NAFTA Coalitions and the Political Viability of Neoliberalism in Mexico

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The depth and scope of Mexico's post-1994 crisis have called into question the political viability of the package of neoliberal economic reforms Mexico has adopted since 1982. What appeared to be a winning strategy both economically and politically at the outset of the 1990s has, since 1994, presented serious challenges to stable governance, economic development, and social peace. Violent social uprisings, political assassinations, kidnappings, drug trafficking, capital flight, and electoral challenges to the ruling Institutional Revolutionary Party (PRI) threaten the relative stability of Mexico's postrevolutionary regime.

This article examines the process of political coalition building surrounding one of the most important facets of neoliberal reform—trade opening—and reflects on the possible implications of these coalition dynamics for understanding the 1994–95 peso crisis in Mexico. Specifically, it traces the consolidation of a free trade coalition between state and big business elites in the negotiations for the North American Free Trade Agreement (NAFTA) and the broader repercussions of this new alliance on the Mexican political economy. The consolidation of this powerful but economically and politically narrow coalition helped cement the neoliberal reform agendas of the governments of Miguel de la Madrid (1982–88) and Carlos Salinas de Gortari (1988–94). It also boosted investor confidence and restored moderate levels of low-inflation growth in the early 1990s. At the same time, it contributed to the instability and discontent that emerged in 1994.

This study will argue that the successful adoption, implementation, and sustainability of a policy pose two essential political requirements. First, any policy needs a political sponsor. Despite the attention paid recently to the spread of neoliberal economic ideology and the role of ideas in policymaking more generally, policies do not simply erupt spontaneously of their own volition (see Goldstein and Keohane 1993; Golob 1999; Hall 1989; Sikkink 1991). Policy ideas must be captured and represented politically to get onto and move up the agenda.

Second, policies require the mobilization of a coalition of political support in order to be successfully implemented and sustained. The formation and operation of these policy coalitions typically have repercussions on a country's broader political system, as politicians attempt to mobilize coalitions of support for particular economic policies to promote their wider-reaching political goals of obtaining and maintaining control of government (see Bates and Krueger 1993). Economic and political shocks, as well as the society's longer-term evolution, provide opportunities for politicians to construct coalitions of support around new policy frameworks and new political alignments (see Lusztig 1996, chap. 1). A winning coalition need not be inclusive; but it must encompass a group of sufficient power and political resources to sustain it over a substantial length of time. The narrower a policy's coalition of support, the more precarious that policy's status will be over the medium to long term.

This paper addresses primarily the second of these two requirements: the political viability of free trade as a function of its coalition of political support. The narrow yet powerful coalition of support for free trade and the broader neoliberal reform agenda succeeded in carrying out and sustaining policy reform after 1985. It asserted control over the policymaking bureaucracy and helped the PRI retain its hold on power in the face of rising challenges from both the right and left in the 1991 midterm and 1994 presidential elections. But this coalition also contributed to the economically and politically destabilizing peso crisis of 1994–95, as increasing degrees of economic and political concentration fomented discontent among both marginalized social groups and excluded political elites. The government's policy response to the crisis remained faithful to neoliberalism, but the narrow, policy-based coalition backing it proved no longer politically viable. The PRI's 1997 loss of its absolute majority in the Chamber of Deputies and defeat in the Mexico City mayoral race highlight the political erosion of the PRI that has resulted partly from the policies and behavior of the free trade, neoliberal coalition.

The rapid turn toward free trade in Mexico was politically surprising. More than 40 years of import-substituting industrialization (ISI) policies created and solidified the position of protectionist interests in both business and the state.[1] Many generations of leaders in both the public and private sectors had cut their teeth on protectionism and had invested significant material interests in it. These leaders, furthermore, had access to the bureaucracy and the broader political system, either through direct control or influence, for state and party officials, or through formal business associations and informal social and political ties, for businesspeople. Together, these public and private actors formed a protectionist coalition that maintained and strengthened an inward-oriented, import-substituting development model and defeated the occasional attempt to open the Mexican economy to foreign competition.[2] How was the process of trade reform that began in 1985, accelerated in 1987 and 1988, and culminated in the 1993 signing of a regional trade accord with the United States and Canada made possible politically? How was a new free trade coalition forged to replace the protectionist coalition and oversee the transformation of the Mexican economy from one of the most closed to one of the most open in the developing world?[3]

The next section of this paper briefly summarizes the trade reforms that took place in Mexico in the 1980s and the initial stages of coalition formation around them. The following sections discuss the consolidation of the free trade coalition around the NAFTA negotiations, the institutional mechanisms built to foster public-private cooperation, and the nature of the coalition itself. The coalition's wider effects on Mexican political economy leading up to the 1994 crisis are then considered. The conclusion assesses the implications for Mexico as it approaches the year 2000 presidential elections.

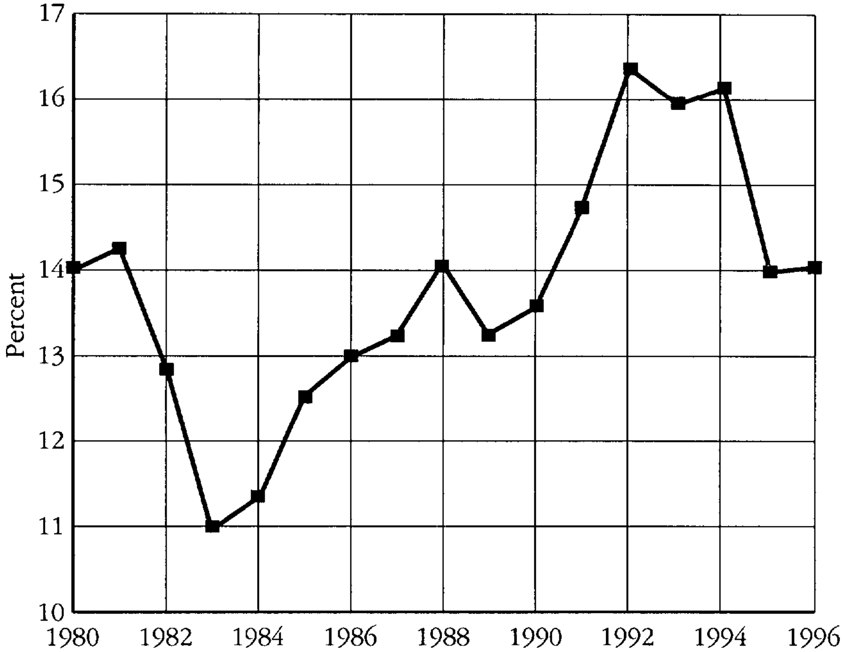
Trade Policy Reforms in the 1980s

Free trade is but one critical element of a larger program, neoliberalism. As a development strategy, neoliberalism advocates the basic prescriptions of the "Washington Consensus": free markets and sound money (Williamson 1990; Krugman 1995). The specific policies embraced by neoliberalism range from conservative fiscal and monetary policies (cuts in government spending, tax reform, tight money supply, and high interest rates) to domestic price liberalization, deregulation, capital market opening, privatization, and trade liberalization. While free trade does not define neoliberalism uniquely, it is one of its most visible components, and it often becomes linked politically and economically to the other policies.[4]

The Mexican economy's fall into deep crisis began in 1982. One of the central components of the government's strategy to escape the crisis was trade reform, and in 1985 it embarked on a path of dramatic opening. The initial sponsors of these new policies came from two sources. Officials in the Bank of Mexico (the central bank) were the earliest proponents of free trade within Mexico. They had few allies, however, and in the early years of the crisis their pleas for market opening fell on mostly deaf ears. As the crisis wore on and the multilateral institutions became more involved, the International Monetary Fund and the World Bank came to serve as unofficial cosponsors of free trade policies, along with the Bank of Mexico. When President Miguel de la Madrid fell in line with the bank's position in July 1985 by introducing sharp cuts in trade barriers, the relative power of the free trade sponsorship acquired enough political momentum to lead Mexico toward trade opening.[5]

Despite this backing, however, Mexico's new free trade policies did not prove sufficient to pull the country out of the crisis. One of the biggest problems in the mid-1980s was a lack of investor confidence, both because of the crisis itself and, more important, the government's earlier reaction to it. In 1982 de la Madrid's predecessor, José López Portillo (1976–82), had nationalized the private banking sector (Maxfield 1990). The private sector,

Figure 1. Private Investment as a Percentage of GDP in Mexico, 1980–1996



Source: Glen and Sumlinski (n.d.)

even its nonbanking segments, viewed this action as a direct attack on its property rights. The general belief at the time was, "if they can take our banks, they can take anything" (see Hernández Rodríguez 1986).

This lack of confidence led to rapid capital flight, reflected in a sharp drop-off in private investment, measured as a percentage of GDP, from 14.3 percent in 1981 to 11.0 percent in 1983 (see figure 1). The government's precarious fiscal position dictated that it could not use its own resources to supplement private investment to the extent that it had done in the 1970s (particularly after the 1985–86 drop in petroleum prices received by the state-owned petroleum company, PEMEX). These trends suggest that without greater private investor confidence, the government's trade and broader economic reform plans would not prove viable, even in the short term (see Schneider 1997; Thacker 1996). And the absence of economic growth could challenge governability and the regime's survival, as in any political system (see Winters 1996).

The Mexican government responded to this challenge by enlarging somewhat the base of political support for liberalization, particularly among those who controlled a large number of the investment assets the country needed, with the Economic Solidarity Pact (PSE) negotiations beginning in December 1987. These meetings brought together representatives from government, business, and labor to negotiate a wide-ranging economic stabilization and structural reform package. One of the most important components of these negotiations was the acceleration of the trade opening that had begun in 1985, with earlier target dates and more ambitious goals. Most important, business (along with labor) leaders were given a voice in the formulation of these plans. Government negotiators, orchestrated by former programming and budgeting minister and PRI presidential candidate Carlos Salinas de Gortari, clearly led the way, but they were careful to court the participation of key allies in the private sector.

The nature of business participation in the pact negotiations reinforced a growing trend toward the inclusion of the largest segments of the private sector elite and the exclusion of smaller and medium-sized firms (Hernández Rodríguez 1990). These negotiations took place at the highest levels, and on the private sector side they passed first through the peak organization Business Coordinating Council (CCE), which disproportionately favored the concerns of the largest firms and groups (Luna and Tirado 1992). The CCE's involvement was critical, according to Kaufman et al., "because it magnified the interests of large financial-industrial groups that were in a reasonably good position to absorb the costs of economic liberalization" (1994, 391). Although much of the private sector, including some of the larger firms, still opposed the acceleration of trade liberalization, the peak-level nature of the negotiations discouraged such particularistic dissent. In addition, the linking of trade reform to economic stabilization, especially anti-inflationary measures, helped to undercut much of the remaining private sector opposition to trade reform (Pastor and Wise 1994; Rodrik 1992). Even if they feared some of the potential foreign competition that would be expected to result from greater liberalization, most big business leaders viewed trade reform as a necessary and essential component of the overall neoliberal reform package that would benefit the Mexican economy as a whole, as well as their own individual interests (Kaufman et al. 1994).

For the state, de la Madrid's previous decisions to open the trade regime accentuated a power shift among state agencies that had already begun to take shape earlier in the decade. Furthermore, as Kaufman et al. (1994) point out, the linking of trade to financial and macroeconomic policy issues in the PSE legitimated the views and positions of the government's ideologically unified financial and planning agencies, especially the programming and budgeting agency (SPP), the Bank of Mexico, and the finance ministry (SHCP), and permitted these groups to assert greater control over trade policy. The PSE thus represents the takeover of trade policy by the financial and planning interests in the state (sponsorship) and a first step toward institutional incorporation of the big business elite in trade policymaking (coalition building). These negotiations witnessed the original formation of the free trade coalition and dealt a hard blow to the protectionist coalition, whose constituency had by now been severely weakened in both the state and the private sector.

Investor reaction to the PSE negotiations was encouraging, though not overwhelming. Private investment rebounded from 13.0 percent of GDP in 1986 to 14.1 percent in 1988 (see figure 1). The semblance of a coalition of support for free trade that would benefit the economy as a whole appeared to be forming.[6]

Although this new coalition signified a broadening of support from the exclusive Bank of Mexico–led sponsorship of earlier reforms, it still represented a very narrow spectrum of private sector elites. "The alliance constructed by the government, although crucial for the success of the pact, did not extend far beyond the representatives of the very large firms and conglomerates that dominated substantial portions of the Mexican economy" (Kaufman et al. 1994, 362). As an essentially ad hoc arrangement constructed around the PSE negotiations, it also remained to be institutionalized. But for many business and government leaders interviewed for this research, the private sector's incorporation into the PSE was a turning point in improving their relations with the state, which had deteriorated so badly during the administrations of López Portillo and Luis Echeverría (1970–76). From this point on, frequent consultation and confluence of policy goals brought big business and the state closer together and helped establish a high level of mutual trust between government and private sector elites.[7] When mutual trust exists, it promotes cooperation. This new cooperative coalition would be crucial to Mexico's negotiations with the United States and Canada on NAFTA.

NAFTA and the Consolidation of the Free Trade Coalition

After the shift from protectionist predominance in the early 1980s to the takeover of the free trade coalition in the latter part of the decade, developments in the early 1990s continued to consolidate the position of the free trade coalition and to incorporate certain important segments of the private sector more formally into the trade policymaking process.

An increasingly cohesive state elite centered its NAFTA forces in the new Office for the Negotiation of the Free Trade Agreement in the Ministry of Trade and Industrial Development (SECOFI). Government free trade advocates moved quickly to consolidate the power of the free trade coalition by courting the business community's active support and participation in the NAFTA negotiations, beginning in 1990 and continuing into 1991 and 1992.[8] This was especially true for the private sector's largest, most dynamic segments, which had ties to the international (especially the

U.S.) economy and would be expected to have the most to gain from the free trade agreement. These included large Mexican firms and conglomerates, many of them located in Mexico's northern states, as well as the Mexican subsidiaries of internationally integrated, foreign-owned, multinational corporations.[9]

The establishment of the free trade coalition between the state and the private sector was one of the motivating factors behind the government's pursuit of a free trade agreement with the United States (and eventually Canada); "its new alliance with the business sector has given the government important support to push forward this [NAFTA] proposal, with big business spearheading the process" (Pozas 1993, 84). Using the PSE as a model, the government arranged a formal mechanism of consultation with the private sector.

As the government began preparations for negotiating a free trade agreement with the United States and Canada in the spring of 1990, SECOFI minister Jaime Serra Puche issued an invitation to the business community via the CCE. According to several observers and participants, Serra invited the CCE to organize a team of knowledgeable businesspeople to bring the different sectors of the business community together to present a single, unified position, to which government negotiators could refer when negotiating the terms of the agreement with the U.S and Canadian negotiators (Interviews 1993, 1994). The CCE responded to Serra's proposition by creating the Coordinating Council of Foreign Trade Business Organizations (COECE), an offshoot designed to coordinate the overall efforts of the private sector in the NAFTA negotiations. In June 1990, as Presidents Carlos Salinas and George Bush met in Washington to announce the intended negotiations, the CCE officially created COECE and named as its head delegate Juan Gallardo Thurlow, a prominent Mexican businessman whose Grupo Geupec was affiliated with the U.S. multinational firm Pepsicola, "as the business representative in support of the negotiations that our government is conducting with the United States, and possibly Canada, to arrive at a free trade agreement" (COECE 1990).

According to Gallardo (who bore the title Private Sector Coordinator for the Negotiation of the Free Trade Agreement and headed the COECE delegation), COECE's basic purposes were "to support the efforts of the official government negotiators in the definition of the terms to be negotiated" in the free trade agreement, and "to support SECOFI's free trade negotiating office to achieve the best possible trilateral agreement that takes into consideration the interests of the Mexican private sector" (Gallardo 1994b, 137).

COECE's first task was to organize the research and writing of a series of sectoral monographs solicited by SECOFI to ascertain the status and perspectives of each sector toward the pending negotiations. Several different sectors—autmombiles, textiles, beer, and aluminum, among others—eventually prepared monographs for SECOFI through COECE's constituent organizations. SECOFI published a series of these studies, first individually as pamphlets and subsequently as a two-volume collection containing 21 sectoral monographs (SECOFI 1992). From the government's perspective, the sectoral monographs would provide a stronger base on which to formulate and eventually revise Mexico's initial bargaining positions during the trilateral negotiating process (Zabludovsky 1994).

The prospective role of COECE in the negotiations themselves, after the completion of the preparatory work, was initially unclear. Following a long tradition of limited formal business participation, most businesspeople suspected that their work would be more or less complete by the time the negotiations began, after which they would not be directly or indirectly involved. Even Gallardo did not expect the COECE representatives to play an especially active role: "they will only be consulted by the SECOFI negotiating office in extraordinary or dramatic cases," since the government already had COECE's sectoral monographs (*El Economista* 1991a).

After the negotiations began in June 1991, however, it gradually became apparent that COECE's private sector representatives would participate actively and directly in the formulation and revision of Mexico's negotiating positions. COECE created essentially a parallel bargaining unit that mirrored the organization of the Mexican government negotiating team. Just before a negotiating round, government and private sector leaders would typically meet in Mexico, in groups that imitated in number and specialization the actual negotiating "tables," or subgroups, to discuss issues and strategies. A team of private sector representatives would then accompany the government negotiators to the various, alternating Canadian, Mexican, and U.S. negotiation sites. COECE would typically reserve hotel rooms as close as possible to the actual negotiating rooms to facilitate regular contact with the Mexican government negotiating teams (Interviews, COECE officials). Such a room soon became known as the "side room" or the "room next door" (*cuarto de al lado, cuarto de junto*).[10]

COECE representatives would continue to meet with the government negotiators, normally at the beginning and end of each day of negotiations, to receive updates on the progress of the negotiations and to make suggestions. While the government negotiators met with their U.S. and Canadian counterparts, the COECE representatives would remain available in the side room for consultations with the Mexican negotiators as needed. At the conclusion of each round, government and business leaders would normally meet again in Mexico to discuss the results, and COECE would also hold its own internal meetings to inform its members of the progress of the negotiations (Interviews).

Although the invitation to create COECE and participate in the negotiations came from the government, the private sector had already begun preparations for its role in a possible free trade agreement. Much of the impetus for this appears to have come from Juan Gallardo in his leadership post in the Mexican Business Council for International Affairs (CEMAI), his organizational home before (and after) the creation of COECE. CEMAI is affiliated with all the organizations that belong to the CCE, and it also has approximately two hundred individual, voluntary, dues-paying members from the private business community. At the time COECE was being contemplated and formed, Juan Gallardo was president of CEMAI's U.S.-Mexico Committee, the most important of CEMAI's 60 bilateral committees because of the U.S. predominance in Mexico's foreign trade relations.

This committee played a central role in the development of COECE from the beginning. The committee had been studying the free trade agreement option since at least 1988, when candidate and later president Salinas was still publicly disavowing the free trade option. In early 1990, Gallardo's committee began to make specific plans for the private sector's role in negotiations. Beginning in March, meetings were held at the levels of the committee, CEMAI, CCE, and all CCE's member organizations to discuss the potential issues affecting the private sector in such an agreement. In late May, the U.S.-Mexico Committee of CEMAI presented a memo to the CCE board of directors and President Rolando Vega (1989–91) recommending that the Mexican business sector organize itself to protect its interests in the upcoming free trade agreement (Interview). All this activity preceded COECE's official founding a couple of weeks later.

COECE's institutional background, structure, and membership reveal patterns of concentration of power favoring big business. The CEMAI's membership base comes principally from the ranks of the largest and most internationally integrated firms in Mexico. Although it does not make its membership lists public, they include, according to one person familiar with the membership, firms from the banking, insurance, and automobile sectors and such individual companies as Nestlé, Volkswagen, Ford, and Chrysler. On the other end of the spectrum, "there are few linkages between CEMAI and small and medium-sized business" (Interview).

The organization of COECE's parent group, the CCE, also is revealing. COECE was created by, and is institutionally dependent on, the CCE, the peak-level umbrella organization created in the era of business-state conflict during the Echeverría administration. As the so-called peak of peak organizations (*cúpula de cúpulas*), the CCE in the early 1990s boasted more than nine hundred thousand individual members, distributed among the seven business organization members that wielded full voting rights (see Thacker 1996, POEM 1994).

The CCE was founded by some of the largest, most radical segments of the business community. Partly in response to Echeverría's populist policies of "shared development," leaders of the elitist Mexican Businessmen's Council (CMHN) and the Employers' Federation of the

Mexican Republic (COPARMEX), the radical, mostly large northern business organization, founded the CCE in 1975 (Luna and Tirado 1992). In addition, the distribution of voting power in the CCE at the time of COECE's creation exhibited fairly clear patterns of big business and financial sector predominance. The CMHN and COPARMEX formed alliances with two financial sector organizations, the Mexican Association of Brokerage Houses (AMCB) and the Mexican Association of Insurance Institutions (AMIS), to obtain an outright majority and four of the five votes (out of a total seven) necessary to approve major decisions (Thacker 1996).

COECE was created to serve as the representative of the entire Mexican business community for NAFTA, and thus its membership base was originally designed to be considerably broader and more inclusive than that of the CCE. Like the CCE, COECE was (and is) an umbrella group to bring together organizations from diverse business sectors, in this case for the purpose of promoting a single business voice for the NAFTA negotiations. (It survives today to coordinate trade negotiations with the rest of Latin America, the EU, and other countries.) Previously, contact points between the government and the private sector during debate over proposed new trade policies had usually been dispersed across a myriad of governmental agencies and business organizations. The creation of a new government office within SECOFI and of COECE simplified communication considerably and facilitated a more centralized, manageable relationship between state and private sector leaders in preparing for NAFTA.

Although it comprised virtually all the business organizations involved in foreign trade, COECE's real substance was found in its six basic sectoral divisions (*coordinaciones*), which included sections for finance, insurance, commerce and services, industry, agriculture, and banking. Each sector was headed by a single coordinator, who was in turn selected by the appropriate COECE member business organization leaders (Interviews). Below the coordinator was a team to assist with the organization of the negotiations, and below that a series of any number of individual sectors, defined as broadly as mining and as narrowly as apples. Similar to that of the CCE, the COECE's organizational structure gives a disproportionately heavy weight to financial groups, whose sectors account for three of the six divisions responsible for directing the private sector's sectoral efforts.

By the time the negotiations began in June 1991, however, the trilateral negotiators had discarded a sectoral strategy in favor of a more thematic approach, organizing the negotiations into a series of first 17, then 19, and finally 18 separate "tables." These tables telescoped the sectoral groups into an assortment of general issue areas, such as market access (tariffs), rules of origin, norms, unfair trading practices, and investment.

Individual tables were also created for some of the most contentious business sectors: agriculture, automobiles, energy, and textiles.

COECE responded to this change by amending its own structure, channeling the different sectoral groups into the new negotiating groups. A leader was appointed for each of the 17 original groups, and representatives from the 140-plus individual sectors would participate in whichever group or groups were most relevant to their interests. For most groups, there were approximately 8 to 12 business representatives in the official COECE delegation. Most of the day-to-day private sector participation throughout the NAFTA negotiations—both in Mexico and via the side room at the negotiating sites—occurred through these groups (COECE 1991, n.d.; SECOFI 1993b, n.d.; Interviews).

This reorganization helped to concentrate power somewhat within COECE, as the private sector participation in the 17 original negotiating groups became more exclusive than it had been under the sectoral arrangement. A high degree of personnel turnover was associated with this transformation. By one count, only 42 of the original 185 sectoral representatives participated in the newly restructured COECE. With 122 private sector representatives spread across the new groupings, this meant that nearly two-thirds of the COECE negotiation group representatives were new (Puga 1993; see also Rubio 1992). By most accounts, these new representatives came largely either from individual, almost exclusively large companies or from the business organization leadership.

COECE leadership required certain skills for a businessperson to participate in the negotiations, such as a basic ability to read English and to digest many of the complex economic issues involved in international trade negotiations (Interviews). Perhaps more important, a participant simply had to have the time to dedicate to the process, which would have been very difficult for small business owners, who spend their time tending to their day-to-day business operations. The larger firms and business chambers, by contrast, have specialists in these areas. Each sector picked its own representatives for the restructured COECE negotiating groups, but according to Gallardo, "we looked for people who had the time" when naming the sectoral representatives (Gallardo 1994a, 12). As a consequence, "in a short time the [business] representation fell mostly into the hands of the large export firms and the experienced business organization leaders who had the support of the CCE" (Puga 1993, 68).

Representatives of small and medium-sized businesses expressed hesitation about the Gallardo-COECE–led business participation in NAFTA before the negotiations even began. According to one official of the National Chamber of Industries (CANACINTRA), which had many small and medium-sized firms among its membership, "we are concerned about the excessive optimism of the president of COECE" (*El Financiero* 1990).

THE PRIVATE SECTOR'S ROLE

In the NAFTA negotiations themselves, the creation and operation of COECE served two essential functions. First, the incorporation of the private sector viewpoint and experience complemented the economics skills of the government negotiators, who were comparatively youthful and inexperienced as negotiators. Second, the formal incorporation of powerful private actors gave those actors a political stake in the outcome, as well as consolidating the coalition of support for NAFTA, free trade, and neoliberalism more generally.

Although much of the business community had initially been highly skeptical of the government's sincerity in offering to consult with the private sector, government negotiators and COECE representatives interacted continuously during the negotiations. According to SECOFI calculations, by the time the negotiations were completed in August 1992, the two Mexican groups had held more than 2,600 meetings (SECOFI 1993a). The individual patterns of participation are even more impressive.

Virtually everyone interviewed for this project agreed that the private sector's participation was real, extensive, profound, and effective. Although the direct negotiations with the U.S. and Canadian negotiators were clearly a government-to-government affair conducted, on the Mexican side, solely by the SECOFI-led team, over the course of the meetings many of the private sector participants in the COECE side room developed excellent relationships with their government counterparts, who regularly sought their views and interests. Business representatives communicated frequently with government officials of all levels, from Jaime Serra down. One midlevel private sector participant went out of his way to praise Serra personally for his accessibility, noting that Serra had met with him regularly and that the trade minister had always listened and responded carefully to his concerns and those of his sector. Regular meetings would normally take place at least weekly between the top government negotiators and COECE directors to discuss the negotiations' overall progress and pertinent general and specific issues.

Most of the detailed, day-to-day contact between the government and business representatives during the negotiations occurred at the level of the individual negotiating groups, through each side room housing the COECE private sector contingent. According to one lead government negotiator, the contact between his team and that of the COECE side room was nearly constant before, during, and after the negotiations; "we had them at our side the whole time" (Interview). A COECE leader agreed: "we got as close as possible to the negotiations without actually being there" (Interview). If a session ran late, the government representatives would often meet with the COECE members at two or three o'clock in the morning (Interviews). In a single negotiating group, the government's lead negotiator estimated that his team had conducted approximately 30 meetings with the U.S. and Canadian negotiators and about 180 meetings with the Mexican private sector (Interview).

This constant, formal contact in trade policymaking represented a sharp departure from past patterns of business-state relations in Mexico and made a strong impression on the private sector. No such system of regular, institutionalized consultation had been employed in any previous trade policy episodes, even in the 1987 PSE. Many business leaders echoed the general sentiments of this business participant: "What was surprising about all of this was the openness of the government to us. There was a climate of confidence, of shared objectives. It surpassed all expectations. Extraordinary, without precedent" (Interview).

Such a high level of trust had not existed at the outset of the NAFTA process. After decades of conflictual relations with SECOFI and a general distrust of a government it viewed as encroaching on its territory and unnecessarily interfering with its operations, the private sector was very hesitant to embrace fully a new generation of bureaucrats that professed a willingness to include the business viewpoint. Such hesitation presented an obstacle to the consolidation of the free trade coalition and the political and economic rewards it could reap. Therefore Serra reportedly instructed all his lead negotiators to go to great lengths to respect the business community's wishes in the negotiations (Interviews). According to one, "he gave us an order: 'Don't make any decisions without private sector agreement.' Almost all decisions at all levels were taken in consultation with the private sector" (Interview).

This system of consultation gradually built up greater trust as the negotiations progressed. Although the government negotiators did not always do exactly what the COECE representatives wanted (they, of course, faced pressures from U.S. and Canadian negotiators), "they respected the rule of consulting us on all points of negotiation," according to a COECE official (Interview).

A turning point in the development of that trust came in early January 1992, when SECOFI gave a copy of the recently completed draft of the NAFTA agreement to the COECE leadership and solicited the private sector's comments. COECE organized a team of lawyers and other experts to review the text, and compiled an approximately 50-page document outlining the revisions that COECE desired. According to one COECE leader, SECOFI adopted approximately 90 percent of the suggestions made in that document. This outcome served to cement a firm bond of trust between the government and COECE: "We realized they must be serious if they are letting us do this and actually implementing our changes" (Interview, COECE official). Later that month Gallardo proclaimed, "we businesspeople do feel well represented in the issues that have been drafted to this point. SECOFI is listening to the private sector" (*El Economista* 1992).

COECE, furthermore, appears to have had a noticeable effect on the government teams' negotiating positions.[11] One COECE member familiar with many different sectors and negotiating groups claimed that, though it varied somewhat by sector, "there was not one single case of total disagreement" between the SECOFI negotiators and the private sector representatives (Interview). One of the SECOFI negotiators estimated that within the general parameters of the negotiations, SECOFI adopted approximately 80 percent of COECE's proposals in formulating and revising its strategies for negotiating with the United States and Canada (Interview). On the whole, although the outcome of the negotiations may or may not have favored every one of their individual interests, most of COECE's private sector representatives seem to have been quite satisfied with how much the government's negotiating positions incorporated their views.

Despite the high overall level of communication between the private sector and the government, not all segments of the business community participated equally in the NAFTA negotiations (Poitras and Robinson 1994; Heredia 1994, 17–18). Those in COECE whom government negotiators consulted most frequently were generally the businesses most likely to benefit from NAFTA and those who controlled the largest number of economic resources. In contrast, many of NAFTA's anticipated private sector losers did not participate in the negotiations. Many of these actors came from the ranks of the smaller and medium-sized firms, which had only a limited, indirect role in NAFTA negotiations. The most active participants were those who supported the basic idea of NAFTA and those from the largest firms and groups. Very often, these two latter categories would overlap.[12]

Accepting the basic concept of the free trade agreement was key for a businessperson to participate in the NAFTA negotiations, according to numerous government and business participants (Interviews).[13] Of course, from a pure efficiency standpoint, this made perfect sense: the government had already decided to negotiate a free trade agreement with the support of key members of the private sector; neither side wished to involve people who would obstruct that goal. This policy, however, fostered a private sector team of free traders. According to one government official, "there was no one against NAFTA in the negotiations" (Interview). Private sector observers agreed on this point. One declared, "I never found a single businessperson who was against NAFTA" in the negotiations, while another estimated that 98 percent of the NAFTA business delegation supported the free trade agreement (Interviews).

Most small and medium-sized businesses were also effectively excluded, or at least greatly distanced, from the negotiating process, leaving proxy representatives and big business to staff the private sector's negotiating teams. The basic problem for these firms was one of resources and representation. COECE was entirely a privately funded and essentially volunteer organization. Apart from about 20 total paid staff members who ran the administrative end, all the COECE negotiating representatives worked strictly on a volunteer basis and paid their own travel expenses to and from meetings and negotiations. None received a salary or any other financial compensation from COECE (Interviews). If anyone could not participate directly, the task fell to the official business organization representatives.

The largest, most internationally integrated firms and groups had the greatest number of their own resources to dedicate to these matters, and they employed them frequently during the NAFTA negotiations. These enterprises usually had entire departments devoted to international trade and government relations, where executives studied the issues and formulated negotiating positions well before the government or any private sector organizations approached them. At the NAFTA meetings, they would participate directly in the side rooms most relevant to their business interests.[14] In the words of one SECOFI official, "the larger firms were readier to participate" (Interview).

Small and medium-sized firms, on the other hand, are organized by a family structure, with the head of the family managing the daily operations. These kinds of firms often lack the corporate culture and structures, the familiarity with the issues, and the experience in international trade that spawn an active role in trade policy for many larger firms. As one medium-sized entrepreneur described the difference, "big business has prepared people. The small and medium-sized businessperson is unprepared" (Interview). The smaller firms also could not as easily absorb the high costs of participating in the free trade negotiations or of sending a representative all over North America to attend the meetings. An owner or director of such a firm who vacated that position to spend a year-and-a-half personally participating in the side room negotiations to push for particular business interests would probably see the firm go bankrupt; and would also be unlikely to hire someone to participate as a proxy.

Because of these problems, small and medium-sized businesses participated almost exclusively through the business associations and chambers, principally the National Chamber of Industries (CANACINTRA), the leaders of which were charged with representing the interests of small and medium-sized industry as a whole throughout the different negotiating groups. This proved to be a difficult task, as these representatives frequently found themselves criticized by their constituents and outweighed in the negotiations by the representatives of big business. One CANACINTRA leader confirmed that although the negotiations were officially open to all, there were numerous complaints from small and medium-sized businesspeople who felt excluded (Interview).

CANACINTRA and similar organizations have long been denounced by their constituents for serving more as corporatist mechanisms for government control of business than as effective representatives of business interests to the government. Many of NAFTA's potential private sector opponents were channeled into and through these organizations, where their dissent could be controlled and muffled (Shadlen 1997). Even led by bright and capable people, as they usually were, these groups' ability to represent effectively the broad interests of their entire constituencies was inherently limited by the sheer number and scope of the firms and sectors represented.

COECE officials recognized the limitations of the small, inward-looking business owner not being directly represented in the negotiations. If a small businessperson "wanted protection, he probably was not well represented. If he wanted access to U.S. markets, he was well represented" (Interview, COECE official). And as one SECOFI officially reluctantly acknowledged, there was a tendency for some small firms "not to have been as well represented as would have been desirable" (Interview).

Lack of current information was a frequent complaint among these various actors. Several businesspeople not directly involved in the negotiations complained early on about lack of access to updated information on the negotiations and on COECE itself (*El Economista* 1991b). Leaders of CANACINTRA questioned COECE leadership and frequently demanded greater information on the negotiations. Leaders of CANACINTRA's dissident offshoot National Association of Manufacturing Industries (ANIT) were more strident. In March 1992, ANIT vice president Francisco Hernández asserted that the negotiations were "not proceeding as the negotiators and some industrialists say they are" (*El Financiero* 1992). Luna (1992) notes, "the president of ANIT declared that micro, small and medium-sized businesspeople had not been taken into account, seeing that information only circulated among the representatives of the large businesses that were participating in the peak structures of COECE" (16–17).

The Post-1994 Crisis

Thus the NAFTA negotiations consolidated and formalized a powerful policymaking coalition between a small number of outward-oriented big business elites and Mexican government technocrats. This coalition had begun to form during the 1987 Economic Solidarity Pact negotiations, but it remained a limited partnership that yielded relatively modest economic returns until the NAFTA negotiations in the early 1990s.

As the decade continued, this new relationship and the investor confidence it inspired began to bear fruit. Mexico's sluggish growth rate began to pick up as inflation continued to fall. But the coalition also made the government dependent on volatile sources of portfolio investment capital and helped destabilize the country's political system. This economic volatility and political instability, in turn, contributed to the outbreak and severity of the currency crisis that erupted in December 1994.

The consolidation of the coalition paid economic dividends, at least in the short term. Private investment increased to its highest post-1970 levels, peaking at 16.3 percent of GDP in 1992 before leveling off around 16 percent in 1993 and 1994 (see figure 1).[15] As private investment rose, large amounts of new capital, especially of foreign origin following the 1989 liberalization of foreign investment, flowed into the economy. Overall, net annual foreign investment flows into Mexico increased more than fivefold between 1989 and 1993 (see table 1). The sharpest increase occurred between 1990 and 1991, when annual flows more than tripled as Mexico announced its intentions to enter NAFTA and negotiations began. The lion's share of these increases came from portfolio investment flows in the stock and money markets, the annual total flows of which increased by more than 3,500 percent between 1989, the first year they were permitted, and 1993, when they accounted for more than 80 percent of all foreign investment flows into Mexico. Mexican government documents and interviews with government officials confirm the government's intention to use NAFTA to entice greater levels of investment (Thacker 1996).

Three particular aspects of NAFTA helped serve this purpose. First, NAFTA's international commitment helped to bolster investor confidence by giving greater credibility and permanence to Mexico's reforms (Rodrik 1989, 1991). Second, it provided preferential, guaranteed access to the world's largest single export market for investors to exploit. Third, the voice given to the largest firms in Mexico during the negotiations helped shape an agreement more amenable to their interests and gave them greater confidence in the government's willingness to heed their preferences. Along with the rest of Mexico's reform program, including Brady Plan debt reduction and the privatization program carried out in the late 1980s and early 1990s, NAFTA helped restore Mexico's creditworthiness to both foreign and domestic investors, whose capital helped finance moderate levels of growth with low levels of inflation. From 1991 to 1994, real GDP increased by an average of 3.57 percent per year, while consumer prices rose by an average of 11.45 percent. By 1994, real growth had reached 4.56 percent with just 7.05 percent inflation (see table 2).

NAFTA itself played little or no role in the peso crisis, except perhaps that by boosting investor confidence and capital inflows, it allowed Mexico to sustain its current account deficit longer and delay and intensify the

Table 1. Foreign Investment Flows into Mexico, 1989–1997
(in US$ millions)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	Change 1989–93[a] (%)
Total	3,669	4,628	14,500	17,323	22,511	12,831	-3,814	12,894	16,278	514
Direct	3,176	2,633	4,761	4,393	4,389	10,973	9,526	9,185	12,477	38
Portfolio	493	1,994	9,738	12,930	18,122	1,858	-13,340	3,708	3,800	3,576
Stock market	493	1,994	6,332	4,783	10,717	4,084	519	2,801	3,215	2,074
Money market	—	—	3,406	8,147	7,406	-2,225	-13,860	907	585	117

Note: Figures derived from balance of payments data.
[a]The figure for money market investment measures the increase from 1991 to 1993.
Source: Banco de México (n.d.)

Table 2. Growth and Inflation in Mexico, 1991–1997

	1991	1992	1993	1994	1995	1996	1997	Average 1991–94
Real GDP growth	4.22	3.70	1.78	4.56	-6.49	5.45	7.21	3.57
Real per capita GDP growth	2.28	1.80	-0.06	2.71	-8.10	3.67	5.43	1.68
Inflation	18.79	11.94	8.01	7.05	51.97	27.70	15.72	11.45

Source: Author's calculations using GDP data from IDB (n.d.) and price data from Banco de México (n.d.).

eventual devaluation (Weintraub 1997, chap. 4; Dropsy 1995). The neoliberal coalition, however, played an important role in the events that led to the crisis. Many members of the new big business-state alliance were also involved in the financial speculation activities associated with portfolio capital inflows. While firms in the traded goods sector (both exporting and import-competing) would be expected to oppose the appreciation of the peso that resulted from capital inflows (Frieden 1997), many of these firms saw the inflation reduction of the early 1990s as a worthwhile tradeoff for the competitive pressures they experienced as a result of trade opening and real currency appreciation.[16] In addition, many of these firms were either directly or indirectly connected to the financial sector, and they benefited from the government's exchange rate policies.

COECE itself ceded great influence to the financial sector. Furthermore, many of Mexico's largest industrial concerns, which were also very active during the negotiations, were grouped with financial institutions in encompassing multisectoral business conglomerates. Even greater numbers of firms were interrelated through a system of interlocking boards of directors, in which the number of individuals who actually controlled the largest firms in Mexico was quite small (Garrido 1992). These same investors brought much of the capital that financed Mexico's low-inflation growth in the early 1990s. The political process of trade reform within the overall neoliberal development strategy thus complemented Mexico's opening to international capital markets after 1989.

These new capital flows were quite useful both economically and politically, but they were also extremely risky. They provided a lubricant to the economic and political system by facilitating economic growth, financing consumption and a growing current account deficit, and supporting the value of the peso to help control inflation. Along with revenues derived from the privatization of state-owned enterprises, these inflows enabled the government to undertake additional social spending programs, such as the National Solidarity Program (PRONASOL), which helped maintain social peace and sustain PRI electoral hegemony by directing development resources to needy and politically challenging regions (Lusztig 1996; Dresser 1997, 1991; Kaufman and Trejo 1997). By late 1993 these developments, along with the general optimism surrounding Mexico's imminent participation in NAFTA, gave many observers the impression that Mexico was leaving its economic instability behind and preparing to join the ranks of the First World.

The roots of the Mexican peso crisis lie in the real overvaluation of the peso, unsustainable current account deficits, excessive reliance on inflows of portfolio capital (particularly through the dollar-indexed treasury bonds, or *Tesobonos*), and a series of destabilizing political shocks that sparked capital outflows in 1994. On the economic front, several disquieting trends lurked behind the strong basic macroeconomic indicators that resulted from Mexico's adoption of the Washington Consensus. The same capital inflows that fostered growth and anchored inflation also helped raise the real value of the peso. The use of "sound money" policies (such as a pegged exchange rate to control inflation) made exports less competitive and imports cheaper and combined with Mexico's turn to "free markets" (for example, liberalization of imports) to lead to growing current account deficits, which exceeded 7 percent of GDP in 1993 and 1994 (Edwards 1995, 297).

In addition, aggregate growth was actually quite modest compared to the amount of capital flowing into the country (Ramírez 1996). Between 1991 and 1993 alone, Mexico received more than $54 billion in foreign investment, but portfolio investment in the stock and money markets accounted for three-fourths of this amount (see table 1). This speculative investment did less to increase Mexico's productive capacity and to create new employment for the country's young, growing workforce than would be expected given the high total levels of capital flows. Taking Mexico's average annual population growth rate of nearly 2 percent into account yields an average annual per capita GDP gain of just 1.68 percent from 1991 to 1994 (see table 2).

The fruits of this limited growth, furthermore, were unevenly distributed, despite the Salinas administration's attempts to alleviate poverty through PRONASOL. Income distribution had been worsening since the 1980s (Barkin 1990; Cypher 1990; Ramírez 1995); this trend continued during the NAFTA years. The Gini coefficient, a standard measure of income inequality that ranges from perfect equality at zero to perfect inequality at 1.0, increased for Mexico from 0.46 in 1984 to 0.49 in 1989 and finally to 0.51 in 1994. The proportion of total income earned by the top 10 percent of households increased from 34.26 percent in 1984 to 38.97 percent in 1989 and to 41.24 percent in 1994 (Pastor and Wise 1997, 425).

Combined with slow per capita growth, inequality brought hardship for the poorest segments of society at a time when the country was supposed to be recovering from the debt crisis, negotiating its formal entrance into the North American economy, and preparing to join the Organization for Economic Cooperation and Development. From 1989 to 1992, the real monetary income of the lowest decile in Mexican society fell by an average of 2.6 percent per year, while that of the highest decile grew by an average of 3.3 percent annually (Pastor and Wise 1997, 426).

Events in 1994 exposed the fragility of the economic and political bases on which the new alliance between big business and the state rested. Groups that had traditionally been at the center of power but were losing their privileged positions, as well as those at the margin who felt pushed to the edge by neoliberal development policies, lashed out at the system that threatened their political, economic, or physical survival. These groups blamed neoliberalism and its political bases for their plight. Economic dislocation, ethnic tensions, and dissatisfaction with PRI rule all contributed to the January 1, 1994, Chiapas uprising led by the Zapatista National Liberation Army (EZLN). Other revolutionary groups, such as the Popular Revolutionary Army (EPR), followed the Zapatistas' lead and began to carry out violent attacks across Mexico in 1994. Kidnappings of prominent businesspeople and their families grew more frequent, and the volume of illegal drug trafficking through Mexico increased, as did the accusations and evidence of individual government officials' complicity in the drug trade.

The political backlash against the concentration of power in the PRI had an even greater impact. The assassination of PRI presidential candidate Luis Donaldo Colosio in March 1994 and of PRI secretary general José Francisco Ruiz Massieu in September, and the subsequent arrest (and eventual conviction) of President Salinas's brother, Raúl, for masterminding the latter, shook the very foundations of the postrevolutionary political system. Several prominent PRI politicians at the local level began to defect to the leftist opposition, strengthening the Democratic Revolutionary Party (PRD) going into the 1997 midterm congressional and local elections. The PRI, the party that had ruled Mexico for 65 years, threatened to implode, and the fabric of the alliance that had brought the country economic recovery began to unravel.

Investors began to withdraw their capital, while the government struggled to maintain its coalition with big business in a critical election year. The Colosio assassination was the biggest blow to investor confidence, and it triggered rapid capital flight. The government responded by issuing the dollar-indexed *Tesobonos*, which provided investors with exchange rate protection. The central bank was also forced to spend nearly all its international reserves over the course of 1994 to avoid a painful devaluation of the peso (Springer and Molina 1995).

The new administration of Ernesto Zedillo announced the currency devaluation on December 20, 1994. Two days later, the government let the peso float in international currency markets, where it eventually lost more than half its value before stabilizing. The implicit bargain between the government and the controllers of the volatile speculative financial assets collapsed. Investors withdrew $13.3 billion in portfolio foreign investment in 1995, including $13.9 billion from the money market, counterbalanced by a $519 million net inflow into the stock market (see table 1). Private investment fell to just under 14 percent of a rapidly shrinking GDP (see figure 1). The coalition seemed to be falling apart.

The Fallout, Economic and Political

The NAFTA negotiations consolidated a strong coalition between free trade government policymakers and market-oriented big business elites. This coalition established control over a wide range of economic policy issues associated with the neoliberal development model. The coalition's formal consultation mechanism, COECE, and its parent organization, the CCE, along with the processes and content of the NAFTA negotiations themselves, granted large, internationally oriented firms great influence in the business community and preferential access to government officials. These mechanisms and negotiations also lent greater permanence and credibility to the economic reform process. The mutual trust and investor confidence they inspired helped stabilize the Mexican economy and restore moderate levels of low-inflation growth.

The construction of this new coalition also represented a new political strategy, in which the government replaced its previous alliance with import-competing, state-dependent firms. The new coalition enabled the PRI regime to survive mounting electoral challenges from opposition parties. Despite its short-term success, however, the model proved politically unviable by late 1994. The neoliberal coalition contributed to the economic causes of the peso crisis by encouraging a pegged exchange rate to control inflation and promoting the inflow of speculative, short-term capital. The coalition also influenced the political antecedents of the crisis, as marginalized social actors and political elites began to protest the government's reform strategies. These political disruptions exacerbated the macroeconomic imbalances already present to bring the fragile economic situation crashing down. The Mexican economy would recover relatively quickly, but partly as a result of the crisis, the political system would undergo a more permanent change.

In 1995 the economy contracted by 6.49 percent, and inflation increased to nearly 52 percent (see table 2). Interest rates soared, and the floating peso continued to sink. But by 1996, buoyed by strong exports and a lending package sponsored by the United States, the International Monetary Fund, and the Bank for International Settlements, the economy began to recover, with real growth rates of 5.5 percent in 1996 and 7.2

percent in 1997. The peso stabilized, new capital returned, and inflation tapered off, falling to 27.7 percent in 1996 and 15.7 percent in 1997.

Investors reacted positively to the government's March 1995 policy response. Rather than turn back from austerity, stabilization, and neoliberalism, the Zedillo administration deepened earlier reforms, cut spending, and raised interest rates (Edwards 1995). These initiatives helped repair some of the damage to the neoliberal policy coalition. After 1995, foreign investment returned, totaling $12.9 billion in 1996 and $16.3 billion in 1997 (table 1). By January 1997, investors had purchased enough new government bonds to enable the government to retire, three years ahead of schedule, the remainder of the $12.5 billion it had borrowed from the United States.

It was encouraging that most of the new investment came in the form of direct, as opposed to portfolio, investment. Direct foreign investment accounted for more than 70 percent of total foreign investment in 1996 and 1997. This new investment helped fuel the economic growth that Mexico has experienced since 1996. By 1998, however, new warning signs had appeared. Financial crises in Asia, Russia, and, most recently, Brazil put pressure on the Mexican currency, pushing the peso down below 10 to the dollar by late 1998, after it had remained fairly stable between 7.5 and 8 throughout 1996 and 1997 (Banco de México n.d.). At the same time, Mexico's current account balance deteriorated fairly rapidly in 1997 and 1998. In 1997, Mexico ran a current account deficit of $7.45 billion, or 1.85 percent of GDP (IDB, n.d.). In 1998, the current account deficit reached $15.79 billion, 3.78 percent of GDP (Banco de México n.d.; INEGI n.d.). While these deficits have not yet reached the dangerous levels of 1993 and 1994, the similarities between these macroeconomic trends and those of the early part of the decade, and the likelihood that markets will now react earlier and more quickly to large Mexican deficits, sound a cautionary note.

The neoliberal coalition was less successful politically. The middle class and popular sectors joined peasants and the urban poor in protesting the government's handling of the peso crisis. A consumers' debtor group, El Barzón, attracted a broad following when it protested the high interest rates that made credit card, mortgage, and bank loan repayment impossible for many Mexicans. Economically threatened and politically ineffectual after their isolation from the governing and policymaking coalitions in the 1980s and 1990s, many small and medium-sized business owners supported the PRD, contributing to its strong showing in 1997 (Shadlen 1998).

In the 1997 midterm elections, the PRI suffered its first major setback at the national level, losing its absolute majority in the Chamber of Deputies; it also lost the first election ever for mayor of Mexico City to the PRD's Cuauhtémoc Cárdenas. These PRI defeats took place at the same time the Mexican economy was growing by more than 7 percent, with inflation below 20 percent (see table 2). Despite the economic recovery and the resurgence of the business-state coalition in economic policymaking, the neoliberal political strategy of maintaining PRI hegemony no longer seemed viable.

The most challenging test for Mexico will come in the presidential elections of the year 2000. Barring an internal party split, the PRI candidate will be favored to win the presidency once again; but the new president will probably face a more contentious congress, which will curb executive power. This will complicate the coalition-building process. In order to govern effectively, the PRI will need to establish legislative coalitions in Congress in addition to its more traditional political coalitions with key social actors (such as business). The business community likewise will need to learn to operate successfully in this new environment by establishing a set of more fluid, issue-based congressional coalitions with sympathetic legislators to complement its historical relationship with the executive branch. The success of this endeavor and the strength, identity, and character of these coalitions will go a long way toward determining the health and stability of Mexico's economy and the nature of its transition to democracy.

NOTES

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1. The focus here is principally how winning coalitions were formed rather than the dismantling of losing coalitions. These processes are, of course, two sides of the same coin. Salinas's economic strategy was intertwined with, even dependent on, his political strategy. The detrimental economic effects of neoliberal reform policies on certain groups accentuated their political immobilization. Many of these actors, including small and medium-sized business and labor organizations, had previously been part of the PRI's governing coalition (see Lusztig 1996; Dresser 1997; Ramírez 1995). Other scholars have successfully traced the declining influence of labor and other social groups within the PRI and the policymaking bureaucracy (Davis 1992; Teichman 1996; Samstad and Collier 1995) and the political marginalization of small and medium-sized business (Shadlen 1997). This institutional exclusion helps answer the important question of how opposition was undercut, but it does less to clarify how support was created. The growing recognition of the critical role played by business in a market-oriented capitalist economy suggests that this void in the literature needs to be filled (see Przeworski and Wallerstein 1988; Lindblom 1982; Winters 1996). The empirical analysis in this paper therefore places greater emphasis on the role of big business than that of other social actors.

2. See, e.g., Story 1982; Mares 1985; and Helms 1985 for useful treatments of Mexico's aborted 1979–80 entrance into the General Agreement on Tariffs and Trade (GATT).

3. Edwards 1995, chap. 5, provides a useful comparison of the Mexican case to those of other Latin American countries. An alternative explanation might posit that external forces, such as pressures from foreign indebtedness, oil price shocks, the International Monetary Fund (IMF), the World Bank, and the United States, simply overwhelmed domestic resistance to reform. While international factors were clearly important in the Mexican case, the focus here is on the domestic transformations that made reform possible in a context of international forces that favored free trade. In any case, recourse to domestic-level factors is necessary to explain why Mexico moved faster and farther than international actors like the IMF and the World Bank were demanding. Thacker 1996 explores the international dimension more fully.

4. The use of the term *neoliberalism* itself highlights the inherently poltical nature of these reform initiatives. Neoliberalism differs from its classical liberal predecessor in assigning a central role to the state in creating the political conditions that foster the emergence of a competitive, productive free-market economy (see Nylen 1992, 261; Green 1995, 244).

5. These trade policy episodes have received extensive coverage in the literature and are not recounted in detail here. Among others, see Thacker 1996; Heredia 1994; and Cronin 1994 for such treatments.

6. A debate persists among economists regarding the relative benefits of free trade policies. Traditional economic theory suggests that trade opening provides significant efficiency gains that lead to higher rates of growth (Krueger 1995, chap. 1), while other theories suggest that such gains, while most likely to be positive, are small (Krugman 1995). Rodrik 1995 suggests that such reforms may be more important for their positive impact on investor confidence and capital flows than for their efficiency improvements.

7. Drawing on Schneider and Maxfield's discussion of previous treatments of the concept (1997, 12–16), this study defines trust as the degree of an actor's confidence that another actor will behave in a manner that benefits the first actor.

8. Although the literature on NAFTA is extensive, the coverage of the negotiations and agreement from the Mexican perspective is more limited. For useful introductions, see Bulmer-Thomas et al. 1994; Grayson 1995; Villers 1996; and von Bertrab 1997.

9. Active participants in the negotiations included, among many others, the automakers Chrysler, Ford, General Motors, Volkswagen, and Nissan, along with Cydsa, Celanese, Telmex, Grupo Alfa, and Televisa.

10. According to one COECE official close to the negotiations, the side room first was used in October 1991 in Ottawa, where the private sector representatives congregated in the lobby of the hotel where the negotiations were taking place to conduct impromptu meetings among themselves and with the Mexican government negotiators (Interview).

11. Note that this point does not directly address the actual outcome of the negotiations, which, of course, also depended on the U.S. and Canadian positions and the dynamics of the sessions themselves. In this sense, the NAFTA negotiations are a good example of Putnam's (1988) "two-level game": the Mexican government

negotiated simultaneously on the domestic level with COECE and on the international level with the United States and Canada.

12. For a consideration of the relationship between firm size and trade policy preferences, see Thacker 1997.

13. This is not meant to imply that no one from the business community sought protection during the negotiations. On the contrary, many attempted to use NAFTA's various instruments, including long tariff-reduction phase-in periods, strict rules of origin, norms, and safeguards, to shield themselves from NAFTA's potential impact. The point is that all of this was done in the context of NAFTA, with the general understanding that trade between the three countries would be freed.

14. Collective action problems also favor the largest firms and groups. They are much more likely to be able to overcome the free rider problem because they are fewer in number and, given the frequently oligopolistic nature of their markets, it is often in their narrow interest to participate regardless of what others do. For the thousands of small and medium-sized firms, however, the incentive to "free ride" on the efforts of others usually outweighs the potential marginal benefits of participating. See Olson 1971, 1982. See Maxfield and Schneider 1997, especially the chapters by Schneider and Maxfield, Haggard et al., Shafer, Schneider, and Evans, for applications of the collective action problem to business in the developing countries.

15. Private investment averaged 12.7 percent of GDP from 1970 to 1979 and never exceeded 13.5 percent in the 1970s (see Glen and Sumlinski n.d.). The IFC does not publish these data before 1970.

16. In this sense, the free trade coalition and the neoliberal coalition might be expected to splinter around the question of exchange rate policy. But the successful coupling of trade and stabilization policy after the 1987 PSE helped keep free trade on the overall neoliberal policy agenda (Pastor and Wise 1994).

Interviews

Much of the research for this project was conducted through a series of interviews with Mexican government and business leaders, academics, and others from fall 1993 to fall 1994. The following list includes those cited in this article (for the full list, see Thacker 1994). The author is grateful to all who agreed to be interviewed. In the interest of confidentiality, interviews are cited in general terms.

SECOFI
Eric Alvarez
Carlos Arriola Woog
Luis Bravo Aguilera
Aslán Cohen
Enrique Espinosa
Manuel Fernández Pérez
Jesús María Flores Ayala
Israel Gutiérrez
Humberto Jasso
Fernando de Mateo

José Parra
Ruperto Patiño Manffer
Norma Ramírez Hinojosa
Eduardo Ramos Avalos
Raúl Ramos Tercero
Adriaan Ten Kate
Jaime Zabludovsky Kuper
Javier Zarco

CANACINTRA
Armando Ruiz Galindo Urquidi
Carlos Sauceda Alvarez

CONCAMIN National Federation of Chambers of Industry
Gilberto Vázquez Ahedo

COECE
Rodolfo Cruz Miramontes
Guillermo Güémez García
Luis Muñozcano Alvarez
Raúl Ortega Ibarra
Jacobo Zaidenweber

Mexican Association of the Automotive Industry (AMIA)
Fausto Cuevas
César Flores

Mexican Business Council for International Affairs (CEMAI)
Laura Pangtay

National Association of Importers and Exporters (ANIERM)
Humberto Simoneen Ardila

National Association of the Chemical Industry (ANIQ)
Leopoldo Rodríguez Sánchez

National Chamber of the Apparel Industry (CANIVE)
Miguel Lozada S.
Jorge Marín
Víctor Miklos

National Chamber of the Textile Industry (CANAINTEX)
César López Avila

Bancrecer
Celso Garrido

Celanese Mexicana
Tomás Rodríguez Weber

Chrysler de México
Claudio Mayoral

Ford de México
Juan Antonio Salazar

General Motors de México
Carlos Gelista

Grupo Cydsa
Manuel Campusano

Macro Asesoría Económica (Serfín Financial Group)
Jorge Máttar Márquez

Nissan de México
Gerardo López Valadez

Volkswagen de México
Armando Carrillo

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