: The Remaking of an Economy*, 40-42.

increased the state's reliance on external debt. Due in part to the reduction of capital, Mexico was forced to borrow \$2.9 billion from external sources including the IMF in 1984. As 1984 began, the Mexican economy appeared to be in worse shape than it had been during the oil collapse of 1982.

The U.S. Council Establishes Priorities for 1984

The first priority of the U.S. Council in 1984 was to convey the potential profits that would result from the passage of a bilateral framework agreement to attract the support individuals in the Mexican private sector. In January, under the direction of Rodman Rockefeller, the U.S. Council created the Task Team on Trade and Investment (Trade/Investment Team) and the Task Team on Capital Formation and Long-Term Debt (Capital/Debt Team).¹⁰ Initially these task teams were to be comprised of senior executives of the U.S. Council's member corporations. The Trade/Investment Team secured Stephen Vehslage, a vice president for IBM's World Trade Americas division, and William Roche, an executive vice president for Pfizer International, as the committee's co-chairs by April, but in many official documents IBM and Pfizer were listed as the team's co-chairs.¹¹ The membership of the Trade/Investment Team included executives from U.S. Council members such as DuPont, Ford Motor Company, General Electric, General Foods, General Motors, Monsanto, and Sears World Trade.¹² The

¹⁰ George W. Grayson, *The Mexico-U.S. Business Committee: Catalyst for the North American Free Trade Agreement* (Rockville, Md.: Montrose Press, 2007), 80.

¹¹ Note Listing Members of U.S. Council Task Teams, 1984, Folder 5, Box 2, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX; "U.S. Council of the Mexico-U.S. Business Committee Trade and Investment Team - Co-Chairs: IBM and Pfizer," April 18, 1984, Folder 5 Box 2, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

¹² Note Listing Members of U.S. Council Task Teams.

Investment/Trade Team first met on May 31, 1984.¹³

The Capital/Debt Team took more time to organize than the Trade/Investment Team. An undated document listing the members of both teams reveals that R. Hendrickson of Equitable, one of the team's early co-chairs had asked, "to be replaced as co-chair when convenient."¹⁴ Of the names on the list, which included William Rhodes of Citibank and Robert Hormats of Goldman Sachs, only co-chairs Robert Lorenz, Senior Vice-President of Security Pacific Bank, and Pedro Pablo Kuczynski, Co-Chairman of First Boston International, attended the team's first meeting, which did not take place until August.

The purpose of the Trade/Investment Team was to advance the interests of the U.S. Council and its members. This required the team to create a means to justify the changes to Mexico's legal system proposed by the U.S. Council's proposed bilateral framework agreement. To aid in their task, the Trade/Investment Team was specifically tasked with ascertaining Mexican views on laws such as the 1973 Law to Promote Mexican Investment and Regulate Foreign Investment, which regulated foreign investment. The task team was also to determine how Mexico's legal codes impacted exports that were deemed essential to the growth of Mexico's economy. The Trade/Investment Team was also asked to determine the "roles of U.S. companies and of the Mexican private sector, their potential partners" in achieving "a substantial increase in (Mexican) exports."¹⁵ Finally the Trade/Investment Team was to monitor decisions by the governments of both states concerning investment, then to develop strategies designed to help businesses in

¹³Gary L. Springer to Trade and Investment Task Team Members, U.S. Council Mexico-U.S. Business Committee, memorandum, "Steering Committee Meeting, May 4, 1984," May 31, 1984, Folder 1, Box 8, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

¹⁴Note Listing Members of U.S. Council Task Teams.

¹⁵"U.S. Council of the Mexico-U.S. Business Committee Task Teams: Outline of Work," January 24, 1984, Folder 3 Box 2, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

both nations resolve conflicts with the governments of Mexico and the U.S.¹⁶ These roles reveal an attempt by the U.S. Council to increase support in the Mexican business community by determining how best to increase the power of Mexico's private sector in Mexico's economy. This included identifying what legal and economic issues were of the most concern to Mexico's business leaders, working to address these concerns, providing Mexican businesses with information to navigate the U.S. legal system, and helping to identify U.S. firms that would act as partners for Mexican businesses that wanted to increase their exports. These efforts were hoped to show members of the Mexican private sector the U.S. Council's commitment to addressing the problems facing Mexican businesses while reinforcing the desire of U.S. businesses to work with Mexico's private sector for their mutual financial gain.

The creation of the Trade/Investment Task Team also redefined the role of the Trade Subcommittee of the U.S. Council of the Mexico-U.S. Business Committee (Trade Subcommittee) to further demonstrate the willingness of the U.S. Council to work with Mexican business leaders. It was determined that the Trade Subcommittee would continue its efforts to forge a bilateral commercial agreement between the U.S. and Mexico and revise its earlier proposals to reflect recent developments between the two nations. More importantly, the Trade Subcommittee was asked to examine "ways in which the proposed agreement relates to the specific interests of [Mexico-U.S. Business] Committee members."¹⁷ An attempt to emphasize links between the desires of the members of the MUSBC and the provisions outlined in the proposed trade agreement appears to have been an additional effort to show Mexican businesses the benefits of the

¹⁶ "U.S. Council of the Mexico-U.S. Business Committee Task Teams: Outline of Work."

¹⁷ "U.S. Council of the Mexico-U.S. Business Committee Task Teams: Outline of Work."

liberalization of trade and investment between the U.S. and Mexico; after all, by 1984 the U.S. Council had already convinced the majority of its members of the efficacy of the proposed trade agreement.

The Capital/Debt team was designed to help address the heavy foreign debts “each of the last two Mexican presidential administrations left many Mexican firms.”¹⁸ The task team would work to address the limited ability of firms to obtain credit since the Mexican government had nationalized Mexico’s banks in 1982. In an effort to provide Mexican firms with access to long-term private capital, the task team would assist in the creation of “a means of private capital formation in Mexico.”¹⁹ At a time when much of Mexico’s private sector was unwilling or unable to secure financing due to government control of the nation’s banks, the U.S. Council had created a task team designed to facilitate the creation of an alternative source of credit for Mexican businesses. The U.S. Council hoped this success would convince Mexican business leaders of the advantages of working with U.S. business interests and demonstrate the need for a bilateral trade and investment treaty.

The specific roles assigned to the U.S. Council’s task teams and the Trade Subcommittee reveal that the U.S. Council had considered the potential needs of Mexico’s private sector. However, an initial list of members reveals that the U.S. Council failed to include any members of the Mexican business community on the task teams or in the committee. While this decision might indicate that the U.S. Council chose not to include Mexican business leaders on their committees, considering the purposes of the task teams, it seems more likely that the U.S. Council’s allies in Mexico

¹⁸ "U.S. Council of the Mexico-U.S. Business Committee Task Teams: Outline of Work."

¹⁹ "U.S. Council of the Mexico-U.S. Business Committee Task Teams: Outline of Work."

were not invested in the U.S. Council's goals in early 1984. In the months that followed, it became increasingly apparent that the U.S. Council's efforts in Mexico had failed to attract the support of Mexico's private sector. This failure became apparent during a meeting of the Capital/Debt Team in August, which revealed that members of the Mexican and American private sectors did not always agree on the most effective ways to advance their mutual interests. Mexico's growing foreign debt and the associated debt service may have caused Mexican business leaders to be wary of accepting loans from the U.S. Council's "alternative source of credit" as it would have increased their dependence on foreign lenders. Despite the efforts taken by the U.S. Council, the adoption of the proposed bilateral framework agreement amongst Mexico's business community would come not from the efforts of the U.S. Council, but from the scion of one of Mexico's most prominent business families.

While the U.S. Council was developing strategies to win support in Mexico's business community, U.S. Secretary of Commerce Malcolm Baldrige reaffirmed the influence the U.S. Council had amongst key members of the U.S. Executive Branch. Speaking in Mexico City before the American Chamber of Commerce in Mexico (AMCHAM) on January 23, 1984, Baldrige referenced the MUSBC's proposed bilateral agreement as a strategy that merited serious consideration. Baldrige stated there were "leaders in Mexico's private sector who believe that such an agreement could be a good framework for a bilateral trade relationship." Baldrige maintained a framework agreement "could promote stability and predictability in our bilateral commercial relations, two factors important to potential foreign investors."²⁰ During his speech,

²⁰ Malcolm Baldrige, "Remarks of Secretary of Commerce Malcolm Baldrige Before the American Chamber of Commerce in Mexico" (speech transcript, Mexico City, MX, January 23, 1984).

Baldrige also called for increased foreign investment in Mexico, which he believed would help create new jobs for Mexican workers, provide the fiscal resources for Mexico to develop “world-class” industries, and allow those industries to not only meet the needs of the domestic market, but successfully export products to other countries.²¹

The impact of Baldrige’s speech is uncertain. AMCHAM was one of the U.S. Council’s supporting organizations and was likely to have supported the bilateral commercial agreement, Baldrige’s speech reveals the degree to which the proposed bilateral trade and investment agreement had gained support with members of the U.S. Executive Branch. Regardless of which group he was addressing it seems unlikely that a Cabinet-level official would espouse a proposed trade agreement in a speech that occurred in Mexico City if it did not have the support of many within the Reagan administration.

De la Madrid Alters Mexico’s Foreign Investment Requirements

In the early months of 1984, the De la Madrid administration sought to mitigate PIRE’s shortcomings by investigating new avenues through which Mexico could address the nation’s diminishing domestic capital. To be successful, the Mexican government would need to find a solution that satisfied lenders who were calling for increased foreign investment, but that would not alarm Mexican interests who opposed foreign influence in the Mexican economy. On February 16, the Mexican government announced that it would ease established prerequisites that required corporations operating in Mexico to have 51 percent domestic ownership. While this revised policy did not overturn investment requirements, it offered exceptions to companies that were willing to locate facilities outside of established industrial areas, those that would create new positions for

²¹ Baldrige, "Remarks of Secretary of Commerce."

Mexican workers, or those that were able to produce significant numbers of goods for export. Restrictions were lifted on thirty-four industrial sectors, most notably producers of industrial equipment such as “farm machinery, food processing equipment, textile manufacturing equipment, high-powered motors and generators,” and those sectors that provided services and high tech goods including “telecommunications, computers, pharmaceuticals, synthetic resins and plastics, [and] biotechnology.”²² The Mexican government also made concessions to permit additional opportunities for foreign investment in sectors where domestic capital for production could not be secured.²³

This revised investment policy was a clear acknowledgement of the Mexican government’s desire to increase the nation’s overall capital to replace the \$200 billion it had lost in the previous three years. The De la Madrid administration admitted these changes were designed to “respond to the concern of businesses to strengthen their finances and maintain their growth potential.”²⁴ This concession was also designed to restore the confidence of Mexico’s private sector in the hopes of stemming the outflow of domestic capital. This policy change was, in part, the Mexican government’s response to increased pressures from the international lending agencies such as IMF. Through financial pressures, these agencies, attempted to compel the Mexican government to adopt policies that conformed to an ideology that emphasized private investment as the most effective means to fight inflation, stabilize the economy, and persuade business leaders to reinvest in the Mexican economy. However, in the coming months, it became apparent that while the Mexican government was willing to revise its regulations to

²² Richard J. Meislin, "Mexico Relaxes Rules On Foreign Ownership," *New York Times* (New York, NY), February 17, 1984, D1.

²³ Richard J. Meislin, "Mexico Relaxes Rules On Foreign Ownership," D1.

²⁴ Richard J. Meislin, "Mexico Relaxes Rules On Foreign Ownership," D1.

satisfy foreign lenders, the new policy was not an open invitation to foreign investment.

In October, Mexico reached a tentative agreement with IBM to create a manufacturing plant in Mexico. Unlike previous manufacturing plants, this proposal would allow IBM to retain majority control of the facility, a practice that was established by the modifications to Mexico's foreign investment policy. As part of the proposed agreement, IBM would invest roughly \$300 million in the plant, which would export 90 percent of the 600,000 units it would produce to international markets.²⁵ Despite the fact that the proposed IBM plant met many of the qualifications outlined on February 16, the Mexican government rejected IBM's initial proposal in January 1985 because Mexico believed IBM's proposed investment was insufficient.²⁶ IBM and the Mexican government were unable to come to a definitive agreement until July of 1985.²⁷ IBM's example revealed that while open to foreign investment, officials in the Mexican government were not willing to abandon the practices outlined in the 1973 Law to Promote Mexican Investment and Regulate Foreign Investment. While the Mexican government was willing to accept foreign investment as a means attract capital, the government wanted to play a role in determining which investments would best serve the government's interests. Many officials in the De la Madrid administration including Héctor Hernández Cervantes, the Mexican Secretary of Commerce and Industry, believed a policy that failed to carefully regulate foreign capital in Mexico represented a threat to the nation's sovereignty.²⁸

²⁵ Richard J. Meislin, "I.B.M. Deal On Mexico Plant Seen," *New York Times* (New York, NY), October 26, 1984, sec. D, 1.

²⁶ Steve Frazier, "Mexico Gambles IMB Will Alter Plans for Factory," *Walls Street Journal* (New York, NY), January 21, 1985, 27.

²⁷ "IBM is Cleared by Mexico to Build 100%-Owned Unit," *Wall Street Journal* (New York, NY), July 24, 1985, 10.

²⁸ James M. Cypher and Raúl Delgado Wise, *Mexico's Economic Dilemma: The Developmental*

The Mexico-United States Business Conference

Likely buoyed by the Mexican government's revisions to its foreign investment policy on February 16, a select group of Mexican and American business leaders met on February 19 and 20 in Mexico City for the Mexico-United States Business Conference, an attempt for prominent members of both nation's private sectors to discuss issues of shared interest. Rodman Rockefeller was among those in attendance, a factor that was no doubt influenced by his relationship with Charles Barber of ASRCO, a member of the U.S. Council, who was one of the conferences chairs. This business conference afforded Rockefeller an excellent opportunity to convince powerful members of the Mexico's private sector, including Saturnino Suárez a member of CEMAI-US and Pablo García Barbachano a member of CEMAI, to adopt U.S. Council's liberalization strategy as a means to advance Mexican business interests. Jorge A. Chapa Salazar, the vice president of Mexico's National Confederation of Chambers of Commerce and president of the Comité Coordinador Empresarial (CCE), one of CEMAI-US's sponsoring organizations, was also scheduled to speak at the conference. In addition to providing Rockefeller opportunities to attract support from Mexico's private sector, the conference also presented Rockefeller an opportunity to share the utility of a bilateral trade and investment accord with Mexican officials including Héctor Hernández Cervantes and Mexican President De la Madrid.²⁹

This meeting, which was intended to foster discussions between business leaders on long-term economic issues that impacted the participants from both nations, also

Failure of Neoliberalism: A Contemporary Case Study of the Globalization Process (Lanham, MD: Rowman & Littlefield Publishers, 2011), 32.

²⁹ "Communiqué: Conference of Mexico-U.S. Private Sector Leaders," Folder 4, Box 2, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

highlighted the growing difficulties between the Mexican government and the private sector. In an address at the conference, Jorge Chapa blamed the Mexican government's intervention in the economy as one of the reasons for the nation's fiscal woes. Chapa maintained that policies employed by the government in the past, including price controls and public expenditure to stimulate the economy, as factors that contributed to the 1982 collapse, but failed to mention other factors that had contributed to Mexico's economic crisis including, falling oil prices, reliance on external debt, the loss of domestic capital, disparities in Mexico's trade relations, and high real world interest rates. Chapa highlighted a sharp increase in public spending from 1964 to 1982 as a factor that created a "growing disparity in supply and demand," which in turn "brought forth a rising process of inflationary pressures."³⁰ Finally, Chapa criticized the government practice of obtaining loans denominated in foreign currencies and claimed the government had overestimated the exchange rate of the *peso*.³¹ Despite his many grievances with past policies, Chapa noted his approval for policies including PIRE, which were designed to fight inflation, reduce public expenditure, a euphemism for decreasing monetary allocations for social programs and government subsidies, and increase tax revenues. Chapa's speech confirmed Rodman Rockefeller's suspicions that the U.S. Council was well positioned to convince members of Mexico's private sector to endorse the U.S. Council's liberalization strategy. After all, reducing the Mexican government's influence over the country's trade and investment policies would serve the mutual interests of large Mexican businesses and U.S. Council's corporate members.

Conference attendees expressed faith in the long-term financial capabilities of both

³⁰ Jorge A. Chapa, "Report on Domestic Economic Situation of Mexico" (address transcript, Mexico-United States Business Leaders Conference, Mexico City, Mexico, February 19, 1984).

³¹ Jorge A. Chapa, "Report on Domestic Economic Situation of Mexico."

nations. Participants sought the most effective means to ensure the combined interests of both countries' private sector, interests that were portrayed as an effective means to ensure "sound and sustainable long-term economic growth in both countries."³² The assembled business leaders recognized ambiguities in the political and economic relationships between the Mexico and the U.S. were significant factors limiting the willingness of private capital to invest in "productive enterprise that can create jobs, incomes, exports and economic growth."³³ The attendees suggested that both states commit to the negotiation of sectoral agreements that would allow for the flow of more exports between the two countries and to the overall expansion of exports. It was further suggested that Mexico investigate ways to attract foreign investment as a means to "assist domestic private capital in increasing productive investment" in Mexico.³⁴ Finally, the U.S. Council's proposed bilateral framework agreement was cited as a constructive source on which to begin negotiations that would allow businesses in both nations to access, and profit from, each other's markets.³⁵

The binational makeup of the conference also makes it difficult to ascertain the degree to which Mexican business leaders supported resolutions pertaining to a trade and investment agreement. In addition to Barber and Rockefeller, Glenn C. Bassett, the Managing Director of the Council of the America's, one of the U.S. Council's sponsors, was in attendance, and all three of these men had clear incentives to use the conference as a means to advance the U.S. Council's agenda in hopes of garnering support from potential allies in Mexico. There is, however, little uncertainty regarding the language

³² "Communiqué: Conference of Mexico-U.S. Private Sector Leaders."

³³ "Communiqué: Conference of Mexico-U.S. Private Sector Leaders,"

³⁴ "Communiqué: Conference of Mexico-U.S. Private Sector Leaders,"

³⁵ "Communiqué: Conference of Mexico-U.S. Private Sector Leaders,"

employed in the conference communiqué, which suggests a shared vision of the ideal economic relationship between the two nations. Participants believed that investments in Mexico should enhance the nation's export capabilities, specifically citing investments in "plant[s], equipment, and technology that will make effective use of Mexico's human and material resources."³⁶ Export growths would enable Mexico to "purchase imports from the U.S." especially "those involving the kinds of equipment and technology that could make the most productive uses of Mexico's special human and natural resources."³⁷ In other words, those present believed it was in the best interest of both nations' business communities for the U.S. to produce advanced exports for sale in Mexican markets and for Mexico to supply inexpensive labor and access to affordable natural resources to American firms. These views confirmed the desirability for partnerships that would allow businesses in both nations to maximize their fiscal gains, a strategy that was central to the U.S. Council's plan to liberalize Mexico's policies on trade and investment.

Rodman Rockefeller appears to have seen the Mexico-United States Business Conference as a confirmation of the U.S. Council's strategy and contacted several key Mexican attendees including Mexican banker José Juan de Olloqui and Saturnino Suárez. In his letter to Suárez, Rockefeller attempted to secure more support for the U.S. Council's initiatives in Mexico. Rockefeller's letter to Suárez reiterates the emphasis conference attendees placed on a framework that would create a more reliable environment with trade between the U.S. and Mexico. More importantly, Rockefeller's letter contains an appeal to the U.S. Council's Mexican allies to support a bilateral trade agreement requesting that "the achievement of such a negotiation would continue to be a

³⁶ "Communiqué: Conference of Mexico-U.S. Private Sector Leaders."

³⁷ "Communiqué: Conference of Mexico-U.S. Private Sector Leaders."

high priority for CEMAI and CCE.”³⁸ Rockefeller’s letter reveals that the U.S. Council had yet to secure the support it desired from Mexico’s business leaders. The letter also expresses the U.S. Council’s desire for its Mexican allies to entreat with the Mexican government on behalf of the proposed bilateral framework agreement, promising that the U.S. government would support any trade negotiations proposed by the Mexican government. Having laid out his request for more aid for the U.S. Council’s initiatives, Rockefeller closed by suggesting the creation of a business relationship between their respective corporations.³⁹ The proposed partnership would have served the personal interests of both men, but Rockefeller’s offer may have also been a means to entice Suárez to support the U.S. Council’s efforts in Mexico. If Suárez responded to Rockefeller, it is absent from the records of the U.S. Council, and Rockefeller was especially diligent in preserving copies of both his incoming and outgoing correspondence. Whatever the response he received from the letters he sent following the conference in Mexico City, it appears connections Rockefeller made at the conference failed to yield an ally willing to advance the interests of the U.S. Council and its member corporations in Mexico.

Mexico Rethinks its Pharmaceutical Industry

On February 25, the Mexican government announced a new policy designed to reduce the influence of multinational drug companies in Mexico and foster the nation’s domestic pharmaceutical industry. The Mexican Ministry of Commerce and Industrial Development, under the leadership of Hector Hernández Cervantes, sought to increase

³⁸ Rodman C. Rockefeller to Saturnino Suárez, February 27, 1984, Folder 3, Box 2, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

³⁹ Rockefeller to Suárez.

consumption of Mexican pharmaceuticals in the country's market by 17 percent over four years in an effort to mitigate a \$200 million trade imbalance in the pharmaceutical sector. In 1984, 75 multinational corporations accounted for 72 percent of pharmaceutical sales in Mexico, with 242 domestic companies accounting for 28 percent of sales. Hernández expressed deep concerns about discrepancies of as much as 150 percent in the prices of different brands of medicines.”⁴⁰

To address its concerns, the Mexican government planned to decentralize the pharmaceutical industry in Mexico. This included a reduction of the list of basic medicines the nation permitted, new restrictions on foreign-owned pharmaceutical companies, and new financial assistance to Mexican drug companies including new preferential loan rates. Most importantly, Mexico prohibited foreign investment in the Mexican pharmaceutical industry except in cases “when the product to be made substitutes for imported materials, is self sufficient in terms of foreign exchange, is internationally competitive, is exportable in significant quantities,” and adheres to the government's new policies designed to decentralize the Mexican pharmaceutical industry.⁴¹ Mexico's sudden shift in governmental rules that applied to the pharmaceutical industry alarmed investors and business leaders who saw the Mexican government as unpredictable and renewed fears that the Mexican government would once again appropriate foreign investments. Despite De la Madrid's pronouncements that Mexico was open to foreign investment, an anonymous foreign banker in Mexico questioned Mexico's desire to attract foreign investment. The anonymous foreign banker

⁴⁰ "Mexico to Reorganize Pharmaceutical Industry," *Wall Street Journal* (New York, NY), February 27, 1984, 30.

⁴¹ Richard J. Meislin, "Mexico Restricts Foreign Drug Units," *New York Times* (New York, NY), February 25, 1984.

advised potential investors to wait before they invested in Mexico.⁴² The restrictions on investment were especially unpopular with U.S. Pharmaceutical firms. William Roche, an executive vice president of Pfizer International and the co-chair of the U.S Council's Trade/Investment Team, argued, "the most disturbing aspect of the recent pharmaceutical decree is that it represents a trend in [Mexico for] nationalistic, inward looking policies that actively and openly discriminate against foreign investment."⁴³ When asked if he believed multinational drug companies would still do business with Mexico, Hernández asserted, "the Mexican market is important to them."⁴⁴ Hernández's assumption appears to have been correct. Four months after the pharmaceutical decree an anonymous member of the pharmaceutical industry noted that drug companies would not "pull out of Mexico." However, the anonymous interviewee also believed that pharmaceutical companies would not make any efforts to improve their subsidiaries in Mexico.⁴⁵ While it may have helped Mexico's pharmaceutical industry, the reversal of Mexico's policy in such a short period of time had a lasting impact on investors' confidence and may have accounted for a portion of the \$650 million decline in foreign investments made in Mexico between 1983 and 1984.⁴⁶

The U.S. Council and the Reagan Administration

Starting in March 1984, the U.S. Council worked to enhance its relationship with officials in the Office USTR. Belton T. Zeigler, an associate at the law firm of Arnold

⁴² Steve Frazier, "Mexico's Investment Rules Raise Skepticism," *Wall Street Journal* (New York, NY), June 12, 1984, 39.

⁴³ M. William Roche to Rodman C. Rockefeller, August 8, 1984, Folder 2 Box 8, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁴⁴ Richard J. Meislin, "Mexico Restricts Foreign Drug Units," *New York Times* (New York, NY), February 25, 1984.

⁴⁵ Frazier, "Mexico's Investment Rules Raise Skepticism," 39.

⁴⁶ Pastor and Wise, "State Policy, Distribution, and Neoliberal Reform in Mexico," 423.

and Palmer, met regularly with Marion Barell, Deputy Assistant for the U.S. Trade Representative for Industry, Office of the USTR and Anne Hughes, Deputy Assistant Secretary for the Western Hemisphere, Office of the USTR, throughout 1984. Zeigler relayed information attained during these conversations to fellow Arnold and Palmer attorney Robert E. Herzstein through a series of memos.⁴⁷ One of Zeigler memos reveals that Jorge Chapa, the president of CCE, was an advocate that Mexico join the General Agreement on Tariffs and Trade (GATT) and that when Zeigler asked Anne Hughes how the U.S. Council could support Chapa's efforts, Hughes responded that "Chapa can't take money from us [the U.S. Council] directly," but advised Zeigler that members of the U.S. Council could pay for an "economic forecasting service," that would serve as "a means to providing financial support." According to Hughes, Chapa had approached Rodman Rockefeller with a similar offer while Rockefeller was in Mexico.⁴⁸ Hughes' statement reveals that the U.S. Council may have been so eager to foster support in the Mexican business community that its closest allies believed the U.S. Council was providing financial assistance to members of Mexico's private sector.

While Zeigler was trying to ascertain information regarding the U.S. foreign trade policy, the Reagan Administration made a decision regarding the domestic trade policies in the U.S. that significantly limited the U.S. Generalized System of Preferences (GSP), a program that allowed Mexico and other nations to export over 3,000 duty free products to the U.S. On March 27, 1984, William Brock announced that the U.S. would reduce the

⁴⁷ These memos reveal information including opinions expressed by William Brock, the U.S. Trade Representative, the progress being made on specific trade negotiations, and conversations with members of the Mexican business community including Jorge Chapa, which the U.S. Council used to its advantage

⁴⁸ Belton T. Zeigler to Robert E. Herzstein, "Conversation with Anne Hughes," April 3, 1984, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

list of products allowed under the GSP. This move by the Reagan administration represented a departure from the U.S. Executive Branch's insistence on trade liberalization policies. This change in policy was justified as an attempt to "head off some of the opposition to the [upcoming] renewal of the [GSP] program."⁴⁹ Labor unions such as the United Auto Workers and Democratic presidential candidates Walter Mondale and John Glenn had rallied for legislation designed to protect American industries and workers from foreign competition in early March. However in April, Richard Meislin of the New York Times revealed a prevalence of reports that the Reagan administration was "prepared to use economic pressure to make Mexico more amenable to its views," specifically De la Madrid's opposition to U.S. military involvement in Central American nations including El Salvador and Nicaragua.⁵⁰ These reports suggest that the reduction of Mexican exports allowed under the GSP program may have been an attempt to influence Mexican foreign policy, which in turn indicate that the Reagan administration was committed to trade liberalization as long as it served the administration's interests.

The first meeting of Trade/Investment Team held on May 4 addressed what U.S. Council perceived to be protectionist measures within the U.S. that were impeding the U.S Council's efforts to convince Mexican businesses of the need to increase exports. Of particular importance to the task team were the renewal of the GSP legislation to take place in 1985, and an examination of the application of countervailing duties by American businesses. The desire to resolve these issues coincided with the

⁴⁹ Clyde H. Farnsworth, "U.S. Cuts List of Duty-Free Imports," *New York Times* (New York, NY), March 28, 1984, sec. D, 1, 21.

⁵⁰ Richard J. Meislin, "De la Madrid Faces a Tougher Audience," *New York Times* (New York, NY), April 15, 1984, sec. E, 2.

Trade/Investment Team's mandates to identify issues of importance to Mexico's private sector and to provide support for Mexican businesses having difficulty with the U.S. legal system.

The Trade/Investment Team believed that the result of the 1984 U.S. elections would signal the end of the GSP program and suggested "a rider extension tagged on another piece of legislation can be expected."⁵¹ The task team also noted that any future GSP legislation would include "Executive privilege to withdraw GSP coverage in countries that do not allow for protection of intellectual property" and that "GSP extension will be conditional upon open market access."⁵² The issue of intellectual property rights proved to be a significant issue for the U.S. Council when dealing with a potential bilateral trade and investment treaty in the future. The Trade/Investment Team also perceived conflicts over countervailing duties to be an issue of concern within the Mexican private sector. The Task Team maintained that the proliferation of U.S. firms perusing countervailing duty cases against Mexican industries were at odds with attempts by the U.S. Executive Branch and groups such as the USMBC to promote the liberalization of trade between the U.S. and Mexico. Those assembled feared Mexico would perceive countervailing duty cases as an indication that the U.S. government was protecting American industries while calling for Mexico to open its market to increased U.S. trade. The team maintained that countervailing duties hindered the ability of Mexican firms to export goods to the U.S., a situation that was not only confusing for Mexican exporters, but could hinder the efforts the U.S. Council was making in

⁵¹ Springer to Trade and Investment Task Team Members, U.S. Council Mexico-U.S. Business Committee, memorandum, "Steering Committee Meeting, May 4, 1984."

⁵² Springer to Trade and Investment Task Team Members, U.S. Council Mexico-U.S. Business Committee, memorandum, "Steering Committee Meeting, May 4, 1984."

convincing the Mexican business community to increase exports. The Task Team reiterated the goal of the U.S. Council was to “liberalize trade on both sides of the border” and expressed the hope that a visit of Mexican President Miguel de la Madrid to U.S. in May might see the conclusion of debates over GSP imports and countervailing duties.⁵³ The Trade/Investment Team also determined that the Trade Subcommittee should continue with the tasks it was assigned in January and suggested the Trade Subcommittee work to ensure political leaders in Mexico and the U.S. were “aware of the need for a bilateral treaty,” while taking care not to place “undue pressure on either side.”⁵⁴

De la Madrid Visits Washington D.C.

President De la Madrid made an official visit to the U.S. to meet with President Reagan and address the U.S. Congress on May 16, 1984. In a speech made after his arrival at the White House, De la Madrid noted trade, tourism, finance, and investment were important topics the two leaders needed to address. De la Madrid maintained that the crisis facing many Latin American nations was “hampering the efforts of developing countries to pursue their goal of economic and social progress.” De la Madrid acknowledged U.S. support of Mexico’s plans for overcoming the Mexican economic crisis and called for U.S. assistance to “help surmount difficulties in our trade relations.”⁵⁵ The following day, De la Madrid spoke before the U.S. Congress. He used this opportunity to argue that many of the economic difficulties facing Mexico and other

⁵³ Springer to Trade and Investment Task Team Members, U.S. Council Mexico-U.S. Business Committee, memorandum, "Steering Committee Meeting, May 4, 1984."

⁵⁴ Springer to Trade and Investment Task Team Members, U.S. Council Mexico-U.S. Business Committee, memorandum, "Steering Committee Meeting, May 4, 1984."

⁵⁵ "Excerpts from Remarks by the Two Presidents," *New York Times* (New York, NY), May 16, 1984, sec. A, 4.

Latin American Nations were due in part to domestic factors. He asserted that “decisive elements” of the economic crisis lay “within the structure of the international economy.” De la Madrid cited external debts and high interest rates as factors that had contributed to Mexico’s economic crisis, but stressed that, “growing protectionism practiced by advanced economies,” were “at the same time, the cause and the effect of the crisis.”⁵⁶ At the time of De la Madrid’s visit, Mexico was actively engaged in the negotiation of a trade agreement with the U.S. that sought to eliminate the American practice of imposing countervailing duties on Mexican imports - a policy aimed at protecting U.S. businesses from foreign competition.

Negotiations for an agreement to reduce trade barriers between the U.S. and Mexico had progressed to the point that members of the Reagan administration believed De la Madrid’s arrival in Washington would help the two nations to finalize the accord, a belief confirmed by Anne Hughes in a May 11 conversation with Belton Zeigler.⁵⁷ The Office of the U.S. Trade Representative was so confident it had distributed a memo containing a draft of the agreement on May 7, 1984, and sought feedback from selected advisors in the American private sector. The draft of the trade agreement reveals that Mexico was offering to eliminate export subsidy programs such as the Certificado de Devolución de Impuesto (CEDI) if the U.S. would agree to terminate the practice of imposing countervailing duties on exports subsidized by the Mexican government. More specifically, Mexico requested the U.S. agree to a policy in which “no presumption that

⁵⁶ “Excerpts from Address by Mexican to Congress,” *New York Times* (New York, NY), May 17, 1984, sec. A, 14.

⁵⁷ Stephen Engelberg, “Mexican Leader to Meet with Reagan Today,” *New York Times* (New York, NY), May 15, 1984, sec. A, 3; Belton T. Zeigler to Robert E. Herzstein, “Conversation with Anne Hughes,” May 11, 1984, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

incentives granted by the Government of the United States of Mexico result in adverse effects to the trade or production of the United States,” in countervailing duty cases. The U.S. also agreed that in countervailing duty cases, adverse effects had to “be demonstrated by positive evidence, through formal investigation procedures.”⁵⁸ In the draft, the U.S. retained the right to impose countervailing duties on Mexican exports that received other forms of subsidy from the Mexican government, but the U.S. allowed that it would provide Mexican products with “treatment no less favorable than that accorded the products of other countries.”⁵⁹ The provision of the 1984 accord closely mirrored those of the proposed 1982 trade agreement. However, the 1982 version of the agreement did not contain information pertaining to the treatment of Mexican products and the 1984 version omits any reference to Fondo para el Fomento de las Exportaciones de Productos Manufacturados.⁶⁰ The proposed 1984 agreement provided more favorable terms for Mexico than the 1982 accord. Mexico’s willingness to renegotiate the trade agreement reveals that the Mexican government was actively working to overcome protectionist practices employed by the U.S. government, which were negatively affecting Mexican exports. De la Madrid’s critique of “growing protectionism practiced by advanced economies,” demonstrates an awareness that rhetoric of free trade employed by the Reagan administration was not based in ideological concerns for the elimination of trade barriers, but rather a means to ensure the interests of American businesses by providing them access to foreign markets in which to sell their goods. Mexico’s role in

⁵⁸ Memorandum by Phyllis Bonanno, "Status of U.S.-Mexico Subsidies Negotiations," May 7, 1984, Folder 6, Box 2, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas Austin, Austin, TX.

⁵⁹ Memorandum by Bonanno, "Status of U.S.-Mexico Subsidies."

⁶⁰ William E. Brock to Private Sector Advisors, memorandum, "Bilateral Subsidies Agreement with Mexico," October 21, 1982, Folder 5, Box 7, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

these trade negotiations demonstrate that the De la Madrid administration was willing to explore policies that had been rejected by earlier administrations to improve Mexico's economy

Mexican Officials Begin Debt Renegotiations with Commercial Banks

In May 1984, the De la Madrid Administration also addressed Mexico's rising debt service obligations. On May 24, 1984, CIEP, a Colombian news agency, published a draft proposal that had reportedly been circulated by the governments of Argentina, Brazil, Colombia, and Mexico. The proposal alleged the four nations sought to restructure their debt payments as a response to recent increases in U.S. interest rates. While an anonymous Mexican official denied the government of Mexico had anything to do with the document, it was clear that repayment plans private banks had established for these nations would soon have a detrimental influence on the economies of many Latin American nations.⁶¹

The potential for a renewed Latin American debt crisis became apparent in June. Paul Volker, the chairman of the U.S. Federal Reserve, advocated the renegotiation as part of a larger strategy to reward nations who had "successfully reined in their economies."⁶² Volker's statement implied that Mexico's lenders would use debt renegotiations as a means to leverage the Mexican government into adopting policies that would open the Mexican economy to foreign trade and investment. Jacques de Larosière, the director of the IMF, had also encouraged banks to ease repayment terms for countries such as Brazil and Mexico in a June 4, speech in Philadelphia. De Larosière "suggested

⁶¹ Richard J. Meislin, "Latin Plan on Debt Reported: Would Extend Repayments," *New York Times* (New York, NY), May 25, 1984, sec. D, 1-2.

⁶² S. Karene Witcher, "Banks Give Ground on Mexico Debt Terms in Exchange for Close Watch on Economy," *Wall Street Journal* (New York, NY), August 30, 1984, 23.

that banks refinance existing debt for longer terms and that they step up trade financing and other medium-term lending to private enterprise” as a means to reward Mexico for the work it had done to improve the nation’s economy.⁶³ This statement implied that the IMF would support the renegotiation of Mexico’s debts as if Mexico continued to maintain domestic austerity measures and adhere to economic policies endorsed by the IMF. On June 5, 1984, Citibank acting as a spokesperson for a steering committee comprised of 11 (later 13) banks revealed that foreign banks were willing to enter into negotiations with Mexico to reschedule the nation’s public-sector foreign debt. Citibank intimated that the steering committee was willing to extend principal payments on private loans for several years and like Volker and De Larosière, suggested banks were willing to explore terms more beneficial to Mexico as an indication to other debtor nations that improved economic performance would be rewarded.⁶⁴ Negotiations between Mexico and commercial banks were scheduled for August 1984.

The U.S. Council’s Ally in Mexico

While Mexico worked with its creditors to reduce its debt burdens, the Trade Subcommittee, which had provided the foundation of the U.S. Council’s liberalization strategy, met on June 21, 1984. In his report, Robert Herzstein noted the bilateral negotiations between the U.S. and Mexico from the month before had been stalled by disputes over the regulation of pharmaceutical products, but claimed the governments of both nations were still committed to reaching an agreement. Herzstein reiterated his belief that a bilateral agreement between the U.S. and Mexico might provide a “bridge to

⁶³ "IMF Director Urges Easing of Debt Terms for Certain Countries," *Wall Street Journal* (New York, NY), June 5, 1984, 7.

⁶⁴ Michael R. Sesit and Steve Frazier, "Mexico, Foreign Banks Agree to Work Out Plan to Reschedule Several Years of Debt," *Wall Street Journal* (New York, NY), June 6, 1984, 37.

GATT for the Mexicans,” which would in turn provide “an advantage for the U.S. and U.S. firms.”⁶⁵ During their meeting, the Trade Subcommittee decided to prepare a draft paper linking trade, investment, and capital formation for the MUSBC Plenary meeting to be held in Ixtapa, Zihuatanejo, Mexico from November 7-10. This paper was intended as “a flexible vehicle to deal with trade and investment issues,” and Herzstein and Erb were tasked with requesting that CEMAI-US identify “persons in Mexico with similar interests” to assist them in producing a final paper.⁶⁶ The decision to include representatives from CEMAI-US was a shift in the workings of the Trade Subcommittee, and was indicative of increased cooperation between U.S. Council and members of CEMAI-US following the appointment of a Enrique Madero Bracho as the new chairman of CEMAI-US.

At the June 26, 1984 meeting of the U.S. Council, Rodman Rockefeller announced the appointment of Enrique Madero Bracho as the new chairman of CEMAI-US. While it is not clear if the U.S. Council played a significant role in Madero Bracho’s appointment, his influence on the future of the U.S. Council’s plans was immediately apparent.⁶⁷ Madero Bracho was born in the city of Durango, Durango, Mexico in 1927. His father, Enrique Madero Olivares, was the founder and longtime president of Minera Autlán, the largest magnesium mine in Mexico. Madero Bracho’s grandfather, Ernesto Madero Farias, had served as the Mexican Secretary of Treasury under the presidency of Francisco I. Madero (1911-1913), who was also Enrique Madero Bracho’s second cousin.

⁶⁵ Gary L. Springer to Robert Herzstein, memorandum, "Minutes, Trade Subcommittee Meeting, June 21, 1984," July 10, 1984, Folder 2 Box 8, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁶⁶ Springer to Herzstein, memorandum, "Minutes, Trade Subcommittee Meeting."

⁶⁷ I have chosen to use “Madero Bracho” when referring to Enrique Madero Bracho to distinguish him from the other members of the Madero family mentioned in this thesis.

Madero Bracho earned a degree in business administration from the Instituto Tecnológico Autónomo de México in 1948 and, after attaining his degree, served as a manager for Minera Central for five years before accepting a position as manager of Minera Autlán in 1953. Madero Bracho became the Director General of Minera Autlán in 1968, a position he held until he assumed the position of President of the Board of Minera Autlán in 1984. Madero Bracho served on the board of the Employers Association of Jalisco and was made President of the Mining Chamber of Mexico in 1976, two appointments that enhanced Madero Bracho's reputation amongst fellow Mexican business leaders.⁶⁸

Madero Bracho's appointment as the chairman of CEMAI-US marked a significant change in the organizations attitude towards and commitment to a bilateral trade and investment agreement between Mexico and the U.S. As the Director General of Minera Autlán, Madero Bracho was familiar with the pressures facing Mexican businesses, but also had a keen understanding of American business practices. Madero had served on the boards of American companies such as John Deere and Eastern Airlines.⁶⁹ Minera Autlán also had strong ties to American firms, and was a major supplier of magnesium to Bethlehem Steel.⁷⁰ Madero Bracho's business experience made him a desirable CEMAI-US chair, but it was his enthusiasm for trade liberalization, a trait that he shared with Rodman Rockefeller, that set Madero Bracho apart from previous leaders of CEMAI-US. The MUSBC co-chairman believed if they could "unite their respective business communities to shatter obstacles to bilateral economic cooperation... this collaboration would prove profitable to entrepreneurs."⁷¹ Over the coming years, Madero Bracho and

⁶⁸ Roderic A. Camp, *Who's Who in Mexico Today* (Boulder: Westview Press, 1988), 107-108.

⁶⁹ Roderic A. Camp, *Who's Who in Mexico*, 107-108.

⁷⁰ Grayson, *The Mexico-U.S. Business Committee*, 77-80.

⁷¹ Grayson, *The Mexico-U.S. Business Committee*, 77-80.

Rockefeller worked to increase the membership of their respective organizations, create effective working committees, and eliminate any distrust that existed between Mexican and American businesses leaders. Madero Bracho and Rockefeller developed a close working relationship and coordinated their efforts through bi-weekly phone conversations.⁷² Madero Bracho was so convinced that a bilateral trade and investment agreement was an effective means to advance his personal interests and the interests of Mexico's private sector that he continued to consult with Rockefeller even after he had resigned as chairman of CEMAI-US.

Madero's influence on the U.S. Council's efforts in Mexico was immediate. At the June U.S. Council meeting, Guy Erb reported that CEMAI-US had formed its own trade and investment team and that he believed the future efforts of the MUSBC would be "much stronger than in the past given the added strength in leadership of the Mexican Section [CEMAI-US]."⁷³ Stephen Vehslage, also noted a "renewed commitment of the Mexican Section [CEMAI-US] to take an activist role in the Committee [MUSBC] and for the private sector in Mexico," and that CEMAI-US was "actively recruiting membership from like-minded individuals regarding the need for foreign investment."⁷⁴ While Erb and Vehslage do not name Madero Bracho, it is apparent that his appointment had reenergized CEMAI-US. In fact, CEMAI-US's commitment to take an active role in the Mexican private sector was something that Rockefeller had been working to achieve since February. Madero Bracho's appointment as CEMAI-US chairman may have been

⁷² Grayson, *The Mexico-U.S. Business Committee*, 77.

⁷³ Gary L. Springer to Members of the U.S. Council, Mexico-U.S. Business Committee Members of the U.S. Council, Mexico-U.S. Business Committee, memorandum, September 4, 1984, Folder 7, Box 2, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁷⁴ Springer to Members of the U.S. Council, Mexico-U.S. Business Committee, memorandum.

the single most influential factor in the U.S. Council's efforts to realize a bilateral trade and investment agreement, as the U.S. Council was unable to influence the Mexican government's position without assistance from within Mexico. In June 1984, the U.S. Council still believed that the issue of foreign investment represented a significant obstacle that needed to be overcome if the bilateral trade and investment agreement was to be a success.

Despite the changes that resulted from Madero Bracho's appointment as CEMAI-US chair, the U.S. Council noted reservations amongst members of Mexico's private sector regarding the utility of foreign investment. Members of the U.S. Council identified this reluctance as a considerable setback to the realization of their agenda, stating that while the negotiation of a bilateral trade accord would be difficult, it would be "much more difficult to come to an agreement on common issues of investment."⁷⁵ Vehslage encouraged members to "find common ground for discussion with representatives of the Mexican private sector since a great deal of ambivalence remains in their attitude toward foreign investment."⁷⁶ The attendees at the U.S. Council meeting agreed that a significant effort was needed to "identify those in Mexico--in and out of the government--who will join the search for common ground on substantive investment issues."⁷⁷ The call for a greater focus on investment reveals more about the U.S. Council than it does the Council's Mexican counterparts. For the U.S. Council, a bilateral accord would be incomplete without provisions allowing the U.S. private sector access to investment opportunities in Mexico. Over the course of 1984, it became apparent that while the leaders of the U.S. Council advocated for increased export production in Mexico, many

⁷⁵ Springer to Members of the U.S. Council, Mexico-U.S. Business Committee, memorandum.

⁷⁶ Springer to Members of the U.S. Council, Mexico-U.S. Business Committee, memorandum

⁷⁷ Springer to Members of the U.S. Council, Mexico-U.S. Business Committee, memorandum

members of the U.S. Council, including William Roche, believed the U.S. Council needed to place a greater emphasis on foreign investment in Mexico to ensure the interests of all of the U.S. Council's member corporations were being served.

While the U.S. Council worked to secure Mexican support for foreign investment, Madero Bracho continued his efforts to organize the members of CEMAI-US and to enhance his relationship with counterpart in the U.S. Council. In a letter to Madero Bracho on July 16, Rodman Rockefeller noted he was "delighted to work together with you [Madero Bracho] and look forward to making a major contribution to improving the prospects and relationships of the private sectors of our two countries."⁷⁸ In fact, Rockefeller believed that in the short time he had been working with Madero Bracho, the two allies had made more progress in creating a comprehensive program to advance the interests of the members of both sections of the MUSBC than had been accomplished to that point. During the first two months of his tenure, Madero Bracho had secured a location for the first meeting of the Capital/Debt Team and recruited members of the Mexican business community to serve on the committee. These were welcome additions as the U.S. Council had been unable to secure chairs for the task team as of the June 26 meeting of the U.S. Council.⁷⁹

In a July 16 letter to David Rockefeller, Rodman Rockefeller related the success of a recent meeting with Madero Bracho and other members of CEMAI-US. Rodman Rockefeller noted that the two sections of the MUSBC had developed a number of new ideas, including "a collaborative effort to sustain and redevelop the Mexican private

⁷⁸ Rodman C. Rockefeller to Enrique Madero, July 16, 1984, Folder 6, Box 2, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁷⁹ Springer to Members of the U.S. Council, Mexico-U.S. Business Committee, memorandum

capital markets,” an idea that Mexican business leaders viewed as favorable.⁸⁰ At a July 25 meeting, David Rockefeller and Madero Bracho agreed that 1984 represented a decisive moment in the commercial relationship between the U.S and Mexico, and that as a result, “the effectiveness of the Committee [the MUSBC] must be bolstered in every way.”⁸¹ During the meeting Madero Bracho made several suggestions that David Rockefeller found worthy of exploration, including the creation of a small group of executives that would meet to consider issues of broad public concern typically outside of the purview of the MUSBC.⁸² David and Rodman Rockefeller believed Madero Bracho was an insightful business leader who understood potential profits an alliance with the U.S. Council offered large Mexican corporations. By fostering a more collaborative relationship between American and Mexican business leaders, Madero Bracho ensured that he would play a key role in directing the efforts of the MUSBC in Mexico. He also understood that developing working relationships with key American business leaders and financiers would greatly enhance his personal financial interests. Following his meeting with David Rockefeller, Madero Bracho secured an unpublished list of members belonging to the American Chamber of Commerce of Mexico for David Rockefeller. Madero Bracho also took care to note which names on the list would be viable recruitment targets of the MUSBC and gave potentially confidential insights including, “Ford Motor Company is investing about \$500 million in a new manufacturing plant in Hermosillo, State of Sonora, Mexico,” and that Ford Motor Company and Deere &

⁸⁰ Rodman C. Rockefeller to David Rockefeller, July 16, 1984, Folder 6, Box 2, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX

⁸¹ David Rockefeller to Rodman Rockefeller, July 28, 1984, Folder 6, Box 2, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁸² David Rockefeller to Rodman Rockefeller.

Company were “the two tractor manufacturers who will prevail in the Mexican market.”⁸³ Within the first months of his appointment as CEMAI-US chair, Madero Bracho had played an important role in ensuring the success of the U.S. Council’s liberalization strategy in Mexico.

The Effects of Mexico’s Debt Renegotiation

The Mexican government and private banks met between August 6 and 25 to discuss the renegotiation of Mexico’s debt. During these negotiations, Mexico proposed the postponement of principal payments to be paid between 1985 and 1990, and requested to reconsider the terms on payments totaling \$20 billion that were due later in 1984. After the final session, Citibank, speaking on behalf of the banking steering committee, reported that significant progress had been made. The steering committee recommended that private banks extend repayment on Mexican loans totaling \$90 billion. However, none of Mexico’s lenders could agree to any new payment schedules, until the 500 other banks that had extended loans to Mexico were consulted.⁸⁴

On August 29, Mexico’s major lenders announced the formal approval of a debt restructuring agreement with Mexico. While not all members of the 13-member negotiating committee or the 500 other banks that held Mexican debt had acceded to the terms, the *Wall Street Journal* reported all of the banks to whom Mexico was indebted were expected to agree to the new terms.⁸⁵ These terms reflected much of Mexico’s initial proposal, including the postponement of principle payments due between 1985 and

⁸³ Enrique Madero Bracho to David Rockefeller, August 2, 1984, Folder 6, Box 2, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁸⁴ "Mexico, Creditor Banks Move Closer to Debt Pact," *Wall Street Journal* (New York, NY), August 28, 1984, 31.

⁸⁵ Key Mexican Creditors Agree on a Package To Restructure Debt," *Wall Street Journal*, August 29, 1984, 27.

1990, which were converted into new 11-year loans that only required interest payments during the first year. The agreement also revised the \$20 billion due in principle payments for 1984, opened negotiations to lower interest rates on \$5 billion in debt issued during 1983, and extended Mexico's repayment schedules. Finally, the agreement restructured Mexico's interest rates and eliminated bank fees typically imposed on debtors who rescheduled payments.⁸⁶ However the banking committee did not grant Mexico a grace period on interest payments it had requested, and limited the grace period to one year.⁸⁷ The final agreement between Mexico and the steering committee of banks was agreed upon and submitted to other banks for ratification in September of 1984.⁸⁸

One reason banks were willing to renegotiate Mexico's debt was a provision that granted banks the power to conduct "periodic reviews of the Mexican economy" in conjunction with the IMF.⁸⁹ Under this provision, banks could reopen debt negotiations with Mexico if they were displeased with Mexico's economic performance. This provision provided banks with additional influence over the economic policies adopted by the Mexican government. Under the terms of the new agreement, banks would carry out the revisions of previous restructuring agreements in two stages. This meant that the postponement of \$17 billion in payments due between 1988 and 1990 would depend on the banks' opinion of Mexico's economic performance in 1987.⁹⁰ Mexico's willingness to accept these terms reflects country's dire economic situation. Allowing banks the power to monitor the Mexican economy represented a reduction in the Mexican

⁸⁶ "Key Mexican Creditors Agree on a Package To Restructure Debt," *Wall Street Journal*, August 29, 1984, 27.

⁸⁷ S. Karene Witcher, "Banks Give Ground on Mexico Debt Terms in Exchange for Close Watch on Economy," *Wall Street Journal* (New York, NY), August 30, 1984, 23.

⁸⁸ Robert A. Bennett, "Banks Get Mexican Debt Pact," *New York Times* (New York, NY), September 11, 1984, sec. D, 19.

⁸⁹ Witcher, "Banks Give Ground on Mexico Debt", 23.

⁹⁰ Witcher, "Banks Give Ground on Mexico Debt", 23.

government's sovereignty over their national economy. Banks' ability to force Mexico back to the negotiation table and to postpone future debt were powerful concessions, but provided insignificant motivation for banks to renegotiate Mexico's debt, especially as these concessions did little to yield significant profits for banks. Statements asserting that the refinancing of Mexico's debt was predicated on the nation's "good" economic behavior, revealed that in order to access much needed loans, the Mexican government would have to adopt policies that deregulated the Mexican economy, privatized state-owned industries, and reduced government spending on social programs and subsidies. These policies were designed to serve the interests of private banks, not to improve the Mexican economy. The De la Madrid administration had implemented a number of policy changes advocated by commercial banks and the IMF.

The fact that the Mexican government was forced to renegotiate its debt implies these policy changes had done little to improve Mexico's economic performance. The relative yield on Mexican bonds was 2 percent lower in July 1984 than it had been in February 1984, another indicator that the Mexican economy was not performing as desired.⁹¹ In light of these factors, the assertion that Mexico should be rewarded for its economic behavior is suspect. Additional motivations behind banks' willingness to renegotiate Mexico's debt became apparent in the weeks and months that followed the conclusion of the Mexico's debt renegotiation, as private banks began to profit handsomely from restructuring Mexico's debt.

On September 10, 1984, the *Wall Street Journal* published an article that revealed the additional benefits Mexico's debt negotiation afforded banks. Experts, including Rimmer de Vries, the chief economist of Morgan Guaranty Trust, cited the debt

⁹¹ Edwards, *Crisis and Reform in Latin America*, 20.

agreement between Mexico and private banks as a factor for the recent increase in the value of the U.S. dollar. A previously unreported provision of the agreement allowed “non-U.S. banks to convert portions of their existing dollar loans – as much as \$10 billion – into loans denominated in the banks’ home currencies.” In practice, foreign banks who wanted to convert \$5 million in Mexican debt into their home currency could extend Mexico the equivalent of \$5 million in their home currency and Mexico would then use those funds to purchase \$5 million in U.S. currency, which it would return to the foreign bank.⁹² This provision was attractive for non-U.S. banks as it allowed banks to receive payment in their home currency while passing the cost of currency conversions on to Mexico. This policy was also attractive to American banks, as it required Mexico to buy U.S. currency to expedite the exchange, thus increasing the value of the dollar in currency markets. The agreement was seen as a potential model for resolving issues with other debtor nations, a factor that had the potential to force other nations to purchase billions of dollars worth of U.S. currency to convert their loans. De Vries maintained the Mexican debt accord had the potential to play a significant role in determining the future value of the dollar and noted it was already influencing currency markets.⁹³

In early September this influence was evidenced by the fact that the dollar gained at least 2.9 percent when traded against major European currencies including the German Mark, Swiss Franc, and British Pound.⁹⁴ In fact, on September 9, the U.S. dollar had one of its greatest single-day gains. Due in part to “an unwillingness of investors to sell dollars,” the dollar recorded significant gains against the currencies of England, France,

⁹² S. Karene Witcher, "Mexican Accord Could Bolster U.S. Currency," *Wall Street Journal* (New York, NY), September 10, 1984, 35.

⁹³ S. Karene Witcher, "Mexican Accord Could Bolster U.S. Currency," 35.

⁹⁴ Stephen Grover, "U.S. Dollar Expected to Continue Surge; Traders See It Rising Above Three Marks," *Wall Street Journal* (New York, NY), September 10, 1984, 35.

Italy, and Germany.⁹⁵ While non-U.S. banks had found a way to pass the cost of currency conversion on to Mexico, the provision caused the value of the dollar to inflate. On September 19, Robert Heller, a vice president at Bank of America, asserted “the U.S. economy is the strongest in the world and is attracting a lot of investment both direct and portfolio.”⁹⁶ U.S. commercial banks stood to profit from this increased investment and the reduced cost of imports that accompanied a strong dollar allowed American corporations easier access to imports needed for U.S. production such as oil. The increased value of the dollar placed the Mexican government in a difficult situation, regardless of the nationality of the bank, Mexico’s loans were based on the dollar and therefore, even if banks transferred portions of Mexico’s debt into their home currencies, Mexico would still have to repay them in dollars. As the dollar appreciated, it became increasingly more difficult for Mexico to meet its debt service obligations, a factor that had the potential to result in the Mexican government defaulting on its loans, or having to institute new austerity measures.⁹⁷

While increasing the overall value of the dollar carried some risks, including the possibility that Mexico would refuse to pay its debt service obligations, the renegotiation of Mexico’s debts continued to benefit commercial banks in the coming years. In 1985, Mexico underwent additional austerity measures that included reductions in state spending and the privatization or discontinuation of 236 state-owned enterprises,

⁹⁵ Nathaniel C. Nash, "The Dollar Resumes Bold Ascent," *New York Times* (New York, NY), September 9, 1984, sec. F, 14.

⁹⁶ Robert A. Bennett, "Why the Dollar Stays Supreme," *New York Times* (New York, NY), September 16, 1984, sec. F, 1.

⁹⁷ Robert D. Hershey, Jr, "Strong Dollar Brings Along Some Hidden Weaknesses," *New York Times* (New York, NY), October 7, 1984, sec. E, 3.

including Nacional Hotelera, which operated a profitable hotel chain.⁹⁸ These divestments provided Mexico with additional capital, which could be used to repay its debts. In an effort to reduce its debt obligation in March of 1985, Mexico “quietly” proposed providing its foreign creditors equity in the nation’s state-owned enterprises in exchange for the reduction of loans.⁹⁹ The practice of exchanging equity for debt, also known as debt-equity conversion, involves a process in which foreign currency debt is exchanged for equity in domestic firms. These transactions are typically sold at or near face value by the investor, or an entity that has purchased the debt from the investor, to the debtor nation’s central bank for “local currency instruments, which are used to make the equity investment.”¹⁰⁰ These transactions began in the mid-1980s and played a vital role in facilitating the privatization of state-owned enterprises throughout the 1980s and 1990s.¹⁰¹ In 1986, Deutsche Bank facilitated a \$141 million debt-equity swap for Volkswagen. Chrysler purchased \$110 million in Mexican debt for less than \$65 million, which Chrysler traded for roughly \$100 million in Mexican currency.¹⁰² Mexico had eliminated \$2 billion of its debt through debt-equity swaps. By 1987, it was estimated that companies including Chrysler, Ford, Volkswagen, and Honda had converted some \$2 billion in Mexican debt. The Mexican government planned to convert another \$3 billion in debt by the end of 1987.¹⁰³ Not only was it possible for corporations that participated

⁹⁸ Richard J. Meislin, "Mexico Tightens Austerity," *New York Times* (New York, NY), February 11, 1984, sec. D, 4; "Mexican Government to Sell Hotel Chain," *Wall Street Journal* (New York, NY), August 22, 1985, 5.

⁹⁹ Steve Frazier and S. Karene Witcher, "Debt-Swap Plan Is Proposed By Mexico," *Wall Street Journal* (New York, NY), March 15, 1985, 29.

¹⁰⁰ Edwards, *Crisis and Reform in Latin America*, 106-107.

¹⁰¹ Edwards, *Crisis and Reform in Latin America*, 73.

¹⁰² William A. Orme, Jr, "Favorable Debt Swaps Aid Mexican Investment," *Washington Post* (Washington, DC), December 21, 1986, sec. K, 6.

¹⁰³ Howard LaFranchi, "US Firms Help Lighten Mexico's Debt," *The Christian Science Monitor*, April 3, 1987, 3, 8.

in debt-equity swaps to secure lower tax rates, many U.S. firms that participated in debt-equity swaps avoided paying taxes on the profits made from these transactions, a practice upheld by the Fifth Circuit Court of the United States.¹⁰⁴ By 1990, corporations involved in agreements to exchange debt for equity could see a “25 percent discount on investments in the areas of the economy selected for swaps.”¹⁰⁵ It would appear that institutions that had extended loans to Mexico benefitted greatly as a result of the debt renegotiation of 1984.

Divisions in the MUSBC Surface

With the inclusion of Mexican business leaders, the Capital/Debt Task Team held its first meeting in Mexico City on August 8, 1984. Robert Lorenz and Pedro Pablo Kuczynski, the initial chairs, were joined by Mexico national Juan Elek, the chairman of the firm San Cristóbal, a Mexican affiliate of Scott Paper Co.¹⁰⁶ Other Mexican members included representatives of brokerage firms, Salvador Albo of Casa de Bolsa Madero and Javier Creixell Noriega of Operadora de Bolsa. Joe Hood, Financial Director of TREMC and Chuck Lilien of First Boston Corporation comprised the American delegation. At the August meeting in 1984 it was determined that while all members agreed there was value in “an active private sector non-bank financial system,” attendees from Mexico felt “the Mexican political process relating to the definition of such a system made it desirable to establish only an informal group for the exchange to information” instead of a formal task

¹⁰⁴ "Chemical Firms Post Solid Gains In Quarterly Net," *Wall Street Journal* (New York, NY), July 19, 1984, 8; John Bryan Williams, "Debt-Equity Swaps Treated as Section 118 Capital Contributions: G.M. Trading Corp. v. Commissioner," *The Tax Lawyer* 51, no. 3 (Spring 1998): 667-677.

¹⁰⁵ Juanita Darling, "Mexico Resumes Its Debt-for-Equity Swaps," *Los Angeles Times* (Los Angeles, CA), March 31, 1990, sec. D, 2.

¹⁰⁶ "Notes on Mexico-U.S. Business Committee Capital Formation Task Team Meeting In Mexico City," August 8, 1984, Folder 6, Box 2, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX; "Juan Elek Elected to SMU Board," SMU News, last modified June 11, 2001, accessed March 1, 2014, <https://smu.edu/newsinfo/releases/00345.html>.

team.¹⁰⁷

This decision was unpopular with U.S. attendees who included non-members Guy Erb of the U.S. Council and Glenn C. Bassett Jr., the Managing Director of the Council of the Americas. U.S. participants argued that it was imperative the team “get organized, get started doing something, and help the Mexicans to shape a better future.”¹⁰⁸ This urgency reveals the importance the U.S. Council had ascribed the Capital/Debt Team as part of the U.S. Council’s larger strategy to increase capital available to Mexican firms. Bassett’s attendance suggests the importance the U.S. Council and its sponsor, the Council of the Americas, had placed on the Capital/Debt Team’s success. Still, the delegates from Mexico rebuffed the American’s eagerness as inappropriate.¹⁰⁹ A meeting the U.S. Council had intended to be the beginning of an effort to build closer ties with Mexican business leaders instead revealed Mexican concerns regarding the political ramifications of creating a “non-bank financial system.”¹¹⁰ While the U.S. Council likely considered the August 8 meeting a failure, it is important to note that it also affirmed the need for the U.S. Council to work with its existing Mexican allies to pressure the Mexican government to alter its policies regarding international trade and investment since its Mexican allies seemed reluctant to work outside of official channels to secure change.

Despite Mexican opposition, the U.S. Council deemed the Capital/Debt Team as a critical element in their overall strategy. In a Statement of Purpose dated September 10, 1984, the U.S. Council noted that a Task Team on Capital Formation was being

¹⁰⁷ “Notes on Mexico-U.S. Business Committee Capital Formation Task Team.”

¹⁰⁸ “Notes on Mexico-U.S. Business Committee Capital Formation Task Team.”

¹⁰⁹ “Notes on Mexico-U.S. Business Committee Capital Formation Task Team.”

¹¹⁰ “Notes on Mexico-U.S. Business Committee Capital Formation Task Team.”

organized and that there was not currently a joint program with the Mexican Section. It appears that, despite the insistence of the Mexican business leaders that a system of private capital finance carried certain political risks in Mexico, the U.S. Council was determined to form a task team to address capital formation in Mexico. According to their Statement of Purpose, the task team would assess the creation of a banking system derived from private investment that would parallel the banks Mexico had appropriated in 1982. Additionally this “new” team would determine the best ways for U.S. corporations to assist Mexican companies, research factors that were impeding foreign investment, and determine what technology U.S. financial institutions could provide to assist Mexican financial institutions in the long term creation of investment markets.¹¹¹

By August 1984, it was apparent that Rodman Rockefeller and Enrique Madero Bracho were developing a unified vision of a future commercial relationship between the U.S. and Mexico and pursuing that vision with great enthusiasm; however, the same could not be said for the leadership of the U.S. Council. In August of 1984, William Roche, co-chairman of the Trade and Investments Task Team, wrote to Rodman Rockefeller expressing concerns over recent papers produced by the U.S. Council that emphasized the need for Mexico to improve its economy by orienting the Mexican economy around export-led growth. Roche maintained, “establishing export promotion as the basis for growth in the economy misses the essential need for private investments in the first place.” For Roche, while trade represented an important facet of the U.S. Council policy, the opportunity to invest in Mexico was Roche’s paramount concern.

Roche maintained that Mexican political trends, including the February

¹¹¹ "Statement of Purpose: U.S. Council of the Mexico-U.S. Business Committee," September 10, 1984, Folder 7 Box 2, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

pharmaceutical industry sectoral degree, represented “economic chaos in Mexico” that had been “exacerbated by misguided policies.”¹¹² Roche’s objections reveal that the need to emphasize investment was a priority for Roche and implied that it was a likely motivator for other members of the U.S. Council. Roche argued, “while trade agreements are important and even necessary for improved conditions of free trade and investment between Mexico and the U.S.,” it was his opinion that such agreements were “an empty framework if the basic Mexican policies discourage and discriminated against these investments in the first place.”¹¹³ Roche’s remarks reveal considerable frustration with the Mexican government and the policies it had implemented earlier in the year. Undoubtedly the limits placed on pharmaceutical industry in Mexico influenced Roche’s opinion. However, as IBM’s negotiations with the Mexican government through 1984 and 1985 reveal, securing the ability to invest in Mexico under the new policy of the Mexican government was a difficult process for all industries, even in industrial sectors who were allowed to invest in Mexico.

One of the more revealing statements in Roche’s letter was his suggestion that success of export promotion in Asian nations such as Singapore would not translate to Mexico due to “political, cultural, geographical and historical conditions,” that were significantly different from Mexico and that “one has to be prudent with the applications these observations may have for Mexico.”¹¹⁴ Clearly this was a man who lacked confidence in the Mexican government’s abilities to affect the kind of economic changes the U.S. Council was advocating. Roche reiterated Pfizer’s commitment to the work of the U.S. Council, but argued that Mexican policies were inhibiting the free flow of

¹¹² Roche to Rockefeller.

¹¹³ Roche to Rockefeller.

¹¹⁴ Roche to Rockefeller.

exports and imports and that the focus of the U.S. Council “must be on bringing them [the Mexican government] back to center,” on issues of foreign investment. For Roche the U.S. Council had “a greater chance of encouraging other policies such as promoting exports that can in its turn contribute to the growth of the Mexican economy.”¹¹⁵

Roche’s letter revealed that while export-led growth in Mexico had been one of the central elements of the U.S. Council’s plan, key supporters believed securing investment rights for American corporations should take priority over opportunities that the U.S. Council claimed would create jobs for Mexico’s unemployed citizens and allow Mexico to compete in international markets. Roche’s opinion stands in sharp contrast to public statements made by U.S. Council members including Robert Herzstein, and reveals a disparity between the papers the U.S. Council was publicly circulating and the private opinions of the Trade/Investment Team co chairman. How Rockefeller responded to Roche’s missive is unclear, but the emphasis placed on finding allies who would support the U.S. Council’s investment strategy during its June meeting did reveal that the U.S. Council was committed to American investment in Mexico. The U.S. Council was hesitant to emphasize American investment in Mexico because of the ambivalence to foreign investment shown by members of the Mexican private sector. Foreign investment in Mexico remained part of the U.S. Council’s larger strategy to ensure the financial interests of its members, but due to potential opposition from Mexican business leaders, the U.S. Council was attempting to portray its liberalization strategy in terms that would be appealing to its allies in Mexico.

The Mexican Government Faces Difficult Decisions

Despite successfully renegotiating their debt structure, the Mexican economy

¹¹⁵ Roche to Rockefeller.

continued to experience turbulence in 1984. To bolster its economy, the Mexican government decided to reduce its oil exports by 6.6% in November of 1984 as an attempt to “defend the price of the principal natural resource of our country.”¹¹⁶ While the reduction of exports was estimated to cost Mexico \$81 million, the nation’s leaders felt the decrease was an effective means to reduce the oversupply of oil in the oil market.¹¹⁷ Finally, in December 1984, the Mexican government implemented a policy in which the *peso* would be devalued by 23 percent (based on the U.S. dollar) daily. This policy reflected the government’s desire to establish a realistic value for the *peso* in order to help the government increase non-petroleum exports and prevent further loss of domestic capital.

The De la Madrid administration had made considerable efforts to follow the recommendations that the IMF and commercial banks asserted would improve the Mexican economy. These measures appear to have played a role in improving some of Mexico’s economic indicators in 1984. Mexico’s 1984 inflation rate was 59.2 percent, an improvement over 1983’s 80.8 percent. The country’s real exchange rate improved from 143.8 in 1983 to 124.5 in 1984 and had made \$3,148 million more than it had in 1983. While 1984 was the first year Mexico had seen positive GDP growth since 1982, the Mexican economy had not improved to the levels of 1981.¹¹⁸ The real wages of Mexican workers fell for the second year in a row.¹¹⁹ The nation’s public debt had increased by \$2.8 billion over the course of 1984, and the nation’s interest payments had risen to \$11.7

¹¹⁶ "Mexico Trims Oil Exports by 6.6%," *New York Times* (New York, NY), November 2, 1984, sec. D, 1.

¹¹⁷ "Mexico Trims Oil Exports by 6.6%," sec. D, 1.

¹¹⁸ Pastor and Wise, "State Policy, Distribution, and Neoliberal Reform in Mexico," 423.

¹¹⁹ Edwards, *Crisis and Reform in Latin America*, 27.

billion.¹²⁰ Mexico had only secured \$1.542 billion in direct foreign investment, a number \$650 million less than it had received in 1983.¹²¹ This investment did little to make up for the \$1.6 billion Mexico had lost to Mexican capital flight in 1984.¹²²

As 1984 drew to a close, it was apparent that the efforts of the De la Madrid administration to improve the national economy had not been as successful as the IMF and commercial banks had claimed. While the De la Madrid administration struggled to restore Mexico's economy, the U.S. Council had finally secured a fervent ally in Mexico in Enrique Madero Bracho. In October 1984, CEMAI, one of the sponsors of CEMAI-US, formally endorsed the concept of a bilateral trade agreement between Mexico and the U.S., a decision that was almost certainly influenced by the efforts of Madero Bracho.¹²³ In December officials from Mexico and the U.S. met to "discuss a draft Statement of Intent to negotiate a framework of principles on trade and investment," an event the U.S. Council would later deem one of the most important events in the adoption of a bilateral framework agreement.¹²⁴ The agreement on the Statement of Intent was only a small step in the realization of the U.S. Council's goals, but it was a clear indication of the viability of the U.S. Council's strategy of forming alliances with Mexican business leaders who would advocate for the Mexican government to accede to a bilateral commercial agreement.

In the coming year the U.S. Council with Madero Bracho's assistance would build

¹²⁰ Nora Lustig, *Mexico: The Remaking of an Economy*, 30-42.

¹²¹ Pastor and Wise, "State Policy, Distribution, and Neoliberal Reform in Mexico," 423.

¹²² Nora Lustig, *Mexico: The Remaking of an Economy*, 30-42.

¹²³ U.S. Council of the Mexico-U.S. Business Committee, "Key Events During the Negotiation of the U.S.-Mexico Bilateral Agreement on Trade and Investment," April 15, 1988, Folder 6, Box 7, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

¹²⁴ U.S. Council of the Mexico-U.S. Business Committee, "Key Events During the Negotiation of the U.S.-Mexico Bilateral Agreement on Trade and Investment."

on the foundation created in 1984. In February of 1985, CEMAI-US, under Madero Bracho's leadership, secured a meeting between American business leaders and Mexican President De la Madrid. Madero Bracho and Rodman C. Rockefeller were among the meetings attendees. At this meeting, De la Madrid indicated that he "had decided that the 40-year Mexican policy of export substitution must be changed." At the same meeting, De la Madrid indicated Mexico's intent "to initiate wide-ranging bilateral trade negotiations and he was prepared to provide for the means to encourage U.S. technology and capital to participate in the development of Mexican industrialization," and suggested the possibility of Mexico acceding to the provisions of a multilateral trade agreement.¹²⁵ By the end of 1985, De la Madrid started the formal process required for Mexico to join GATT, a treaty that Mexico had refrained from joining for 38 years.¹²⁶ While these policy changes were influenced by the demands the IMF and commercial banks had placed on the Mexican government, the specific policies adopted by the De la Madrid administration revealed that the MUSBC was also influencing the Mexican government. The negotiations for a bilateral framework agreement in December were a direct result of the efforts of the MUSBC to portray the framework agreement, a treaty designed to serve the interests of its member corporations, as a measure that would best serve the interests of officials in the governments of both the U.S. and Mexico.

¹²⁵ Rodman C. Rockefeller to U.S. Council of the Mexico-U.S. Business Committee, memorandum, "Events in Mexico, February 7-15, 1985," March 8, 1985, Folder 5, Box 2, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

¹²⁶ U.S. Council of the Mexico-U.S. Business Committee, "Key Events During the Negotiation of the U.S.-Mexico Bilateral Agreement on Trade and Investment."

CHAPTER IV

THE DE LA MADRID ADMINISTRATION REORIENTS THE MEXICAN ECONOMY

Over the course of 1985, the Mexican government undertook a series of changes in its domestic and foreign policies to ensure the continued diversification of the nation's exports. These alterations were influenced by conditions placed on the Mexican government by external organizations including commercial banks and international lending agencies such as the IMF to liberalize the country's economy. The changes also included specific policies that coincided with elements of a liberalization strategy advanced by members of the Mexico-U.S. Business Committee (MUSBC). Consciously or not, the efforts of the Mexican government served to confirm the growing influence of the MUSBC and the success of a strategy first articulated by the U.S. Council of the MUSBC (U.S. Council) strategy, and implemented with the aid of Enrique Madero Bracho and the U.S. Sector of the Consejo Empresarial Mexicano para Asuntos Internacionales (CEMAI-US), the U.S. Council's Mexican counterpart in the MUSBC.

When 1985 began, the U.S. Council had successfully realized the majority of its strategy to liberalize the Mexican government's policies on trade and foreign investment. The first stage of this strategy, the creation of a framework for a bilateral trade and investment treaty between the United States and Mexico, was completed in 1982. The following year, the U.S. Council secured support for their proposed framework agreement from powerful leaders within the U.S. private sector, including David Rockefeller, chairman of Chase Manhattan Bank, and Charles Barber, chairman of American Smelting and Refining Company (ASRCO). As the U.S. Council pursued relationships with American business leaders, its members also worked to convince

American policy makers that its liberalization agenda was in the best interests of the United States (U.S.). To this end the U.S. Council cultivated relationships with U.S. politicians such as Senator Dennis DeConcini, Arizona Governor Bruce Babbitt, and government officials including U.S. Secretary of Commerce Malcolm Baldrige, and officials in the office of the United States Trade Representative. Having completed the initial stage of its strategy, the U.S. Council turned its attention to Mexico as part of the second aspect of its liberalization strategy.

The second stage of the U.S. Council's strategy required convincing individuals at the highest levels of the Mexican private sector of the "benefits" inherent in the privatization of the Mexican economy, the financial benefits of forming alliances with members of the American private sector, and the utility of the U.S. Council's proposed framework agreement as a means to achieve these goals. Once recruited, the U.S. Council sought to mobilize their Mexican allies to present the U.S. Council's proposed bilateral framework agreement and liberalization strategy as part of Mexico's national interests and to convince officials in the Mexican government to support these measures. The U.S. Council experienced some difficulty securing the support of Mexican business leaders until Enrique Madero Bracho was appointed as the chairman of the CEMAI-US, in June 1984. Madero Bracho was an enthusiastic supporter of the decentralization of the Mexican economy and embraced the U.S. Council's proposed bilateral framework agreement as a vehicle to realize economic change in Mexico. Madero Bracho secured the support of many influential Mexican business leaders for the deregulation of the Mexican economy. With the support of the U.S. Council, these leaders began a concerted effort to convince the Mexican government to negotiate the framework of a

trade and investment agreement between the U.S. and Mexico. These efforts represent a specific attempt by private sector elites in both the U.S. and Mexico to convince officials in the Mexican government that the measures the MUSBC was proposing were in the best interest of the nation and its people.

Decisions made in 1985 had considerable influence in determining the course of the Mexican economy. The Mexican government, convinced of the need to create new avenues for economic growth, announced its desire to reorient the Mexican economy from one that relied on petroleum exports to one based on the growth of non-petroleum exports in February of 1985. As the year progressed, the Mexican government undertook a series of deliberate policy changes designed to facilitate this transition. Mexican officials made these changes cautiously, weighing the degree to which new policies would influence public opinion, a critical factor in light of national elections scheduled in July 1985. The Mexican government's efforts to reorient the nation's economy were also greatly influenced by more immediate concerns that included the continued decrease in the price of oil, pressures from the creditors who demanded changes to Mexico's economic policies as preconditions for loans and other financial support, and earthquakes that decimated Mexico City. While the policy changes implemented to reorient the Mexican economy were greatly influenced by these concerns, it is apparent that the administration of President Miguel de la Madrid acted deliberately and relied on the support of the MUSBC to help achieve their shared goal of using non-petroleum exports to foster Mexico's economic growth.

The Mexican economy had improved between 1983 and 1984, but, by most key economic factors, the economy was worse than it had been in 1981. The growth of

Mexico's Gross Domestic Product (GDP) in 1984 was 3.7 percent, less than half of 1981's rate of 8.8 percent, while Mexico's 1984 real exchange rate (its relative purchasing power) with the dollar was 136 percent higher than it had been in 1981.¹ More alarmingly, Mexico's real wages declined nearly 30 percent from a rate of 104 in 1981 to a rate of 75 in 1984 (based on a figure of 100 in 1980).² While the Mexican government had raised the minimum wage by 30 percent shortly before January 1, 1985, it increased electricity costs an average of 18 percent and elevated gasoline prices by 37.5 percent in January as part of ongoing austerity measures. These increases effectively eliminated any benefit Mexico's working class received from the new minimum wage. De la Madrid claimed ongoing austerity measures, while difficult, were essential to Mexico's continued economic health.³ Despite these assurances, dissatisfaction with the Partido Revolucionario Institucional (PRI), Mexico's ruling party, grew in some areas of Mexico as the nation's economy declined.

On January 15, 1985, members of Mexico's Partido Acción Nacional (PAN) protested what they believed were fraudulent results in municipal elections in the northern state of Coahuila. During the protest, PAN members blocked an international bridge between the United States of America (U.S.) and Mexico, occupied municipal buildings in the region, and burned the City Hall in the town of Piedras Negras.⁴ While the protestors appear to have been unsuccessful in overturning the election results, their actions reveal a small but growing frustration with the policies of the De la Madrid

¹ Manuel Pastor and Carol Wise, "State Policy, Distribution, and Neoliberal Reform in Mexico," *Journal of Latin American Studies* 29, no. 2 (May 1997): 423.

² Sebastian Edwards, *Crisis and Reform in Latin America: From Despair to Hope* (Oxford: Published for the World Bank [by] Oxford University Press, 1995), 27.

³ Juan M. Vásquez, "De la Madrid Issues Appeal on Mexican Austerity Plan," *Los Angeles Times* (Los Angeles, CA), January 8, 1985, sec. E, 2.

⁴ Richard J. Meislin, "Frustrated Opposition In Mexico is Getting Tough," *New York Times* (New York, NY), January 21, 1985, sec. A, 2.

administration and the nation's economic progress. How the Mexican government handled the nation's economy over the coming months was critical due to the upcoming national elections as Mexico's other political parties might use the nation's economic difficulties to their advantage.

One of the most significant factors facing President De la Madrid in 1984 was growing pressure from Mexico's business leaders who insisted that economic deregulation was in Mexico's national interests as it represented the most effective means to alleviate Mexico's economic crisis. In October, the Consejo Empresarial Mexicano para Asuntos Internacionales (CEMAI) had announced its formal support for the proposed framework agreement between the U.S. and Mexico created by the U.S. Council. Enrique Madero Bracho also worked through CEMAI to secure a meeting between De la Madrid and business leaders from both countries. The U.S. Council had tried to convince its Mexican allies of the need for foreign investment to bolster Mexico's financial position, but had also advocated the expansion of exports as a means to revive the nation's economy and by extension the profitability of the Mexican industry. While members of Mexico's private sector had been hesitant to endorse foreign investment, it was apparent to the members of the U.S. Council as early as June 1984 that many Mexican business leaders supported the expansion of Mexico's non-petroleum exports and were active in convincing the Mexican government to support this economic reorientation. This growing pressure may have helped inspire De la Madrid to announce that Mexico would rely on exports as a means to "generate economic growth and internal employment" in late January 1985.⁵

⁵ Kenneth H. Bacon, "Mexico Hopes Exports Will Help Its Economy Out of the Doldrums," *Wall Street Journal* (New York, NY), January 31, 1985, 1.

The MUSBC Meets with Miguel de la Madrid Hurtado

A February 1985 meeting between Mexican President De la Madrid and members of the Mexican and U.S. private sectors was organized by Enrique Madero Bracho. Madero Bracho's involvement indicates the growing influence he and CEMAI-US enjoyed with the Mexican government. The previous year, a meeting between De la Madrid and binational business leaders had been hosted by a group entitled the "Mexico-United States Business Conference." The 1985 meeting was hosted by CEMAI, one of the sponsors of CEMAI-US, and Madero Bracho was entrusted with personally inviting business leaders to the event.⁶ The MUSBC, the U.S. Council, CEMAI-US, Madero Bracho, and Rodman Rockefeller were also featured prominently in a February 1985 account of the meeting in *Mexico Today*, an official publication of the Office of the President of Mexico.⁷

Madero Bracho, Rockefeller, and De la Madrid all spoke at the event. Madero Bracho and Rockefeller used the occasion to express their desire for the Mexican government to formalize a bilateral trade and investment treaty with the U.S. in front of De la Madrid and a number of other key officials in the Mexican government. The co-chairman of the MUSBC also made sure to iterate the fiscal rewards that would come from the creation of partnerships between members of the American and Mexican private sectors, another key element in the U.S. Council's liberalization strategy, in case any of the business leaders in attendance had not been sold on the idea.

⁶ Enrique Madero Bracho to Guy F. Erb, telegram, February 2, 1985, Folder 4 Box 8, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁷ The Bureau of Social Communication of the Office of the President of Mexico, "President De la Madrid Defines Mexico's Policy on Foreign Investment," *Mexico Today* 3 (February 1985).

Madero Bracho's address was brief and to the point. After thanking De la Madrid and the other officials from the Mexican government in attendance for their time, Madero Bracho informed the president that the business leaders of both nations present at the event were unified by their belief that "Mexico's political, trade, and financial relations with the United States are of prime importance" if Mexico hoped to realize its "full industrial development" and insure the nation had "sufficient new jobs to meet our young people's legitimate annual demands."⁸ While Madero Bracho's comments were succinct, his message was clear. He underscored the creation of an alliance between powerful members of the American and Mexican private sectors and revealed that this coalition endorsed closer commercial and political ties with the U.S. In a few short words, Madero Bracho effectively reiterated the strategy of the U.S. Council and the purpose for the meeting without challenging the policies of the Mexican government. That is not to say that the co-chairman of the MUSBC did not question the policies of the Mexican government at the event, but rather that they had decided it would be in their best interests for Rodman Rockefeller to ask De la Madrid to clarify the position of the Mexican government on issues of trade and investment.

As Madero Bracho before him, Rockefeller highlighted the growing consensus between leaders of the Mexican and U.S. private sectors, remarking about the rise of "an increasing sense of optimism and an increasing orientation towards the future," in meetings with other business leaders.⁹ Rockefeller tied this optimism to recent policies

⁸ The Bureau of Social Communication of the Office of the President of Mexico, "President De la Madrid Defines Mexico's Policy on Foreign Investment," *Mexico Today* 3 (February 1985)

⁹ Rodman C. Rockefeller, "Remarks of Rodman C. Rockefeller, Chairman of the U.S. Council of the Mexico-U.S. Business Committee, Los Pinos, Mexico, D.F. Mexico," February 11, 1985, Folder 4, Box 8, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

implemented by the Mexican government, such as the distribution of nonbank holdings to investors in the banks Mexico had nationalized in 1982. For Rockefeller, the efforts of the Mexican government had “enabled the Mexican economy to successfully pass through the worst fears of the crisis and to look to the future for the next phase of recovery.”¹⁰ This praise appears to have been part of a larger strategy to paint members of the American business community as allies of both Mexico’s private sector and the Mexican government. Rockefeller explained “many American business friends of Mexico realize the enormous task that lies ahead if Mexican industry is to become internationally competitive,” maintaining that “the same challenge faces many American corporations now working in Mexico.”¹¹ To this end, Rockefeller carefully linked the interests of those private sector elites he represented to Mexico’s national interests, and asserted that the MUSBC was willing to collaborate with the Mexican government to realize the “mutual advantages, which will arise for all concerned.”¹²

Rockefeller asserted that there were two challenges that needed to be resolved in order for members of the American private sector to effectively help the Mexican government realize its export potential, “the growing menace of protectionism within the U.S. market” and “the dynamically changing nature of Mexico’s largest export market, the U.S. internal market.” This statement was ingenious as it demonstrated that the Mexican government and U.S. corporations shared similar problems, even if they could not agree on the best way to solve them. By highlighting the problems with American protectionist policies, the MUSBC called for the elimination of protectionist practices without directly criticizing the policies of the Mexican government. Rockefeller

¹⁰ Rockefeller, "Remarks of Rodman C. Rockefeller."

¹¹ Rockefeller, "Remarks of Rodman C. Rockefeller."

¹² Rockefeller, "Remarks of Rodman C. Rockefeller."

maintained that the best way for those in attendance to realize their shared goal, the revitalization of the Mexican economy, was for the Mexican government, the Mexican private sector, and the American private sector to work in unison “to create a legal framework to encourage mutually beneficial trade growth.” He called upon the Mexican government to recognize that “American investors stand ready and eager” to help Mexico “enter the new phase of Mexican development.”¹³

Rockefeller’s speech was a carefully composed attempt to convince those present of the efficacy of the U.S. Council’s strategy for liberalization without issuing a direct challenge to the current policies of the Mexican government. Rockefeller concluded his remarks by posing two questions to the Mexican President. Though Rockefeller reiterated the desire of American corporations to aid in Mexico’s economic recovery, he asked De la Madrid to reveal if the Mexican government would “complement its export objectives with renewed negotiations to establish a stable framework of shared principles and rules for U.S. trade and investment,” and requested “an indication on your fundamental objectives for foreign investment.”¹⁴ These requests, made before Mexico’s business leaders and key government officials, were an attempt to compel De la Madrid to publicly reveal the Mexican government’s position on the liberalization of trade and investment between the U.S. and Mexico. De la Madrid’s response was in Rockefeller’s words, “a more important policy statement than we (the U.S. Council) could have asked for.”¹⁵

¹³ Rockefeller, "Remarks of Rodman C. Rockefeller."

¹⁴ Rockefeller, "Remarks of Rodman C. Rockefeller."

¹⁵ Rodman C. Rockefeller to U.S. Council of the Mexico-U.S. Business Committee, memorandum, "Events in Mexico, February 7-13, 1985," March 8, 1985, Folder 5, Box 2, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

President De la Madrid's speech recognized the need for Mexico to refashion its economy. The address acknowledged the importance the Mexican government placed on the participation of the private sector in this process. De la Madrid noted that Mexico would continue to seek direct foreign investment as an essential element of the larger process to reforming the government's development policies. The President's speech noted the links between foreign investment, foreign trade, and technological innovation, and acknowledged that the future of the Mexican economy depended on expanding the diversity of the nation's exports. Mexico's previous reliance on extractive exports including petroleum was, in De la Madrid's opinion, no longer viable as it had been prior to the 1980s due to the unpredictable nature of world markets, especially the petroleum market.¹⁶

De la Madrid claimed that if Mexico was committed to producing more diverse exports it was essential for the Mexican government to ensure continued access to international markets for these new products. He allowed that protectionist pressures within Mexico often presented a challenge to medium and long-term foreign investments, especially investments in export-oriented industries. To address these issues, De la Madrid acknowledged that Mexico should work with its trading partners, especially the U.S., to create a framework that would provide the certainty Mexico needed to make export production part of its plan to restore the Mexican economy. The regulations the Mexican government implemented in the pharmaceutical industry had resulted in the termination of trade negotiations with the U.S., and while De la Madrid believed it was unsatisfactory for an entire agreement to be stalled over this one factor, he acknowledged the significant pressures the U.S. President and U.S. Congress faced from powerful

¹⁶ Miguel de la Madrid, "Versión Final."

interest groups, implying these groups had prevented the two nations from coming to an agreement. Because this agreement was critical for both nations, the Mexican administration was working to clarify Mexico's regulations concerning the pharmaceutical industry in an attempt to remove one of the barriers to a formal framework agreement.¹⁷

De la Madrid's comments revealed support for a broad commercial framework that created clear, yet firm, expectations between Mexico and the U.S. and indicated that the Mexican government was willing to consider an equitable bilateral trade agreement with the U.S. Furthermore, he intimated that he was open to the possibility of a multinational trade agreement, but that any decisions would be made after judicious consideration of the ongoing state of international trade. The President ended his address by reiterating his desire to maintain a beneficial, reciprocal economic relationship with the U.S., recognizing the willingness of the Mexican government to evaluate recommendations pragmatically rather than clinging to established guidelines, and acknowledging the issues addressed by Rodman Rockefeller and Enrique Madero Bracho during the meeting.¹⁸

Those present at the breakfast heralded the President's address as a significant achievement in the effort to secure a bilateral commercial agreement between the U.S. and Mexico. In a March 8 memo to the members of the U.S. Council, Rodman Rockefeller noted that De la Madrid's speech called for the end of Mexico's import substitution policy, the modernization of Mexican industry, and the use of exports to ensure Mexico's future economic success. Rockefeller also shared De la Madrid's desire

¹⁷ Miguel de la Madrid, "Versión Final."

¹⁸ Miguel de la Madrid, "Versión Final."

to resolve the tensions over Mexico's pharmaceutical decree.¹⁹ While these statements are accurate, parts of Rockefeller's memo appear to reflect Rockefeller's enthusiasm, rather than providing an accurate account of De la Madrid's address.

The memo states that De la Madrid was "prepared to *initiate* wide-ranging bilateral trade negotiations" and to "provide the means to encourage U.S. technology and capital to participate in the development of Mexican industrialization."²⁰ Rockefeller specified De la Madrid's announcement that the Mexican government would examine opportunities "including multilateral trade participation, as a means to further the development of the country" indicated De la Madrid's desire to "re-open the subject of the joining of GATT (the General Agreement on Tariffs and Trade)."²¹ While De la Madrid did reveal that the U.S. and Mexico should explore a more definitive framework and that Mexico would consider a bilateral trade agreement, the speech gave no indication that Mexico planned to initiate the treaty.²² Though De la Madrid noted important links between foreign investment, commercial trade, and technological innovation, he was careful to note the Mexican government wished to maintain a policy of active but selective foreign investment.²³ De la Madrid did mention that Mexico was willing to review the framework of multinational trade agreements; Rockefeller's use of

¹⁹ Rodman C. Rockefeller to U.S. Council of the Mexico-U.S. Business Committee, memorandum, "Events in Mexico, February 7-13, 1985," March 8, 1985, Folder 5, Box 2, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

²⁰ Rockefeller to U.S. Council of the Mexico-U.S. Business Committee, memorandum, "Events in Mexico, February."

²¹ Rockefeller to U.S. Council of the Mexico-U.S. Business Committee, memorandum, "Events in Mexico, February."

²² De la Madrid stated "El gobierno de México está abierto a considerar un tratado de esta naturaleza." The key term "considerar" translates to English as "consider," not "initiate," which translates as "iniciar" in Spanish.

²³ De la Madrid stated "Hemos señalado que queremos una política de inversiones extranjeras activa y selectiva," and later "podamos promover aquellas inversiones extranjeras que pensamos se acomodan más a nuestras necesidades de corto, de medio, y de largo plazos."

the term re-open implies an active role where De la Madrid's choice of language implied a more passive position.²⁴ Critically, De la Madrid did not indicate which multilateral framework Mexico was considering and did not mention GATT in his address. While there is no doubt that the address signaled an important shift in the policies of the Mexican government, it seems Rockefeller's memo exaggerated aspects of the speech in an effort to make the meeting seem like a greater success. While Rockefeller's motivation for overstating the intent of the Mexican government is unclear, it is possible that Rockefeller was attempting to justify the efforts taken by the U.S. Council to its dues paying members.

De la Madrid's statements reveal the strides Mexico's private sector had made in convincing the Mexican government of the possibilities a bilateral trade agreement with the U.S. might offer Mexico and the need for Mexico to increase its non-petroleum exports. However, De la Madrid's speech also established the Mexican government's desire to play a strategic role in shaping the Mexican economy. He affirmed the determination of the Mexican government to maintain a mixed economy that preserved the economic organization established by the Mexican Constitution of 1917. It was apparent that the harmonization of the public and private sectors of the Mexican economy was a fundamental aspect of the Mexican government's developmental strategy, and that adaptations made to the economy would have to account for the needs and desires of both sectors. The speech recognized Mexico's need for foreign investment, but asserted the Mexican government would be selective in determining which investment opportunities

²⁴ De la Madrid stated "estamos dispuestos a revisar el marco multilateral de comercio." The key term being "revisar" which translates to English as "review" or "go over," not "re-open," which translates to Spanish as "reabrir."

would best accommodate Mexico's short, middle and long-term financial needs.²⁵ These sentiments reveal that advocates for free trade and investment between the U.S. and Mexico, such as Madero Bracho, had made considerable headway with government officials. However, De la Madrid emphasized that the Mexican government was approaching any changes to their current policies with caution, a fact that was affirmed the following day in a private conversation between Robert Herzstein, the chairman of the U.S. Council's Trade Subcommittee, and Héctor Hernández, the Mexican Secretary of Commerce and Industry.

Herzstein and Hernández met on February 12, 1985 in an attempt to clarify any issues the U.S. Council and the Mexican government had been unable to address the previous day. During the exchange, Hernández revealed the Mexican government believed the United States needed to take decisive action if any commercial agreements were to be reached in 1985. Hernández requested that the U.S. Council disseminate De la Madrid's speech throughout the U.S. private sector and within the U.S. government. These remarks demonstrate that the Mexican government was aware of the influence the U.S. Council enjoyed with key officials in the U.S. government and with prominent figures in the American private sector. It appears the Mexican government was hopeful the U.S. Council would advocate on Mexico's behalf with these contacts. This assumption was reasonable given the lengths Rockefeller had taken to portray the U.S. private sectors as allies of the Mexican government and to reveal the issues the two groups had in common during his speech the previous day.

On February 12, Hernández also indicated that the Mexican government planned to eliminate any problems inherent in Mexico's 1984 pharmaceutical decree. He believed

²⁵ Miguel de la Madrid, "Versión Final."

that, in light of these changes, the two nations could reach an agreement on the proposed export subsidy/countervailing duty accord first proposed in 1982 in as little as seven days. Due in part to the willingness of the Mexican government to alter their position on the pharmaceutical decree, Mexican officials expected a response from their counterparts in the United States regarding a framework agreement for a bilateral trade and investment treaty, but asserted that the two nations needed to reach an agreement on the proposed export subsidy/countervailing duty accord before considering any other trade agreements.²⁶ De la Madrid's speech was a symbolic gesture that Mexico was willing to negotiate with the U.S. and that it was hoped that the U.S. would make a similar gesture toward Mexico. Hernández stated that a series of signals from the U.S. were essential in helping sway Mexican public opinion toward a bilateral agreement.

The caution with which the Mexican government was approaching policy changes such as the elimination of export subsidies was due in part to public opposition to the decentralization of the Mexican economy. Mexico's most powerful opponents of economic liberalization were organizations that represented the interests of Mexico's small- and medium-sized businesses. These organizations opposed the reduction of policies that protected Mexican firms from foreign competition and were opposed to the possibility of Mexico joining the General Agreement on Tariffs and Trade (GATT). Concerns regarding the deregulation the Mexican economy had caused some of Mexico's leaders with interests in small- and medium-sized businesses, who traditionally aligned with the nation's political center, to support left-leaning politicians in an effort to protect

²⁶ Robert Herzstein to Rodman Rockefeller and Guy Erb, memorandum, "Notes of our Conference with Héctor Hernández on February 12, 1985 in Mexico City," February 25, 1985, Folder 4, Box 8, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

their position in the Mexican market. However, if the U.S. were to signal a greater willingness to work with Mexico on issues of bilateral trade and investment, Hernández was confident Mexican public opinion would shift in favor of economic liberalization.²⁷

Hernández emphasized the desire of the Mexican government to make progress on proposed trade negotiations between the U.S. and Mexico during the first half of 1985 as officials in the Mexican government feared protectionist pressures would play a significant role in the outcomes of the 1986 U.S. Elections. While Hernández remained optimistic about the possibility of bilateral trade agreements, he revealed the Mexican government had significant concerns regarding Ronald Reagan's calls for renewed multilateral trade negotiations. Mexico had considerable reservations to the U.S. initiative, especially as Mexican officials believed the negotiations would take place "without participation by major developing countries," something the Mexican government believed "would be a mistake."²⁸ De la Madrid's statements the previous day were intended to demonstrate the importance Mexico placed on being included in multilateral trade negotiations. Hernández insisted the U.S. needed to include nations such as Mexico in the multilateral trade discussions if the system established by GATT was to survive.²⁹ The words Hernández used to discuss the multilateral trade agreement appear to have been deliberately chosen. At no point in the conversation did he mention Mexico's willingness to consider membership in GATT and, aside from noting domestic opposition to the treaty, referred only to the possibility that "the GATT system will die."³⁰ This precision indicates that Rockefeller's assertion that Mexico was willing to

²⁷ Herzstein to Rockefeller and Erb, memorandum, "Notes of our Conference."

²⁸ Herzstein to Rockefeller and Erb, memorandum, "Notes of our Conference."

²⁹ Herzstein to Rockefeller and Erb, memorandum, "Notes of our Conference."

³⁰ Herzstein to Rockefeller and Erb, memorandum, "Notes of our Conference."

re-open the topic of GATT membership was exaggerated, especially as Rockefeller was apprised of Hernández's conversation with Herzstein before writing the memo to the U.S. Council.³¹ It is apparent that Mexico's caution regarding multilateral treaties stemmed from the fact that the Mexican government believed Mexico and nations that found themselves in similar circumstances had been excluded from the process of negotiating these treaties and needed to manage any potential domestic political fallout.

If the Mexican government was hesitant to embrace bilateral or multilateral treaties in February 1985, it was becoming increasingly evident that Mexico's business elites did not share the same reservations. Rodman Rockefeller met with a number of Mexican C.E.O.s in February 1984 and reported they were more inclined to "look toward export growth and all that entails in the way of changed attitudes, changed productivity and increased efficiency."³² In what may have been another attempt to reassure the members of the U.S. Council that the organization was advancing their interests, Rockefeller enthusiastically reported, "a new momentum is being fostered which we had a lot to do with starting."³³ While Rockefeller appears to have been referring to the efforts of the U.S. Council in this statement, it appears that Madero Bracho's involvement had been the decisive factor in bringing about this change. During a U.S. Council meeting in June 1984, Stephen Vehslage, one of the co-chairs of the U.S. Council's Task Team on Trade and Investment (Trade/Investment Team) noted the difficulties the U.S. Council was having in convincing Mexican business leaders of the necessity of foreign

³¹ Rockefeller to U.S. Council of the Mexico-U.S. Business Committee, memorandum, "Events in Mexico, February."

³² Rockefeller to U.S. Council of the Mexico-U.S. Business Committee, memorandum, "Events in Mexico, February."

³³ Rockefeller to U.S. Council of the Mexico-U.S. Business Committee, memorandum, "Events in Mexico, February."

investment as a means to improve the Mexican economy. Eight months later, Madero Bracho had assembled a CEMAI-US Subcommittee for Capital Formation that Rockefeller found impressive. Rockefeller was encouraged by the growing practice amongst Mexican investment bankers to consult with their colleagues in the U.S. on issues pertaining to commercial and investment banking.³⁴ Héctor Hernández confirmed Rockefeller's belief that Mexico's business elite supported the liberalization of the Mexican economy during his meeting with Herzstein.³⁵ The fact that De la Madrid chose a CEMAI-sponsored meeting that was organized by Enrique Madero Bracho as the forum in which to announce fundamental changes to Mexican economic policies that had been in place for over 40 years was no accident. De la Madrid's choice reflected the success with which Madero Bracho was able to unify Mexico's most important business leaders around the U.S. Council's proposed trade agreement. The Mexican government hoped these business leaders would promote the policies outlined during De la Madrid's speech with the same vigor they had used in persuading government officials. The presence of the U.S. Council provided an additional incentive, as Mexican officials hoped Rockefeller and his associates would both disseminate the contents of De la Madrid's speech and use their influence to garner American support for these policy changes.

Buoyed by the apparent success of the U.S. Council's strategy in Mexico, Guy Erb and Robert Herzstein worked to create a discussion draft based on the elements the U.S. Council deemed most critical to the realization of a bilateral trade and investment agreement between the U.S. and Mexico. The result of these efforts was a formal discussion draft entitled "Outline of Points for a Bilateral Trade and Investment

³⁴ Rockefeller to U.S. Council of the Mexico-U.S. Business Committee, memorandum, "Events in Mexico, February."

³⁵ Herzstein to Rockefeller and Erb, memorandum, "Notes of our Conference."

Agreement Between the United States and Mexico,” finalized on March 1, 1985. This document called for both nations to commit to a series of shared objectives and principles that would provide a framework for officials in the governments of both nations that would guide them as they considered “policies and actions that could affect bilateral economic relations.”³⁶ The outline also allowed for notice and consultation measures to reduce misunderstandings, outlined mechanisms to be employed to resolve any potential disputes between the U.S. and Mexico, and most importantly contained a clause in which each nation committed to continue negotiating agreements that would expand opportunities for further trade and investment between the two countries. This was another attempt by the U.S. Council’s members to portray their agenda as something that would serve the national interests of both the U.S. and Mexico. This section was central to the U.S. Council’s strategy and stated that the U.S. and Mexico would “agree to begin negotiations on the gradual and orderly liberalization of barriers to trade and investment,” and listed intellectual property, data transfers, telecommunications, and investment issues as components of an agreement that should be given priority during negotiations.³⁷ This discussion draft was translated into Spanish by CEMAI-US.³⁸ Many of the elements that Erb and Herzstein listed in this discussion draft were reflected in an official statement of intent signed by William Brock, the United States Trade Representative, and Héctor Hernández, on April 23, 1985.

³⁶ Guy Erb and Robert Herzstein, "Outline of Points for a Bilateral Trade and Investment Agreement Between the United States and Mexico," March 1, 1985, Folder 6, Box 8, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

³⁷ Erb and Herzstein, "Outline of Points for a Bilateral."

³⁸ Consejo Empresarial Mexicano Para Asuntos Internacionales, "Esquema de Puntos para un Convenio Bilateral de Comercio e Inversion entre México y los Estados Unidos," Folder 8, Box 8, , Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, , Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

The De La Madrid Administration Adopts Policies to Promote Export Growth

Though members of the U.S. Council were inspired by the economic policy changes De la Madrid had outlined in his February 11 speech, it became apparent in March that considerable effort would be needed before the Mexican government could begin to implement these changes. In March, Jorge Castañeda, a Mexican intellectual and opponent of a bilateral trade and investment treaty between the U.S. and Mexico, revealed that at the same time De la Madrid unveiled Mexico's new economic plans, the nation's yearly inflation rate had risen to 80 percent despite the fact that Mexico had continued to make regular interest payments on its \$95 billion foreign debt. The Mexican government's attempts to invigorate the Mexican economy had failed to restore the confidence of the global financial community. The recent PAN protests in northern Mexico were, in Castañeda's opinion, the result of efforts to take advantage of growing frustrations over the state of the Mexican economy. He believed this political pressure would require PRI to "accept major defeats in state and Congressional elections in July," if the Mexican government did not want to deploy military forces to quell protests.³⁹ The fact that the Mexican government had yet to formally resolve the debt negotiations with the nation's private creditors, which had begun in 1984, indicated that the Mexican government had a number of issues to resolve before it could begin the process of implementing the policy changes De la Madrid had outlined in February.

On March 27, President De la Madrid reiterated the Mexican government's commitment to a program of economic austerity that included "a reduction in government subsidies for food staples," and promised to lower the government deficit to 4.1 percent

³⁹ Jorge G. Castañeda, "Leaning Too Hard on Mexico," *New York Times* (New York, NY), March 29, 1985, sec. A, 35.

of the nation's 1985 GDP in a letter of intent submitted to the International Monetary Fund (IMF) "in return for continued financial support from the fund and the world banking community."⁴⁰ This letter marked the end of the debt negotiations, which had begun in August 1984 between the Mexican government and the 550 private banks to which Mexico was indebted. The agreement had almost taken a year to complete as banks were hesitant to complete the negotiations as the IMF continued to express doubts regarding the Mexican government's economic program.⁴¹ The official agreement between Mexico and its private lenders was signed on March 29. However, the recent decision of the IMF to sever fiscal support for Argentina and Brazil, two debtor nations who were "out of compliance with the economic programs they had agreed to follow," revealed that Mexico would have to maintain its debt service obligations and maintain fiscal policies outlined by the IMF if it hoped to enjoy the continued support of the international lending agency.⁴² With its debt negotiations complete, the Mexican government began to implement new policies designed to promote the nation's non-petroleum exports, which would come to include textiles, glass and glass products, and components for automobiles and electronics.

In April, the Mexican government unveiled the Programa de Fomento Integral de las Exportaciones (PROFIEX), a new program designed to promote export growth that had been developed in consultation with important Mexican business groups.⁴³ While these business groups have not been clearly identified, it is likely that they included

⁴⁰ Juan M. Vásquez, "Mexico Says It Intends to Stick to Austerity," *Los Angeles Times* (Los Angeles, CA), March 27, 1985, sec. F, 2.

⁴¹ Juan M. Vásquez, "Mexico Says It Intends to Stick to Austerity," *Los Angeles Times* (Los Angeles, CA), March 27, 1985, sec. F, 2.

⁴² James L. Rowe Jr., "Mexico Signs New Debt Pact," *Washington Post* (Washington, DC), March 30, 1985, sec. D, 1.

⁴³ Celso Garrido, Edmundo Jacobo, and Enrique Quintana, "Crisis y poder en México: un ensayo de interpretación," *Estudios Sociológicos* 5, no. 15 (September/December 1987): 535.

members of CEMAI-US and its sponsoring organizations, CEMAI and the Comité Coordinador Empresarial (CCE). PROFIEEX was designed to give Mexican exporters and their domestic suppliers benefits that were similar to those enjoyed by foreign competitors.⁴⁴ Mexico's automotive industry was one of the industries that was established as a priority in PROFIEEX, a factor that benefitted Mexico's growing maquiladora industry, a series of foreign-owned manufacturing plants that assembled products in Mexico from duty-free imports.⁴⁵ PROFIEEX represented a critical step in the Mexican government's commitment to diversify its export industry, a policy influenced by instabilities in the world petroleum market that had seen the average price of a barrel of oil fall by over \$5 since 1981, coupled with pressures from the IMF, World Bank, and business organizations such as the MUSBC that advocated export-led growth as a solution to Mexico's economic crisis.⁴⁶ The Mexican government reinforced this policy shift by exploring diplomatic agreements designed to provide Mexican exporters greater access to consumers in the U.S. Market.

On April 23, United States Trade Representative (USTR) William Brock and Héctor Hernández announced the completion of an export subsidies/countervailing duties agreement between the U.S. and Mexico. This final agreement was the realization of a series of negotiations that had begun in 1982 in which the U.S. agreed to a new policy where American businesses were required to demonstrate that Mexican imports had

⁴⁴ María Eugenia de la O, "Trayectorias laborales en obreros de la industria maquiladora en la frontera norte de México: un recuento para los años noventa," *Revista Mexicana de Sociología* 63, no. 2 (April/June 2001): 31.

⁴⁵ Jorge Carrillo, "Reestructuración en la Industria Automotriz en México," *Estudios Sociológicos* 9, no. 27 (September/December 1991): 488; De la O, "Trayectorias Laborales en Obreros," 31.

⁴⁶ Nora Lustig, *Mexico: The Remaking of an Economy*, 2nd ed. (Washington, DC: Brookings Institution Press, 1998), 32-33; James M. Cypher and Raúl Delgado Wise, *Mexico's Economic Dilemma: The Developmental Failure of Neoliberalism: A Contemporary Case Study of the Globalization Process* (Lanham, MD: Rowman & Littlefield Publishers, 2011), 38.

caused or threatened material injury in countervailing duty cases. In exchange for alterations to U.S. countervailing duty regulations, Mexico agreed to eliminate any programs that provided export subsidies, a factor disadvantaged many of Mexico's export producers who were forced to directly compete with foreign firms that produced similar products.⁴⁷ In addition to the finalized export subsidies/countervailing duties agreement, Brock and Hernández also signed an intent to negotiate a bilateral framework agreement.⁴⁸ This agreement contained a number of similarities with the discussion draft, "Outline of Points for a Bilateral Trade and Investment Agreement Between the United States and Mexico" created by Guy Erb and Robert Herzstein. Both documents highlight Mexico's status as a "developing country," both call for increased administrative transparency regarding matters of investment and trade, and when revealing the importance of trade and investment to each nation's economy both employ the exact phrase "to the economic development and growth of both."⁴⁹ The similarities between the documents should not be surprising; after all, Robert Herzstein, the U.S. Council member who had called for a bilateral framework agreement in the first place, had developed a personal relationship with both Brock and Hernández. In April 1985, Mexico was taking decisive action in its domestic and foreign affairs to ensure the continued diversification of the nation's exports, and consciously or not, was doing so in a manner that continued to confirm both the growing influence of the U.S. Council and

⁴⁷ Office of the United States Trade Representative, "Joint Statement by USTR Brock and Mexican Commerce Secretary Hernández on Bilateral Trade," April 23, 1985, Folder 8, Box 8, , Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, , Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁴⁸ Office of the United State Trade Representative, "Joint Statement by USTR Brock and Mexican Commerce Secretary Hernández on Bilateral Trade," April 23, 1985, Folder 8, Box 8, , Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, , Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁴⁹ Office of the United State Trade Representative, "Joint Statement;" Erb and Herzstein, "Outline of Points for a Bilateral."

the success U.S. Council's strategy, which was implemented with the aid of Enrique Madero Bracho and CEMAI-U.S.

Rodman Rockefeller highlighted the completion of the export subsidies/countervailing duties agreement as an important achievement for the MUSBC at the May 15 meeting of the MUSBC's executive committee. The minutes of the meeting transmitted by CEMAI-US reveal that Rockefeller attributed a distinct increase in enthusiasm within the U.S. Council to the completion of the accord and believed the agreement would do much to increase the number of American businesses interested in forming a bilateral relationship between the U.S. and Mexico. During the meeting, Enrique Madero Bracho revealed that President De la Madrid had expressed a desire for business organizations in the U.S. and Mexico to promote a potential bilateral treaty as much as possible in the coming months.⁵⁰ Despite these apparent successes, the most important topic for those assembled on May 15 was the dramatic amount of capital leaving Mexico.⁵¹

The CEMAI-US Subcommittee for Capital Formation, expressed concerns over an estimated \$7 million in domestic capital that was leaving Mexico daily, primarily through Bank of America. Some members of CEMAI-US proposed that the MUSBC operating funds for Mexico might be used to promote venture capital in Mexico. Pedro Pablo Kuczynski of First Boston International rejected this notion insisting that attempts to restore domestic confidence in the Mexican market would be a more useful exercise,

⁵⁰ "del convenio bilateral para adelantar lo más posible..."

⁵¹ Consejo Empresarial Mexicano Para Asuntos Internacionales, "Minuta de la Junta del Consejo Directivo del Comité Bilateral México-Estados Unidos, celebrada el día 15 de mayo de 1985, en la ciudad de Miami, Florida," May 15, 1985, Folder 5, Box 2, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, , Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

noting reports that indicated Mexican citizens had between \$45 and \$50 billion invested in industrialized nations. The executive committee suggested that Mexico apply to the World Bank for funds to undertake infrastructure improvements as a means to raise additional capital and restore domestic confidence in the economy. While CEMAI-US had developed an active Subcommittee for Capital Formation under Madero Bracho's leadership, Rockefeller revealed that the U.S. Council had been unable to form a Task Team for Capital Development despite the fact that it had been trying to form such a team for over a year. The rapidity with which Madero Bracho had assembled his capital formation subcommittee revealed the growing influence he enjoyed in Mexico's business community. CEMAI confirmed Madero Bracho's value when it announced that rather than find a replacement for Saturnino Suárez, who was retiring as CEMAI's President for North America, the CEMAI's executive board had chosen to give Madero Bracho responsibility for their bilateral section for Canada in addition to his duties for CEMAI-US.⁵² In roughly one year, Madero Bracho's efforts had impressed CEMAI's executive council so much that he was entrusted with CEMAI's operations with two of Mexico's most important trade partners.

The concerns expressed by the members of the MUSBC executive committee regarding the importance of restoring domestic confidence in the Mexican economy proved salient. Capital flight continued to be a significant concern for the Mexican government, and officials had responded by increasing the earnings paid on investment in Mexico's nationalized banks to entice domestic investment. While yields increased as much as 60 percent in some cases, these efforts did little to restore confidence in the peso, the value of which was being reduced by the Mexican government at an annual rate of 25

⁵² Consejo Empresarial Mexicano Para Asuntos Internacionales, "Minuta de la Junta."

percent.⁵³ A reduction in low-grade crude prices by \$1.5 to a new price of \$24 a barrel in June exacerbated capital outflows.⁵⁴ Mexico's capital flight reflected the lack of confidence Mexican citizens had in the nation's economy; the July 7 election created similar doubts regarding Mexico's political process.

The election was a success for PRI, which won the seven gubernatorial elections and all but five legislative elections. Before the election, President De la Madrid had asserted that the elections would be run fairly. However, following the elections, the Mexican government faced accusations of fraud including the barring of pollwatchers from voting sites and the theft of uncounted ballots. Reviews of voting rolls following the election "showed instances of fictitious names listed by the hundreds, and other names – including one opposition mayoral candidate – had been purged."⁵⁵ While not a direct threat to the P.R.I.'s control over the Mexican government, these incidents revealed that Mexico's citizens were concerned about more than the nation's economy, even if economic difficulties remained Mexico's most pressing concern.

As the price of oil continued to fall, Mexico was forced to address renewed concerns over the government's ability to pay its foreign debts. On July 25, Mexico was forced to decrease the value of the peso by 17 percent. In an effort to show its commitment to economic austerity and satisfy the reservations of its foreign creditors, the Mexican government also announced a plan to implement \$410 million in budget cuts including the elimination of 15 undersecretaries and their staffs, the reorganization of

⁵³ Richard J. Meislin, "Mexico Encounters Problem of Growth," *New York Times* (New York, NY), June 10, 1985, sec. D, 8.

⁵⁴ "Oil Crisis Threatens Economy - Mexico," *Los Angeles Times* (Los Angeles, CA), June 20, 1985, sec. E, 3.

⁵⁵ Richard J. Meislin, "Mexico's Election: Nation's Image May Have Lost," *New York Times* (New York, NY), July 16, 1985, sec. A, 6.

publicly-owned corporations, and an additional reduction in expenses. The Mexican government also increased their interest rates to 70 percent or higher as an attempt to combat further loss of domestic capital.⁵⁶ Unlike earlier austerity measures, July's commitments do not appear to have had a direct effect on the prices controlled by the Mexican government or on the subsidies applied to staples such as corn or gasoline. In August, the Mexican government began implementing budget cuts, eliminating 51,000 positions and immediately laying off some 28,000 government employees. August also marked a shift from the Mexican government's practice of regularly devaluing the peso to a new controlled float system in which the peso's value would be based on exchange rates. Due to increased capital flight, the Mexican government began to implement stricter policies for the nation's importers. The government increased the number of fines assessed to importers who exaggerated the cost of their imported goods and kept the excess U.S. currency. New regulations were instituted requiring importers to provide letters of credit or purchase orders before they could exchange foreign currency, and a new system was created in which all non-domestic financial transactions were to be made through the importer's Mexican bank.⁵⁷ Many in Mexico saw August's reforms as an indication that the De la Madrid administration was seriously considering entry into GATT, sparking national debates.

Advocates of GATT membership included members of business associations like CEMAI-US and government officials such as Héctor Hernández, an early proponent of export-oriented growth. Supporters argued GATT membership would provide Mexican

⁵⁶ Mary Williams Walsh, "Mexico Devalues the Peso, Plans to Cut Budget to Control Economy," *Wall Street Journal* (New York, NY), July 25, 1985, 25.

⁵⁷ "Mexico Launches Reform Plan: Peso Devalued 20%; Government Layoffs Begin," *Chicago Tribune* (Chicago, IL), August 6, 1985, sec. C, 10.

exporters better access to foreign markets. Mexican labor leaders including Fidel Velázquez Sánchez of Confederación de Trabajadores de México and economists such as Roberto Dávila asserted that GATT membership would cause unemployment and hinder Mexico's economic growth.⁵⁸ This debate was intensified as the Mexican government's attempts to stabilize the national economy proved ineffective. Declining oil prices aggravated fears that Mexico would be unable to meet its debt obligations and on September 1, President De la Madrid demanded that Mexico's foreign creditors renew negotiations of the nation's interest payments.⁵⁹ Mexico was in dire straits. Despite the fact that the Mexican government had made regular payments on its foreign loans, the decrease in oil revenues had constrained Mexico's ability to meet its debt obligations. Failure to meet these obligations meant that the IMF could discontinue its loans to Mexico as it had done with Brazil and Argentina earlier that year.

Tragedy Strikes Mexico

On September 19, 1985, the IMF formally suspended loans to Mexico.⁶⁰ Despite the strict austerity measures implemented by the Mexican government over the course of 1985, the IMF supported its decision to terminate Mexico's loans by iterating the fact that Mexico had "failed to live up to the agreements it [the Mexican Government] made with the multinational lending agency," specifically commitments to reduce the nation's

⁵⁸ Vincent J. Schodolski, "Free-trade Debate Raging in Mexico," *Chicago Tribune* (Chicago, IL), August 25, 1985, sec. D, 1,4.

⁵⁹ Richard J. Meislin, "Mexico Bid For Loan Revision: Talks Sought on \$96 Billion Debt," *New York Times* (New York, NY), September 2, 1985.

⁶⁰ James L. Rowe, Jr., "IMF Cuts Off Lending to Mexico: Failure to Live Up to Economic Agreements Cited; Move Seen Major Blow to Nation," *Washington Post* (Washington, DC), September 20, 1985, sec. E, 1,3.

budget deficit and lower domestic interest rates.⁶¹ The IMF decision alone would have been a considerable blow to Mexico; however, as it coincided with two earthquakes that struck Mexico on September 19 and 20, the nation was devastated. The first of the earthquakes took place at 7:18 A.M. on September 19 and reached a magnitude of 7.8 on the Richter scale. The seismic activity resulted in significant damage in Mexico City and portions of the states of Jalisco, Guerrero, and Michoacán.⁶² According to the United Nations, the devastation left 6,000 dead, 2,000 presumed dead, and caused \$4 billion in damages including the loss of 30,000 housing units, the destruction of 30 percent of Mexico City's hospital capacity, and a loss of 20 percent of the city's educational facilities.⁶³

For Jorge Castañeda, the events of September 19 and 20 were causes of deep concern. He maintained "the IMF decision will affect Mexico's already battered credit rating, making its attempt to obtain fresh funds on the world market practically hopeless." Castañeda also asserted that the damage done by the earthquakes would "reverberate throughout the nation" and "multiply many times over in the years to come." In light of the devastation, Castañeda was hopeful that Mexico's creditors would take this opportunity to "ease up on Mexico," especially as he believed it was becoming increasingly apparent that "Mexico would soon have to stop sacrificing its long-term economic development to meet interest payments on its foreign debt."⁶⁴ In the days that

⁶¹ James L. Rowe, Jr, "IMF Cuts Off Lending to Mexico: Failure to Live Up to Economic Agreements Cited; Move Seen Major Blow to Nation," *Washington Post* (Washington, DC), September 20, 1985, sec. E, 1.

⁶² Richard J. Meislin, "Earthquake Rocks Mexico; Hundreds are Feared Dead as Buildings Fall and Burn," *New York Times* (New York, NY), September 20, 1985, sec. A, 1.

⁶³ Dan Williams, "Mexico Quake Loss Put at \$4 Billion: Report by U.N. Panel Includes Damages to the Economy," *Los Angeles Times* (Los Angeles, CA), October 25, 1985, sec. A, 4.

⁶⁴ Jorge G. Castañeda, "Mexico in Need," *Washington Post* (Washington, DC), September 22, 1985, sec. C, 7.

followed, the IMF realized the need to resuscitate its image as many nations saw its decision to terminate Mexico's loans as callow. The IMF issued a statement "saying that there was no 'decision' to cut off Mexico but that IMF procedures preclude the country from borrowing more money when it is 'out of compliance' with its fund agreement."⁶⁵ Mexico received \$2 billion in emergency aid gifts over the course of September but if banks had planned to heed Castañeda's call to reconsider Mexico's debt, they had shown "no sign of such leniency," by September 27.⁶⁶

Mexico waited until October for the thirteen-member bank negotiating committee that had played a prominent role in rescheduling Mexico's debt in 1984 to announce the deferment of Mexico's loan payments due October 1 and November 4. When the IMF did extend credit to Mexico on October 14 it was in the form of a \$300 million emergency loan, not the \$400 million Mexico would have received under their earlier agreement with the IMF.⁶⁷ While Mexico's creditors had made allowances for Mexico's situation in the aftermath of the September Earthquakes, these allowances did little to improve Mexico's economic plight.

If the IMF and Mexico's private creditors were hesitant to develop new debt plans to assist Mexico, the Reagan Administration was not. At the annual meeting of the IMF and World Bank in Seoul Korea on October 8, 1985, U.S. Treasury Secretary James Baker III announced a new approach for nations in the midst of debt crises. This plan called for agreements between "debtor nations," commercial banks, and international

⁶⁵ James L. Rowe, Jr, "Mexico, IMF Agreement Seen Soon," *Washington Post* (Washington, DC), September 21, 1985, sec. D, 10.

⁶⁶ Marjorie Miller, "Mexico Facing Worse Inflation: Economic Aftershocks Aggravate Debt Crisis," *Los Angeles Times* (Los Angeles, CA), September 27, 1985, sec. A, 1.

⁶⁷ "Creditor Banks Delay Mexico's Debt Payments: Nation Gets Six Months to Repay \$950 Million," *Los Angeles Times* (Los Angeles, CA), October 2, 1985; Mary Tobin, "IMF Loan to Mexico Expected This Week," *Washington Post* (Washington, DC), October 15, 1985, sec. D, 10.

lending agencies such as the World Bank and the Inter-American Development Bank. Under the proposed agreement, the indebted nation would consent to “streamline its economy by adopting more market-oriented economic practices, transferring inefficient state-run industries to the private sector, and moving to attract more foreign investment.” In return, the lending agencies would work with the IMF to ensure the participating nation complied with its commitments and might offer “new loans to soften the impact of policy changes.” To accomplish this goal, the Reagan administration would “press U.S. commercial banks to commit to lending to the country over the next several years.”⁶⁸ This proposal was the basis of what became known as the Baker Plan, and was an attempt by the Reagan Administration to use credit from commercial banks in the U.S. as a means of enticing nations suffering from the debt crisis to alter the makeup of their national economies. The changes the Baker Plan required for participating nations resembled many of the structural changes the U.S. Council and its members had been advocating Mexico adopt for years, including an export-oriented economy and an increase in direct foreign investment. William Roche of Citibank, a member of the U.S. Council, expressed support of Baker’s proposal and stated that he believed “commercial banking as a whole will respond positively” to the plan, after all it would ensure that banks would continue to receive interest payments from Mexico which paid over \$40 billion in interest between 1981 and 1984.⁶⁹ The Baker plan was an attempt by the Reagan Administration to realize the liberalization policies William Brock first advanced in 1981 and reveals that international lending agencies shared common interests with the

⁶⁸ Art Pine, "Mexico May Be First Candidate for Debt Plan: U.S. Might Ask Country if it is Interested in New Strategy for Debtors," *Wall Street Journal* (New York, NY), October 9, 1985.

⁶⁹ Mary Tobin, "IMF Loan to Mexico Expected This Week," *Washington Post* (Washington, DC), October 15, 1985, sec. D, 10; Nora Lustig, *Mexico: The Remaking of an Economy*, 2nd ed. (Washington, DC: Brookings Institution Press, 1998), 32-33.

U.S. government. That Baker's announcement came on the heels of Mexico's tragic September was no coincidence, as representatives of the U.S. government appear to have identified Mexico as an ideal candidate for this plan.⁷⁰ While the Baker Plan was met with enthusiasm by top-level U.S. financiers, it attracted vocal opponents in Mexico including Jorge Castañeda.

Castañeda insisted that the Baker Plan was not a viable solution for nations like Mexico which were suffering through debt crises. Castañeda acknowledged that any change in the Reagan Administration's policy toward the debt crisis in Latin America was positive, but maintained that the need for a new policy signaled the failure of previous and existing policies. He believed the Baker Plan confirmed that the Reagan Administration believed the only way for nations to achieve self-sustained economic growth was for their economies to be decentralized, liberalized, and oriented toward open markets. The Baker Plan required Mexico and other Latin American nations to sacrifice "everything – growth, investments, imports, and living standards – to meet interest payments," a practice that was "severely straining their [Latin American nations] social and political fabric." Rather than addressing increasingly oppressive interest payments, which Castañeda believed to be the most important problem facing nations in the debt crisis, he claimed "the Baker plan seems to represent a last-ditch effort to keep Latin loans performing – that is paying interest – at all cost."⁷¹ What Mexico needed, according to Castañeda, was a significant amount of new loans or a considerable decrease in the nation's debt service if the Mexican economy was to continue to grow. Castañeda feared

⁷⁰ Art Pine, "Mexico May Be First Candidate for Debt Plan: U.S. Might Ask Country if it is Interested in New Strategy for Debtors," *Wall Street Journal* (New York, NY), October 9, 1985.

⁷¹ Jorge G. Castañeda, "Mexico Will Suffocate in New Debt Plan," *Los Angeles Times* (Los Angeles, CA), October 31, 1985, sec. C, 7.

that Mexico's political stability would be threatened if economic growth was not maintained citing the increased political pressure that was being placed on Mexican President De la Madrid. De la Madrid's reforms had "roused many nationalist and 'statist' demons" who perceived these actions to be "the result of U.S. pressure." If these suspicions were revealed to be accurate, Castañeda believed, the pressures placed on the Mexican government by its domestic opponents would become unbearable. Castañeda feared if the Mexican government adopted the Baker plan, it would be interpreted as U.S. intervention and would exacerbate Mexico's already strained political situation. Rather than the "quick fix" offered by the Baker Plan, Castañeda believed, the Reagan Administration should have worked to convince "private U.S. banks that the only way for Mexico to avoid paying no interest later is to pay less interest now."⁷² As Castañeda predicted, without a reduction in interest payments, the Mexican economy was unable to grow, and appeared to worsen in the coming months.⁷³

On October 31, 1985, the Mexican peso reached its lowest point when it was traded at a rate of 500 to 1 against the dollar. This represented a 25 percent decline in value in just two weeks and sparked fears in the Mexican business community that the spending required to repair the damage of the September earthquakes might inspire the Mexican government to print excess pesos to fund the additional expenditures, increasing inflation.⁷⁴ In November, with the state of the Mexican economy worsening by the day, the Mexican Senate considered the possibility of Mexico's entry into the GATT treaty. Héctor Hernández revealed this renewed interest in GATT was due to a new round of

⁷² Castañeda, "Mexico Will Suffocate in New Debt," sec. C, 7.

⁷³ Castañeda, "Mexico Will Suffocate in New Debt," sec. C, 7.

⁷⁴ Dan Williams, "Quake and Mexico's Economic Strains Push Peso to Record Low Exchange Rate," *Los Angeles Times* (Los Angeles, CA), November 1, 1985, sec. A, 4.

international trade talks that he believed “will shape the future of international trade.” However, the ability to participate in these discussions required Mexico to join GATT. Hernández was optimistic that the Mexican Senate would approve the measure in part because the Mexican government believed that “as one of the leading underdeveloped countries, we (Mexico) have something to do in the new round (of trade talks).”⁷⁵ In addition to returning to the subject of GATT membership, Hernández revealed that officials in the Mexican government were in the process of liberalizing government policies regulating over two-thirds of Mexico’s imports. GATT membership was part of a recent effort to help Mexico capitalize on export-oriented trade. An anonymous Mexican official confirmed this change was inspired by Mexico’s desire to increase its own exports stating that Mexican industry would have to “compete in its own market” in order to “guarantee that it will be able to compete in foreign markets.”⁷⁶ While GATT membership remained a controversial issue in Mexico, prominent Mexican business leaders had worked to advocate on behalf of GATT entry in both the U.S. and Mexico. While Mexico’s growing debt was the most important factor influencing the De la Madrid administration’s stance, the efforts of free-trade advocates such as CEMAI-US also played a role in convincing the officials in the Mexican government that increasing and diversifying exports provided a viable means to reviving the Mexican economy and were, in fact, in the nation’s best interests despite vocal opposition to GATT membership. While there was still much debate over the decision to join GATT, Hernández maintained

⁷⁵ Stuart Auerbach, "Mexico May Join GATT Before Trade Talks Begin," *Washington Post* (Washington, DC), November 8, 1985, sec. D, 8,10.

⁷⁶ Auerbach, "Mexico May Join GATT," sec. D, 8, 10.

many in Mexico were “beginning to think that it’s time to reopen discussion about the participation of Mexico in GATT.”⁷⁷

A Decision on GATT

On November 25, 1985, Mexican President Miguel de la Madrid formally announced that Mexico planned to enter negotiations to join GATT. In a public statement, he stated structural changes were required for Mexico to successfully introduce its economy into the world market. De la Madrid’s decision was touted by *Excelsior*, Mexico’s largest newspaper, as “the most important turn in Mexico’s foreign trade policy in almost half a century.” While the announcement carried significant political risks, GATT entry offered potential economic benefits, one of which was “a greater degree of certainty for its [Mexico’s] export efforts,” according to De la Madrid.⁷⁸ If Mexico’s citizens believed reasons the Mexican government used to justify its decision to negotiate GATT membership, the fact that membership would improve domestic confidence in the Mexican economy or inspire leniency from the IMC of Mexico’s commercial lenders, they were mistaken.

In November 1985, Mexico’s inflation rate increased to 59 percent and increased to 63.7 percent by the end of the year, a figure nearly twice the 35 percent the government had forecast for the year.⁷⁹ The sharp rise in inflation at the end of the year was due in part to price increases for sugar, electricity, and gasoline in December. The cost of gasoline, which saw a 50 percent increase, inflated bus fares, inspiring protests

⁷⁷ Auerbach, "Mexico May Join GATT," sec. D, 8, 10.

⁷⁸ Robert J. McCartney, "Mexico to Lower Trade Barriers, Join GATT," *Washington Post* (Washington, DC), November 26, 1985, sec. E, 1,3.

⁷⁹ Dan Williams, "Price Hikes in Mexico Bring Harsh Criticism," *Los Angeles Times* (Los Angeles, CA), December 10, 1985, sec. D, 2; Manuel Pastor and Carol Wise, "State Policy, Distribution, and Neoliberal Reform in Mexico," *Journal of Latin American Studies* 29, no. 2 (May 1997): 423.

and assaults on bus drivers. Gonzalo Altamirano of PAN called the price hikes “exorbitant and unjust,” while labor leaders including Fidel Velázquez Sánchez expressed concerns over whether minimum wage negotiations scheduled for 1985 would do anything to improve the lives of Mexican workers.⁸⁰ These problems were exacerbated in late December when Mexico reduced the price of oil by 90 cents a barrel to remain competitive with other oil exporters. This decrease reduced Mexico’s daily income for petroleum by \$1.35 million a day.⁸¹ By most major economic indicators the Mexican economy had gotten worse in 1985. The nation’s GDP was 2.7 percent, down from 3.7 percent in 1984. Mexico had exported \$2.343 billion less than it had in 1984 despite significant efforts to support the export industry and reduce barriers to Mexican exports in the U.S. Also, \$0.7 billion had been lost to capital flight bringing the total of capital flight since 1981 to \$23 billion.⁸²

Mexico’s decision to join GATT in November was part of a larger strategic process undertaken to reorient the Mexican economy toward export-oriented growth that began in February of 1985. This process was, in part, a response to pressures placed on the Mexican government by the IMF and commercial banks, but De la Madrid’s decision to announce the reorientation of the Mexican economy at an event sponsored by CEMAI that included prominent American and Mexican business leaders indicates that the MUSBC also influenced the government’s decision-making process. Enrique Madero Bracho and CEMAI-US had devoted considerable effort to convince officials in the

⁸⁰ Dan Williams, "Price Hikes in Mexico Bring Harsh Criticism," *Los Angeles Times* (Los Angeles, CA), December 10, 1985, sec. D, 2.

⁸¹ Dan Williams, "Mexico Cuts Oil Price 90 Cents a Barrel: Responds to OPEC's Decision to Stop Trying to Set Oil Prices," *Los Angeles Times* (Los Angeles, CA), December 31, 1985, sec. F, 1.

⁸² Manuel Pastor and Carol Wise, "State Policy, Distribution, and Neoliberal Reform in Mexico," *Journal of Latin American Studies* 29, no. 2 (May 1997): 423; Nora Lustig, *Mexico: The Remaking of an Economy*, 2nd ed. (Washington, DC: Brookings Institution Press, 1998), 40-41.

Mexican government of the efficacy of an export-oriented economy and, if pressures from the country's lenders had compelled the Mexican government was to institute these changes, De la Madrid knew he could rely on CEMAI-US and the U.S. Council to provide support for this economic shift in their respective spheres of influence.

Announcing his plan in front of prominent American business leaders with ties to powerful figures in the U.S. public and private sectors ensured the information would be disseminated in the U.S. Having ensured the support of business leaders in both nations, the Mexican government worked to eliminate barriers to Mexican exports in the U.S., Mexico's largest market, by formalizing an accord on subsidies/countervailing duties with the U.S. The implementation of PROFIEX provided a formal policy through which the Mexican government could foster the nation's emerging non-petroleum export industry. Joining GATT allowed Mexico to participate in upcoming trade negotiations, and also created an opportunity to address the nation's need to secure new revenues to service its debts.

The Mexican government moved cautiously because of domestic political concerns but, by the end of 1985, the Mexican government had begun implementing elements of the U.S. Council's plan to liberalize the Mexican economy. While officials in the Mexican government remained wary of the increasing role of foreign investment in Mexico, the U.S. Council's allies in Mexico had made concerted efforts to convince the Mexican government that the development of an export-oriented economy was in the Mexico's best interest. By November 1985 a number of factors, including pressures from foreign lenders and members of Mexico's private sector, had influenced officials in the Mexican government to enact measures designed to orient Mexico's economy toward

export-oriented growth. GATT membership represented the most effective means for Mexico to overcome protectionist trade measures employed by foreign nations. Despite a significant shift in Mexico's economic strategy, the MUSBC had yet to fully realize its goal. In the years that followed, the MUSBC redoubled its efforts to convince the governments of Mexico and the U.S. that the successful negotiation of a bilateral framework agreement was in the both nations' best interests.

CHAPTER V

THE FOUNDATIONS OF NAFTA

In 1985 the Mexican government abandoned the nation's policy of Import Substitution Industrialization in favor of new policies that would reorient the Mexican economy around the growth of the export industry. For Mexico's new economic model to be successful, the Mexican government needed to increase Mexico's access to global markets, a factor that had contributed to the government's decision to pursue membership in the General Agreement on Tariffs and Trade (GATT), a move that would force Mexico to significantly liberalize its trade policies. Though the administration of Miguel de la Madrid Hurtado had adopted measures that would liberalize Mexico's trade, the Mexican government remained wary of foreign investment. If the Mexico-U.S. Business Committee (MUSBC) were to ensure the interests of its member corporations were served, it would have to fully realize its liberalization strategy by opening the Mexican economy to direct foreign investment. The MUSBC needed to convince the Mexican government that the proposed bilateral framework agreement, a measure designed to benefit the MUSBC's member corporations, represented the most effective means for the Mexican government to resolve its country's economic crisis. Over the course of two years, the U.S. Council of the MUSBC (U.S. Council) created a series of papers that portrayed a bilateral framework agreement as a means to improve the commercial relationship between the United States (U.S.) and Mexico. The U.S. Council also supported the efforts of the U.S. government to ensure that the bilateral framework agreement included provisions that would allow American companies to invest in Mexico. Meanwhile, the Mexican section of the MUSBC, the division of Consejo

Empresarial Mexicano para Asuntos Internacionales responsible for U.S. relations (CEMAI-US), and their sponsor, Consejo Empresarial Mexicano para Asuntos Internacionales (CEMAI), proposed a series of changes to the laws governing foreign investment in Mexico. These efforts combined with pressures placed on the Mexican government by its creditors, including the International Monetary Fund (IMF) and commercial banks, played a vital role ensuring the passage of a bilateral framework agreement between the U.S. and Mexico in 1987.

In January 1986, the Mexican peso saw a roughly 15 percent increase in value. Sign analysts, including Javier Murcio, an economist for Data Resources Inc., attributed this to increased confidence in the Mexican economy. Murcio believed this renewed faith was due in part to the fact that people believed “the government is trying to gain control” by “setting up definitive guidelines.”¹ One example of this trend was the Mexican government’s revision of guidelines pertaining to maquiladoras, foreign-owned manufacturing plants that assembled products from duty-free imports. Prior to January 1986, maquiladoras were not allowed to sell their products domestically; however, in an effort to attract more foreign investors and increase sales of domestic raw materials, the Mexican government allowed those maquiladoras that purchased components and raw materials from Mexican producers to sell 20 percent of their outputs to consumers in the Mexican market.² Despite the growth in the peso’s value and the revision of policies that would provide new sources of foreign investment, the Mexican economy was far from recovery. In January, the average price of oil fell to \$20 a barrel, a figure well below the

¹ Mexican Peso Rebounds: Analysts Credit Government Action," *Washington Post* (Washington, DC), January 7, 1985, sec. D, 3.

² William Stockton, "Mexico's Grand 'Maquiladora' Plan," *New York Times* (New York, NY), January 19, 1986, sec. F, 4.

1986 average of \$25 per barrel.³ At the time it was estimated that the reduction of Mexican oil by \$1 a barrel cost the nation over \$500 million annually, renewing doubts that the Mexican Government would be able to service its \$101 billion debt, requiring \$8.3 billion in interest payment, without accumulating new debt.⁴ These misgivings motivated renewed calls for Mexico to take advantage of the proposed Baker Plan first proposed in 1985.⁵

Mexican intellectual and political commentator, Jorge Castañeda, argued that the Mexican government could either continue to service its debt or facilitate investment in the nation's economy, but could not do both. Castañeda maintained that Mexico's economic situation required "urgent, drastic measures before difficult economic issues become unmanageable political ones." Castañeda argued that the U.S. had an opportunity to aid Mexico and charged that at a meeting between Reagan and De la Madrid in January "simple lip service was paid" to the idea of helping Mexico secure an additional \$4 billion in loans that while needed would "only postpone its [Mexico's] debt problems, not solve them."⁶ Castañeda believed that many of Mexico's citizens would "prefer to reduce their country's debt burden in close cooperation with the United States," but did not offer specific steps to resolve this issue.⁷ What citizens Castañeda was indicating is uncertain, but it seems unlikely that labor leaders such as Fidel Velázquez

³ Tom Wicker, "Mexico on the Brink," *New York Times* (New York, NY), January 24, 1986, sec. A, 27.

⁴ Nora Lustig, *Mexico: The Remaking of an Economy*, 2nd ed. (Washington, DC: Brookings Institution Press, 1998), 32-33.

⁵ S. Karene Witcher and Mary Williams Walch, "Mexico Will Be Seeking New Loans to Get Through '86, Bankers Say," *Wall Street Journal* (New York, NY), January 24, 1986, 29; Vincent J. Schodolski, "Mexico's Troubles Make it a Prime Candidate for Baker Plan," *Chicago Tribune* (Chicago, IL), January 26, 1986, sec. W, 11.

⁶ Jorge G. Castañeda, "Indebted Mexico Staggers On," *New York Times* (New York, NY), January 8, 1986, sec. A, 23.

⁷ Castañeda, "Indebted Mexico Staggers On," sec. A, 23.

Sánchez of the Confederación de Trabajadores de México, who had been vociferous in his opposition to GATT in 1985, would have expressed a desire for increased foreign involvement in the Mexican economy. Perhaps this growing desire for collaboration, coupled with external pressures from foreign lenders inspired Mexico to renew official negotiations for a framework agreement between the U.S. and Mexico.

Negotiating a Bilateral Framework Agreement for Trade and Investment

Officials from the U.S. and Mexico had held an official meeting to discuss the framework agreement for a bilateral trade and investment accord. The Mexican government wanted to negotiate the bilateral framework agreement while pursuing membership in the GATT.⁸ The U.S. Council also created a subcommittee to address issues pertaining to capital formation in Mexico. Called the Task Team on Capital Formation and Flow (Capital/Flow Team), this committee was tasked with reaching common understandings between corporations in the financial and industrial sectors in both the U.S. and Mexico. The committee was also to “consider both the various processes for and alternate means of resolving Mexico’s debt and capital flow problems and propose appropriate business-government action.”⁹ The U.S. Council’s need to address the problems surrounding Mexico’s debt and lack of capital flow inspired its members to consider the implications these issues had for members of Mexico’s business class.

In Mexico, the belief that the nation’s “current debt burden precludes long-term

⁸ Robert Herzstein to Mexico-U.S. Business Committee File, memorandum, "Talk with Anne Hughes on January 10 Concerning Bilateral Framework Agreement," January 13, 1986, Folder 9, Box 9, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁹ “Work Program of the Task Team on Capital Formation and Flow,” January 15, 1986, Folder 10, Box 4, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

growth” was growing, as were fears the situation might “cause the collapse of the economy during the 1980s.”¹⁰ According to the U.S. Council Mexico’s debt burden had become “particularly dangerous to the recovery and growth of the [Mexican] private sector.”¹¹ The purpose of the U.S. Council’s new capital formation team demonstrated a greater appreciation for the situation facing Mexico than past proposals for similar working groups. A 1984 proposal called for the creation of alternative forms of credit for Mexican industries, a notion that had been firmly rejected by members of the U.S. Sector of the Consejo Empresarial Mexicano para Asuntos Internacionales (CEMAI-US) due to the political risks such a plan entailed. The 1986 proposal called for the task team to propose solutions involving both the Mexican government and the Mexican private sector, demonstrating that U.S. Council understood the difficulties that their allies in Mexico faced.

The U.S. Council also worked with members of the Reagan administration to open investment and trade opportunities in Mexico. In a letter to John C. Whitehead, the U.S. Assistant Deputy Secretary of State, Rodman Rockefeller communicated his fears over the state of the Mexican economy. Rockefeller asserted that the basis of Mexico’s economic problems was the Mexican government’s “autarkic nationalist anti-foreign ‘development’ philosophy since World War II.”¹² The letter highlighted reforms made by the De la Madrid administration, but appeared to be an attempt to convince Whitehead to support a debt plan sponsored by the U.S. that would be in America’s national interest by providing “dramatically lower debt service requirements and the availability of new

¹⁰ “Work Program of the Task Team on Capital Formation and Flow.”

¹¹ “Work Program of the Task Team on Capital Formation and Flow.”

¹² Rodman C. Rockefeller to John C. Whitehead, January 27, 1986, Folder 9, Box 9, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

trade credits in return for dramatic reforms in its [Mexico's] trade, investment, and private capital formation regulations."¹³ Rockefeller hinted at a plan to reduce Mexico's economic crisis, but he failed to fully outline what his proposal would entail. The document indicated a greater understanding of Mexico's needs than many of documents produced by the U.S. Council in earlier years. However, the solutions that Rockefeller offered were expressed as part of the U.S. Council's larger strategy to open the Mexican economy to foreign trade and investment, part of which the U.S. Council would elaborate upon in May.

This opportunity came when the USTR called for public comment on bilateral negotiations between the U.S. and Mexico. As part of this process, the USTR scheduled public hearings on February 25 in Washington D.C. and on March 6 in San Antonio, Texas. The U.S. Council urged its member corporations to participate in these hearings and created a statement of its own as a means to advance the U.S. Council's overall strategy.¹⁴ This statement iterated the role the U.S. Council had played in sponsoring the concept of a bilateral framework agreement between the U.S. and Mexico, and revealed that the U.S. Council believed the changes resulting from Mexico's entry into GATT would not remove obstacles to U.S. trade and investment in Mexico. The U.S. Council cited non-tariff barriers, the lack of means through which to resolve commercial disputes, insufficient protection of American intellectual property rights in Mexican legal codes, limits placed on foreign investment by the Mexican government, and Mexico's import

¹³ Rockefeller to Whitehead.

¹⁴ Guy F. Erb to Members of the U.S. Council of the Mexico-U.S. Business Committee, "*** Urgent Reminder **," February 7, 1986, Folder 9, Box 9, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX; "Statement of the U.S. Council of the Mexico-U.S. Business Committee Before the Trade Policy Staff of the United States Trade Representative," February 18, 1986, Folder 10, Box 4, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX..

substitution policy, which “has built a wall of protection around its industry,” as impediments to U.S. trade and investment.¹⁵ The U.S. Council maintained that a “bilateral framework agreement should prove even more essential,” in settling the “commercial differences between the United States and Mexico” than any provisions in a multilateral agreement such as GATT could provide.¹⁶ A framework agreement would create a series of flexible provisions that could be applied to future agreements governing specific industrial sectors and would provide the basis for a comprehensive trade and investment accord.¹⁷ The statement the U.S. Council prepared for these hearing provides a compelling example of how the MUSBC portrayed the interests of its members as American national interests in an effort to influence U.S. trade policy.

The Mexican Government Responds to Declining Oil Revenues

As the U.S. government solicited feedback on the bilateral framework agreement, the Mexican government was once again forced to respond to factors that were negatively influencing the Mexican economy. At the end of January, Mexico announced it would reduce the price of oil by \$4 a barrel, a policy that was made retroactive to the first of the year. This new price reduced Mexico’s heavy crude exports to less than \$20 per barrel, costing Mexico over \$2 billion in oil revenues.¹⁸ This loss of revenues forced the Mexican government to revise its economic strategy for 1986, alarming Mexico’s foreign creditors, causing Fidel Velázquez Sánchez and other union leaders to call for revisions of government policies and to criticize the effectiveness of recent increases in the

¹⁵ The specific ways in which Mexico’s import substitution policy had protected Mexican industries is not specified in the document.

¹⁶ “Statement of the U.S. Council of the Mexico-U.S. Business Committee Before the Trade Policy Staff.”

¹⁷ “Statement of the U.S. Council of the Mexico-U.S. Business Committee Before the Trade Policy Staff.”

¹⁸ Issac A. Levi, “Mexico Cuts Oil Price \$4 a Barrel,” *Washington Post* (Washington, DC), February 1, 1986, sec. A, 16.

country's minimum wage.¹⁹ The Mexican government responded by reiterating the nation's need to join GATT, calling for non-petroleum based exports, and a new strategy to address the nation's debt service burdens.

This strategy, outlined by Eduardo Arcaraz of the Mexican Ministry of Commerce and Industrial Development, called for Mexico to make structural changes that would reduce the protections previously enjoyed by Mexican industries, namely the reduction of Mexico's import license system that served to insulate Mexican producers. Arcaraz maintained that membership in GATT was essential for Mexico to gain access to markets, a move that was "expected to spur Mexico's production capacity and make its plants and products more competitive in both domestic and world markets."²⁰ This new strategy called for new tax incentives designed to help Mexican industries convert from the import substitution model to the export model, and assured that GATT membership did not represent a threat to Mexico's sovereignty or the nation's ability to retain control of its natural resources.²¹ Mexico, though, continued to languish under its heavy debt burden. On February 21, President De la Madrid made the shocking announcement that Mexico intended to make future debt payments based on the nation's ability to pay. De la Madrid noted that this pronouncement was not a "unilateral action against foreign creditors," but rather a call for debt revisions based on discussion and mediation between Mexico and its creditors.²² De la Madrid justified his decision as an attempt to maintain basic services for Mexico's citizens in the wake of Mexico's declining oil revenues.

¹⁹ Mary Williams Walsh, "Ailing Mexico Tries to Placate Its Creditors and Working Class," *Wall Street Journal* (New York, NY), February 12, 1986, 34.

²⁰ Eduardo Arcaraz, "Mexico Tries Pumping Up Non-Oil Exports," *Wall Street Journal* (New York, NY), February 14, 1986, 21.

²¹ Arcaraz, "Mexico Tries Pumping Up Non-Oil," 21.

²² Mary Williams Walsh and S. Karene Witcher, "Mexico, in New Strategy, to Limit Debt service to 'Capacity or Pay,'" *Wall Street Journal* (New York, NY), February 24, 1986, 38.

De la Madrid asserted that if Mexico continued to maintain its debt obligation the nation would be “putting at risk basic food security and the supply of drinking water,” a sacrifice the nation’s government was unwilling to pay. Mexico’s creditors were asked to “make an effort at least equivalent to the great task and sacrifice undertaken by the Mexican people.”²³ American bankers were relieved that Mexico had not determined to stop their debt payments outright; however, there was considerable apprehension regarding the effect Mexico’s decision would have on the U.S. financial sector. One anonymous banker claimed the Mexican government’s announcement was making American bankers into “proverbial sacrificial lambs.”²⁴ This response reveals the degree to which American banks relied on profits from Mexican debt and Mexico’s continued ability to service its debts.²⁵ Jorge Castañeda lauded De la Madrid’s decision to finally end the cycle of borrowing additional funds to service the nation’s debt; however, the coming months revealed that breaking Mexico’s debt cycle would be more difficult than it appeared in February.

Less than two weeks after De la Madrid announced his intention to end “the vicious cycle of indebtedness,” the Mexican government revealed that it would be seeking an additional \$2 billion in new loans on top of the \$4 billion it had planned to borrow in its 1986 budget. Before Mexico could secure these loans, a negotiation of a new loan agreement with the IMF was required. Foreign creditors used this opportunity to encourage Mexico to sell “subsidized state businesses and amend laws keeping

²³ Williams Walsh and Witcher, "Mexico, in New Strategy," 38.

²⁴ Williams Walsh and Witcher, "Mexico, in New Strategy," 38.

²⁵ Arizona Governor Bruce Babbitt estimated that U.S. commercial banks had extended \$26 billion in loans to Mexico in May. This would mean that 38.8 percent of Mexico’s \$101 billion external debt was owed to commercial banks in the U.S. and that these banks could expect roughly 38.8 percent of Mexico’s \$8.3 billion interest payments, or a total of \$3.22 billion.

foreign-owned businesses out of such potentially attractive investment areas such as electronics and petrochemicals.”²⁶ In addition to seeking new loans, the Mexican Finance Minister, Jesus Silva Herzog, met with U.S. officials to discuss two proposals that would assist Mexico in continuing to service its debts. Silva Herzog’s first proposal called for the reduction of Mexico’s interest rates from 9 percent or higher to 6 percent, a factor that would save Mexico over \$3 billion annually. The second proposal suggested a new plan that linked Mexico’s debt service to the price of oil. Both proposals were rejected, a factor that was likely influenced by the “staggering losses” either proposal would mean for Mexico’s U.S. creditors.²⁷ In April 1986, Mexico ended negotiations for the bilateral framework agreement in favor of completing its entry into GATT; the rejection of Silva Herzog’s proposals probably influenced this decision as well.²⁸ Unable to secure new loans or to revise existing loans, the maquiladora industry became an increasingly important source of revenue for the Mexican government, a factor that inspired U.S. politicians to familiarize themselves with this industry.

In April 1985, U.S. Senator Lloyd Bentsen visited Mexico to learn more about the maquiladora industry. Bentsen, one of the Democratic Senators the U.S. Council had deemed essential to the success of a bilateral trade and investment agreement between the U.S. and Mexico, praised the changes he saw to the Mexican government’s attitude toward foreign investment and binational trade. The Senator also asserted the growing

²⁶ William A. Orme, Jr., "Reforms a Prerequisite to New Loans, Mexico Told," *Washington Post* (Washington, DC), March 5, 1986, sec. C, 3.

²⁷ Dan Williams, "Mexican Crisis May Shift Focus to Private Sector: Government Likely to be Less Dominant in the Marketplace," *Los Angeles Times* (Los Angeles, CA), March 31, 1986, sec. D, 1.

²⁸ U.S. Council of the Mexico-U.S. Business Committee, "Key Events During the Negotiation of the U.S.-Mexico Bilateral Agreement on Trade and Investment," April 15, 1988, Folder 6, Box 7, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

maquiladora sector would prove beneficial for both nations.²⁹ Enrique Madero Bracho, the chairman of CEMAI-US, extended an invitation to Bentsen to dine at Madero Bracho's private residence during his visit to Mexico.³⁰ Madero Bracho's actions reveal a keen understanding of the importance of creating relationships between Mexican business leaders and influential U.S. politicians as part of a larger strategy to realize a free trade and investment treaty between the U.S. and Mexico.

The Mexican government's new economic plans had found a supporter in Bentsen, but had little impact on its creditors who were calling for further austerity measures. On April 24, Mexican Budget Secretary, Carlos Salinas de Gortari, announced that the Mexican government would reduce the Mexico's federal budget by \$1 billion, an attempt to demonstrate Mexico's fiscal responsibility as a means to secure new loans from the IMF and commercial banks. Salinas maintained "this reduction in public spending has no precedent in the history of the country and very few points of comparison at the international level," and suggested that further reductions to the national budget would hinder the short term operation of Mexico's state-owned industries and the medium-term "capacity of the infrastructure and supply in strategic priority areas."³¹ These cuts did little to mollify commercial banks who demanded Mexico "accept a stringent IMF economic program," before banks would discuss the possibility

²⁹ Stuart Auerbach, "Border Plants Give Boost to Mexican Economy," *Washington Post* (Washington, DC), May 6, 1986, sec. F, 2.

³⁰ Enrique Madero Bracho to Guy F. Erb, telegram, March 8, 1986, Folder 9, Box 9, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

³¹ "Mexico to Slash Budget In Move to Bolster Economy," *Washington Post* (Washington, DC), April 25, 1986, sec. B, 10.

of new loans with Mexico, and the IMF refused to provide Mexico with any new loans.³² In response to the growing acrimony between the Mexican government on one side and commercial banks and international financial institutions on the other, the U.S. Council drafted a background paper warning that continued disharmony could create effects that would be detrimental to all of the parties involved.

The MUSBC Proposes a New Debt Solution

The background paper, entitled “Mexico’s Debt, Economic Performance, and Direct Private Investment” was designed to address the deterioration of the Mexican economy and revealed that aside from the maquiladora sector, “there appears to be no prospect for positive growth [in the Mexican economy] this year.” While critical of the Mexican government’s reluctance to explore new possibilities for foreign investment, the paper argued that the issues facing Mexico would have “consequences for both domestic and foreign businesses in Mexico that go far beyond” Mexico’s investment regulations. The U.S. Council maintained that current trends could “result in a general weakening of the private sector in Mexico.” The document asserted that businesses in both nations had a vested interest in maintaining trade relations and ensuring the health of the Mexican economy, as U.S. corporations with operations in Mexico were losing profits as the peso declined.³³

The U.S. Council acknowledged the need for Mexico to restructure its national economy, but called for “positive support from the Mexican and U.S. business

³² John M. Broder and Dan Williams, "Mexico Feuding with Lenders as Cash Needs Rise: Balks as Demands by IMF, Bankers to Cut Outlays as Condition for New Loans," *Los Angeles Times* (Los Angeles, CA), May 12, 1986

³³ The U.S. Council of the Mexico-U.S. Business Committee, "Mexico's Debt, Economic Performance, and Direct Private Investment," May 12, 1986, Folder 4, Box 4, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

communities, as well as from the international banks and the U.S. government” to help the Mexican government make the difficult changes needed to liberalize its economy. To this end, the U.S. Council outlined a proposal developed with assistance of U.S. and Mexican business leaders. This plan called for “coordinated action among governments, private financial institutions, and the non-banking private sectors of both nations.” The paper suggested an approach that relied on the mutual commitment of the Mexican government, commercial banks, international financial institutions, the governments of Mexico’s creditors, as well as investors from Mexico and other nations. Under the plan, the Mexican government would commit to implement the steps needed to make the nation’s economy more competitive through a process of liberalization and modernization. In return, Mexico’s creditors, their government, and international financial institutions would agree to relieve Mexico’s “debt service burden and facilitate new positive capital flows.” Finally, private investors in Mexico and foreign nations would commit to “modernize their operations and channel new investments toward more efficient production for exports and the (Mexican) domestic market.”³⁴ In return for these commitments, the U.S. Council offered to create an advisory group, appointed by Rodman Rockefeller and Enrique Madero Bracho in consultation with private sector leaders, to coordinate the efforts of both nations’ industrial and commercial industries.³⁵

“Mexico’s Debt, Economic Performance, and Direct Investment” was, at its core, a proposal that advocated the expansion of the non-petroleum export industry in Mexico and served to facilitate investment opportunities for foreign investors in Mexico. This

³⁴ The U.S. Council of the Mexico-U.S. Business Committee, "Mexico's Debt, Economic Performance."

³⁵ The U.S. Council of the Mexico-U.S. Business Committee, "Mexico's Debt, Economic Performance."

plan was formulated by the MUSBC to further the interests of its member corporations, which sought potential benefits including the creation of American-owned manufacturing plants in Mexico, which would benefit from inexpensive Mexican labor, and new opportunities for U.S. investors to finance existing Mexican firms, a move that would create new partnerships and opportunities for shared profit. While the U.S. Council's proposition was designed to advance the MUSBC strategy to liberalize Mexico's trade and investment policies, the proposal acknowledged the need to lessen Mexico's debt burden. The paper reveals a highly nuanced awareness of Mexico's political and economic landscape and addresses both the difficulties facing not only the Mexican government but also the Mexican private sector. More importantly, the proposal portrayed the reduction of Mexico's debt burden as a means to ensure the success of the economies of both U.S. and Mexico.

It is unlikely the U.S. Council could have developed this plan without considerable involvement from the members of Consejo Empresarial Mexicano para Asuntos Internacionales (CEMAI) and CEMAI-US. As such, this proposal is a clear example of the growing influence Mexican business leaders were having on the U.S. Council's understandings of Mexico's economic situation. In fact, it suggests that CEMAI and CEMAI-US used their relationships with the U.S. Council as a means to convince the U.S. government to endorse policies that would benefit specific interests within Mexico's private sector. By 1986, CEMAI-US had adopted a strategy to affect change in the U.S. that mirrored the strategy the U.S. Council had employed to influence policy changes in Mexico.

The proposal the U.S. Council advanced in May 1986 demonstrates the

importance the leadership of both the U.S. Council and CEMAI-US and its members placed on foreign corporations' ability to invest in Mexico. Both sectors believed that foreign investments in Mexico would prove so profitable for members of both nations' private sectors that they advanced a proposal that was at odds with the policies and procedures of both the IMF and the organization's members including Citibank. The MUSBC was not alone in calling for the U.S. government to intercede with commercial banks in an effort to reduce Mexico's debt burden.

On May 13, 1986, Bruce Babbitt, the Democratic Governor of Arizona, publicly called for U.S. banks to assist Mexico in reducing its interest payments, which totaled \$10 billion in 1986. Babbitt, an ally of the U.S. Council and a vocal critic of what he termed the Reagan administration's "cavalier attitude" toward Mexico, maintained that the continued inability of the Mexican government to meet its debt obligations would result in political radicalization in Mexico, a factor Babbitt believed posed a threat to Mexico's national security.³⁶ Babbitt also feared that if Mexico's debt obligation was not reduced, the nation might default on the over \$26 billion that it owed to major U.S. commercial banks, a factor that would prove devastating for U.S. banks and potentially the entire American economy. Babbitt urged U.S. banks to defer Mexico's interest payments or capitalize Mexico's interest payments by adding them to Mexico's loan principal, and called for the U.S. government to alter existing regulations impeding this process.³⁷ While Babbitt's remarks were consistent with his critiques of the Reagan administration's policies in Mexico, Babbitt had a long association with the members of

³⁶ Bruce Babbitt, "Pushing a Good Neighbor Too Far: U.S., Mexican Problems Worsen Under Our Cavalier Attitude," *Los Angeles Times* (Los Angeles, CA), May 28, 1985; James S. Granelli, "U.S. Bankers Urged to Help Ease Mexico Debt.," *Los Angeles Times* (Los Angeles, CA), May 13, 1986,

³⁷ James S. Granelli, "U.S. Bankers Urged to Help Ease Mexico Debt.," *Los Angeles Times* (Los Angeles, CA), May 13, 1986,

the U.S. Council. The Arizona governor corresponded with Guy Erb and Robert Herzstein on issues pertaining to the liberalization of the Mexican economy. The Arizona Governor was so convinced of the potential benefits of the U.S. Council's bilateral framework agreement for states, like Arizona, along the U.S.-Mexico border that he invited Herzstein to address the Fourth International Meeting of U.S. and Mexico Border Governors in July 1984, for the expressed purpose of convincing the governors of both nations to support the framework agreement.³⁸ It is not unreasonable to assume that Babbitt's remarks reflected not only his support of the U.S. Council's policies, but also the growing influence the MUSBC enjoyed over key U.S. officials.

The De la Madrid Administration Responds to a Decline in the Peso

Despite the sentiments expressed by the U.S. Council and Governor Babbitt, Mexico's lenders and the IMF did not take action to relieve Mexico's debt service obligations. June 3 marked the beginning of a decline that would see those pesos which were subject to the free exchange rate decline in value by 30 percent in six days. While transactions using pesos subject to the free exchange rate only accounted for 20 percent of Mexico's currency transactions, the value of the peso in other transactions had been steadily declining in previous months. On June 6, the Banco de México announced that prices had increased by 5.6 percent in the month of May, signaling an inflation rate of nearly 32.1 percent in the first five months of 1986. Demand for U.S. currency in Mexico was so high that some banks no longer had dollars to exchange by June 9. Institutions such as the Banco Internacional were forced to limit the value of currency

³⁸ Robert Herzstein to Rodman Rockefeller, memorandum, September 5, 1984, Folder 2 Box 8, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

exchanges to \$100.³⁹ The Mexican government faced renewed political pressures, and Jesús Silva Herzog publicly discussed the possibility of a debt moratorium. A suspension of debt payments was averted when the Mexican government reached an agreement with the IMF in which the government agreed to develop a plan to “gradually reduce its budget deficit to about 6 percent of its gross national product from its current level of 12 percent.”⁴⁰ The Mexican government would then present this plan to the IMF for approval. If the IMF endorsed this plan, it would grant Mexico access to new loans, a factor that would also allow the Mexican government to solicit loans from private lenders.⁴¹ As the De la Madrid administration began to develop new plans to reduce the nation’s budget deficit to satisfy the demands of the IMF, it appears that some within the Mexican government questioned the effectiveness of those officials tasked with overseeing the nation’s economy.

On June 17, Jesús Silva Herzog resigned (or was fired) from his position as Mexico’s finance minister. An anonymous former official in the Mexican cabinet believed that Silva Herzog’s departure indicated that the Mexican government planned to take a tougher stance on its foreign debt. This official maintained De la Madrid “wants to disassociate himself from a policy – to pay the debt at any cost – that after four years has finally failed.” The increased politicization of Mexico’s debt policy underscores growing tensions over the government’s ability to maintain established social services and the need to meet the country’s debt service obligations. Others, including James Baker, the

³⁹ William Stockton, "Peso Value Falls Amid Uncertainty on Mexico's Debt: Decline is 30% in Six Days," *New York Times* (New York, NY), June 10, 1986, sec. A, 1.

⁴⁰ Dan Williams, "IMF, Mexico Break Stalemate; Opens Way for New Loans," *Los Angeles Times* (Los Angeles, CA), June 11, 1986, sec. G, 1.

⁴¹ Dan Williams, "IMF, Mexico Break Stalemate; Opens Way for New Loans," *Los Angeles Times* (Los Angeles, CA), June 11, 1986, sec. G, 1.

U.S. Secretary of the Treasury, believed that Silva Herzog's departure represented not a shift in policy, but rather a symbolic gesture on the part of the Mexican government. Baker argued that Silva Herzog's replacement; Gustavo Petricioli Iturbide, had refrained from politicizing Mexico's debt in the past and was, in Baker's words, "a moderate with respect to the debt." Petricioli, like Silva Herzog, received a Master's Degree in Economics from Yale. Petricioli had served as the head of Nacional Financiera since 1982 and as subsecretary of the Mexican treasury in the 1970s.⁴² Despite Baker's reassurances, an anonymous foreign banker believed the events of June 17 demonstrated the increased power of a group within the Mexican cabinet who wanted to focus on domestic economic growth rather than continue to service the nation's debts. Carlos Salinas, the nation's budget minister, was identified as a leader of this cabinet group. The anonymous banker revealed, "Salinas and his people won a major battle."⁴³ It appears that June's economic collapse had provided an opportunity for Salinas and his allies to gain greater power in the Mexican government, which they used to call for a tougher stance on the nation's policy of maintaining its debt obligations. This struggle reveals the growing political ramifications of the positions taken by Mexico's economic policy makers as Mexico's debt crisis was extended.

On June 24, Mexico's deputy finance minister, Francisco Suárez Dávila, announced that Mexico had created a new plan that it hoped would meet the approval of the IMF. This new proposal called for \$15 billion in new loans and interest rate concessions for the remaining three years of the De la Madrid administration. This

⁴² Roderic Ai Camp, *Mexican Political Biographies 1935-1993*, 3rd ed. (Austin, TX: University of Texas Press, 1995), 557-558, 675.

⁴³ "Finance Chief Silva Herzog Quits in Mexico: Some Speculate Resignation Signals Tougher Stand on Foreign Debt," *Wall Street Journal* (New York, NY), June 18, 1986, 3.

announcement came at a time when an increasing number of U.S. officials were beginning to call for Mexico's creditors and the IMF to work with Mexico to reduce its debt service. These officials echoed sentiments expressed by Bruce Babbitt and the MUSBC the previous month and maintained the very real possibility of political unrest if nothing was done to alleviate Mexico's debt burden. On July 2, Babbitt published an article in the *Wall Street Journal* in which he stated, "To meet any hope of growth, Mexico's burden of debt service must be cut in half." Babbitt maintained that the current plans espoused by the IMF, which attempted to "condition new short-term loans on another notch or two of austerity," were "nothing but poison, having most of the political costs and few of the economic benefits of a full-scale solution." Babbitt advanced debt/equity swaps, a three-year commitment by the U.S. to increase its Strategic Petroleum Reserves by two hundred barrels, and the complete liberalization of Mexico's economy as aspects of a "full-scale" solution to Mexico's debt service problems. Babbitt argued that, while "economic liberalization will be very difficult for the Mexicans" and structural debt relief would be equally difficult for Mexico's creditors, "one can be used to leverage the other for the benefit of all." To help realize this goal, Babbitt called for the U.S. to take immediate action as "only the U.S. government has the clout and the freedom to take the long view," regarding Mexico's financial situation.⁴⁴ The U.S. government failed to act on Babbitt's proposal and, on July 9, Mexico and the IMF reached an agreement to extend new loans to Mexico. In order to gain access to new loans, the Mexican government agreed to reduce its deficit to a figure of roughly 8 percent of the nation's gross domestic output for services and goods. The IMF refused to

⁴⁴ Bruce Babbitt, "U.S. Able to Structure Debt Relief," *Wall Street Journal* (New York, NY), July 2, 1986, 26.

link Mexico's debt payments to the price of oil. The exact composition of the loans Mexico would be eligible for became the subject of further negotiations; meanwhile, the CEMAI steering committee had begun work on a legal proposal designed to facilitate the use of direct foreign investment as a means to ensure Mexico's future economic growth.

*The Consejo Empresarial Mexicano para Asuntos Internacionales Proposes
Changes to Mexico's Foreign Investment Laws*

On July 11, Enrique Madero Bracho provided Rodman Rockefeller with two confidential documents drafted by CEMAI as part of the organization's efforts to secure new avenues for foreign capital to invest in Mexico⁴⁵. The first document, "La Inversión Extranjera Directa Como Factor Para la Recuperación de la Economía Mexicana," outlined the need for Mexico to alter its position on direct foreign investment and suggested opportunities to attract foreign capital.⁴⁶ CEMAI advocated an investment program that allowed foreign investors to maintain majority ownership in any industry except for those sectors the Mexican government had reserved for itself and Mexican citizens. This plan echoed changes made to Mexico's investment policy in February of 1984 and was chosen because CEMAI believed this strategy would find support from members of the Mexican government. CEMAI argued direct foreign investment would provide an effective means to revive the Mexican economy. The document claims direct foreign investment in industrial sectors such as electrical production, aquaculture, and secondary petrochemicals, would allow Mexico's public and private sectors to reduce their external debt while facilitating job creation and technological transfers to Mexico.

⁴⁵ Enrique Madero Bracho to Rodman Rockefeller, memorandum, July 11, 1986, Folder 9, Box 4, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁴⁶ "La Inversión Extranjera Directa Como Factor Para la Recuperación de la Economía Mexicana" will henceforth be referred to as "La Inversión Extranjera Directa."

CEMAI also maintained direct foreign investment would increase industrial activity, encourage Mexican exports, and enhance demand in the Mexican market.⁴⁷

A key component of CEMAI's proposal was the increasing importance of economic integration between countries. The document maintained that Mexico's decision to seek GATT entry was an acknowledgement of this economic integration and alleged that policies that discouraged foreign investment were incongruent with GATT membership and could lead to unspecified negative consequences for Mexico. CEMAI advanced a number of measures that would increase opportunities for Mexico to attract direct foreign investment, which in turn would help Mexico recover from one of the nation's worst economic crises. These measures included the elimination of guidelines that were deemed discriminatory, the clarification of which sectors were open to foreign investment, and the creation of well-defined policies and procedures governing foreign investment in Mexico. The document also called for the adoption of regulations that would reduce arbitrary interpretations of investment criteria by Mexican officials. CEMAI asserted policies prohibiting the private sector from generating, conducting, and distributing energy should be eliminated, laws that contained special restrictions on foreign investment were to be reevaluated, and the terms of trusts in the tourism and maquiladora sectors were to be extended.⁴⁸ The arguments set forth in this proposal had clear benefits to CEMAI's members, those Mexican corporations that had the most experience in dealing with international or transnational corporations. These members included Grupo Embotelladoras Unidas, a bottling corporation with ties to Pepsi, and the Mexican divisions of Kimberly-Clarke, Ford, and Chrysler, four companies that stood to

⁴⁷ "La Inversión Extranjera Directa."

⁴⁸ "La Inversión Extranjera Directa."

benefit from new production plants and increased capital resources that would result from increased foreign investment in Mexico.⁴⁹ CEMAI's position that modifications to Mexico's investment laws were in Mexico's best interests masked the organization's true intent, the financial benefits increased investment would bring those corporations it represented. To facilitate the proposed legal changes, CEMAI created the "Directo de Reforma a la Ley Para Promover la Inversión Mexicana y Regular la Inversión Extranjera," which outlined reforms to be made to Mexico's investment laws.

The statement of purpose outlined in "Directo de Reforma a la Ley Para Promover la Inversión Mexicana y Regular la Inversion Extranjera," reiterated opinions expressed in "La Inversión Extranjera Directa," namely the universal nature of direct foreign investment and the need for Mexico to clarify its policies on foreign investment.⁵⁰ More importantly, the "Directo de Reforma" called for changes to specific articles in the "Ley Para Promover la Inversión Mexicana y Regular la Inversion Extranjera." These changes included the elimination of eight articles, alterations to nine additional articles, and an amendment that would change the name of the law to "Ley Sobre Inversiones Extranjeras." A new version of Article 40 established the exclusive rights of the Mexican government to the following industries: petroleum and other hydrocarbons, radioactive materials, the conduction and distribution of electricity, and telecommunications. Industries including radio, television, air travel, national maritime transportation, and automotive transportation were reserved for Mexican citizens. The restrictions placed on

⁴⁹ Christina Puga, *Los empresarios organizados y el Tratado de Libre Comercio de América de Norte* (Mexico City, Mexico: Universidad Nacional Autónoma de México, 2004), 133; Strom C. Thacker, "NAFTA Coalitions and the Political Viability of Neoliberalism in Mexico," *Journal of Interamerican Studies and World Affairs* 41, no. 2 (Summer 1999): 65.

⁵⁰ The document "Directo de Reforma a la Ley Para Promover la Inversión Mexicana y Regular la Inversion Extranjera" will be henceforth referred to as "Directo de Reforma."

foreign investment in Article 40 are at odds with the overall goals of the MUSBC; however, “La Inversión Extranjera Directa” reveals that CEMAI was aware of the Mexican government’s preference for an investment policy that reserved key industries for Mexico and its citizens. By incorporating the government’s preferences into their proposal, CEMAI was able to advocate changes to the nation’s foreign investment laws that would not be interpreted as radical and therefore might be taken seriously by Mexican officials.⁵¹

The changes made to Article 50 of the investment law included a proposal that would allow foreign investors to own more than 49 percent of an existing business if approved by the Subsecretario de Regulación de Inversiones Extranjaeras y Fomento Industrial de Tecnología of the Secretaría de Comercio y Fomento Industrial.⁵² Under these new provisions, foreign investors would be allowed to maintain a majority interest in new businesses except for sectors that contained specific legal restrictions. The revisions proposed to Articles 80 and 120 established the authorization procedures for foreign investment and the creation of new powers for the Subsecretario de Regulación de Inversiones Extranjaeras, respectively. Articles 170 and 230 created new powers for the Secretaría de Relaciones Exteriores, including the authorization of real estate purchases by foreign citizens, the approval of modifications to the constitutions of existing corporations, and the creation of trusts to ensure that these activities complied with existing legislations.⁵³

The “Directo de Reforma” stated that once the new amendments entered into

⁵¹ “Directo de Reforma.”

⁵² Subsecretario de Regulación de Inversiones Extranjaeras y Fomento Industrial de Tecnología of the Secretaría de Comercio y Fomento Industrial will henceforth be referred to as Subsecretario de Regulación de Inversiones Extranjaeras.

⁵³ “Directo de Reforma.”

force, any legal, regulatory, or administrative provisions that were in conflict with the law should be repealed and the conditions imposed on foreign investors by the Comisión Nacional de Inversiones Extranjeras revoked. CEMAI's proposed revisions to Mexico's investment laws indicated both an understanding of the position of the Mexican government and the desire of influential figures in the Mexican business community to alter Mexico's investment policies. This knowledge was used to craft a series of proposed revisions to Mexico's economic policy, the policies regarding specific Mexican industries, and those governmental agencies which were responsible for these changes that would benefit both CEMAI's members, and American investors. Though these modifications were designed to benefit members of the American and Mexican private sector, the proposal advanced these modifications as steps to improve Mexico's economic interests. These alterations also advanced a means through which investors such as the members of the U.S. Council could secure access to the Mexican economy, something they had been forbidden to do for over four decades. The U.S. Council's allies in the Mexican business community were working diligently to open the Mexican economy to foreign investment; however, the most important change made to the Mexican economy in 1985 came not from the private sector, but from the federal government.⁵⁴

*Mexico Joins the General Agreement on Tariffs and Trade and the Resulting
Consequences*

On July 15 the Mexican government agreed to the terms outlined for membership in GATT. This agreement entailed significant alterations to Mexican policies pertaining to licensing and customs validation. It also marked the beginning of new negotiations that would eliminate all Mexican trade subsidies. Clayton Yeutter, who had replaced

⁵⁴ "Directo de Reforma a la Ley Para."

William Brock as the United States Trade Representative (USTR), called Mexico's decision "a new page in our ever-expanding bilateral economic relationship," and asserted Mexico's inclusion in GATT "forms a solid basis upon which we can continue to develop mutually beneficial trade relations."⁵⁵ Mexican officials maintained that GATT membership would help improve the quality of products produced by Mexican corporations, which would play a critical role in reducing Mexican dependence on petroleum and other hydrocarbon based exports. Yeutter was quick to reveal that, while Mexico's membership in GATT increased Mexico's access to export markets, GATT also provided "greater access for U.S. exporters in the Mexican market."⁵⁶ This final statement reveals the real inspiration behind Yeutter's enthusiasm. For years the U.S. Council and the USTR had portrayed the opening of trade relationships between the U.S. and Mexico as a policy that was in the best interest of both nations, but the real reason the U.S. Council supported the opening of trade was to allow American producers the ability to sell their goods in the Mexican market.

Mexico's membership in GATT had to be approved by a majority of GATT's member nations, but Mexico began to enjoy the benefits of its decision to accept GATT's membership requirements within the week. On July 22, the IMF and the Mexican government reached a new two-year agreement under the auspices of the Baker Plan. An anonymous IMF source hailed the agreement as a "dramatic departure from its [the IMF] earlier demands on the reduction of Mexico's budget deficit." The new agreement would provide "\$1.5 billion in IMF loans to Mexico, more than \$2 billion multilateral development bank loans, and possibly up to \$7 billion in new commercial bank

⁵⁵ Stuart Auerbach, "GATT Voting on Mexico's Membership," *Washington Post* (Washington, DC), July 16, 1986, sec. G, 1.

⁵⁶ Auerbach, "GATT Voting on Mexico's," sec. G, 1.

money.”⁵⁷ In exchange, Mexico agreed to “cut its budget deficit, liberalize foreign trade, and encourage new foreign investment,” over a three year period.⁵⁸ The timing of the agreement between the IMF and Mexico, and Mexico’s adoption of GATT’s membership terms suggest Mexico’s decision to join GATT may have inspired the IMF to finalize their negotiations with Mexico.

The final approval of Mexico’s GATT application on July 25 also indicates that Mexico’s decision to join GATT in July had greater implications. With the final approval of its GATT membership, Mexico was allowed to participate in GATT activities as of August 24. This permitted Mexico to participate in the September 15 trade negotiations scheduled to take place in Punta del Este, Uruguay.⁵⁹ The desire to play a role in international trade negotiations had been a significant factor given for Mexico’s decision to explore GATT in 1985 and may have played a role in the timing of Mexico’s decision to accept GATT’s membership terms. One thing is for certain, Mexico’s membership in GATT signaled the end of Mexico’s import substitution industrialization model that had guided the Mexican economy since the Second World War. While GATT membership may have hastened the end of Mexico’s loan negotiations with the IMF, it did little to silence critics of the nation’s overall economic policy, and in August the Reagan administration renewed its pressure on Mexico to open its economy to increased foreign investment.⁶⁰

At an August 13 trade summit, both Reagan and De la Madrid “prominently

⁵⁷ Hobart Rowen, "Agreement Hailed as Holding Hope Fore Reversing 3rd World Debt Crisis," *Washington Post* (Washington, DC), July 23, 1986, sec. G, 1.

⁵⁸ Rowen, "Agreement Hailed as Holding," sec. G, 1.

⁵⁹ "Mexico New Member of Free-Trade Accord," *Chicago Tribune* (Chicago, IL), July 27, 1986, sec. F, 4.

⁶⁰ Vincent J. Schodolski, "U.S. to Press Mexico on Trade: Reagan Expected to Ask Action on Crippled Economy," *Chicago Tribune* (Chicago, IL), August 12, 1986, 6.

mentioned their determination to complete negotiations for a Bilateral Commercial Framework Accord.” In a memo dated August 20, Rodman Rockefeller asserted that this public recognition of the bilateral accord “represents a proud moment for all members of the U.S. Council of the Mexico-U.S. Business Committee and its sponsoring organizations who have worked diligently toward this end.”⁶¹ In a letter to Clayton Yeutter, Rockefeller expressed his appreciation that the presidents of the two nations had expressed a desire to complete the bilateral framework agreement, and noted “over the last four years, the Mexican-U.S. Business Committee has worked with the USTR and the Mexican Secretary of Commerce to create the conditions propitious to the successful negotiation of such an international accord.”⁶² Rockefeller confided the great pride he felt that these efforts had been recognized and offered Yeutter the assistance of the U.S. Council in completing the agreement.

Following his meeting with Reagan, De la Madrid addressed the American Chamber of Commerce. His speech outlined the steps that had been taken by his administration to improve the Mexican economy and highlighted the government’s efforts to connect Mexico’s economy to those of other nations. The reduction of Mexico’s public deficit, the modernization of Mexican industries, and the adjustment of the nation’s finances to support new development concerns were also key components of the speech. De la Madrid also highlighted the progress that had been made to reduce and consolidate Mexico’s state-owned industries often referred to as *paraestatales*.

⁶¹ Memorandum by Rodman C. Rockefeller, August 20, 1986, Folder 9, Box 9, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁶² Rodman C. Rockefeller to Clayton Yeutter, memorandum, August 15, 1986, Folder 9, Box 9, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

According to De la Madrid, the Mexican government had been successful in reducing the number of *paraestatales* from 1155 in 1982 to less than 700 at the time of the speech.

Though Mexico's fiscal crisis was not the result of public spending, but the consequence of a series of factors including, but not limited to, a steady decline in oil prices, the Mexican government's reliance on external debt, the loss of domestic capital, inequalities in Mexico's trade relations, and high real world interest rates, De la Madrid's speech addressed many policies identified as causes for Mexico's fiscal crisis by critics of the Mexican government. De la Madrid acknowledged Mexico's need to "supplement its domestic savings since these are insufficient to meet its growth requirements," and maintained that Mexico would continue to pursue a policy "promoting active and selective foreign investment that will contribute to the transfer of state-of-the-art technology, help increase exports of manufactured goods, and promote efficient substitution of imports." De la Madrid revealed that Mexico was interested in attracting investments in industrial activities that were oriented toward exports, "those characterized by rapidly changing technology," and sectors that were "essentially complex and whose investment requirements per employee are particularly high."⁶³ The American Chamber of Commerce address provided De la Madrid with an opportunity to reach a number of corporations with both the desire and the ability to make significant investments in Mexico; however, De la Madrid used this opportunity to specify which investments the Mexican government was willing to consider. This pronouncement demonstrates the Mexican government's preference for selective foreign investment, a

⁶³ Miguel de la Madrid, "Remarks by Miguel de la Madrid President of Mexico at The American Chamber of Commerce," August 13, 1986, Folder 5, Box 4, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

fact confirmed by an August 19 memo in which Gary Springer, the Secretary to the U.S. Council, revealed that investment negotiations remained a low priority for Adolfo Hegewisch, the Mexican Undersecretary for Foreign Investment.⁶⁴ When the Mexican government altered the nation's investment policies in September, the reforms resembled the guidelines outlined in De la Madrid's speech, not those proposed by CEMAI. The changes implemented by the Mexican government in September sought investment from small and medium-sized corporations with fewer than 250 employees rather than the large corporations that comprised the membership of the MUSBC.⁶⁵

De la Madrid's annual state of the nation address, held on September 1, outlined the Mexican government's desire to make the nation's austerity programs permanent in the face of increased pressure from the nation's political left to limit the nation's debt service payments.⁶⁶ While De la Madrid revealed little desire to modify his stance on Mexico's debt service obligations, the Mexican government did modify its restrictions on foreign investment for small and medium-sized corporations on the days following De la Madrid's address. This revision of the nation's investment policy allowed foreign corporations to maintain majority control of their Mexican operations, but was only available to those companies that employed 250 or fewer employees and that did not surpass annual sales of \$1.6 million. Companies who wished to take advantage of this offer were required to export 35 percent of their overall production. Extractive industries such as mining and petrochemical operations were excluded from these new policies, as

⁶⁴ Gary L. Springer to Stephen T. Vehslage, memorandum, "Status Report: OPIC Agreement with Mexico," August 19, 1986, Folder 9, Box 9, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁶⁵ "Mexico Revises Law on Investment Rules on Foreign Ownership Eased to Bolster Economy," *Los Angeles Times* (Los Angeles, CA), September 3, 1986, sec. E, 4.

⁶⁶ William Stockton, "Mexico Calls Austerity Effort Permanent," *New York Times* (New York, NY), September 2, 1986, sec. D, 4.

were operations that produced automotive parts. The Mexican government also agreed to allow international financial organizations such as the Inter-American Development Bank to “invest risk capital for development projects in Mexican companies.”⁶⁷ These new policy changes, while a significant deviation from Mexico’s previous foreign investment policies, did little to benefit the large corporations and private banks that made up the membership of the MUSBC. Undeterred, the MUSBC redoubled its efforts to open the Mexican economy to large-scale foreign investment.

Following Mexico’s accession to GATT, Robert Herzstein and other members of the Trade Subcommittee of the U.S. Council of the Mexico-U.S. Business Committee (Trade Subcommittee) determined that Mexico’s GATT membership did little to alter the need for a bilateral framework agreement between the U.S. and Mexico. While the subcommittee members praised the reduction of Mexican tariffs and the end of Mexico’s policy of official pricing, scheduled to take place in 1987, the group sought to eliminate what it saw as Mexican protection of its agricultural and energy sectors. The subcommittee members maintained that trade liberalization beyond that outlined in Mexico’s GATT protocol was needed and that a bilateral framework agreement provided the only means to resolve concerns not included in Mexico’s GATT negotiations. The Trade Subcommittee was primarily concerned with issues pertaining to investments, but also underscored GATT’s lack of consolation mechanisms, the inadequacy of GATT’s procedures to resolve bilateral disputes, and concerns over issues dealing with transfers of technology. Members argued that issues of concern to the U.S. such as Mexico’s “plans to continue its domestic content requirements in the automotive and

⁶⁷ "Mexico Revises Law on Investment Rules on Foreign Ownership Eased to Bolster Economy," *Los Angeles Times* (Los Angeles, CA), September 3, 1986, sec. E, 4.

pharmaceutical sectors” were best “addressed in the context of a Bilateral Framework Agreement.”⁶⁸ The members of the Trade Subcommittee had a clear understanding that a framework agreement was essential to increasing U.S. commercial activity in Mexico; however, the Mexican government remained cautious as the two nations resumed their negotiations of this accord.

In October, the negotiations of the bilateral framework agreement reached a deadlock as Mexico insisted that it would be unable to implement measures protecting patents for ten years, eight years longer than the timeframe the U.S. deemed acceptable. The failure of negotiators to reach an acceptable compromise resulted in U.S. negotiators recommending, “a tightening of U.S. limits on Mexico’s access to duty-free treatment” under the U.S.’s Generalized System of Preferences Program (GSP), “unless Mexico reduces the ten year transition period for the introduction of product patent protection that is in draft legislation before the Mexican congress.” Guy Erb believed that the situation had the possibility to result in a trade dispute that “would jeopardize progress towards a bilateral agreement,” which he deemed “a serious problem for U.S.-Mexico trade relations.” Erb made efforts to move U.S. negotiators toward an agreement, consulting with members of the U.S. Council and other U.S. business leaders, but it appeared the stalemate would not be resolved. Erb called on Rodman Rockefeller and Enrique Madero Bracho to “speak with the appropriate officials in Mexico and Washington to express concern over the consequences of a stalemate on intellectual property,” and vowed to work with Robert Herzstein to “consider ways that the two countries can avoid a harmful

⁶⁸ Robert Herzstein, Guy Erb, and Richard Neff to Subcommittee on Trade of the U.S. Council of the Mexico-U.S. Business Committee, "Bilateral Framework Agreement in Light of Mexico's GATT Accession," February 7, 1986, Folder 9, Box 9, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

confrontation.”⁶⁹ It appears that Erb and the members of the MUSBC were unable to influence either nation to compromise on the matter. The dispute came to a head in 1987 when the U.S. announced that roughly \$637.5 million worth of exports from Mexico would be ineligible for duty-free consideration in the U.S. program of Generalized System of Preferences.⁷⁰

In September 1986, the IMF and Mexico established a special contingency plan in which the IMF would provide Mexico with access to roughly \$720 million should the average price of a barrel of oil fall below \$9. Mexico also reached an agreement with private banks in which banks would extend \$6 billion in loans over two years under the auspices of the Baker Plan.⁷¹ In October, Mexico called for new concessions on its foreign debt despite these agreements. Mexico’s chief debt negotiator, Angel Gurria, who called for these concessions at a seminar in Washington D.C., explained, “Our government has to put the interests of our people first.”⁷² Jorge Castañeda criticized the new debt plan, maintaining that this latest loan package “only drives Mexico deeper into debt and postpones any lasting solution until the end of De la Madrid’s term in late 1988.” While new loans ensured that banks could continue to count on Mexico to service its debts, Castañeda claimed that “With the exception of the Reagan administration, none of the parties in this entire affair is particularly enthusiastic,” pointing to the bank’s concerns about the level of risk associated with loans to Mexico and the Mexican

⁶⁹ Guy Erb to Rodman C. Rockefeller and Enrique Madero Bracho, October 1, 1986, Folder 8, Box 4, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁷⁰ U.S. Council of the Mexico-U.S. Business Committee, “Key Events During the Negotiation of the U.S.-Mexico Bilateral Agreement on Trade and Investment.”

⁷¹ Nora Lustig, *Mexico: The Remaking of an Economy*, 2nd ed. (Washington, DC: Brookings Institution Press, 1998), 47.

⁷² Michael R. Sesit and S. Karene Witcher, “Mexico Signals It Wants Debt Concessions,” *Wall Street Journal* (New York, NY), October 16, 1986, 34.

government's fears over the nation's increasing level of debt. For Castañeda, the loan package was "an exorbitant price to pay just to maintain the fiction that the Baker plan, stillborn when first presented to the IMF/World Bank in Seoul last October, is alive and well in Mexico."⁷³

The caution on the part of the Mexican government that Castañeda described was apparent when the nation proposed its economic forecast for 1987. In November 1986, De la Madrid predicted that the country was only projecting an annual growth rate of 2 to 3 percent for the following year, a figure that was both lower than earlier projections made by Gustavo Petrocioli and significantly lower than the 5 to 6 percent growth rate that many economists believed was needed for Mexico to create enough jobs to meet domestic demands.⁷⁴ As 1986 drew to a close, the Mexican government announced plans to link the fees of students at the Universidad Nacional Autónoma de México (UNAM) to the nation's minimum wage, a fact that would cause the university's fees to increase periodically as the government adjusted the minimum wage. The news of this decision sparked two student marches in December and led to the most widespread student protests in nearly two decades. These protests marked the end of one of Mexico's most turbulent economic years.

By many economic indicators, the Mexican economy had performed worse in 1986 than any other year in the 1980s. The nation's Gross Domestic Product (GDP) growth was -3.8 percent, the most significant decline since 1983. This decline was due in part to the fact that oil prices had fallen to an average of \$11.9 per barrel, a figure that

⁷³ Jorge G. Castañeda, "Mexico's Debt 'Rescue' Is the Frailest of Lifelines," *Los Angeles Times* (Los Angeles, CA), October 8, 1986, sec. B, 5.

⁷⁴ Dan Williams, "Despite New Foreign Loans, Mexico Cuts Forecast of Economic Growth," *Los Angeles Times* (Los Angeles, CA), November 25, 1986, sec. F, 2.

was less than half of 1985's average of \$25.3. Mexico's inflation rate was 105.7 percent, the highest of any year in the 1980s. Mexico's debt reached \$101.0 billion dollars, \$75.4 of which was public debt, and the nation's debt service payments were \$8.3 billion. Real wages in Mexico were 72 percent of what they had been in 1980, while the real exchange rate was 149.0 pesos to the dollar, a value that represented the lowest value of the peso for any year between 1980 and 1990. The economic factors that saw improvement from 1985 to 1986 included the reversal of Mexico's capital flight and an increase of \$52 million in foreign direct investment.⁷⁵ As 1987 began it was apparent that the Mexican government's policy of borrowing additional funds to service its debts was not, as Castañeda had continuously argued, a viable solution. The U.S. Council hoped that a formal bilateral framework agreement between the U.S. and Mexico as well as the end of Mexican regulations restricting direct foreign investment would be the centerpiece of a new economic solution for Mexico.

The U.S. Council Reveals the Concerns of U.S. Corporations in Mexico

In January 1987, the Capital Advisory Group reported on the work it had undertaken to "contribute to the early recovery of Mexico's economic performance through equity investments," which the advisory group argued would "enhance the country's growth and international competitiveness." The Capital Advisory Group had solicited eleven major corporations to "identify obstacles to increased equity investment by U.S. Corporations" in Mexico. Respondents, which included IBM and ALCOA, identified imprecise definitions of Mexico's policies concerning foreign investment, the

⁷⁵ Lustig, *Mexico: The Remaking of an Economy*, 28-40; Manuel Pastor and Carol Wise, "State Policy, Distribution, and Neoliberal Reform in Mexico," *Journal of Latin American Studies* 29, no. 2 (May 1997): 422-424; Sebastian Edwards, *Crisis and Reform in Latin America: From Despair to Hope* (Oxford: Published for the World Bank [by] Oxford University Press, 1995), 27.

inability of foreign corporations to hold a majority position in Mexican corporations, and uncertainties regarding which industries required investors to attain special approval from the Mexican government as significant obstacles to investment, all issues CEMAI had identified in its proposal for investment reforms the previous July.⁷⁶ The Capital Advisory Group maintained that these legal restrictions placed Mexican industries at a disadvantage as they had less access to capital than competitors in nations without similar restrictions. The advisory group also called for Mexico to allow foreign investment in those industries previously reserved for the Mexican state or Mexican citizens including agriculture, mining, and secondary petrochemicals.⁷⁷ On January 31, the Capital Advisory Groups created a report called “Survey of U.S. Corporations in Mexico: Key Issues,” outlining the eleven concerns that respondents deemed most important. This report may be the most complete expression of U.S. Business ambitions in the Mexican economy in the 1980s.

The “Survey of U.S. Corporations in Mexico: Key Issues” requested that the Mexican government reduce its involvement in the nation’s economy, make reforms to Mexico’s banking system, alter the nation’s infrastructure, modernize its intellectual property laws and revise laws regulating foreign investment. The paper maintained that the lack of private credit in Mexico and performance requirements placed on businesses, such as those regulating export requirements for manufactured goods, significantly

⁷⁶ Stephen T. Vehslage to Rodman C. Rockefeller, December 3, 1986, Folder 8, Box 4, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX; Charles W. Parry to Rodman C. Rockefeller, November 25, 1986, Folder 1, Box 5, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁷⁷ Advisory Group on Capital Development in Mexico, "Survey of U.S. Corporations in Mexico: Preliminary Compilation of Responses," January 21, 1987, Folder 8, Box 10, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

inhibited new investment in Mexico. While most items in the report were critical, the corporations polled approved of the efforts the Mexican government had made regarding the elimination of price controls and attempts to promote debt/equity conversions. While the businesses that participated in the survey all supported the efforts of the Mexican government to liberalize the nation's trade relations, they expressed a desire for Mexico and the U.S. to develop a framework agreement to regulate trade and investment.⁷⁸ CEMAI expressed its support of the Capital Advisory Group's findings and sought to have President De la Madrid address these issues when members of the MUSBC met with him in February.⁷⁹

Rodman Rockefeller visited Mexico to attend the meeting with De la Madrid and remarked on a renewed sense of optimism regarding the Mexican economy during his visit. In a letter to Malcolm Baldrige, the U.S. Secretary of Commerce, Rockefeller reiterated the need for a bilateral framework agreement, asserting an agreement would "distinguish Mexico from the other emerging industrial nations." Rockefeller also noted that the completion of loan negotiations worth an estimated \$12 billion between Mexico and commercial banks was "already overdue." If an agreement could be reached, Rockefeller believed, it would "encourage additional private investment, particularly in the export industries."⁸⁰

⁷⁸ Advisory Group on Capital Development in Mexico, "Survey of U.S. Corporations in Mexico: Key Issues," January 31, 1987, Folder 5, Box 5, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁷⁹ Consejo Empresarial Mexicano Para Asuntos Internacionales, "Summary of Questions to be Made by the Advisory Group of the U.S. Mexico Business Committee in the Colloquium with President Miguel De la Madrid on February 16, 1987," Folder 5, Box 5, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁸⁰ Rodman C. Rockefeller to Malcolm Baldrige, February 20, 1987, Folder 3, Box 5, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

As negotiations continued into March, Gustavo Petricioli set March 20 as the deadline to complete negotiations. Petricioli defended his position by asserting that, “Mexico had serviced its debt regularly, notwithstanding the fact that it had not received any new commercial bank medium-term financing in 26 months.” President De la Madrid also expressed frustrations that the negotiations had not been resolved, but assured bankers that Mexico hoped to prevent “economic warfare or sterile international controversies.”⁸¹ The loans were approved on March 20.⁸² At the end of the first quarter the Mexican economy began to show signs of improvement; reports indicated that Mexico had exceeded its 1986 projections for non-petroleum exports by over \$7 billion and new bank loans were projected to provide Mexico with a short-term cash surplus.⁸³

Mexico’s Negotiators Resist the Inclusion of Investment in the Bilateral Framework Agreement

The Mexican economy was showing signs of success in March, but the same was not true of the negotiations over the bilateral framework agreement. In a conversation with Robert Herzstein, Anne Hughes of the Office of the USTR revealed that discussions had been put on hold. Hughes believed that an agreement would be forthcoming, but told Herzstein that Héctor Hernández, the Mexican Secretary of Commerce and Industry, would benefit from direct and indirect support from the Mexican private sector. If the Mexican business community could “talk with others, who in their judgment, could help

⁸¹ Larry Rohter, "Mexico Pushes Banks for New Loans," *New York Times* (New York, NY), March 1, 1987, sec. D, 4.

⁸² Larry Rohter, "Divestment Efforts in Mexico Debated," *New York Times* (New York, NY), April 13, 1987, sec. D, 10.

⁸³ Mary Williams Walsh, "Mexico Show Signs of Economic Upturn, But Fear Persists of a Monetary Misstep," *Wall Street Journal* (New York, NY), March 19, 1987, 30.

make it [the bilateral framework agreement] more respectable,” they might create a situation in which it was “less risky for Hernández to go forward with the bilateral agreement.” Mario Rodríguez, a member of the Mexican commercial delegation, had shared a similar opinion with Herzstein in conversation earlier that month.⁸⁴ Hughes revealed the inclusion of provisions regarding foreign investment had been the key stumbling block between the two nations. The U.S. sought an agreement that would include conditions for both trade and investment; Mexican negotiators were, in Hughes’s opinion, primarily focused on trade. She noted that in negotiations Mexican officials “have been quite negative on how far they can go on investment,” and that “the Mexicans keep reiterating that they cannot change the investment law, but can offer ‘more flexibility’ and less red tape.”⁸⁵ The Mexico’s negotiation team’s reservations to American investment were not surprising considering Mexico’s strong history of economic nationalism, a trend that dated to 1910 when special privileges afforded to American investors and corporations by Mexican President Porfirio Díaz had contributed to domestic resentments that inspired the Mexican Revolution.

Herzstein’s conversation with Hughes appears to have inspired the U.S. Council to make a number of revisions to a paper entitled "Proposal for a Bilateral Commercial Framework Agreement Between Mexico and the United States," in April. One of the most important changes to the paper was the alteration of the title to “Proposal for a Bilateral Framework Agreement on Trade and Investment Between Mexico and the

⁸⁴ Robert Herzstein to The File -- Mexico-U.S. Business Committee, memorandum, "Mexico-U.S. Business Committee -- Conversation with Mario Rodriguez Concerning Bilateral Agreement on March 27, 1987," April 17, 1987, Folder 3, Box 10, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁸⁵ Robert Herzstein to The File -- Mexico-U.S. Business Committee, memorandum, "Talk with Anne Hughes Concerning Mexico - U.S. Economic Relation," March 31, 1987, Folder 2, Box 10, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

United States.”⁸⁶ The inclusion of new justifications for foreign investment as a means to “facilitate Mexico’s drive to establish internationally competitive industry much more rapidly and effectively than Mexico’s attempts to grow and develop through ever more borrowing or reliance on scarce national capital,” framed the need for Mexico to adopt more foreign investment as a way to facilitate Mexico’s growing export industries.⁸⁷ Herzstein’s conversation with Hughes inspired the Trade Committee to place additional emphasis on the need for investment to be included in the framework agreement in the hopes of providing the members of CEMAI-US with additional tools to portray increased foreign investment as essential to Mexico’s national interests.

As members of the MUSBC attempted to convince Mexican officials to embrace foreign investment, the De la Madrid administration was working to divest itself of or improve the efficiency of *paraestatales*. De la Madrid had highlighted the Mexican government’s reduction of 450 *paraestatales* over the course of the decade in his speech before the American Chamber of Commerce the previous year, but new reductions were required to satisfy the requirements of the March 20 loan agreement between Mexico and commercial banks. Mexico’s foreign creditors viewed “inefficient state-controlled companies as one of the main drains on the [Mexican] economy” and saw them as outlets for unnecessary government subsidies that contributed to Mexico’s growing public sector deficit. The elimination of *paraestatales* represented a difficult transition for Mexico;

⁸⁶ "Proposal for a Bilateral Commercial Framework Agreement Between Mexico and the United States," March 1987, Folder 2, Box 10, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX; Trade Subcommittee of the Mexico-U.S. Business Committee, "Proposal for a Bilateral Framework Agreement on Trade and Investment Between Mexico and the United States," April 1987, Folder 3, Box 10, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁸⁷ "Proposal for a Bilateral Commercial Framework Agreement Between Mexico and the United States;" "Proposal for a Bilateral Framework Agreement on Trade and Investment Between Mexico and the United States."

Jorge Tamayo of the Mexican Comptroller General's Office noted that these companies had "played a role to benefit the nation over the last 50 years," and asserted that "Mexico could not have developed as it did without a strong paraestatal sector."⁸⁸ In April, the Mexican government announced "the state will withdraw from the branches of chemicals, textiles, pharmaceuticals, and secondary petrochemicals, whose promotion no longer requires the presence of the state," and unveiled plans to sell or dissolve 300 *paraestatales*.⁸⁹ The Mexican government was willing to make changes to the structure of the *paraestatal* sector, but was unwilling to modify the operations of six major state-owned corporations, including Comisión Federal de Electricidad, Compañía Nacional de Subsistencias Populares, and those corporations responsible for the production of sugar, steel, fertilizer, and the national railroad, despite the fact that these companies "accounted for more than 20 percent of the [nation's] public-sector deficit."⁹⁰ Mexico's divestment plan may have played a role in the MUSBC's renewed focus on the promotion of foreign investment in Mexico. The ability to invest in former *paraestatales* was attractive to American capital but, Mexico's promotion of selective foreign investment limited foreign investor's ability to capitalize on these investments. The Mexican government's perceptions on foreign investment were not the only challenge that faced the MUSBC as legislation proposed in the U.S. threatened to undermine the creation of a bilateral framework agreement.

In April 1987, the U.S. Council became increasingly concerned about legislation under debate in the U.S. Congress, H.R. 3 (also called the Omnibus Trade Bill) and S.

⁸⁸ Larry Rohter, "Divestment Efforts in Mexico Debated," *New York Times* (New York, NY), April 13, 1987, sec. D, 10.

⁸⁹ Rohter, "Divestment Efforts in Mexico," sec. D, 10.

⁹⁰ Rohter, "Divestment Efforts in Mexico," sec. D, 10.

490. Both resolutions contained amendments, which the U.S. Council believed would be “most detrimental to U.S.-Mexican relations.”⁹¹ An amendment to H.R. 3 which altered the definition of the term “subsidy” in the U.S. countervailing duty law would allow the U.S. to impose countervailing duties on products and services that were supplied by national governments. The U.S. Council believed this provision would include oil, a factor that would have an adverse effect on the relationship between the U.S. and Mexico. An amendment attached to both H.R. 3 and S. 490 “would permit emergency relief” in countervailing duty cases “before an ‘injury’ finding is made, for perishable agricultural products if the industry is found to face serious injury from increased imports.”⁹² If passed, this amendment would counteract the benefits that the 1985 export subsidies/countervailing duties agreement had afforded Mexican exporters. A final amendment to S. 490 would force the U.S. President to seek retaliation against nations in which “state trading enterprises” bought and sold “in international trade on a basis not dependent on commercial considerations,” a practice that would be at odds with the U.S. Council’s calls for open trade relations between the U.S. and Mexico.⁹³ On April 14, the U.S. Council issued a paper entitled “Mexico: The Need to Support a Bilateral Commercial Agreement and Resist Adverse Trade Legislation” in which a bilateral framework agreement was advanced as a more reliable means to ensure economic reform than the proposed amendments to H.R. 3 and S. 490.⁹⁴ The paper was cautiously worded to portray the bilateral framework agreement as being in the best interests of the U.S.

⁹¹ "Mexico: The Need to Support a Bilateral Commercial Agreement and Resist Adverse Trade Legislation," April 1987, Folder 3, Box 10, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁹² "Mexico: The Need to Support."

⁹³ "Mexico: The Need to Support."

⁹⁴ "Mexico: The Need to Support."

The U.S. Council feared the passage of the legislation would be interpreted as hostile to Mexico's interests, a factor that would be detrimental to the ongoing bilateral framework agreement negotiations.

The U.S. Council maintained communications with officials in the U.S. Commerce Department and the Office of the USTR on the progress of the framework agreement negotiations throughout April and May. In April, Bruce Smart, the Under Secretary for International Trade, Department of Commerce, revealed to members of the U.S. Council that a new round of negotiations on the agreement was scheduled in Ixtapa, Mexico, for May and indicated that Mexican negotiators had expressed fears that the treaty might facilitate an opportunity for U.S. economic domination. Smart also indicated that maquiladora plants had been an item of debate amongst negotiators, but failed to specify the nature of the debate.⁹⁵ This issue must have been a concern for MUSBC, as Juan Elek, who would replace Enrique Madero Bracho as the chair of CEMAI-US in 1988, reported that CEMAI had attracted a number of maquiladoras as members in April.⁹⁶ Rodman Rockefeller provided Smart and Clayton Yeutter with copies of the completed "Proposal for a Bilateral Framework Agreement on Trade and Investment between Mexico and the United States" and informed them that CEMAI had created similar documents to be presented to Mexican negotiators.⁹⁷ A May letter from

⁹⁵ Richard E. Neff to The File - Mexico-U.S. Business Committee, memorandum, "Meeting with Bruce Smart on April 14, 1987," April 20, 1987, Folder 3, Box 10, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁹⁶ Juan L. Elek to Rodman Rockefeller, telegram, April 29, 1987, Folder 3, Box 10, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁹⁷ Rodman C. Rockefeller to Bruce Smart, April 30, 1987, Folder 3, Box 10, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX; Rodman C. Rockefeller to Clayton Yeutter, April 30, 1987,

Malcolm Baldrige to Rockefeller revealed that May negotiations on the bilateral framework agreement had been “positive and identified several areas of common interest, in particular the need to consult regularly on trade and investment issues.”⁹⁸ The letter praised the efforts of the MUSBC noting “The Committee has played a key role in creating the original concept for the framework and in continuing to work closely with both Governments to bring the agreement closer to reality.”⁹⁹ Baldrige also asserted that the framework would play an essential role in “setting the stage for close U.S.-Mexico trade and investment ties in the future.”¹⁰⁰ The letter closed by indicating negotiators would meet again in June.

When the two negotiation teams met in June, Mexico’s policies on intellectual property rights became a renewed source of tension. In April, the U.S. had formally declared 34 Mexican products consisting of roughly \$637.5 million worth of exports from Mexico ineligible for duty-free consideration in the U.S. program of Generalized System of Preferences.¹⁰¹ This response was, in part, a “retaliation for what the United States saw as inadequate protection offered by Mexico to intellectual property rights,” a key issue for the American pharmaceutical industry which feared that inadequate protections in the Mexican market would expose U.S. Medical products to Mexican knockoffs. Barry MacTaggart, the Chairman of Pfizer International, expressed growing irritations over “the slowness with which Mexico is moving to recognize patents in

Folder 3, Box 10, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX

⁹⁸ Malcolm Baldrige to Rodman Rockefeller, May 19, 1987, Folder 3, Box 5, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁹⁹ Baldrige to Rockefeller.

¹⁰⁰ Baldrige to Rockefeller.

¹⁰¹ U.S. Council of the Mexico-U.S. Business Committee, "Key Events During the Negotiation of the U.S.-Mexico Bilateral Agreement on Trade and Investment."

pharmaceutical and chemical products and processes.”¹⁰² Conflict over the importance of altering Mexican regulations in the pharmaceutical sector was not limited to the governments of the U.S. and Mexico. On June 10, MacTaggart contacted Rodman Rockefeller to express his concerns that recent papers the U.S. Council had submitted to key figures in the bilateral framework negotiations were “silent on the concerns of the pharmaceutical, food chemical, and agricultural industries.” MacTaggart saw this omission as unsettling in light of “your [the U.S. Council’s] strong support [of the pharmaceutical industry] in the past.”¹⁰³ MacTaggart went so far as to state that he hoped Pfizer could “count on the U.S. Council of the Committee to continue to reflect our concerns in various discussions and documents exchanged with our Mexican counterparts.”¹⁰⁴ MacTaggart’s letter reveals the importance members of the U.S. pharmaceutical industry placed on the domestic pharmaceutical market in Mexico, which was part of an economy that continued to show marked improvement as 1987 progressed.

This economic improvement was evidenced by a July 26 report, which indicated that prices on the Mexican stock exchange had risen 243 percent in the first six months of 1987. Manuel Samoza Alanso, the president of Mexico’s stock exchange, asserted this increase was a reflection of “an expectation that the firms that are registered are going to have a better economic year in 1987.”¹⁰⁵ The stock market’s success revealed renewed domestic confidence in the Mexican economy as the majority of this new investment was derived from domestic investors including members of Mexico’s middle class. In early

¹⁰² Larry Rohter, "U.S., Mexico Differ on Trade: Patent Rights Debated," *New York Times* (New York, NY), June 23, 1987, sec. D, 17.

¹⁰³ Barry MacTaggart to Rodman Rockefeller, June 10, 1987, Folder 3, Box 10, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

¹⁰⁴ MacTaggart to Rockefeller.

¹⁰⁵ "Mexican Stock Market Heats Up: Prices Raise 243% as Investors Bet on Nation's Rebound," *Chicago Tribune* (Chicago, IL), July 26, 1987, sec. F, 9A.

August, the Mexican government announced that it had “record foreign reserves, expected to reach \$17 billion by the end of a year, almost triple the figure of a year ago.”¹⁰⁶ This projected surplus was due to the additional \$7 billion in non-petroleum exports that had been reported in March and increased profits from Mexican oil, which saw the average price of a barrel increase by \$4 in 1987.¹⁰⁷ August also marked the completion of negotiations that rescheduled \$9.7 billion of Mexico’s private sector debt and reduced the loan’s annual interest rates. This agreement coincided with a revision of the U.S. Federal Reserve Board’s policies that removed restrictions on how much equity U.S. banks were “allowed to hold in denationalized non-financial companies in 33 heavily indebted countries.”¹⁰⁸ The revised investment policies of the Federal Reserve favored those banks that were interested in debt/equity conversions, the practice of reducing Mexico’s debt burden for equity in *paraestatales*, with the Mexican government, a factor that may have encouraged banks to take a more lenient stance on Mexico’s debts.

Mexico’s improved economic climate had a significant influence on the relationship between the Mexican private sector and the national government. Top ranking Mexican executives who had once opposed the efforts of the Mexican government to improve the nation’s economy were seen “toasting government officials at luncheons.”¹⁰⁹ An anonymous executive from Nacobre, a firm that produced copper wiring and pipes, asserted that “the opening of the economy and the reduction of the

¹⁰⁶ Larry Rohter, "Anxiety in Mexico: Elections Are Near," *New York Times* (New York, NY), August 19, 1987, sec. D, 1.

¹⁰⁷ Lustig, *Mexico: The Remaking of an Economy*, 32-33.

¹⁰⁸ Peter Truell, "Mexico Completes Debt Rescheduling In Pack With Banks," *Wall Street Journal* (New York, NY), August 17, 1987, 16.

¹⁰⁹ Mary Williams Walsh, "Mexican Business Warms to Government: Policy Changes Appear to Favor Private Sector," *Wall Street Journal* (New York, NY), August 20, 1987, 18.

debt” had convinced him that under the De la Madrid Administration, which had begun in 1982, Mexico had “a very nice government.”¹¹⁰ The U.S. Council’s archives reveal that collaboration between the Mexican government and key Mexican business organizations such as CEMAI had existed for years; it appears the improved economic climate inspired business leaders to offer public support to the Mexican government.¹¹¹ While the Mexican economy was enjoying a new influx of capital, the Mexican government remained cautious and sought to address its growing debts and the subsequent debt service.

During a September address to the Mexican people, De la Madrid called for foreign banks to take a more flexible approach to Mexico’s debt. Though De la Madrid noted “promising signs on the horizon” for Mexico, he asserted that Mexico had “gone as far as we realistically can” to address the nation’s debt, citing the “impossibility of complying punctually and fully with the obligations derived from the foreign debt.”¹¹² The speech attributed the nation’s \$14.6 billion in foreign reserves and the \$3.1 billion account surplus for 1987 to the success of Mexico’s exports, but, De la Madrid did not reveal any plans to use this surplus to reduce the nation’s debt.¹¹³ The measures taken by the Mexican government the previous year to ensure Mexico’s economic stability during the remainder of the De la Madrid presidency appeared to be successful. This success was essential to Mexico’s ruling Partido Revolucionario Institucional (PRI), which hoped future economic stability would benefit the party’s 1988 presidential candidate whose identity would be announced in the coming month.

¹¹⁰ Williams Walsh, "Mexican Business Warms to Government," 18.

¹¹¹ Williams Walsh, "Mexican Business Warms to Government," 18.

¹¹² Larry Rohter, "Mexican Calls for Debt Flexibility," *New York Times* (New York, NY), September 2, 1987, sec. D, 5.

¹¹³ Rohter, "Mexican Calls for Debt," sec. D, 5.

The identity of the PRI's candidate for the presidential elections scheduled in 1988 was an issue of concern not only for the citizens of Mexico, but also the members of the MUSBC. It appears that the MUSBC agreed with Jorge Castañeda's September assertion that the PRI candidate would be the next president of Mexico¹¹⁴ August negotiations of the bilateral agreement had made significant progress in August, but the final language the treaty would employ had yet to be determined. The U.S. Council, under the impression that De la Madrid would announce his successor in late September, felt the completion of the agreement was urgent. Members of the U.S. Council expressed concerns that the new PRI candidate "would have no commitment to the Bilateral Agreement," and might negatively influence the negotiation process.¹¹⁵ The efforts of the MUSBC to complete the bilateral agreement were aided on September 19 when U.S. Senator Lloyd Bentsen publicly announced that he would "very strongly support trade negotiations with Mexico."¹¹⁶ Bentsen also called for both the Senate and House to modify their "version of H.R. 3, the Omnibus Trade Bill," to contain "constructive provisions on U.S.-Mexico trade negotiations," a factor the MUSBC believed "could be the basis for Congressional recognition of a Framework Agreement."¹¹⁷ On October 6, two days after Carlos Salinas de Gortari was announced as the next PRI presidential candidate, the Reagan administration publicly acknowledged the bilateral framework

¹¹⁴ Jorge G. Castañeda, "Mexico's Rite of Passage Goes Public: De la Madrid's Gesture to Openness Makes Pressure for More," *Los Angeles Times* (Los Angeles, CA), September 6, 1987, sec. E, 5.

¹¹⁵ Richard E. Neff to Robert Herzstein, memorandum, "Mexico-U.S. Steering Committee and the Bilateral Agreement Negotiation," August 18, 1987, Folder 4, Box 10, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

¹¹⁶ Lloyd Bentsen, "New Release," September 19, 1987, Folder 4, Box 10, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

¹¹⁷ "Status Report on the U.S.-Mexico Negotiations on a Framework on Bilateral Trade and Investment," September 29, 1987, Folder 4, Box 10, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

agreement negotiations, a move that must have done much to dispel the U.S. Council's fears regarding the completion of the framework agreement.¹¹⁸

A number of U.S. legislators indicated their support of the bilateral framework agreement. Lloyd Bentsen asserted a "trade framework would be a useful step in increasing trade between our two countries," and hinted at the "benefits such an increase could bring to a border state like Texas."¹¹⁹ Oregon's Republican Senator Bob Packwood proclaimed that if the final negotiations on the framework agreement were successful, he could "foresee the day of North American free trade."¹²⁰ While U.S. politicians were citing the good that would come from the bilateral framework agreement, Carlos Salinas was being hailed as the leader most "capable of pulling Mexico out of its most severe economic crisis in 50 years." Salinas, the man who had been identified as the leader of a cabinet group that had ousted Jesus Silva Herzog a year earlier, announced his intention to build a Mexican economy "stronger in relation to the outside world, with a greater capacity for savings, investment, and the generation of private jobs." Salinas also promised to promote "an enterprising and hardy private sector."¹²¹ The day Salinas's nomination was announced, values on the Mexican stock market increased by 7.5 percent in just the first two hours of trading.¹²² Salinas's appointment as De la Madrid's successor may have even inspired negotiators to finalize the bilateral framework agreement.

The Foundation of the North American Free Trade Agreement

On October 27, Clayton Yeutter announced "the U.S. and Mexico have completed

¹¹⁸ Larry Rohter, "A Mexican on the Fast Track: Carlos Salinas de Gortari," *New York Times* (New York, NY), October 5, 1987, sec. A, 8; Clyde H. Farnsworth, "Preliminary Trade Pact with Mexico is Shaped," *New York Times* (New York, NY), October 7, 1987, sec. D, 1.

¹¹⁹ Farnsworth, "Preliminary Trade Pact with," sec. D, 1.

¹²⁰ Farnsworth, "Preliminary Trade Pact with," sec. D, 1.

¹²¹ Larry Rohter, "Nomination Welcomed in Mexico: Business Groups Welcome Mexico's Candidate," *New York Times* (New York, NY), October 12, 1987, sec. D, 1.

¹²² Rohter, "Nomination Welcomed in Mexico," sec. D, 1.

negotiations on a framework establishing a mechanism for bilateral consultations on trade and investment issues.” An official signing ceremony was scheduled on November 6 in Mexico City. Under the provisions of the agreement, “consultation on trade or investment issues will begin within 30 days of a request from either party,” and within 90 days of signing the agreement, the U.S. and Mexico committed to begin consultations on commercial agreements for sectors including “textiles, agriculture, steel, investment, technology transfer, intellectual property, electronics, and services.”¹²³ Yeutter’s announcement came nearly five years after the U.S. Council had first presented the idea of a bilateral framework agreement to their counterparts in CEMAI-US at the October 1982 Plenary Meeting of the MUSBC. In light of the role the U.S. Council played in the creation of the bilateral agreement it should come as little surprise that key members of the organization such as Guy Erb were given access to the classified final version of the framework agreement, officially titled the “Agreement between the Government of the United Mexican States and the Government of the United States of America Concerning a Framework of Principles and Procedures Regarding Trade and Investment Relations,” that was approved a week later in Mexico City.¹²⁴

The final version of the framework agreement revealed that in addition to the consultative measures outlined in the USTR press release, both nations were able to refer disputes over trade measures to GATT for resolution where the dispute would be considered under the provisions of the GATT accord that both nations were party to. The

¹²³ Office of the United States Trade Representative, "Yeutter Announces U.S.-Mexico Framework Agreement," October 27, 1987, Folder 5, Box 10, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX

¹²⁴ Letter by Richard E. Neff, October 29, 1987, Folder 5, Box 10, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

accord established annual consultations at the “Cabinet or Subcabinet level to review the status of the bilateral trade and investment relationship” between the U.S. and Mexico.¹²⁵

The agreement tasked the USTR and Mexico’s Secretaría de Comercio y Fomento Industrial (SECOFI) with the joint responsibility for carrying out the consultations. The pact also included an agreement to investigate the need for improved methods for the exchange of statistical data between the U.S. and Mexico and obligated both nations to take part in a GATT tariff study.¹²⁶ The consultative measures established by the framework agreement resulted in a series of trade negotiations that liberalized commercial regulations on a number of products including steel, beer and spirits, and agricultural products within the year.¹²⁷

Yeutter issued a November 6 press release announcing the signature of the agreement in Mexico City. In the document, Yeutter argued the agreement was “an important realization of the dream we share for a closer relationship between our nations.” Yeutter called the framework agreement “one more tool in building a strong trade foundation that will benefit our children and grandchildren.”¹²⁸ The same day, the U.S. Council also issued a press release that coincided with the 42nd Plenary meeting of

¹²⁵ "Agreement between the Government of the United Mexican States and the Government of the United States of America Concerning a Framework of Principles and Procedures Regarding Trade and Investment Relations," Folder 5, Box 10, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

¹²⁶ "Agreement between the Government of the United Mexican States and the Government of the United States of America Concerning a Framework of Principles and Procedures Regarding Trade and Investment Relations."

¹²⁷ Office of the United State Trade Representative, "Mexico Opens Markets for U.S. Beer, Wine, Distilled Spirits," December 30, 1987, Folder 5, Box 10, , Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, , Benson Latin American Collection, The University of Texas at Austin, Austin, TX; Office of the United State Trade Representative, "U.S. and Mexico Reach Steel Agreement," December 30, 1987, Folder 5, Box 10, , Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, , Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

¹²⁸ Office of the United States Trade Representative, "Statement by Ambassador Yeutter: Signing Ceremony of the U.S.-Mexico Framework Agreement," November 6, 1987, Folder 5, Box 10, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

the MUSBC in New Orleans, Louisiana.

The U.S. Council's press release praised the completion of the bilateral framework agreement as a foundation through which Mexico and the U.S. could develop a more open trade and investment relationship. Rodman Rockefeller stressed that the agreement was the result of six years of work between the private sectors and governments of both nations. The press release publicized the fact that the MUSBC had "originally sponsored the idea of a bilateral commercial agreement," and credited the Trade Subcommittees of the U.S. Council and CEMAI-US for preparing "much of the groundwork for the bilateral agreement."¹²⁹ Robert Herzstein and Gustavo de la Serna, the chairman of the CEMAI-US Trade Subcommittee, asserted that the agreement "reflects a recognition by our two countries that they share a joint destiny." They also claimed "the prosperity of both countries will be increased as they combine their resources, their technology, and the energy of their people to produce goods and services for the world markets."¹³⁰ This statement represents one of the MUSBC's most successful attempts to portray a policy that favored the interests of the MUSBC and its member corporations as one that was in the shared national interests of Mexico and the U.S. As Yeutter and the members of the MUSBC praised completion of the bilateral agreement, Mexican public opinion perceived the agreement with considerably less enthusiasm.

In the days that followed the completion of the bilateral framework agreement,

¹²⁹ U.S. Council of the Mexico-U.S. Business Committee, "Mexico and the United States Sign Bilateral Commercial Agreement," November 6, 1987, Folder 5, Box 10, Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

¹³⁰ U.S. Council of the Mexico-U.S. Business Committee, "Mexico and the United States Sign Bilateral Commercial Agreement."

suspicions regarding the intent of the treaty began to surface in Mexico. Fears that the U.S. had “designs” on Mexico’s “natural resources and productive capacity,” increased as did anxieties that the pact presaged the creation of a common market that would integrate the economies of Mexico, the U.S., and Canada. Sentiments were so strong that Mexican Foreign Minister Bernardo Sepúlveda Amor was forced to reassure the Mexican Congress that the agreement “will not lead to a free trade plan between the United States and Mexico, nor is it an agreement that will lead to the establishment of a North American Common Market.”¹³¹ The reservations regarding the intent of the bilateral framework agreement were especially prescient as the success the Mexican economy had experienced in the first nine months of 1987 ended when the Mexican stock market lost nearly \$2 billion in value between October 5 and October 26 and the nation entered another period of economic decline.¹³²

The economic losses Mexico experienced in October were exacerbated in November when the Mexican government “removed its support for the peso on the free-exchange market, sending the currency’s value plunging about 25 percent against the U.S. dollar.” The value of the peso appeared to stabilize by the end of November. However, the devaluation caused a 7.9 percent increase in Mexican consumer prices, increasing the Mexican inflation rate to a record 125.8 percent for the year.¹³³ At the end of 1987, Mexico had over \$107.5 billion in debt, over three-fourths of which was public. Inflation continued to rise throughout 1987, growing to 159.2 percent despite a 1.7

¹³¹ Larry Rohter, "Mexican Ambivalence: Despite Trade Pact, Doubts Remain About Benefits of Link with U.S.," *New York Times* (New York, NY), November 9, 1987, sec. D, 6.

¹³² Larry Rohter, "Mexico Market's Fall is the Steepest: Sharp Reversal for Mexico's Market," *New York Times* (New York, NY), October 29, 1987, sec. D, 1.

¹³³ Larry Rohter, "Peso Firm, Stocks Fall in Mexico," *New York Times* (New York, NY), November 23, 1987, sec. D, 6; "Record Mexico Inflation," *New York Times* (New York, NY), December 12, 1987.

percent growth in GDP. The average price of a barrel of Mexican oil rose from \$11.9 in 1986 to 16.0 in 1987, and the nation's debt service payments were reduced by \$1.9 billion in the same time period. Despite these gains, the real wages of Mexico's workers only increased by 1 percent. The nation was only able to secure \$1,184 million in foreign investment and lost \$0.3 billion to capital flight.¹³⁴

It is difficult to assess the state of the Mexican economy in 1987. While the reduction of the nation's debt service appears positive, this reduction was due in part to an agreement to postpone the nation's debt payments and it did not indicate a reduction of the nation's debt. The amount of external capital Mexico received was insufficient to make up for what was lost to capital flight. The relative stability of the nation's real wages between 1986 and 1987 conceals the fact that real wages had fallen by 25 percent between 1980 and 1987.¹³⁵ Little had improved for the average Mexican worker, yet a select group of Mexico's private sector elites and their American allies celebrated 1987 as the realization of years of hard work.

In the six years between 1981 and 1987, the U.S. Council had proposed a legal framework that would become the basis of the bilateral framework agreement, convinced powerful members of the Mexican private sector of the profitability inherent in the decentralization of the Mexican economy, and enlisted these business elites in efforts to persuade the Mexican government that economic liberalization was a viable means to restore the Mexican economy. The 1987 bilateral framework agreement between the U.S. and Mexico is the MUSBC's most important contribution to the liberalization of

¹³⁴ Lustig, *Mexico: The Remaking of an Economy*, 28-40; Pastor and Wise, "State Policy, Distribution, and Neoliberal Reform in Mexico," 422-424; Edwards, *Crisis and Reform in Latin America*, 27.

¹³⁵ Edwards, *Crisis and Reform in Latin America*, 27.

trade and investment relations between the two nations. As Oregon Senator Bob Packwood postulated in November 1987, the framework agreement provided the basis for what would become the North American Free Trade Agreement. The efforts of the MUSBC to ensure the creation and passage of a bilateral free trade agreement between the U.S. and Mexico were critical in laying the foundation of the North American Free Trade Agreement.

CHAPTER VI

CONCLUSION

This thesis has attempted to enhance historical understandings of the liberalization of the Mexican economy in the final decades of the twentieth century by revealing the efforts undertaken by the Mexico-U.S. Business Committee (MUSBC), a business organization comprised of elite members of the Mexican and American private sectors, to influence the economic policies of the Mexican government. By revealing the efforts of specific corporate interests from the United States (U.S.) and Mexico, this thesis has contributed a new perspective to the larger historiography of Mexico's economic reorientation. The role that external groups including commercial banks from foreign countries and international lending agencies such as the IMF and the World Bank played in shaping the economic policies of the Mexican government is undeniable. However, this thesis suggests that policy changes adopted by the Mexican government were influenced by a number of internal and external factors including the efforts of the MUSBC to translate binational corporate interests into specific policies in both the U.S. and Mexico.

The completion of a bilateral framework agreement between the U.S. and Mexico represented the realization of a two-part strategy outlined by the U.S. Council in 1982. The first involved developing a proposal that established the legal basis for a bilateral agreement for trade and investment between the United States (U.S.) and Mexico. The second was the creation of a strategic alliance between specific respected members of the Mexican and American private sectors with powerful connections to lobby the Mexican government to liberalize the nation's economy. In 1984, the U.S. Council's counterparts

in the MUSBC, the section of the Consejo Empresarial Mexicano para Asuntos Internacionales responsible for relations with the United States (CEMAI-US), adopted the U.S. Council's liberalization strategy and employed it a means to convince the Mexican government to adopt policies that would further the interests of CEMAI-US and its members.

The bilateral framework agreement was the MUSBC's most important contribution to the realization of a free trade agreement between the U.S. and Mexico. The consultative measures established by the framework agreement provided the basis for annual trade consultations and a series of trade negotiations that liberalized trade in sectors such as steel, alcoholic beverages, and agricultural products including sugar, flowers, and crop seed.¹ According to Jaime Serra Puche, Mexico's Secretary of Commerce and Industrial Development from 1988 to 1994, and the Mexican official who oversaw Mexico's efforts in the negotiation of the North American Free Trade Agreement (NAFTA), these negotiations facilitated the commercial integration of the Mexican and American economies and created "the groundwork to launch NAFTA."² After the passage of the framework agreement, both sections of the MUSBC continued to advocate for the decentralization of the Mexican economy in the years that followed. Rodman Rockefeller spoke at the Instituto Mexicano de Ejecutivos Financieros in October of 1988, and Guy Erb wrote "Opciones para la liberalización del comercio e inversión entre México y Estados Unidos" in 1989; both were efforts to convince the

¹ Office of the United State Trade Representative, "Mexico Opens Markets for U.S. Beer, Wine, Distilled Spirits," December 30, 1987, Folder 5, Box 10, , Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, , Benson Latin American Collection, The University of Texas at Austin, Austin, TX; Office of the United State Trade Representative, "U.S. and Mexico Reach Steel Agreement," December 30, 1987, Folder 5, Box 10, , Guy F. Erb Records of the Mexico-U.S. Business Committee and Related Materials, , Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

² George W. Grayson, *The Mexico-U.S. Business Committee: Catalyst for the North American Free Trade Agreement* (Rockville, Md.: Montrose Press, 2007), 98.

Mexican government and its citizens of the utility of a bilateral trade and investment agreement. In 1992, the U.S. Council created a series of reports that outlined the benefits the North American Free Trade Agreement would have for specific American states, a process that was duplicated in 1993. In fact, Mexican President Carlos Salinas de Gortari chose to announce the Mexican government's decision to negotiate NAFTA at a meeting of the Consejo Empresarial Mexicano para Asuntos Internacionales (CEMAI), the parent organization of CEMAI-US, on March 28, 1990.³ The fact that Enrique Madero Bracho, the long-time chairman of CEMAI-US, had been named the president of CEMAI in 1988 indicated that Salinas knew his announcement would receive an enthusiastic reception from that group.⁴

When NAFTA was finally ratified by the U.S. Congress on November 21, 1993, Rodman Rockefeller received a number of congratulatory notes including a missive from Charles Barber, CEO of American Smelting and Refining, who informed Rockefeller, "With NAFTA now a reality, I want to tell you how much I have valued your leadership of the U.S. Council as we moved toward that goal."⁵ American Smelting and Refining, a prominent member of the U.S. Council, has been a major beneficiary of the passage of NAFTA. In the mid-1990s, Jorge Larrera purchased the Cananea Copper mines for \$500,000,000 through Medisma, a Mexican copper producer that was partly owned by the American Smelting and Refining Company.⁶

³ Cristina Puga, *Los empresarios organizados y el Tratado de Libre Comercio de América del Norte* (México, D.F.: Miguel Ángel Porrúa, 2004), 118.

⁴ Juan L. Elek to Rodman C. Rockefeller, March 2, 1988, Folder 4, Box 7, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas at Austin, Austin, TX.

⁵ Charles F. Barber to Rodman C. Rockefeller, November 30, 1993, Folder 11, Box 13, Rodman C. Rockefeller Records of the Mexico-U.S. Business Committee, Benson Latin American Collection, The University of Texas Austin, Austin, TX.

⁶ Hart, *Empire and Revolution: The Americans*, 433.

The efforts of the MUSCB helped form an alliance between American capital, American manufacturers, and Mexican business, which created a stable environment for increased American direct foreign investment in Mexico, with the relationship between American Smelting and Refining and Medisma offering just one example. Much of the early foreign investment that flowed into Mexico was used for “speculative activities driven by the surge of income received by the most affluent.” An estimated 77 percent of the initial foreign investment in Mexico was used “to purchase government debt, corporate debt, and stock market shares.” From 1994 to 2002 the amount of foreign investment flowing into Mexico increased by an average of nearly \$10 billion each year.⁷

The story of the MUSBC is more than the realization of a bilateral framework agreement; it is story of an alliance between specific private sector elites of neighboring nations and the influence these elites had on the restructuring of Mexico’s economy. The members of the MUSBC were not the only ones pushing that greater integration, as other factors, including the demands for liberalization by foreign creditors and the U.S. government, the preferences of economic policy makers, the collapse of the world petroleum market, and Mexico’s oppressive debt service obligations, also influenced the Mexican government’s economic policies in the 1980s and 1990s. The members of the U.S. Council and CEMAI-US were at the forefront of that effort, though, and their activities reveal how private groups, bound by fewer restrictions than government officials, can effectively advocate major national policy decisions that advance specific, private agendas.

Many questions regarding the effectiveness of claims made by proponents of the

⁷ John Cavanagh et al., "Debate: Happily Ever NAFTA?," *Foreign Policy*, September/October 2002,

deregulation of the Mexican economy remain. In 1994, the year NAFTA was implemented, the Mexican economy entered its second economic crisis in twenty years. The *peso* lost 56 percent of its value between December 1994 and November of 1995.⁸ Not only was the *peso* devalued, but in 1996 “real wages in manufacturing were only 64 percent of their 1980 levels, and real wages among maquila production workers were only 54 percent of their 1980 wages.”⁹ Even those who enthusiastically supported NAFTA have expressed reservations about the treaty’s implementation. At an conference held on April 7, 2014, Jaime Serra Puche recently asserted that “the Americans have violated NAFTA since day one,” due to refusal of the U.S. government to allow Mexican truckers to transport goods on American roads.¹⁰

Despite repeated assertions that the liberalization of Mexico’s trade and investment policies would provide an effective means for Mexico to resolve its debt burdens, Mexico’s external debt continued to increase from \$50.7 billion in 1980 to \$142.2 billion in 1994, the year NAFTA was approved, to \$354 billion in 2013. Mexico’s unemployment has also increased from 3.4 percent in 1994 to 4.9 percent in 2013.¹¹ The percentage of Mexico’s citizens living in poverty in 2012 was 52.3 percent, just one-tenth of one percent less than 1994’s rate of 52.4, and an improvement of one percent over the 1989 rate of 53.5. At the same time, Mexico’s manufactures exports

⁸ Craig Torres, "Mexican Peso Plummets to Record Low, Despite Major Effort to Bolster Currency," *Wall Street Journal* (New York, NY), November 9, 1995, A3.

⁹ Babb, *Managing Mexico*, 197.

¹⁰ Jaime Serra Puche, "NAFTA After 20 Years" (speech, The Baker Institute, Rice University, Houston, TX, April 7, 2014).

¹¹ Nora Lustig, *Mexico: The Remaking of an Economy*, 2nd ed. (Washington, DC: Brookings Institution Press, 1998), 32-33, 148-149, 192.; Central Intelligence Agency of the United States of America, "The World Factbook: North America: Mexico," The World Factbook, last modified November 20, 2013, accessed November 29, 2013, <https://www.cia.gov/library/publications/the-world-factbook/geos/mx.html>; Central Intelligence Agency of the United States of America, "The World Factbook: North America: United States," The World Factbook, last modified November 20, 2013, accessed November 29, 2013, <https://www.cia.gov/library/publications/the-world-factbook/geos/us.html>.

rose from 11.91 percent of the nation's merchandise exports to 77.38 percent in 1994, a number that fell slightly to 74.43 percent by 2012.¹² These statistics reveal that the policies advocated by the MUSBC and adopted by the Mexican government over the course of the 1980s and 1990s had a very real benefit for corporations involved in the manufacture of products for export. However, these policy changes did little to decrease Mexico's dependence on foreign loans, had no discernable impact on Mexico's poverty rates, and despite the fact that members of CEMAI-US, including Enrique Madero Bracho, argued that trade and investment liberalization would improve employment opportunities for Mexican citizens, Mexico's unemployment rate has increased since the passage of NAFTA. Enhanced standards of living, greater economic opportunity, improved quality of life, and similar benefits for the Mexican people, which were espoused by proponents of NAFTA, have proven to be a chimera for all but Mexico's wealthiest citizens.

In uncovering the role that bilateral business organizations played in influencing economic policies in Mexico in the last decades of the twentieth century, this thesis has suggested that beneficiaries of Mexico's economic liberalization in both the U.S. and Mexico collaborated to ensure their interests were realized. However, the MUSBC was only one of many binational business organizations that existed in the 1980s and 1990s. The archives of the U.S. Council indicate the Council of the Americas, one of the sponsors of the U.S. Council, supported bilateral business organizations in a number of other Latin American nations. The existence of these organizations suggests that U.S. corporate interests may have played a more significant role in efforts to influence policy

¹² World Development Indicators | Data | The World Bank DataBank, accessed May 16, 2014, <http://databank.worldbank.org/data/views/reports/tableview.aspx#>.

decisions throughout Latin America than has previously been supposed.

APPENDIX SECTION

APPENDIX A:

LIST OF KEY HISTORICAL ACTORS MENTIONED IN THIS THESIS

Name	Position
Babbitt, Bruce -	Governor of Arizona (1978-1987)
Baldrige, Malcolm -	U.S. Secretary of Commerce (1981-1987)
Barber, Charles -	CEO - American Smelting and Refining Co.
Barrell, Marion -	Official in the office of the USTR
Bentsen, Lloyd -	U.S. Senator from Texas (1971-1993)
Bingaman, Jeff -	U.S. Senator from New Mexico (1983-2013)
Bradley, Bill -	U.S. Senator from New Jersey (1979-1997)
Brock, William -	United State Trade Representative (1981-1985)
Cárdenas del Río, Lázaro -	President of Mexico (1934-1940)
Castañeda, Jorge G. -	Mexican Intellectual
Chapa Salazar, Jorge A. -	President of CCE (1983-1985)
Clouthier, Manuel J. -	Chairman - U.S. Sector of CEMAI (1980-1981)

De la Madrid Hurtado, Miguel -	President of Mexico (1982-1988)
De la Serna , Gustavo -	Chairman - CEMAI-US Trade Subcommittee (1987)
De Larosiere, Jaques -	Managing Director - IMF (1979-1987)
DeConcini, Dennis -	U.S. Senator from Arizona (1977-1995)
Díaz, Porfirio -	President of Mexico (1876-1911)
Elek Klein, Juan -	Chairman - U.S. Sector of CEMAI (1987-1990)
Erb, Guy -	Executive Director of U.S. Council of the MUSBC (1983-1989)
González, Claudio X. -	Chairman - U.S. Sector of CEMAI (1977-1980)
Hernández Cervantez, Héctor -	Mexican Secretary of Commerce and Industrial Development (1982-1988)
Herzstein, Robert -	Chairman of the Trade Subcommittee of the U.S. Council of the MUSBC
Hughes, Anne -	Official in the office of the USTR
Kuczynski, Pedro Pablo -	Co-Chairman First Boston International (1983-1992)
Legoretta, Agustín F. -	CEO - Banco Nacional de México
Lerdo de Tejada, Sebastián -	President of Mexico (1872-1876)

López Portillo, José -	President of Mexico (1976-1982)
MacTaggart, Barry -	Chairman - Pfizer International
Madero , Francisco I. -	President of Mexico (1911-1913)
Madero Bracho, Enrique -	Chairman - U.S. Sector of CEMAI (1984-1987)
Petricioli Iturbide, Gustavo -	Mexican Secretary of Finance (1986-1988)
Reagan, Ronald -	President of the United States (1981-1989)
Rhodes, William -	Chairman - Citibank Restructuring Committee (1984-1991)
Roche, William -	Executive Vice President - Pfizer International; Co-Chairman U.S. Council Trade/Investment Team
Rockefeller, David -	CEO - Chase Manhattan Bank (1961-1981)
Rockefeller, Rodman C. -	Chairman - U.S. Council of the MUSBC (1980-1994)
Salinas de Gortari, Carlos -	Mexican Secretary of Programming and Budget (1982-1987); President of Mexico (1988-1994)
Serra Puche, Jamie -	Mexican Secretary of Commerce and Industrial Development (1988-1994)

Silva Herzog, Jesus -	Mexican Secretary of Finance (1982-1986)
Springer, Gary -	Executive Secretary of the U.S. Council of the MUSBC (1984-1990)
Suárez , Saturnino -	Member - U.S. Sector of CEMAI
Vehslage, Stephen -	Vice President - IBM; Co-Chariman U.S. Council Trade/Investment Team
Velázquez Sánchez, Fidel -	General Secretary - Confederación de Trabajadores de México (1941-1997)
Volker, Paul -	Chairman - U.S. Federal Reserve (1979-1987)
Yeutter, Clayton -	United State Trade Representative (1985-1989)

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