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## A REVIEW OF 150 YEARS OF U.S.-MEXICAN RELATIONS

### INTRODUCTION

From its earliest days as a fledgling republic, Mexico has struggled to maintain independence from its huge northern neighbor. Relations between the United States and Mexico, more often than not, have been tense or unfriendly rather than cooperative, and in fact, in the mid-19th century led to a war in which Mexico lost half its territory. The "anti-Yanqui" feelings engendered in Mexico by this war have never fully faded. U.S. diplomatic and military intervention in Mexico in the early 20th century and Mexico's subsequent expropriation of U.S. holdings and nationalization of U.S. petroleum interests have only deepened mutual distrust and misunderstanding.

By the 1930s, Mexican nationalism had become inextricably linked with hostility to the U.S. Populist Mexican presidents, such as Lazaro Cardenas in the 1930s and his 1970s ideological successors Luis Echeverria and Jose Lopez Portillo, burnished their nationalist credentials with anti-American rhetoric and actions. Cardenas moved directly and seized U.S. oil companies; Echeverria and Portillo acted through their "anti-imperialist" foreign policies, which directly and indirectly undercut U.S. foreign policy initiatives, particularly in Central America.

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This is the ninth in a series of Heritage studies on Mexico. It was preceded by *Backgrounder* No. 638, "Evolution of Mexican Foreign Policy" (March 11, 1988); *Backgrounder* No. 611, "Privatization in Mexico: Robust Rhetoric, Anemic Reality" (October 22, 1987); *Backgrounder* No. 595, "Keys to Understanding Mexico: The PAN's Growth as a Real Opposition" (July 29, 1987); *Backgrounder* No. 588, "Deju Vu of Policy Failure: The New \$14 Billion Mexican Debt Bailout" (June 25, 1987); *Backgrounder* No. 583, "For Mexico's Ailing Economy, Time Runs Short" (June 4, 1987); *Backgrounder* No. 581, "Mexico's Many Faces" (May 19, 1987); *Backgrounder* No. 575, "Mexico: The Key Players" (April 4, 1987); and *Backgrounder* No. 573, "Keys to Understanding Mexico: Challenges to the Ruling PRI" (April 7, 1987). Future papers will examine other aspects of Mexican policy and development.

Future cooperation between the two republics will remain difficult as new and serious problems arise — Mexico's \$107 billion foreign debt (two-thirds of it owed to U.S. banks) and the growth of drug trafficking from Mexico. U.S. efforts to impose conditions and sanctions to pressure Mexico on both of these issues have stiffened Mexico's ingrained resistance to U.S. pressure and interference.

**Perennial Problem.** Mexico, nonetheless, remains America's third largest trading partner, and the U.S. is Mexico's largest foreign market. Despite this strong economic link, and a shared 1,987-mile border, the two countries remain culturally and politically distant. These differences — in history, political systems, religious culture, traditions — have proved difficult for both sides to overcome. Failure to understand Mexico and the limits of U.S. influence in Mexico has been a perennial problem for Washington. Devising policies that enhance rather than limit areas for cooperation between neighbors will challenge the next U.S. president.

While Mexico in the past few years has attempted to open its economy, reduce barriers to foreign investment, and consider immigration issues, the Mexican presidential election of July 1988 has cast a shadow over these promising developments. Carlos Salinas de Gortari, who will take his oath as Mexican president on December 1, 1988, has expressed repeated interest in continuing to liberalize Mexico's economy. But the strong election showing of Cuauhtemoc Cardenas's opposition leftist party, the *Frente Democratico Nacional* (FDN), may force the new government to halt or reverse some economic liberalization. Salinas, moreover, will enter office weakened politically by his poor showing at the polls; by the official count, he received only 50.7 percent of the vote. This will make it even more difficult for him to push his controversial economic agenda.

**Treasury's Dominance.** Recent U.S. policy toward Mexico has been dominated by the Treasury Department's efforts to keep Mexico from defaulting on its interest payments to U.S. banks. As a result, the policies of the U.S. State Department, Commerce Department, and National Security Council have taken a back seat, and U.S. policy goals rank financial and trade issues above disagreement with Mexico over Central America. The Reagan Administration's view has been that cooperation on trade and investment offers the best means for fostering a closer friendship between the two countries.

The challenge for U.S. policy makers will be to find a way to encourage Mexico to continue with the economic reforms needed to promote growth and at the same time help Mexico find ways to reduce the pressures of its \$107 billion debt. To avoid undermining a potentially moderate and friendly Mexican government, the U.S. must be willing to set new priorities beyond Mexico's debt service payments to U.S. banks. The relationship between the U.S. and Mexico can be improved. At a minimum, the Mexican leadership must end its fixation with the past and focus on present realities. And the U.S. must take into account legitimate Mexican sensitivities and elevate Mexican affairs to a higher policy priority.

## **THE POST-INDEPENDENCE PERIOD**

Mexico's separation from Spain and emergence as an independent state by 1821 was viewed with sympathy and interest in Washington. The U.S. had remained neutral during

Mexico's War of Independence against Spain. Once the war ended, the U.S. sought to establish friendly commercial and diplomatic relations.

In 1825 President James Monroe sent Joel R. Poinsett as Minister to Mexico with instructions to establish diplomatic and economic ties. Poinsett's mission in Mexico, however, became highly controversial when he began interfering in Mexico's domestic political developments. In 1823, Augustin Iturbide's monarchist government in Mexico had been overthrown by pro-republican forces, resulting in internal political chaos. This was seen by Poinsett as an opportunity to establish a liberal, secular regime in Mexico. But Poinsett's intrigues and open meddling eventually provoked denunciations from the Mexican legislature. The U.S. government, concerned over reports of Poinsett's activities, recalled him in 1829.

Poinsett's actions created a legacy of suspicion among various Mexican political factions that the U.S. desired to see Mexico weak and politically disorganized. To a great extent, this first mission to Mexico laid the foundations for the troubled diplomatic relationship that eventually brought a war between the two countries.

#### **THE U.S.-MEXICAN WAR (1846-1848) AND ITS AFTERMATH**

As early as 1829 the U.S. had signalled to Mexico its interest in Texas with repeated offers to purchase the territory. At that time, Texas legally was a territory north of the Rio Grande, which had been ceded by Spain to Mexico. These U.S. efforts were emphatically rebuffed by the Mexican government. U.S. settlers in Texas meanwhile sought political independence from Mexico. Their struggle against Mexico culminated in the bloody battle of the Alamo in 1838 after which the Texas settlers declared independence. Although the U.S. promptly recognized Texas, President John Tyler was unable to convince Congress to bring it into the Union.

The election in 1845 of President James K. Polk on a pro-annexation platform led Congress to approve a resolution annexing Texas. Mexico, meanwhile, had not formally ceded its claim to Texas. Aware of its military vulnerability, Mexico began discussing with the U.S. a border agreement that would have ceded Texas north of the Nueces River to the U.S. The U.S. maintained, however, that the Rio Grande, which is around 100 miles south of the Nueces River, was the appropriate U.S.-Mexico boundary. To strengthen the U.S. bargaining position, Polk in early 1846 ordered General Zachary Taylor to protect the Rio Grande border. Mexico considered the crossing of American troops south of the Nueces River an invasion of its territory. Mexican troops, under orders from President Jose Joaquin Herrera to occupy the zone between the Rio Grande and the Nueces, met and attacked Taylor's armies. The U.S. Congress responded by declaring war on May 11, 1846.

**Losing Half of Mexico.** When the war broke out, not all the Mexican states supported their central government; some hoped to gain by the defeat of the government or viewed the conflict as not affecting their interests. After nearly two years of fighting, mostly within Mexican territory, Mexico conceded defeat and signed the Treaty of Guadalupe Hidalgo on February 2, 1848. In this Treaty, the U.S. paid Mexico \$15,000,000 (just over \$2 billion in today's terms) for New Mexico and upper California, and the Rio Grande became its

boundary with Mexico. Thus Mexico in the “war of the North American invasion” lost half its territory — what is now Texas, New Mexico, Arizona, and parts of Colorado, Utah, and California.

This war was a turning point in U.S.-Mexican relations. Not only did Mexico lose territory and at least 50,000 lives (compared to 13,000 U.S. lives), but it lost hope of attaining a position as an equal with the U.S. After 1848, the dominance of the U.S. could no longer be questioned. The war underscored the growing disparity between the two countries in military strength, political unity, and economic development. Henceforward, Mexico’s attitude toward its increasingly powerful neighbor would be colored by a resentment born of both the humiliation of such a thorough defeat and the differences this defeat exposed.

And further, the war with the U.S. unleashed a new round of political struggles in Mexico. After a bloody three-year civil war, the liberal Benito Juarez faction came to power in 1861. The U.S. promptly recognized his government.

**French Intervention.** Confronted with an empty treasury, Juarez suspended payment on overseas debts. France’s Napoleon III used the default as a pretext to land troops and establish Ferdinand Maximilian as emperor of Mexico. Yet Benito Juarez retained control over much of the country.

The U.S. under President Abraham Lincoln deplored Napoleon’s intervention into Mexico but remained neutral. Eventually Juarez surrounded Mexico City and forced Maximilian to surrender in May 1867. The return of Benito Juarez and his republican forces to leadership in Mexico was hailed by the U.S. Many Mexicans, in turn, appreciated the sympathy for Juarez shown by the U.S. government and public.

## THE DAYS OF THE “PORFIRIATO”

Juarez died in 1872 before completing his six-year presidential term. His constitutional successor, Lerdo de Tejada, was overthrown two years later in a *coup d’etat* led by General Porfirio Diaz. Although a harsh dictator, Diaz inaugurated an era of political stability and slow, sustained economic growth (referred to as the “Porfiriato”) that lasted until his overthrow in 1911.

During the Porfiriato, relations between the U.S. and Mexico were friendly. Tensions over the U.S.-Mexican war had faded. There was growing cooperation and good will. Mexico welcomed U.S. investment, and the American government and public had a favorable attitude toward the new Mexican government. During the Porfiriato, successive U.S. administrations responded favorably to Diaz’s open economic policies. The U.S. had embarked on its own program of industrialization and modernization, and for U.S. political leaders, economic opportunities replaced territorial expansion as a goal of their policy toward Mexico.

Attracted by Mexican resources and confident in the new Diaz government, foreign investments poured into Mexico. U.S. investments by 1911 accounted for 38 percent of all foreign investment. This was concentrated mainly in railroad construction and oil and mineral extraction.<sup>1</sup>

**Economic Nationalism.** At the same time, however, an anti-Yanqui economic nationalism took root during the Porfiriato when huge tracts of mineral rich Mexican lands were sold at concessionary prices to U.S. businesses. Making matters worse, the chief beneficiaries of these sales to foreigners often were members of the Diaz regime who helped themselves to large commissions and royalties. Corruption and the selling of resources to American businesses with overly generous concessions thus were issues in the popular revolt against the Diaz administration. The economic nationalism to which it gave birth has been an integral element of Mexico's nationalism since that time. Fears of further U.S. territorial expansion into Mexico were replaced with a growing fear of U.S. domination through economic penetration and control.

By the early 1900s, Porfirio Diaz's administration began to falter under increasing mismanagement, cronyism, and what apparently was Diaz's senility. A popular movement against the regime was led by Francisco Madero. Various uprisings throughout Mexico against the Diaz regime raised U.S. concern for its economic interests in Mexico. Anti-American sentiment had become part of the popular movement against the Diaz regime, which was perceived to have too willingly accommodated foreign, especially North American, interests.

President William Howard Taft, under considerable pressure from a Congress concerned about U.S. citizens and economic interests in Mexico, deployed 100,000 troops along the Texas border at the end of 1910. In general, however, he balked at intervening in Mexico. Still, this U.S. action, together with the growing anarchy in Mexico, forced Diaz to resign in May 1911. When Francisco Madero was subsequently elected president, Taft immediately recognized the new leadership.

## **DAYS OF TURMOIL, 1911-1929**

Madero sought a democratic government and during his not quite two years in power allowed the Mexican Congress to function for its first and only time as an independent force. Madero's efforts to establish a democracy came under assault from other military leaders who perceived him as not revolutionary enough in his policies. The U.S. supported Madero. Thus, when Madero complained that insurrectionists were obtaining arms and munitions across the northern border, Taft imposed an embargo on arms to Mexican insurgents.

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<sup>1</sup> Roger D. Hansen, *The Politics of Mexican Development* (Baltimore: The Johns Hopkins University Press, 1971), p. 17.

## **U.S. Involvement in Madero's Downfall**

Less reluctant for the U.S. to intervene in Mexico was Taft's ambassador to Mexico, Henry Lane Wilson. Much like Poinsett, Wilson remains a controversial figure for Mexicans. He collaborated with General Victoriano Huerta, a leader of one anti-Madero faction, in drawing up a pact calling for a truce, the removal of Madero, and the seating of Huerta as provisional president. Wilson defended his actions as needed to preempt a violent and bloody *coup d'etat* by Huerta's considerable force. After much fighting, Madero was overthrown and murdered in February 1913. The presumed involvement in Madero's death of Huerta and his conspirators implicated Ambassador Wilson and thus became another dark episode in U.S.-Mexican relations.

Huerta's seizure of power was resisted by the other military leaders, General Venustiano Carranza, Francisco (Pancho) Villa, Emiliano Zapata, and General Alvaro Obregon, who each had his own design on the presidency. The ferocity of the various revolutionary bands in their attacks on farmers, wealthy landowners, the Church and the clergy, schools, villages, industries, particularly those foreign-run, alarmed the U.S.

## **Mistakes under Wilson**

A month after Huerta took over the government, Woodrow Wilson became the new U.S. President. He refused to recognize the Huerta regime, asserting it was not constitutional. To pressure Huerta to resign, Wilson lifted the U.S. embargo on arms to Mexico. Greatly supported by a new flow of arms from the U.S. sources, Huerta opponents Pancho Villa and Venustiano Carranza in only six months were able to take control of Mexico's northern provinces and most of the central states. Woodrow Wilson then ordered the U.S. Navy to occupy the vital port of Veracruz. His purpose: to prevent a cargo of German arms from being landed for Huerta's forces. The U.S. Navy also controlled the Veracruz custom house. Thus cut off from badly needed funds and arms, the Huerta government was forced to resign in July 1914.

Wilson mistakenly thought that by getting rid of Huerta he could bring democracy to Mexico. He seriously misunderstood, however, the nature of the struggle and the character of its participants. The Wilson-backed successor to Huerta, General Venustiano Carranza, was not popularly supported. He was also less democratically minded and more ruthless in suppressing political rivals than Huerta had been.

**Highhanded Policies.** Wilson also assumed that the political strife would end once the U.S. recognized the Carranza government. But power struggles continued, while extremism and violence increased. Through his intervention, Wilson ended up furthering the radicalization of the Mexican political struggle. Moreover, Wilson's highhanded policies hardened resentment against the U.S. and failed even to win the loyalty of those forces that Wilson had supported. Harmonious U.S.-Mexican relations ended with the occupation of Veracruz. As the Mexicans viewed it, not only had the U.S. succeeded in gaining a strong economic foothold in the country but it was also seeking to control Mexico's political system. This fostered the anti-U.S. sentiment that became part of the revolutionary nationalism of later political movements in Mexico.

Stable political governments continued to elude Mexico. Carranza was ousted by General Alvaro Obregon in 1920 and assassinated as he fled Mexico City. Obregon, amidst considerable civil strife, remained in power until 1924. Elections were then held, and after vote tampering by Obregon's forces, Plutarco Elias Calles became president.

## **POLITICAL CONSOLIDATION UNDER THE PRI**

In 1929, Calles brought together several factions to form the National Revolutionary Party. This organization, which later became the PRI (Institutional Revolutionary Party), by incorporating various political factions under one political party, brought the revolutionary fighting to an end. Under the PRI's aegis, all successive presidents completed their constitutional six-year terms.

In 1934, Lazaro Cardenas was elected president. He was a populist who melded Mexican nationalism with the proclaimed revolutionary principles of social reform, anti-imperialism, and a socialist economy. His sweeping land reform program and anti-American nationalism led to the widespread expropriation of privately owned farms and ranches in Mexico's northern states. Many of the confiscated farms and ranches were U.S. owned. And the relations between the two countries during the next five years centered on the resolution of U.S. citizen claims against the new revolutionary government.

**Benign Attitude.** The noninterventionist Good Neighbor policy of President Franklin Roosevelt toward Latin America in general signalled a more benign attitude toward political developments in the region. The unwillingness of the Roosevelt government to press U.S. claims against the Mexican government, however, possibly encouraged Cardenas to expropriate U.S. and British petroleum interests in March 1938.

A joint U.S.-Mexican commission finally settled on a value for the properties in 1942 and provided for an award that was to be paid in installments at 3 percent interest.<sup>2</sup> Although the award fell short of U.S. companies' demands, Washington was unwilling to protest the outcome. The settlement of oil company claims, meanwhile, paved the way for cooperation between Mexico and the U.S. during World War II. In fact, the two countries enjoyed their closest economic, political, and military relations during the war period. Mexico supplied manpower and raw materials to the U.S. while the U.S. provided technical know-how, military training, and economic and financial aid to Mexico.

## **1946-1960: A CALM RELATIONSHIP**

The governments that succeeded Cardenas were less statist in their economic approach and in general less antagonistic to U.S. economic interests. The cooperation during the war provided the basis for generally harmonious U.S.-Mexican relations that lasted throughout

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<sup>2</sup> The total award of \$23,995,991 was substantially less than the value of the properties according to an original estimate of a \$200,000,000 value by the companies themselves; the U.S. Department of Commerce in 1938 had listed American direct investments in Mexico's petroleum industry at \$60,000,000.

the 1950s. During this period, Mexico's gross national product grew at an average annual rate of 6 percent, and the nation remained politically stable. Although still overshadowed by the economic and military might of the U.S., Mexico was much more secure and confident in its relations with its northern neighbor. The strengthening of economic ties dominated U.S.-Mexican relations during these decades; this calmed tensions between the two countries.

## **THE U.S. AND MEXICO DURING THE 1960s**

Since the early 1960s, Mexico and the U.S. have disagreed on issues involving the Cold War and Cuba, U.S.-sponsored plans for inter-American defense, and economic development policies. During the Kennedy Administration, in a 1962 meeting of foreign ministers in Punta del Este, Mexico was the only Latin American country to abstain from voting on a resolution calling for the expulsion of Cuba from the Organization of American States and the immediate suspension of the arms trade with that nation. Mexico's stance rested publicly on its traditional absolutist policy of nonintervention in the affairs of other nations. Mexico's unstated motive, however, was and continues to be its desire to avoid appearing to follow the U.S. lead in Western Hemisphere politics. Thus, for example, it refused to endorse President John Kennedy's Alliance for Progress although it shared many Alliance goals, such as regional cooperation to promote economic growth.

Despite its vaunted independence from U.S. foreign policy, Mexico was always careful to refrain from activities that might damage diplomatic or economic relations with the U.S. Although Mexico refused to back the economic and diplomatic embargo against Castro, it did sign an Organization of American States resolution condemning the USSR and Cuba for the placement of Soviet missiles in Cuba and supported the U.S. blockade for their removal. At the same time, Mexico warned the U.S. against any invasion of Cuba. For Mexico, the danger of unchecked U.S. intervention equaled the threat posed by communist aggression. Mexico's independent foreign policy, however, did not jeopardize U.S.-Mexican economic affairs. Both sides were careful to keep the economic issues separate from the international, creating a pattern in U.S.-Mexican relations that continues today.

## **THE SHIFT TOWARD A RADICAL FOREIGN POLICY**

Beginning in the late 1960s, the leaders of the ruling PRI veered left ideologically. While Mexico continued to assert a foreign policy based on traditional principles of nonintervention and self-determination, its interpretation of these principles changed. Where once Mexico's traditional anti-imperialism meant strict neutrality, it now meant active support with diplomatic and economic aid for the "revolutionary" groups and Third World regimes that opposed the U.S.

Mexico's relations with Cuba and Moscow improved markedly during Luis Echeverria's tenure as president (1970-1976) and continued to improve through successive administrations. In 1975 Echeverria visited Havana, the first Mexican president to do so since the Revolution. Mexico also entered into an informal relationship with the Soviet-dominated Council for Mutual Economic Assistance (COMECON) in 1975. The following year, Mos-

cow and Mexico signed an economic, cultural, and technical agreement, which provided for Soviet participation in Mexican mining, metallurgy, electric power, and agricultural development among other things.

In its continuing effort to elevate its international image relative to that of the U.S., Mexico adopted even stronger anti-U.S. rhetoric. It also sought to play a leading role at the United Nations, primarily by supporting radical Third World causes. Mexico joined in Soviet-led efforts to expel Spain and Chile from the U.N. and voted for the controversial 1975 U.N. General Assembly resolution equating Zionism with racism. Mexico voted with the Soviets on key U.N. issues, but still claimed to be merely adhering to traditional Mexican foreign policy doctrines of nonintervention, self-determination, and peace.

**Legitimizing the Sandinistas.** While the administration of Lopez Portillo (1976-1982) tempered Echeverria's strongly pro-Third World foreign policy because of Mexico's growing domestic economic problems, Portillo nevertheless continued to support revolutionary groups in Central America. In May 1979, for example, Mexico broke diplomatic relations with Nicaragua's Somoza government and recognized the Sandinista revolutionaries, thereby lending considerable international legitimacy to the Sandinista movement. That year too, in an effort to win international support for the Sandinistas, the PRI founded the Permanent Conference of Latin American Political Parties (COPPAL), made up of centrist and leftist parties from Latin America.

Lopez Portillo's "progressive" foreign policy also supported the Marxist-Leninist guerrillas in El Salvador, even when other regional governments no longer did so. In 1981, Mexico joined with France to present a declaration before the U.N. Security Council for recognition of the guerrillas as a "representative political force." The resolution was condemned, as intervention in another country's domestic affairs, by almost every other Latin American nation in a subsequent Organization of American States resolution. Despite this, Mexico continued to support the guerrillas and allowed them to maintain political offices in Mexico City. Declared Soviet Ambassador to Mexico Rostislav Sergeiev: Mexico's foreign policy is a "great contribution to peace in the world."<sup>3</sup>

**Undermining U.S. Interests.** The Mexican government of Miguel de la Madrid (1982-1988) eventually recognized El Salvador's democratically elected government and thus eased a major source of irritation between the U.S. and Mexico. Mexico's policy toward the Sandinista regime in Nicaragua, however, has continued to aggravate U.S.-Mexican relations. Mexico, for instance, has taken a dominant role in the so-called Contadora process. This "process," begun in 1983, was created by key Latin American nations to negotiate an end to the conflict in Nicaragua. Mexico's role so far generally has undermined U.S. interests. Mexico has pushed for an agreement the effect of which would have been to dismantle support for anti-Marxist forces and leave the Sandinistas in power. The Contadora draft treaties supported by Mexico included no provisions to ensure that democracy in Nicaragua would receive a fair chance, that Nicaragua would halt its offensive arms buildup, or that Nicaragua would abide by the treaty. Mexico's efforts to draft a treaty for a negotiated solution failed to receive the support of the Central American democracies; only Nicaragua was willing to sign the final draft document in 1987.

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3 *Notimex* (Mexico City), September 16, 1982.

U.S. efforts to support the Nicaraguan democratic resistance and strengthen ties with Costa Rica, El Salvador, Guatemala, and Honduras have been condemned repeatedly by Mexico as U.S. interventionism and militarism. Following his visit to Havana in July 1987, Mexican Foreign Minister Bernardo Sepulveda stated that U.S. support for the Nicaraguan Democratic Resistance constituted the greatest obstacle to a diplomatic settlement.<sup>4</sup>

## **THE DEBT ISSUE AND U.S.-MEXICAN RELATIONS**

During the 1970s, Mexico's restrictions on foreign investment and arbitrary government confiscations of private property dampened U.S. investor confidence and interest in Mexico. The Echeverria government began to borrow heavily from U.S. banks to finance its new statist economic model and to cover a growing government deficit.

By the time Lopez Portillo came to power in 1976 the Mexican economy faced the first of a series of crises. The U.S. Federal Reserve Board stepped in with an emergency \$800 million credit in 1982 to bolster confidence in the Mexican peso and stem a rapid capital flight. Lopez Portillo then accepted a \$1.5 billion credit from the International Monetary Fund (IMF) in exchange for Mexican promises to impose an austerity program that would check government spending and reduce imports.

**From Boom to Bust.** When new Mexican oil reserves were discovered in 1978, all controls on government spending were dropped, and extensive borrowing from banks abroad, which had been suspended after 1976, was resumed. When the oil boom went bust with the fall in world oil prices in 1981, Mexico faced soaring inflation, a rapidly depreciating peso, and an \$80 billion foreign debt that it could not pay. Mexican Finance Minister Jesus Silva Herzog again turned to the U.S. Treasury and the IMF for help. U.S. involvement in Mexico's financial troubles was almost inevitable since, by 1982, the top thirteen U.S. banks were owed \$16.5 billion or 48 percent of their capital by Mexico. To save the banks from collapse, the U.S. that year put together a \$2 billion rescue package of commodity credits; and this together with a \$3.9 billion IMF credit enabled Silva Herzog to negotiate an agreement with Mexico's private creditors for the suspension of all principal payments on its debts.

Since 1982, U.S. policy toward Mexico has thus been dominated by the U.S. Treasury's efforts to keep Mexico from defaulting on its interest payments to U.S. banks. The debt crisis policy of the U.S. Treasury has provided the rationale from which flow the Mexico policies of the State Department, the U.S. Trade Representative's Office, the Commerce Department, and the National Security Council. The latest action by the U.S. Treasury is approval this month of a \$3.5 billion bridge loan to enable Mexico to keep current on its interest payments to its foreign creditors.

**Stifling Economic Growth.** U.S. policies thus far have failed to restore Mexico's financial health, however. This has been caused in part by U.S. backing of International Monetary Fund (IMF) austerity programs, which have stifled economic growth with burdensome im-

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4 *FBIS*, Latin America, July 28, 1987.

port restrictions and high taxes. Nor has then U.S. Treasury Secretary James Baker's 1985 approach, which tied \$14 billion in new U.S. loans to a plan to promote economic growth through structural changes in the economy, reversed Mexico's economic decline — its economic growth is expected to reach only 1 percent this year.

## **CURRENT U.S.-MEXICAN RELATIONS**

To deal with both Mexico's debt problem and conflicts over foreign policy initiatives in Central America, the U.S. has adopted a two-track approach that separates economic relations from foreign policy disputes. This has allowed the U.S. and Mexico to negotiate repeated debt rescheduling and a debt reduction plan and work toward a framework for a bilateral trade and investment agreement while pursuing conflicting policies in Central America. Most recently, the U.S. was instrumental in putting together a debt reduction plan for Mexico. The plan was created by the Morgan Guaranty Bank and involved the trading of Mexico's public debt by foreign banks for Mexican treasury securities, which were backed by U.S. Treasury zero coupon bonds. U.S. and other foreign banks, however, have been reluctant to participate because the U.S. will not guarantee interest rates as well as principal on bonds purchased.

Mexico and the U.S. also have been working in the past two years on establishing a general framework through which trade and investment issues can be negotiated. The "framework" is composed of three sections: a statement of principles, a consultative mechanism, and an "immediate action" agenda. The statement of principles outlines such goals of the "framework" as improvement of the mechanisms and procedures to allow freer flow of trade and investment between the two countries.

**Resisting Free Trade.** The consultative mechanism calls for discussions to be held on any trade and investment issue within 30 days of a request by either party. The immediate action agenda calls for talks on six sectoral issues: textiles, agricultural products, steel products, electronic products, foreign investment, and intellectual property. Free trade benefits have so far been limited to these sectors; a more comprehensive free trade agreement is resisted by Mexico, which fears that the U.S., because of its greater economic strength, would benefit more than Mexico. Talks have already been held on a number of these issues, and eventual agreements are expected to be negotiated with the Mexicans.

These important financial and economic developments have had little impact on the U.S. and Mexican disagreement concerning Central America. Incoming Mexican President Salinas de Gortari has played down Mexico's anti-U.S. rhetoric while affirming Mexico's "activist" foreign policy. Despite his moderate tone, however, Salinas is likely to continue to oppose U.S. involvement in Central America as a way of conciliating his left-wing critics and deflecting their attacks from his domestic economic programs.

## **IMMIGRATION AND DRUG TRAFFICKING**

In recent years, relations between the two countries have been strained by immigration and drug-trafficking issues. The U.S. has been irritated by the Mexican government's lack of

cooperation in controlling the increasing number of Mexicans who enter the U.S. illegally. Last year, Congress passed legislation that imposes economic sanctions against employers who knowingly hire illegal aliens. The Mexican government generally has criticized the law, citing the potential for violating the civil rights of Mexicans who live in the U.S. By demonstrating that the U.S. is determined to confront this problem, the law has produced greater incentives for the Mexican government to treat the issue seriously. A Mexican counterpart to the U.S. congressional commission created to study immigration problems has been formed, and a joint U.S.-Mexican research program on immigration began in 1988.

**Attracting Mexicans Northward.** Related to the immigration issue is the growth of a *maquiladora* industry that now employs 200,000 workers. *Maquiladoras* are foreign-owned industries in Mexico that assemble and export products using imported parts. These industries, located just inside the Mexican border, have attracted millions of Mexicans northward. Many workers, especially men, who cannot find jobs tend to drift further north across the border into the U.S., exacerbating U.S. efforts to stem the flow of illegals. Thus while both Mexico and the U.S. benefit economically from the growth of *maquiladora* industries, the two countries eventually have to deal with the social, family, and immigration problems created by it. Concern is raised increasingly by the Mexicans about the effects of the *maquiladoras* on the Mexican family because the jobs they offer go primarily to women.

The drug issue has been less easily confronted. The increased flow of narcotics into the U.S. from Mexico led the Senate this April to pass a resolution condemning Mexico's lack of cooperation in curbing illegal trafficking. Mexico called the Senate's action interference in its internal affairs. Mexico also has repeatedly asserted that responsibility rests with the U.S. as well for its failure to stem consumer demand for drugs.

The drug issue resists easy solutions. It is complicated by Mexican resistance to U.S. pressures, as well as internal political difficulties faced by the Mexican government. Mexican drug trafficking is part of the larger problem of Mexican corruption among police and local government officials. On the U.S. side, there is the difficulty of combating the demand and the ease with which narcotics enter U.S. territory.

## **MEXICO, MOSCOW, AND THE U.S.**

The U.S. has interests throughout the world; at the same time, Mexico seeks a more active role internationally. This reality shapes relations between the two countries. Despite Mexico's anti-American stance in the international arena, it has been cautious until now in its bilateral relations with the Soviets out of concern for its economic relations with the U.S. With the U.S. pursuing greater economic and cultural links with the USSR, however, Mexico might be able to expand its own economic ties with the Soviets without jeopardizing important bilateral trade agreements with the U.S.<sup>5</sup>

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<sup>5</sup> On April 27, for example, Mexico signed an agreement with the Soviet Union for economic, commercial, and scientific-technological cooperation.

Although economic ties between the Soviets and Mexico are slight compared with Mexico's large volume of trade with the U.S., Mexican political developments may offer Moscow greater opportunities to improve its foothold in the Western Hemisphere. Mexico's foreign policy dovetails with that of the Soviets on approaches to disarmament, peace, and support for national liberation movements. Mexico has been an important ally in defending the Sandinistas against the U.S.

Following the July 6, 1988, Mexican presidential election and the new prominence of the Left in Mexican politics, the Soviets can at least count on the continuation of Mexico's current left-oriented foreign policy. Domestic policy also may be pushed by the Left in a direction favorable to Moscow as the Soviets seek to strengthen and amplify their economic and cultural links with Mexico. In particular, the Soviets have shown an increasing interest in joint ventures with Latin American governments as a means of establishing a presence in the region. These ventures, which are government to government, are favored by the Left in Mexico, which sees them as improving ties to the East bloc and as a means of undercutting the private sector and increasing the role of the state over the economy. The Soviets and Mexico are currently negotiating joint ventures in the steel and chemical industries.<sup>6</sup>

## CONCLUSION

Linked by a long and permeable border, the U.S. and Mexico are separated by language, culture, political systems, and a disparity in wealth and population. These differences have led to conflicts and misunderstandings. U.S. interference in Mexico's affairs since it became an independent republic, its war against Mexico, and the annexation of half its territory have left indelible wounds in the Mexican psyche. At other times, of course, the U.S. has achieved amicable and cooperative relations with Mexico. But more often than not, overcoming Mexico's natural mistrust of U.S. intentions has been difficult.

**Promising Signs.** In the recent era of the "revolutionary Left" in Mexico, the differences between the two neighbors has widened. Politically, they are more disparate than ever. Mexico's complex and closed one-party system and the corruption it tolerates are difficult for the U.S. public and U.S. policy makers to understand and accept. Mexico's heavily statist economic orientation and bias against private U.S. investment make it harder for the U.S. to establish productive economic ties. There have, however, been some promising signs for U.S.-Mexican relations in the stated willingness of the Mexican government and the new PRI President Carlos Salinas de Gortari to reform Mexico's economy and reduce restrictions on direct investments and trade.

The inevitably close relationship between the U.S. and Mexico makes the development of a pragmatic policy essential. The U.S. must not again allow its obvious interests in Mexico to lead it to interference in Mexico's internal affairs. At the same time, the two countries must pursue new avenues for mutual cooperation. Patience and perseverance rather than rhetoric arising from frustration will be required in coming years if the U.S. is to help

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6 *FBIS, Latin America, October 13, 1987, p.7.*

**Mexico overcome its current political and economic crisis and establish a relationship that serves the interests of both countries.**

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