

RECENT FINDINGS AND RESEARCH  
SUGGESTIONS ON OIL AND  
MEXICO'S DEVELOPMENT PROCESS

*Gabriel Székely*  
*El Colegio de México*

*OIL, MONEY, AND THE MEXICAN ECONOMY: A MACROECONOMETRIC ANALYSIS.* By FRANCISCO CARRADA BRAVO. (Boulder, Colo.: Westview, 1982. Pp. 146. \$17.00.)

*MEXICO'S POLITICAL ECONOMY: CHALLENGES AT HOME AND ABROAD.* Edited by JORGE DOMINGUEZ. (Beverly Hills: Sage, 1982. Pp. 238. Cloth \$20.00, paper \$9.95.)

*MEXICO'S OIL: CATALYST FOR A NEW RELATIONSHIP WITH THE U.S.?* By MANUEL MILLOR. (Boulder, Colo.: Westview, 1982. Pp. 267. \$19.50.)

*IMPACTS OF MEXICAN OIL POLICY ON ECONOMIC AND POLITICAL DEVELOPMENT.* By JESUS-AGUSTIN VELASCO S. (Lexington, Mass.: D. C. Heath, 1983. Pp. 236. \$26.95.)

*IMPACTOS REGIONALES DE LA POLITICA PETROLERA EN MEXICO.* Edited by LEOPOLDO ALLUB and MARCO A. MICHEL. (Mexico City: Centro de Investigación para la Integración Social, 1982. Pp. 333.)

*PETROLEO Y ECODesarrollo EN EL SURESTE DE MEXICO.* By ALEJANDRO TOLEDO. (Mexico City: Centro de Ecodesarrollo, 1982. Pp. 253.)

The Mexican development process traditionally has attracted much attention among scholars in the field and U.S. media covering Latin America. Geographical proximity to the United States, common historical and cultural experiences, and the unique characteristics of Mexico's economic and political systems are some of the factors that explain this interest. Most salient is the disproportionate share of attention that Mexico has commanded among U.S. journalists and scholars during the last decade. The recent huge oil discoveries and the accelerated development of the national petroleum industry have been accompanied by a booming literature aimed at assessing current events and studying long-term changes in Mexico's domestic and external relations. This trend has complicated the once pleasant and relatively easy task of keeping up-to-date on research findings on various aspects of the Mexican development process.

Overall, it appears that the gathering of information has received too much attention and that some authors have hastily arrived at conclusions that are often unsubstantiated. Because the demand for scholarly analyses of the relationship between oil and development in Mexico is likely to endure for some time, it is important that those involved in this fascinating subject should devote much more of their time and effort to reflection and analysis.

This essay will assess the most recent scholarship on the oil boom experience in Mexico. The first four books under review touch upon recent Mexican policy and political issues associated with oil, but they do not analyze in sufficient depth a series of political, economic, and foreign policy issues that would improve understanding of the principal macro-level effects of oil on Mexican development. Following a brief discussion of the central arguments of these four books as well as two outstanding examples of regional, or micro-level, studies, the essay will suggest topics for future research that might shed some light on those areas that have been neglected to date.

#### *Outcomes of the Oil Boom: The Need for Systematic Evaluation*

The authors reviewed here have been only partially successful in providing a systematic evaluation of Mexico's oil boom experience at the macro or national level. Manuel Millor must be credited for his comprehensive effort to bring together a significant amount of information related to the evolution of Mexican society over the last few years in *Mexico's Oil: Catalyst for a New Relationship with the U.S.?* One of his central conclusions is that a great gap exists between what the oil boom was supposed to achieve and its actual outcomes. In emphasizing detailed description and treating all kinds of issues related to his broader topic, however, Millor neglects key organizational questions, and his position consequently does not emerge as clearly as it might.

For example, Millor argues that "the petroleum bonanza means for Mexico the possibility of a new model of development, able to compensate for domestic disequilibria" (p. 125). But soon his optimistic view gives way to a more ambivalent one: "the internal impact of the oil boom still remains to be seen" (p. 156). Finally, he seems somewhat pessimistic in arguing that "petroleum represents a big, and probably the last, opportunity for the Mexican state to give new sustenance, and justice, to the national process of development, under its auspices. If it fails, then the initiative will pass to private enterprise, or to the military" (p. 246). Thus the reader will wonder which argument represents Millor's central thesis.

Jesús A. Velasco's *Impacts of Mexican Oil Policy on Economic and Political Development* is well documented, well written, and highly infor-

mative. He analyzes more systematically many of the issues raised by Millor. Velasco's chapter on the physical characteristics of Mexico and oil policy formation there is particularly good. The reader will find information on Mexico's oil fields, reserves, and production that is well organized, as well as an interesting perspective on the need to elaborate a comprehensive energy policy in Mexico. Velasco relies in his study on relevant government documents published over the last decade, which have greatly improved the data base for research on the Mexican economy and society. Unfortunately, some of Velasco's assertions are disconcerting and detract somewhat from the otherwise thought-provoking arguments that he presents. For example, he argues that "no event in the twentieth century, wars included, has changed the balance of power in the world so dramatically as has the energy confrontation of the 1970s" (p. 21). Referring to Mexico's economic crisis in 1982, he argues that "only through the courageous action of President López Portillo in nationalizing all private banks within the country was an even more serious crisis averted" (p. 6). Confronted with statements like these, the reader expects a solid and convincing discussion to substantiate them, but such discussion is not to be found in Velasco's book. The reader is left to recall the warning of a Harvard professor in the foreword to *Impacts of Mexican Oil Policy*: "Velasco will raise your blood pressure as well as your understanding" (p. xvi).

Those interested in a good historical overview of Mexico's economic and political conditions prior to and including the early years of oil-led growth should consult Millor's introductory chapters. They would probably benefit little, however, from the first part of Francisco Carrada's *Oil, Money, and the Mexican Economy: A Macroeconometric Analysis*, which is disorganized, misinformed, and lacking in substance. Carrada errs in his references to certain periods of church-state conflict (citing the years 1867–72 and 1910 instead of the Lerdo and Juárez reform laws during 1856–59, the enactment of the 1917 constitution, or the Cristero rebellion of the mid-1920s). In explaining which parties participate in Mexico's Chamber of Deputies and the distribution of the total seats, Carrada disregards the 1977 political reforms (p. 5). Furthermore, he cites data incorrectly on such matters as Mexico's population and the revenues received from oil exports (pp. 13, 17).<sup>1</sup> While these errors are not central to the argument of the book, they are nevertheless disconcerting in causing the reader to wonder about how carefully other, less-known issues of fact and interpretation are treated.

The major concern of *Oil, Money, and the Mexican Economy* is to construct an econometric model of the Mexican economy. This effort constitutes a welcome analytical exercise, especially when the intention is to point to potential outcomes that might be either encouraged or modified if appropriate and timely policies are implemented by the gov-

ernment. In this respect, Carrada's book deserves careful attention. For example, in one of his sets of scenarios, he challenges the common view that increasing government spending in Mexico is essential to achieving economic growth on a sustained basis. He concludes that "with relative price stability and oil exports growing at a rate of 20 percent per year, the Mexican economy grows even in the absence of government spending" (p. 106). Of course, many would argue that the size of the public sector in Mexico is large and unlikely to be reduced drastically and that low inflation and the constant rise of oil exports constitute unrealistic assumptions basic to Carrada's model. The point is, however, that Carrada's exercise might encourage other analysts to take a hard look at the set of conditions under which growth could be achieved without resorting to increasing government involvement in the economy. It should not be forgotten that excessive public spending and the lack of planning contributed significantly to weakening public finances and Mexico's external economic position. In addition, the competition for credit and foreign exchange resources helped sour relations between the government and the business community during the Echeverría and López Portillo administrations.<sup>2</sup>

The domestic political dimension of oil development is the focus of Edward Williams's essay, "Petroleum and Political Change," in *Mexico's Political Economy: Challenges at Home and Abroad*, edited by Jorge Domínguez. The essay contains thought-provoking statements and conclusions, but Williams's key arguments need more analysis to be substantiated. His central conclusion illustrates this need:

In the process, petroleum policy elicited dramatic opposition from disparate elements of the polity, compelling varying combinations of force, threats, and responsiveness from the decision makers. The blow out of Ixtoc I shook the government; the debate on the gasoducto forced it to an embarrassing series of post hoc apologies; the apostasy of a loyal deputy scandalized it; the obstreperous challenge of a southern governor perturbed it; the militancy of the southern peasantry probably intimidated it; and the activities of the private sector concerned it. (P. 71)

Each of these sweeping statements is discussed in greater detail throughout the article without ever presenting conclusive evidence. As a result, the reader is likely to feel frustrated by the essay.

Which issues need to be analyzed in greater depth to achieve a better understanding of some of the macro-level effects of oil on Mexico's development? Recognizing first that the shift to an export-oriented oil policy made it more feasible for the Mexican regime to cope with the unusually depressed economic and political situation in 1976, and second, that the oil development program became associated with one of the most dramatic economic booms in recent Mexican history, the following set of issues deserve careful attention and analysis.

*Economic and Social Issues*

It is important to analyze the government's definition of its objectives in the oil area, as well as the expected effects of the oil program on the economy and society in general. It should be recalled that in 1976 the government sought to legitimize domestically the great increase of oil output and exports, arguing that the resulting revenues would help to solve the ongoing economic crisis and implement a series of long-term structural economic and social reforms. A systematic analysis of government objectives and of the actual outcomes yields several conclusions. First, most of the oil policy objectives were fulfilled (for example, in 1982 hydrocarbon reserves totalled 72 billion barrels and the respective production and export goals of 2.7 and 1.5 million barrels per day, or mbd, had been reached). Second, high rates of economic growth averaging over 7 percent were reestablished during 1978–81, a key accomplishment in that economic growth has been associated in the past with regime legitimacy and, ultimately, with political stability. Third, the regime did not implement the reforms to which it was committed. For example, reliance on deficit financing continued along with increasing government involvement in the economy; the government used commercial and foreign exchange policies to maintain excessive protection of domestic producers; and the low level of public investments in expanding social services for the poor (averaging only 12 percent under López Portillo) as well as the fall of real wages by an accumulated index of 12 percent during 1977–80 together point to the lack of substantial social and economic reforms.

In sum, the regime lost a historic opportunity when it decided to maintain traditional economic policies instead of using a share of the revenues generated by oil exports to implement relevant reforms. Ironically, the events of 1982 showed that it was no longer feasible to maintain the old growth model despite the successful oil program. In particular, conditions in the international oil and financial markets had become unfavorable. To resume economic growth, the Mexican regime's paramount goal, the administration of Miguel de la Madrid could no longer resort to huge foreign loans or to increasing oil exports. The new president had few options other than implementing reforms and making adjustments that at this point involved much higher economic and social costs.

A balanced analysis of Mexico's oil boom experience should further differentiate the various outcomes according to their degree of association with the oil development program. That is, it can be argued with a fair degree of certainty that oil was instrumental in bringing about high rates of economic growth, a large amount of foreign exchange resources, and an increased capacity to import foreign goods.

At the same time, the interplay of many complex factors—not just oil—account for the failure to increase exports of agricultural and manufactured goods, the high levels of inflation, the fall in real wages, and the overexpansion of the public sector in the economy. Finally, the activities of the business community should also be scrutinized more closely in order to assess the responsibilities of this central economic and political actor in the deterioration of Mexico's domestic situation in the early 1980s. It is no secret that many private enterprises overspent, resorted to large foreign loans to meet their deficits, and often sent a sizable share of their capital out of the country rather than assume a share of the costs involved in the economic stabilization program.

### *Political Issues*

A second set of issues that must be analyzed more systematically pertain to the formal institutional political changes during the oil boom years. For example, some opposition parties were granted legal status, and all of them increased their share of the total seats in the federal congress. Further, new regulations established that the president must submit annually for congressional approval the government's budget and its plans for contracting foreign loans. Nevertheless, the role of the congress has been kept limited in practice, and government accountability to civil society has remained an elusive goal. It is therefore not surprising that in the oil area, information is often lacking and few are aware of the enormous costs involved in achieving the successful oil development program mentioned earlier. For example, large amounts of gas associated with crude oil were wasted in some fields because *Petróleos Mexicanos* (PEMEX) did not have the appropriate infrastructure to use the gas productively while crude oil output levels continued to rise. In regard to social and economic goals and policies, not to mention the corruption of several public officials and private firms characteristic of these years, Mexican society has become far more aware of events and yet unable to hold public officials and private actors accountable for their actions and failure to attain the stated goals of various national development plans. The same party, and in many cases the same officials, still hold political power in Mexico; and Mexican society as a whole is committed to footing the bill for several years, both in terms of painful domestic adjustments and foreign debt service that is the product of waste and excessive spending by public and private enterprises.

The rising importance of the oil industry in Mexico brought about several interesting political developments that must be studied more thoroughly. In this regard, it appears that Edward Williams has rushed to questionable conclusions. For example, he contends that oil

wealth may have hurt the powerful positions of the Secretario de Gobernación (who is in charge of the internal security of the state) and the president of the ruling political party (the PRI), to the advantage of the director general of PEMEX (p. 31). This assertion is unsubstantiated and runs contrary to both logic and observation. Williams further argues that "as for the aspirants to the presidential mantle, the pre-candidates henceforth will be partially judged as to their capacities to be their nation's number one oil-man in addition to other criteria" (p. 62). To be sure, the head of Mexico's most important public enterprise is usually someone who enjoys direct access to the president. But as Díaz Serrano painfully realized when he was forced to resign in 1981 and when he was indicted by the senate and sent to jail in 1983, the PEMEX director general is in no way a superminister immune to the volatility and the vagaries of Mexican politics.

Alternatively, there are several political events that might illustrate the kind of topics deserving the attention of students of Mexican politics. First comes the evolution of labor-management relations in the oil industry. Few have ventured thus far into this sensitive issue, partly because of the scarcity of information and partly because of the risks involved in learning too much about it. De la Madrid's administration has indicted, and in some cases jailed, management and union officials accused of corruption. It has also supported some organized oil workers who have challenged the current union leadership (albeit in a discreet and limited manner so far). Perhaps more importantly, some recent government measures have been aimed at undermining the capacity of union leaders to pocket financial resources illegally. For example, as of January 1984, a new regulation at the Secretariat of Budget and Planning requires that public agencies either manage construction works directly or conduct an open bidding process and grant a contract to the party that presents the best project proposal in technical and financial terms. In the case of direct management, public agencies should under no circumstances resort to third parties to carry out these construction works. When contracts have been awarded (say, to labor unions), the beneficiary is not allowed to subcontract or to retain the services of a third party to perform the job.<sup>3</sup> In the past, the unions claimed several million pesos for these kinds of contracts. This fact, together with the corruption and inefficiency that characterize many unions, suggests that the cost involved in coopting union leaders to keep order in strategic industries has become intolerably high. Is the Mexican regime going to continue paying this price to maintain control over key corporatist interests? What kind of political changes would be necessary to pursue an alternative strategy to deal with these corporatist interests?

Several essays in *Impactos regionales de la política petrolera en*

*México*, edited by Leopoldo Allub and Marco A. Michel, point to another interesting research area. The pace of oil development in southern Mexico changed not only the economies and the environment in those regions but social and political relations as well. Much work remains to provide a full assessment of the impact of oil on sociopolitical structures that were not suited to coping with rapid and dramatic changes. For example, the army has been called in on several occasions to restore order when peasants and other sectors of the population have protested against the disruptive activities of PEMEX. Why is it that the traditional mechanisms for political control that work well elsewhere do not seem to be as effective in these areas? Finally, it is important to study the extent to which the role and the weight of the military may have changed in recent years. A share of the revenues generated by oil exports was used to modernize obsolete military infrastructure and equipment. Mexico even purchased supersonic aircraft and ships that recently participated in maneuvers near the oil and gas fields in the South. What reasons, other than concern for the security of these fields and events in Central America and the Caribbean, can explain the rising visibility of the military?<sup>4</sup>

#### *Foreign Policy Issues*

In the area of foreign policy, the authors reviewed here raise several interesting questions but do not provide satisfactory answers in all cases. In the introduction to his edited volume, Jorge Domínguez provides an excellent interpretation of Mexican politics. He argues that five key implicit political bargains, which have yielded joint, but unequal, gains to the participants, have contributed to the remarkable degree of stability of the Mexican polity. The first bargain takes place among political elites that are committed to support the system even if some of their members lose in the short run. The second bargain involves an alliance for achieving impressive rates of economic growth. The third bargain refers to Mexican relations with the United States, a country that has shown self-restraint since the 1940s. As a result, both countries have been able to develop a working relationship. The fourth bargain, involving elites and masses, rests on the belief of the latter that opportunities exist for everyone to achieve prosperity eventually. Finally, the belief in ideological symbols such as nationalism, agrarian reform, economic growth, and state ownership has been instrumental in maintaining the legitimacy of the regime. It is easy to agree with Domínguez about the necessity of assessing the impact of recent economic and political changes on these bargains, as well as to agree that the evolution of domestic affairs is likely to affect Mexico's external relations.



In contrast, some of Domínguez's central arguments regarding Mexico's foreign policy are controversial. For example, he claims that Mexico's greater vulnerability to external shocks has reduced the president's margin of autonomy or discretion in handling foreign policy and has also led to subordinating noneconomic objectives to economic foreign policy objectives in order to serve internal economic needs that now claim higher priority (pp. 172, 178). Domínguez's arguments might seem more appropriate and forceful if he had stated them in a hypothetical form. The arguments significantly challenge current interpretations of the handling and arrangement of priorities of Mexico's foreign policy, but they simply lack sufficient evidence.

Manuel Millor agrees with Domínguez's controversial view of the evolution of U.S.–Mexican relations. Domínguez argues that a deterioration has occurred “in the bases for good relations between Mexico and the United States independent of persons or particular administrations that makes the management of bilateral relations more difficult than in the past” (p. 172). He asserts more strikingly that “the previously fragmented pattern of U.S.–Mexican relations was not free of problems, but it was less likely to cumulate them, link them, or to heighten the importance of success or failure. The emergence, then, of this ‘oil weapon’ has, perhaps surprisingly, contributed to erode the bases for cordial relations between the U.S. and Mexico” (p. 189). Some of the authors have correctly pointed out that oil and gas have generated, in instances such as the blowout of Ixtoc I and the gas export deal, new tensions in U.S.–Mexican relations. But Mexico has never tried, not even rhetorically, to use the “oil weapon” to attain better terms in negotiations with the United States. Moreover, it could be argued that oil facilitated the task of the Reagan administration in assisting Mexico in special ways during the critical years of 1981 and 1982. In contrast with other debt-ridden countries, Mexico's having resources of high value such as oil have made it easier to justify the financial support provided by the Federal Reserve, the U.S. Treasury, the Eximbank, and other executive agencies.

It has been argued that the degree of autonomy of Mexico's foreign policymakers has been reduced significantly by Mexico's dependence on the United States in dealing with some aspects of its ongoing economic crisis, Mexican sales to the U.S. Strategic Petroleum Reserve, and Mexico's new position as the largest supplier of crude to its neighbor. This view, however, fails to take into account the fact that Mexico increased its participation in the U.S. market following a U.S. government decision to reduce oil imports from Arab OPEC sources, and also as a result of expansion and construction of new refineries by U.S. companies eager for a larger share of the increasing production of heavy crude oil from countries like Mexico. Mexico's unique geographi-

cal position has played a key role in its capacity to meet a higher proportion of U.S. demand for foreign oil.

In sum, inasmuch as Mexico has not wielded the "oil weapon" against its neighbor, there is no convincing evidence to suggest that the United States has linked its oil purchases to the implementation of changes in Mexico's foreign policy that officials in Washington may consider desirable or appropriate. This argument is well illustrated by Mexico's pursuit of an approach to Central America and the Caribbean that differs considerably from that followed by the United States.

Analysts on both sides of the border agree that Mexico's foreign policy has undergone substantial change since political conditions in Central America began to deteriorate. What may be an innovative and imaginative foreign policy is nonetheless presented by government officials as based on the pursuit of traditional principles, such as nonintervention and the right of self-determination. However unsatisfied scholars may be with this explanation, it must be recognized that no one has yet succeeded in accounting for the conceptual gap between official positions and Mexico's actual responses and behavior. Scholarly arguments that Mexican government support of social, economic, and political change constitutes a device to coopt the left at home or that Mexico is using oil to enhance its influence in the region represent at best partial and at worst unsatisfactory explanations of Mexican goals and behavior. How do Mexican foreign policymakers define and perceive national security? Which specific national interests are at stake in the context of the Central American crisis? What are the dangers and the opportunities posed by Mexico's current diplomatic strategy toward Central America? More serious and systematic thinking is needed to answer these questions and to begin to understand the fundamental changes that Mexico's foreign policy has undergone in recent years.

So far, this essay has stressed the need to analyze in greater depth a series of economic, political, and foreign policy issues in order to improve understanding of the principal macro-level effects of oil on Mexican development. Interestingly, when one turns to the regional or micro level of analysis, one finds fewer, but more solid, research efforts.

### *The Effects of Oil in Mexico's Regions*

Allub and Michel's *Impactos regionales de la política petrolera en México* and Alejandro Toledo's *Petróleo y ecodesarrollo en el sureste de México* both constitute commendable research efforts. These books report on some of the most significant socioeconomic and political changes associated with oil development in several individual regions, and in so doing, they have helped to fill a vacuum in the literature.

The central argument of *Impactos regionales* is that oil did not bring about a self-sustained process of development beneficial to the local population in each of the regions studied. Empirical evidence shows instead that oil has been associated with a local population explosion, a rapid and disorganized process of urbanization, the lack of housing and sufficient public services, high inflation, and a skewed income distribution in these regions. Interestingly, Allub and Michel point out that federal investments during 1971–76 in the state of Tabasco already favored the oil industry (72 percent) and neglected infrastructure and social services (28 percent) (p. 54). This trend became a pattern that affected Tabasco and other states in subsequent years.

While some essays in *Impactos regionales* are limited to description, others excel in their inclusion of clear theoretical concepts, relevant research questions, interesting empirical evidence, and thorough discussions and explanations of the findings. The essays by Lourdes Romero (on Dos Bocas, Tabasco), Marie-France Shapira (on localities in the states of Chiapas and Tabasco), and Silvie Fauvergue (on Salina Cruz, Oaxaca) stand out in this category. These scholars stress the changes brought about by the development of the oil industry in cultural, social, and power relations at the regional level. Their work provides initial clues that may serve other scholars interested in the various responses of peasants, fishermen, and Indian populations in coping with critical transformations in their way of life.

The research group coordinated by Alejandro Toledo combines in *Petróleo y ecodesarrollo en el sureste de México* talents from various disciplines—economics, environment, engineering, sociology, anthropology, and systems analysis. This approach explains the ambitious objectives as well as the comprehensive results of this research project. The central purpose of the study was to contribute ideas and specific recommendations in the area of environmental policy in order to harmonize the activities of the oil industry with the particular economic and social needs of various regions. According to *Petróleo y ecodesarrollo*, the recent mistakes and the damage already done to the environment can still be substantially corrected. That is, an alternative strategy exists for securing a healthy environment in southern Mexico that would also distribute the benefits of oil development to different regions and social classes on a fair basis. Toledo and his colleagues demonstrate specifically that PEMEX and other public agencies have sufficient human, financial, and political resources to assure that oil development continues without further deterioration of the ecology, that a strategy is devised to integrate the basically agricultural economies of these regions into the national economy, and that experience at the regional level will be extended to benefit the population along all of Mexico's coastlines.

The suggestions for future research presented thus far in this

essay fall short of a comprehensive list. Important topics that have not been dealt with include the assessment of Mexico's energy resource base, the study of private groups involved in the manufacturing of petrochemical products, the role of foreign technology used by PEMEX, and many others. It is to be hoped that scholars from various disciplines and institutions will come together to enhance the prospects for conducting research of greater quality and import in this crucial area.

NOTES

1. According to information provided by Mexico's Office of Statistics of the Secretariat of Budget and Planning, Mexico's population in 1980 reached 69, not 73, million inhabitants. In addition, PEMEX's *Memoria de Labores* and the Banco de México's *Informe Anual* are considered more reliable sources than the *Economic Intelligence Weekly* for data pertaining to revenues received from oil exports.
2. Readers interested in this topic are referred to Gabriel Székely, *La economía política del petróleo en México, 1976–1982* (Mexico City: El Colegio de México, 1983).
3. Secretaría de Programación y Presupuesto, "Acuerdo que establece normas que deberán observarse en la ejecución de obras públicas," *Diario Oficial* (Mexico City), 30 January 1984, pp. 8–11.
4. A seminar on Mexico's military was recently held at the Center for U.S.–Mexican Studies of the University of California at San Diego. The papers presented there should be of special interest to the specialist on Mexican politics.