PUBLIC PAIN

The wholesale privatization of state entities, as a centerpiece of World Bank-promoted structural adjustment polices, has become a worldwide phenomenon over the past 15 years. Nowhere in the South has this process been more dramatic than in Mexico, where efforts to sell off major parts of the once sacrosanct petrochemical industry to foreign interests have recently made front-page news.

BankCheck's **Steve Hellinger** *discusses privatization in Mexico and the controversy it has generated with* **Rocío Mejía**, *a macroeconomist and trade expert active with Mexican grassroots organizations. In December, Mejía completed a year's tenure in Washington, DC as a Visiting Research Associate at the NGO, Center of Concern.*

PRIVATE GAIN

Mexico Struggles with Privatization

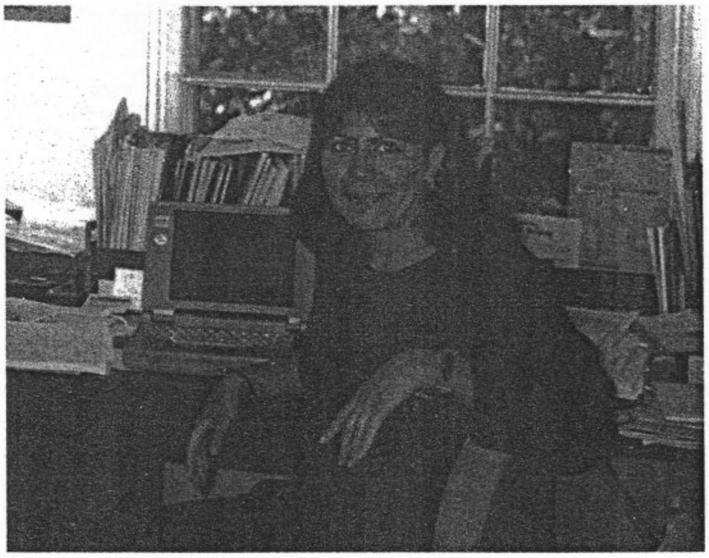
BC: What is behind the recent public uproar over the government's endeavor to privatize Mexico's petrochemical sector?

RM: North American, European and Japanese companies have long wanted to possess Mexico's rich oil resources and industries. This is particularly true of Shell, Texaco and the powerful chemical industry. But sovereignty over petroleum resources is of great historical and political significance in Mexico and is protected by our Constitution. Even the ruling PRI protested the government's proposal to privatize the petrochemical sector at the party's national assembly in September. A combination of nationalist sentiment and desires to maintain control over an important economic and political base led surprisingly to a unanimous determination by the party not to permit the advance of privatization of these sectors.

This led President Zedillo's Energy Minister to propose a compromise: the industry's eight "basic" products would remain entirely in the hands of Pemex, while 49 percent (up from 30 percent) of each of the 60 plants producing the industry's 13 "secondary" products would be sold – for an estimated $1.1 billion. Foreign investors would have the same rights and obligations as domestic firms and would also be allowed 100 percent ownership of any new plants established in the secondary petrochemical subsector. The Mexican Congress quickly adopted this legislation in October and in November designated JP Morgan to be the financial agent to place the shares on the stock exchange. Shares should be on sale by the new year and are likely to be bought up by foreign firms such as Dow Chemical, Basf, Du Pont and Bayer, as well as the major oil companies. In some cases, there may be joint ventures with Mexican firms. As a result of this measure, Mexico is effectively losing control of one of its most strategic sectors, the products of which supply more than 45 manufacturing industries in the country.

BC: What about oil and gas?
RM: In November 1995, the Mexican government published natural-gas regulations and opened the sector to national and foreign private investment for the first time since 1938. Foreign investment is permitted, up to 100 percent, in the transportation, storage and distribution of natural gas and up to 49 percent in the construction of pipelines and drilling wells for oil and gas. The extraction, refining, distribution and sale of oil remain in the hands of Pemex. But, given the external pressures, I anticipate that within the next few years Zedillo, with the support of a PRI-controlled Congress, will liberalize at least oil distribution and sales, allowing up to 49 percent private and foreign ownership.

BC: Privatization of the petrochemical industry has been a headline grabber, but privatization *per se* is far from new in Mexico. What are its origins, and how pervasive is it at this point?
RM: The process started in 1982



after the emergence of the debt crisis. Mexico signed its first Letter of Intent that year with the IMF, which offered the dollars to back up the external debt. Mexico, for its part, promised to implement a structural adjustment program with privatization at its core, as has been the case in dozens of countries around the world.

To put this into context we have to go back to 1936, when President Lazaro Cardenas nationalized the oil industry and created Pemex, which has employed as many as 180,000 workers. The government subsequently created other companies in the petrochemical, telecommunications, electricity, mass-media and other fields. The PRI, the party that has ruled Mexico for nearly 70 years, did this to exert economic control, create employment, create positions for their friends and maintain control over the basic resources defined as the "patrimony of the nation". In December 1982, the public sector controlled 1,155 enterprises; by July 1996, as a result of privatization, only some 252 companies remained in state hands.

BC: What have been the economic and social effects of privatization? More particularly, what impact has it had on the distribution of wealth?
RM: Generally speaking, privatization has not had any positive impact on the creation of new jobs, on wages or on improving prices for consumers. In fact, the dismantling of public enterprises in Mexico has meant the lay-off of thousands of workers, the constraint of labor rights and the weakening of trade unions. Meanwhile, the number of billionaires in Mexico has proliferated, in good part through the privatization process, which has also provided many opportunities for illicit enrichment by government officials. There is an excessive concentration of wealth generally and great disparities in income among economic sectors and regions. Furthermore, privatization and other "structural reforms" in Mexico have increased the problems of financial instability because they are destroying the productive capacity needed for sustained and balanced growth.

We also have to explode the myth that the private sector functions more efficiently than the public sector. Almost six years after the privatization of Telmex, for example, consumers have found no improvement in the quality or cost of their telephone service. Only in its international long-distance service has Telmex reduced its rates – to prepare for the competition from foreign enterprises starting in January 1997 – but they have compensated for this reduction by increasing the national long-distance rates and the costs of other services.

BC: We have heard a great deal about the crisis in Mexico's privatized banking system since the collapse of the peso two years ago. What went wrong?
RM: This is the best example of the grossly inefficient way in which the Mexican government has privatized state holdings. President Lopez Portillo nationalized the banking system, ostensibly as a populist act, in 1982, but in reality his objective was to rescue the banks from bankruptcy during the depths of Mexico's foreign-debt crisis. The government paid huge sums to the banks' former owners, covered their debts and rescued the banking system, only so that ten years later the banks would wind up back in the hands of those bankers – many of whom by then owned brokerage houses – and large industrial groups.

By July 1992, the government

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had divested itself of the country's 18 commercial banks, generating nearly $12.1 billion. To date, the entire banking system has remained in private hands, national and international. Since the banking system fell into crisis in 1994-95 with the crash of the peso and the economy and the inability of borrowers to repay their loans at exorbitantly high variable interest rates, the government has so far spent and allocated, by conservative measure, some $28 billion to bail out the banks. Absurdly, the resources that the government has dedicated to this rescue are already greater than the total value of overdue loans and more than twelve percent of the GDP. This amount is greater that the government's annual expenditures on education, health, anti-poverty and social programs combined. Furthermore, the World Bank has contributed another $2 billion, which the Bank has diverted from social and environmental programs in Mexico.

BC: To what extent have foreign investors benefited from the Mexican privatization program?
RM: Foreign investors have taken control of the majority of sectors that they entered. Without domestic savings, Mexican firms lack the capital to compete, and they face a disadvantage vis-a-vis foreign investors, who have greater access to credit and to financing in dollars and at lower interest rates. Thus, they are usually the only entities in a position to buy public assets, the value of which are fixed in dollars. They either purchase them outright or, where necessary, through mergers or joint ventures with domestic companies.

BC: What has been the role of the international financial institutions in the privatization process in recent years?
RM: The peso-devaluation crisis of December 1994 gave the U.S. government a wonderful new opportunity to pressure the Mexican government, via the US Treasury and the IMF, to open strategic sectors to private investors and to foreign investors, even beyond what was accomplished through NAFTA. This is particularly true in the areas of petrochemicals, gas, telecommunications, non-bank financial services, electricity, railways, ports and airports. The World Bank has recently made large loans in a number of these areas, and another member of the Bank group, the International Finance Corporation, anticipates increasing its financing in Mexico from 10 to 14 projects per year for a total of about $1 billion in investments over FY 1997-99.

The Bank is also "helping" the Mexican government reform the legal and regulatory framework for privatization and to eliminate constraints in specific sectors. In addition, it is interested in "aiding" in the sale process through auctions and concessions. The Bank has already facilitated the payment of millions of dollars by the Mexican government to foreign firms for the study and valuation of public enterprises and for managing and directing the process of bidding.

BC: Are there other important actions we should be watching?
RM: Perhaps the most dramatic privatization has been in the Mexican pension system, where newly passed legislation related to NAFTA now enables US and Canadian financial institutions to own equity in the institution administering private Mexican pension funds.

In late November, Zedillo sent a bill to the Senate that would further deregulate foreign investment, allowing up to 49 percent participation in, for example, banking, brokerage houses and other financial institutions, and 100 percent ownership of railroads and construction firms.

To accelerate the privatization process, the government is reforming the Constitution to allow private capital in public enterprise and seeking changes in more than 30 articles of the foreign-investment law to eliminate or reduce government regulations and bureaucratic red tape.

BC: What has been the reaction of Mexicans to these measures?
RM: There have been a lot of protests and demonstrations by unions, peasant groups and debtors' organizations among others, but the government continues to move forward without consulting civil society. Only in those occasional cases in which the conservative party, the PAN, has objected have the Constitutional and regulatory reforms proposed by the government been rejected by Congress. There is widespread concern that this model, based on opening the economy and privatization, is increasing poverty and enriching only a few.

BC: Are there certain industries and sectors in Mexico that, in your opinion, should or should not be privatized?
RM: The question is not which sectors, but rather how to make the government accountable and how to democratize the privatization process. We need an industrial policy that enables us to rebuild links among industries and between sectors and to strengthen the productive apparatus. The privatization of some public enterprises should be oriented to supplying Mexican companies with raw materials and parts and components so as to reverse the current increase in imports. We have to deal with the current phenomenon whereby only sectors dominated by transnational corporations and importing almost 80 percent of their value are benefiting from new technologies. This is causing a denationalization of the economy and a delinking within and between its industrial and agricultural sectors.

We in Mexico need to suspend the privatization process until we can ensure that future privatizations are supported by a national consensus and are effectively controlled and monitored by Congress. Meanwhile, we have to redefine the role of the state and public enterprises in our development process. ■