ELUSIVE ALLIANCES: LOCAL GOVERNMENTS, TRANSNATIONAL CAPITAL, AND REGIONAL DEVELOPMENT IN POST-REFORM MEXICO

by
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Abstract

This dissertation seeks to explain the economic performance of Mexican states during and after the implementation of political and economic reforms by the central government beginning in the 1980s. Existing studies have addressed this question through statistical and econometric analysis that identify proximate growth determinants. By contrast, I focus on how distinct state-level institutions for managing relations among government, business, and labor emerged out of Mexico’s market reforms, democratization, and policy decentralization. These divergent institutions reflected differences in the pre-existing organization of social groups, in particular organized business. Through a paired comparison of two states in central Mexico, Puebla and Querétaro, I show how the active participation of large, modernizing national and transnational manufacturing firms in Querétaro’s local business associations beginning in the 1960s imbued local business with a developmentalist orientation. In Puebla, the lack of incorporation of large firms meant that local business associations continued to be dominated by an insular local business elite with a strong, conservative political identity. Faced with these differences, local politicians pursued divergent strategies in response to reforms at the national level. Governors in Querétaro constructed institutions for cooperation with organized business and labor, which included regular, economy-wide policy coordination; the inclusion of technocratic business leaders in top posts in the state bureaucracy; and informal norms of conciliation and compromise. In Puebla, by contrast, successive governors opted for cooptation and conflict with organized business, which they viewed as a political rival rather than potential developmental partner. Attempts at economy-wide coordination routinely fell victim to partisan fighting, and governments in Puebla prioritized firm- and sector-specific development policies—in particular with Volkswagen, the state’s dominant firm. These institutional differences largely explain the marked divergence in economic performance of the two states after 1985. While Querétaro achieved sustained fast growth, structural transformation, and upgrading over the course of more than two decades, Puebla’s
economy was characterized by volatile growth, the absence of upgrading, and the continued dominance of the automotive cluster surrounding Volkswagen.

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I. Chapter 1: Introduction

Like many developing countries, Mexico underwent dual economic and political transitions in the late 20th century. The legacy of these changes remains the subject of debate, but one outcome is uncontroversial: their impact has been uneven across Mexico’s thirty-two federal entities. On the economic front, the trade liberalization initiated during the 1980s and consolidated with the signing of NAFTA in 1993 increased the gap between Mexico’s richest and poorest states (Esquivel 1999; Rodriguez-Pos 2002, Chiquiar 2005; Esquivel et al 2005; Rodriguez-Oreggia 2007). In the political realm, some states became pioneers of democratization as early as the 1980s, while others have remained authoritarian enclaves well into the 21st century (Giraudy 2010; Gibson 2012). This confluence of territorial imbalances in the effects of economic and political reform—and the potential interactions between them—is the underlying motivation of this dissertation. Its goal is to explain how variation in local political institutions affected the economic performance of Mexican states in the context of market reforms and democratization. I will argue that sub-national political elites adopted new strategies vis-à-vis local business associations and labor federations in response to economic and political changes at the national level. These strategies led to the emergence of distinct sub-national institutions for managing relations among government, business, and labor. It is the core proposition of this dissertation that the resulting institutional divergence explains sub-national economic outcomes in post-reform Mexico.

Surprisingly, there has been little scholarship directly addressing the political and institutional causes of sub-national economic divergence in Mexico. Existing work on this question generally falls into one of two categories. First, econometric studies have identified the determinants of key economic outcomes such as income per capita or foreign direct investment (FDI) among states in the post-liberalization period. These papers generally highlight the importance of factors such as human capital and physical infrastructure (among others) in regional
economic performance. In reaching these conclusions, the authors either implicitly or explicitly acknowledge the role of local political institutions, which help determine the quality and quantity of growth-enhancing public goods such as education and infrastructure. However, their methodological approach does not allow for a thorough examination of how such institutions function or which ones matter most for economic outcomes.

The second category of existing work does address the question of how political institutions affect local governments’ provision of growth-enhancing public goods. These arguments emphasize the importance of fiscal and electoral accountability. In theory, governments that depend on raising their own tax revenues should provide higher-quality goods and services, which are expected to increase growth (Carreaga and Weingast 2003). Electoral competition, similarly, has the potential to improve the economic performance of local governments (and in turn economic outcomes) through greater accountability and policy contestation. However, the particular features of Mexico’s sub-national political institutions cast doubt on the relevance of these “thin” institutional explanations. First, a legacy of strong centralization in Mexico (Díaz-Cayeros, 2006) has left state governments highly dependent on federal transfers for their revenue, undermining the fiscal accountability mechanism. In addition, studies of the impact of political competition on local government performance in Mexico have failed to provide evidence for the electoral accountability effect (Cleary 2007). Other authors have identified how features of the subnational institutional environment such as the weakness of checks on executive power and the frequency of party switching, in which a candidate who fails to secure his or her party’s nomination defects to a rival,

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2 For example, Esquivel et al (2005) highlight the importance of policy-amenable factors such as education and communications infrastructure as well as the role of political and social instability in explaining the poor performance of Southern states after trade liberalization.

3 According to data from the Mexican Institute for Competitiveness (IMCO), on average state’s own revenue accounted for only 8 percent of total income in 2014.
weaken the connection between electoral competition as such and better outcomes (Beer 2003, Gutiérrez 2013).

It is therefore reasonable to look to other aspects of states’ political and institutional settings to understand how institutions shape sub-national economic outcomes. Here, cross-national studies of the institutional determinants of developmental success offer helpful guidance. On the one hand, the developmental state literature highlights the importance of professional, empowered, and autonomous bureaucracies, in implementing coherent, sustained economic strategies (Johnson 1982; Evans 1995). Rather than succumbing to capture by capitalists, these bureaucracies engage in productive consultation and information exchange with the private sector that facilitates policy implementation (Evans 1995; Doner et al 2005). Motivated by such accounts, scholars have also paid renewed attention to the role of the organized private sector as a developmentalist actor. This work has amended the view of business as universally rent-seeking and explored the conditions under which the organized private sector will pursue overall welfare rather than sector-specific interests (Maxfield and Schneider 1997). Finally, the varieties of capitalism literature brings together several of these insights in a holistic view of how relations among firms, public officials, and labor leaders shape economic outcomes. Authors in this tradition emphasize how the rules and norms governing interactions between factors of production and the state—formal and informal institutions—create distinct incentives for these actors which, in turn affect levels of production, investment, and employment (Hall and Soskice 2001).

Broadly speaking, the relationship among the state, the private sector, and labor—as well as the organization of these actors—have been identified as key institutional determinants of sustained economic growth and transformation of national economies. Why should the same not be true at the subnational level? In this dissertation, I apply this thick institutionalist lens to the

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4 These specific examples from Mexico reflect a much larger literature that finds the relationship between democracy and development to be ambiguous and highly contingent (see Bardhan 2016).
5 In fact, there are several reasons to believe that the salutary dynamics of the proto-typical development state will be more difficult to establish in a subnational context. Some of these are not central to the core argument of this dissertation and therefore will be explored in a concluding section; others, such as the weak incentives for economically important
question of economic divergence among Mexico’s states in the context of market reforms. In particular, I focus on the cases of Puebla and Querétaro, two states whose political institutions have differed considerably in their ability to foster economic growth, structural transformation, and upgrading during and after economic reforms, despite starting from similar levels of socioeconomic and industrial development. In so doing, I draw on key insights from the literatures on the developmental state, business politics, and varieties of capitalism. However, the analysis is rooted in the specific context of Mexico’s far-reaching economic and political reforms that began in the mid-1980s and culminated with the presidential transition of 2000. The next section discusses this context, focusing on how the confluence of market reforms, political liberalization, and decentralization changed the parameters of local authorities’ interactions with the private sector. The following sections then lay out the core argument advanced in the dissertation and discuss methodology, data sources, and the relevance and contributions of the research.

a. Context: the breakdown of corporatist state-society relations in Mexico

For most of the 20th century, the Institutional Revolutionary Party (PRI) ruled Mexico as a hegemonic single party. This political dominance was constructed upon an implicit bargain with Mexican capitalists. The private sector would be excluded from the ruling party’s corporatist structure and therefore mostly refrained from overt political activity or direct participation in government. In return, the state would guarantee favorable conditions for the accumulation of capital by controlling labor through officially-sanctioned unions and adhering to orthodox macroeconomic policies that kept inflation low and the exchange rate stable. This recipe worked well for the better part of three decades, buoyed by a favorable international context. Business held up its end of the bargain by largely abstaining from politics.

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6 In fact, some industrialists advocated for business to be incorporated as a fourth official PRI sector alongside workers, peasants, and bureaucrats (Schneider 2004).
This *modus operandi* between the public and private sector began to unravel in the 1970s during the presidency of Luis Echeverría (1970-1976), who broke with the macroeconomic orthodoxy of the prior two decades and brought to the presidency a populist policy agenda and rhetoric that alarmed business people. Among the president’s inner circle were members of the left wing of the PRI who believed the party had abandoned its revolutionary heritage by embracing capitalism too wholeheartedly. Business leaders began to openly express their concern over the free-spending economic policies of the Echeverría administration, who ramped up public expenditures, expanded state-owned enterprises (SOE), expropriated private property, encouraged independent unions, and borrowed heavily—especially after the 1973 oil shock sent a flood of petro-dollars into Mexico. In response to these perceived threats, Mexico’s leading industrialists also invested in political organization. The Mexican Council of Businessmen (CMHN), a group of a dozen or so elite businessmen formed in 1962, created an umbrella business chamber in 1975, the Coordinating Business Council (CCE), which would become the most powerful representative of private sector interests over the ensuing decades. While the CMHN remained a highly exclusive group that stayed out of the public eye, the CCE, with financial support from the CMHN, developed a robust organizational infrastructure with dozens of full-time staff, research capabilities, and an outreach arm to disseminate the group’s views (Schneider 2004).

Upon succeeding Echeverría, President José López Portillo (1976-1982), initially sought to placate the private sector by reestablishing conservative fiscal and monetary policies and instituting tentative market reforms. He abruptly changed course, however, after a vast offshore oil discovery in 1976 and the second oil price shock three years later swelled public coffers. In a classic petroleum boom, López Portillo spent lavishly on public infrastructure and social programs (with

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7 In this view, the orthodox and pro-capitalist approach of the party’s previous presidents was responsible for growing social tensions in the 1960s that culminated in the 1968 Tlatelolco massacre of student protestors, in which Echeverría ironically played a key role as secretary of government.

8 Foreign borrowing doubled between 1974 and 1976, and the Echeverría government had to accept an IMF rescue package in its final year (Bazdresch and Levy, 1991).

9 The group was initially called the Mexican Council of Public Relations.
a good deal diverted to corruption), causing total foreign debt to double in two years (Bazdresch and Levy 1991). Most of this debt was contracted via short-term loans with foreign commercial banks under variable interest rates. When the global oil market weakened and US interest rates increased in 1981, these expansionary policies became unsustainable, resulting in capital flight and dwindling reserves. López Portillo was forced to nationalize Mexico’s banks and default on its external debt before leaving office in 1982.

The ignominious end of the López Portillo presidency, especially the bank nationalization, marked a breaking point in the PRI’s relationship with the private sector. Fully aware of the risk that populist governments could pose to their interests, business would no longer be content as a spectator in the political arena. Incoming president Miguel de la Madrid (1982-1988) also understood that regaining the confidence of the private sector and securing its cooperation were key to surmounting Mexico’s economic crisis. The president courted the CCE in particular, giving the organization a major role in negotiating the economic pacts that became the main strategy to tame inflation and revive the economy in the second half of de la Madrid’s term. The CCE provided an important mechanism to ensure firms’ compliance with the price, wage, and tax agreements established in the pacts. The De la Madrid years thus witnessed an unprecedented level of business participation in economic policymaking for post-Revolutionary Mexico. The influence of the private sector persisted through the sexenio of Carlos Salinas de Gotari, who oversaw the NAFTA negotiations with the United States and Canada. The CCE, with the endorsement of the government, created the Coordinator of Foreign Trade Business Associations (COECE), which advised Mexican trade negotiators on the details of the agreement. Meanwhile, the elite members of the CMHN lunched in private every month with a top economic policymaker throughout this period (Schneider 2004).

At the same time as they gained direct access to top policymakers, business leaders also sought to advance their interests through participation in the increasingly competitive electoral process. The center-right National Action Party (PAN) was the natural political outlet for many
business people looking to win elected office, although the private sector also increased its participation in the PRI during this period (Rodríguez and Ward 1995).

These new dynamics in the relationship between government and private sector also played out at the local level. In fact, the political fallout of the state-business rupture was more immediately felt in state and municipal elections. Beginning in the early 1980s, business candidates played a leading role in the PAN’s challenge to PRI dominance, winning unprecedented victories in the major municipalities of Ciudad Juárez and Chihuahua in 1983. For politically ambitious business people, local politics offered a viable path to power. At the national level, the government could appease the business community by giving elite capitalists high-level access to policy makers, helping postpone a national-level transition for another decade and a half. State governments, by contrast, became vulnerable politically on several fronts: the national party increasingly accepted opposition victories at lower levels of government, just when a newly mobilized private sector infused the PAN with new supporters (and financing). Compared to their national counterparts, moreover, governors control fewer and less important policy levers to entice the private sector to engage in negotiation and dialogue as opposed to electoral competition.

Faced with political threats from business, sub-national PRI politicians did not stand idly by. Incumbent governors had several options at their disposal to respond to a newly mobilized private sector. First, governors could attempt to coopt business leaders via particularistic benefits, thus neutralizing their political threat but also undermining the potential for constructive policy dialogue. They could also opt for open confrontation with the private sector, bringing the punitive power of the state to bear on firms and business organizations that challenged the PRI. This approach could temporarily short-circuit budding opposition but risked exacerbating political

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10 The party’s 1988 presidential candidate, for example, Manuel Clouthier, came from a family of wealthy industrialist and had previously been president of the Confederación Patronal de Mexico (Coparmex), the leading business owners’ association.
polarization in the long term. Finally, governors could choose to cooperate, giving private sector actors influence over policy decisions via informal or formal channels.

The choice of strategy depended to some extent on the personal style of the governor. Certain PRI governors were inherently more authoritarian and less tolerant of dissent; others took a more conciliatory approach and were disposed to entertain alternative views, even as they worked to preserve the party’s hegemonic status. However, governors’ responses were also shaped by the characteristics of the business sector. In particular, to the extent that the organized private sector was united and had a developmentalist mentality, it offered a more viable and credible counterpart for productive collaboration with the government in support of development goals. By contrast, where private sector organizations were overtly partisan or sought subsidies for particular firms or sectors, strategies of cooptation or confrontation proved more feasible and potentially beneficial for the government. On one hand, an overtly partisan private sector would be less likely to be satisfied with a gradual opening of space to participate in decision-making. On the other hand, private sector organizations motivated by extracting rents made easier targets for government cooptation.

Of course, these characterizations of the public and private sector are something akin to ideal-types. In reality, no private sector organization can be described as entirely rent-seeking or unequivocally committed to development; nor do governments choose among three distinct options in their frequent and complex interactions with the private sector. Governments can combine strategies, especially cooptation and confrontation, choosing different approaches for different private sector groups. It stands to reason, however, that a more united private sector will be costlier for a government to disarm politically or buy off via the provision of subsidies. At the same time, a unified private sector, organized in strong, cross-sector encompassing organizations, is more likely to harbor developmentalist objectives that prioritize overall welfare above special interests.\footnote{This theoretical expectation is derived from Olson’s seminal \textit{The Logic of Collective Action} (1965) and applied to business organizations in Durand and Silva (1998). See chapter 2 for a review of the literature on business politics.}
In this way, one can think of two alternative complementary and mutually reinforcing equilibria in public-private relations: the first, between a unified, developmentally-oriented private sector and a collaborative government that opens spaces for negotiation, dialogue, and participation in policy-making processes; and the second, between a divided private sector with rent-seeking objectives and government strategies of cooptation and confrontation—often employed in conjunction with each other.

b. The argument: explaining regional economic divergence

The core argument of this dissertation is that institutions for managing relations among state governments, the organized private sector, and labor largely explain the economic performance of states during and after democratization and market reforms in Mexico. In advancing this argument, I focus on the experiences of two states, Puebla and Querétaro, which developed sharply different modes of interaction among state government, business, and labor. Both states are located in the central region of the country with capitals less than 200 kilometers from Mexico City, and both were therefore exposed to similar economic, policy, and demographic forces. In the second half of the 20th century, Mexico experienced a decentralization of industry, which had traditionally been highly concentrated in the metropolitan area around Mexico City and regional hubs such as Monterrey and Guadalajara. Beginning in the 1960s, a wave of industrialization arrived in the mid-sized cities surrounding the capital, where firms could avoid the congestion costs and high land prices of Mexico City but still enjoy proximity to the country’s biggest market. These firms—representing industries such as steel, industrial machinery, automobiles, and chemicals—also took advantage of federal policy incentives to deconcentrate industry beginning in the early 1970s (Rodríguez 1997). In the case of Puebla, the arrival of the Volkswagen auto plant in 1964 was a major watershed, as the firm quickly became the dominant economic force in the state and attracted auto parts providers and metal-mechanic firms to supply its operations. The two states thus underwent similar processes of economic transformation between 1960 and 1980 in which firms in technologically advanced manufacturing industries, replaced traditional local sectors as
the main sources of growth. In both cases, this process was driven almost entirely by external investors—either multinational corporations (MNCs) or large domestic business groups based in other states.

In addition, Puebla and Querétaro had similar levels of economic development and social structures circa 1980. The states’ per capita income ranked between the 30th and 40th percentile nationally, and they had comparable levels of physical and human capital. On the political front, both Puebla and Querétaro stood out as solidly PRI states during this period: the party’s vote share in presidential elections never fell below 80 percent between 1917 and 1970, whereas PRI vote shares between 60 and 70 percent were not uncommon in places such as Aguascalientes, Baja California, Chihuahua, Sonora, and the Federal District (Wilkie 1971).

By the end of the 20th century, however, the states’ economies had diverged markedly. Querétaro experienced two decades of consistently fast growth—all the more remarkable considering the numerous national economic shocks of this period. This growth was accompanied by consistent structural transformation towards technologically frontier industries and upgrading to higher value-added activities and greater productivity. By the early 2000s, the state’s policymakers were laying the groundwork for an aerospace sector that became the state’s key driver of growth in the second decade of the 21st century. The economy of Puebla, by contrast, stagnated in the 1980s and continued to perform poorly for much of the subsequent decade. While trends at the national level—the 1982 debt crisis precipitated a decade of zero growth—certainly contributed to this outcome, Puebla failed to rebound with the rest of the country at the end of the decade. Moreover, its economic structure remained highly concentrated, with auto assembly accounting for over 26 percent of GDP by 2008. By contrast, the top 4 industries in Querétaro in that year made up only 25 percent of the state’s total product.

12 The income per capita data come from INEGI’s Sistema de Cuentas Nacionales (1980); according to INEGI data reported in Chiquiar (2005), the average years of schooling in 1985 were 4.95 in Querétaro and 4.65 in Puebla while the telephony coverage per 100 inhabitants was 6.37 and 6.29, respectively. Chapter 2 presents the justification for this paired comparison in greater detail.
What explains this divergence? The economics literature cited above would point to the two states’ endowments of basic growth drivers such as human capital and infrastructure. And it is certainly true that over the same period, Querétaro experienced a steady improvement in the quality of its workforce, while also upgrading its physical infrastructure, in particular industry-specific infrastructure such as industrial parks. However, the simultaneous nature of these changes make causation difficult to establish. Strong growth certainly attracted highly-skilled workers to the state and also facilitated investments in infrastructure. Moreover, regardless of the direction of causality, identifying factors such as education and infrastructure simply begs the question of how these public goods are produced to begin with. Understanding this process requires looking into the underlying institutions and actors involved in local policymaking.

Another difference between the two states that could plausibly account for their divergent performances is political competition. Puebla remained a PRI stronghold for a decade after Mexico’s presidential transition in 2000, with its governors continuing many of the party’s longstanding authoritarian practices to maintain control of the state (Giraudy 2010; Rebolledo 2012). When the PAN finally won the governorship in 2010, it did so with a long-time priista who had held prominent positions in PRI governments and only left the party after failing to secure a nomination for the Senate. By contrast, Querétaro has been one of the most politically competitive states in Mexico by many measures. The PAN won an early victory in 1997, and the state has experienced two subsequent gubernatorial transitions.

As discussed above, there are several theoretical reasons why political competition might lead to faster growth. However, this explanation is unconvincing in the present case. This

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13 The case of industrial parks is illustrative in this regard. In order to attract private investment and contractors to an industrial park project—something that is almost always necessary given limited public resources—investors need to be confident that the state’s economy will grow strongly enough to attract firms to locate in the park. It is therefore very difficult to build high-quality industrial parks without an initial growth impetus.

14 First, when the threat of being voted out of office is real, we might expect leaders to devote more attention to growth-enhancing public goods. Secondly, having a diversity of political parties can increase policy contestation, with competing proposals for public policy and the result that the best technical solutions will emerge victorious. Finally, there is potentially a signaling effect, whereby investors view a political transition in a state as a sign of political maturity, and therefore inspires confidence in potential investors (Garriga and Phillips 2015).
dissertation shows how the critical changes in governance that underpinned the economic boom in Querétaro emerged as early as 1980, well before electoral competition took hold in the state. Moreover, even when the PAN won office in 1997, the party maintained the institutions of economic management inherited from prior PRI governments. The most common interpretation of the PAN victory is rejection of the national level PRI after the economic crisis of 1994-5, especially among the large middle-class in the state, many of whom had immigrated to Querétaro during the economic boom of the preceding decade. The most likely story is therefore that economic change led to political change, not the other way around.

What then caused the economic change? My explanation points to the nature of institutions underlying the relationship among government, business, and labor at the local level. In Querétaro, local elites constructed institutions of cooperation that consisted of regular, economy-wide coordination; direct participation of business leaders in top government posts; and norms of conciliation and compromise. By contrast, in Puebla government-business relations were characterized by cooptation and conflict, which undermined attempts at economy-wide coordination and encouraged individualized interactions between policymakers and leading firms.

These distinct institutions emerged out of governors’ responses to the unraveling of Mexico’s post-Revolutionary political settlement beginning in the late 1970s. This breakdown, as described above, led to the political activation of local business associations but also had the effect of emboldening unions to push more aggressively for worker demands. As a result, the 1970s saw a deterioration in labor relations, as the ascendant left-wing elements within the PRI, often supported by President Echeverría, backed more radical labor action, and business increasingly opposed the government. The economic crisis of the 1980s meant workers saw living standards worsen while their representatives among the official labor leadership proved increasingly impotent in the face of the rapid dismantling of protectionist policies that had ensured their economic security. At the same time that ties binding labor and capital to the party were weakening, the PRI began to withdraw its electoral guarantee from state governors. While refusing to yield the reins of
power at the national level, the party increasingly accepted opposition victories in states and municipalities over the course of the 1980s, culminating in the country’s first gubernatorial transition in Baja California in 1989. State governors thus faced a complex political situation. While still under pressure to maintain PRI control of their states, they could no longer count on a loyal private sector or acquiescent labor movement.

Faced with these new political dynamics, governors in Puebla and Querétaro chose starkly different strategies. In Querétaro, governor Rafael Camacho Guzmán (1979-1985) resolved the problem of rising labor-capital conflict by creating institutions that facilitated cooperation among government, business, and labor elites. The private sector, organized in encompassing business associations such as Canacintra, Coparmex, and Canaco, gained a seat at the negotiating table through the Tripartite Commission, a body that also included labor unions and government ministers and served initially as a forum to resolve labor issues. The function of the monthly meetings eventually expanded to include discussion of a range of economic policy issues from taxation to strategies to promote the state to outside investors. The consultative body had an immediate impact in the pacification of labor relations, leading to agreements to limit the influence of outside unions, which were seen as a destabilizing force, in return for firms’ commitment to invest more in worker training.

The Commission would continue to serve as a forum for public-private consultation over the ensuing two-and-a-half decades. The resolution of problems facing firms through regular dialogue with the government and labor was a key factor in maintaining favorable investment conditions in the state, according to former governors, state cabinet officials, and business and labor leaders. In addition, access to policymakers through the Tripartite Commission created incentives for firms to participate in the state’s peak business associations, attracting new members and in turn ensuring these organizations maintained their representativeness of the business sector as the

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15 Twelve interviews with individuals who participated directly in the Tripartite Commission form the basis for the discussion of this institution and its role in Querétaro’s development.
structure of Querétaro’s economy changed. The inclusion of peak private sector associations in high-level dialogues with local political authorities helped create a policy consensus around industrial upgrading via high-skilled human resources, state of the art infrastructure, and untiring, professional promotion of the state outside its borders. Cooperation between business and local government consolidated over the subsequent administrations, as leaders from Querétaro’s peak business associations occupied key roles in the state’s economic policymaking bureaucracies. Meanwhile, the Tripartite Commission continued to function well into the 21st century, even after Querétaro’s first PAN governor, Ignacio Loyola, took office in 1997. The onset of political competition never led to serious public-private clashes in Querétaro, even as some segments of the private sector supported the PAN. The tangible gains of public-private collaboration fostered norms of conciliation and compromise and a preference for continuity and stability above all else among economic and political elites. As a result, successive governments maintained the conditions for continual economic transformation and upgrading.

In Puebla, by contrast, government-business relations were perennially politicized and conflictive. While governors attempted on occasion to bring the private sector into a collaborative alliance, these initiatives fell victim to electoral cycles, as political mobilization by the organized private sector and government attempts to alternatively confront or coopt often-antagonistic business groups undermined policy cooperation. Part of the explanation for this mode of public-private interaction is that Volkswagen and the state’s other leading firms, for reasons explained below, kept their distance from the state’s business associations, preferring to deal individually with policymakers. This pattern of cooptation and conflict took hold during the sexenio of Guillermo Jiménez Morales (1981-1987), which largely overlapped with the administration of Camacho Guzmán in Querétaro.¹⁶ Early in his term, Jiménez Morales proposed a forum for consultation among government, business, and labor to confront the economic challenges arising

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¹⁶ This section is based on interviews with former business leaders and journalists in Puebla.
from Mexico’s foreign debt default in 1982. As the 1983 mid-term elections loomed, however, the governor became worried that private sector support for the PAN’s candidate for mayor of Puebla could threaten the PRI’s grip on power. The state PRI apparatus deployed its usual tools of electoral manipulation in support of its candidate, Jorge Murad.

The private sector, too, had mobilized its considerable financial resources and social influence behind the PAN. After an election marred by blatant abuses, Puebla’s business elite cried foul, claiming fraud and launching a protest that eventually reached the federal Secretary of Government before the PRI’s candidate was officially declared the winner. In the aftermath of this electoral clash, any prospect of constructive collaboration between the state’s private sector and Governor Jiménez Morales evaporated. Leading business people complained of retaliations on the part of the government through especially ardent attention of state tax and regulatory authorities. On the other hand, the state government tried to appease certain sectors of the business community, by funneling money to a private organization controlled by elite businessmen and cracking down on informal vendors in the historical center. The tripartite consultative body proposed by the governor did not survive the 1983 elections.

This pattern would repeat itself throughout several subsequent gubernatorial administrations in Puebla. The most dramatic clashes between the state government and business occurred during the sexenio of Manuel Bartlett Díaz, a prominent national politician who initially tried to coopt the private sector by giving local firms privileged access to contracts for major public works his government promoted in the city of Puebla. In a repeat of the 1980s, however, the governor responded harshly to private sector mobilization in support of the PAN’s candidate for municipal president in Puebla (who this time won, unseating the PRI for the first time), shunning the main representatives of the business sector during the remainder of his term. The relationship

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17 The PAN candidate, Ricardo Villa Escalera, was a textile businessman with close links to the local business leadership.
18 With the help of business leaders, the PAN reportedly copied time-honored PRI tactics such as hauling masses of supporters to polling places.
19 Bartlett served as Secretary of Government, the country’s second most-powerful post, under president De la Madrid, and was twice on the short list of possible PRI candidates for the presidency.
between state government and the organized private sector was cold and distant in the second half of the Bartlett *sexenio* according to business leaders and officials in the state government at the time. At the same time, Bartlett courted a rival faction of the private sector in an effort to dilute the political and social influence of the traditional, conservative business leadership. This pattern continued into the 21st century, weakening the potential for collective action in the private sector and creating a government-business relationship based on the provision of favors and short-term political alliances rather than cooperation on development policy. Meanwhile, Volkswagen and other leading firms in the state have continued to opt out of business associations in favor of individualized engagement with policymakers. This state of affairs has reduced the force of the organized private sector and contributed to volatility in policymaking. Without no counterweight in the business community, the direction and success of development strategies has depended largely on the preferences and capacity of the sitting governor. The lack of a stable “developmental coalition” such as that in Querétaro can be linked to the uneven performance of the economy of Puebla since the 1980s, as well as the continued dominance of one firm—Volkswagen—in the state’s productive structure.20

Differences in the private sector

Governors in Puebla and Querétaro thus pursued different strategies in response to new political threats from organized interest groups. But their decisions were also shaped and constrained in important ways by the characteristics of the organized private sector in their states. Theory on collective action, and business associations in particular, suggests that cross-sector, “encompassing” business associations are more likely to adopt and advocate positions that promote broader developmental objectives than sector-specific business chambers, which tend to pursue the narrow goals of their industry at the expense of overall welfare.21 In addition, scholars have found

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20 The firm accounted for nearly a quarter of the state’s GDP as late as 2015. See *BBC Mundo*, “¿Cómo el escándalo de Volkswagen puede afectar la planta de Puebla en México?”, September 23, 2015.

that large firms with strong links to export markets (including multinational corporations) have been more likely to embrace trade liberalization and other market reforms (Rogowski 1989, Frieden 1991). By contrast, nationally and (especially) locally oriented firms may be expected to adopt more protectionist policy stances. While little has been written on the differences between regional and national business associations, we may derive some expectations on the behavior of regional associations based on the literature cited above.\textsuperscript{22} Local businesses are, almost by definition, small, less competitive firms with comparatively low capacity to take advantage of economies of scale offered by expanding markets. To the extent that regional business associations are composed of such firms, it follows that such groups will be more protectionist, less likely to embrace modernization and developmentalist objectives, and more prone to advocate for particularistic subsidies.

With this theoretical guidance, it is possible to observe notable and lasting differences in the composition of business associations in Puebla and Querétaro, which influenced the states’ development. The key difference stems from the incorporation of the new managerial class of national and transnational firms that arrived in both states beginning in the 1960s. In Querétaro, the top-level executives and managers of these firms quickly integrated themselves into local business chambers and played a key role in shaping the mentality and policy positions of these groups over the subsequent decades. One can readily observe in leadership positions of the local Canacintra, Coparmex, and the influential Club de Industriales the strong presence of firms such as Tremec, Singer, Black and Decker, Massey Ferguson, Grupo Disc, and Vidrieria Querétaro—all multinational enterprises or subsidiaries of major national business groups. These businesses represent sectors such as auto parts, metal-mechanics, and machinery that constituted the new wave

\textsuperscript{22} Extensive scholarship exists on regional business associations \textit{per se}, including in the case of Mexico, where authors have highlighted the important political role of business organizations in Puebla, Guadalajara, and Monterrey in particular (Gauss 2010), as well as more recent accounts of how the local private sector helped improve security in several Northern cities (see Conger 2014). The role of local business during political transitions in Baja California and Chihuahua has also been documented (see Ward and Rodríguez 1995). However, I have not found any studies that explore the specific question of how locally-organized business groups may differ systematically from national groups.
of investment that arrived in Querétaro and neighboring states surrounding Mexico City beginning in the 1960s.

These firms, medium and large players based in Mexico City, Monterrey, or abroad, were the main drivers of the state’s development in the subsequent decades. More importantly for the argument advanced here, their representatives brought an entrepreneurial culture that emphasized modernization, internationalization, quality, and technological sophistication. This mindset infused the state’s organized business associations and later its policy making apparatus, thanks to the influence of a core group of professional firm managers who advocated, disseminated, and helped implement policies and practices that furthered these goals. As a result, local business associations in Querétaro consistently adopted more developmentally oriented policy positions that aimed to achieve international competitiveness and the upgrading of the state’s human and physical capital. Critically, the active participation of such economically important firms also enhanced the bargaining power of these organizations vis-à-vis state governments and made them valuable interlocutors for officials looking for information and policy advice. This closeness to state officials in turn increased the value of membership in business associations for new firms, ensuring their growing strength and representativeness over time. These characteristics reinforced their value as a counterpart to government, in a virtuous cycle. As a result, when state governors in Querétaro looked “across the aisle” at the local private sector, they found a developmentally-oriented, coherent, and economically forceful counterpart with a strong policy vocation.

In Puebla, the organized private sector has had a very different profile. Although Puebla experienced a similar process of “exogenous industrialization” in the 1960s and 1970s, marked by the arrival of major national and foreign firms, these new economic actors rarely participated actively in state politics. Unlike in Querétaro, the business chambers in Puebla remained the domain of local firms, in particular a small group of textile and commercial enterprises and basic manufacturers linked to the textile sector. These firms, led by a set of traditional families that long occupied a privileged social space in the city of Puebla, maintained control of the state’s peak
business associations well into the 21st century. As may be expected of owners of relatively small, locally-oriented firms, these businessmen had a more conservative business mentality, and generally were poorly positioned to take advantage of Mexico’s economic reforms and trade liberalization. As a result, Puebla’s chambers often used their organizational capacity to petition the government (state and federal) for actions to blunt the effects of market reforms on their industries. One major reason for this distinct evolution of Puebla’s business chambers is that the state’s leading firm, Volkswagen, enjoyed unparalleled economic power in the state. The firm was able to parlay this economic dominance into privileged access to state and federal policymakers, obviating the need to invest political capital in business associations. In Querétaro, by contrast, a more diversified economic structure meant that firms had greater incentives to organize in order to advance their interests.

Another distinctive feature of Puebla’s organized private sector has been its strong partisan inclination. While it is not uncommon for chamber leaders to seek elected office or articulate political preferences, the traditional business leaders in Puebla have stood out for their conservative political views and open support of the PAN.23 Business associations in the state have often been sharply critical of PRI governments. These two salient features of the traditional Puebla business establishment—its protectionist instincts and distinctly conservative political leanings—fostered divisions within the private sector. Business leaders with a modernizing vision and more moderate politics have at times attempted to steer the chambers in a different direction and imbue them with a more technocratic and less partisan focus. However, the traditional business leaders resisted these efforts, maintaining a tight grip on chamber leadership positions. These tensions have undermined collective action in the private sector and fostered divisions within the chambers; such internal conflict even precipitated a split in the local CCE, the state’s peak business chamber, after a bitter

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23 These preferences are longstanding. As discussed in chapter 3, the traditional business elite in Puebla opposed the PRI-government throughout the 20th century and generally supported the PAN once real electoral competition emerged in the 1980s.
dispute over its presidential succession in 2005. In comparison with Querétaro, therefore, the business sector in Puebla has been more protectionist in its economic outlook, more overtly partisan in its political actions, and more divided internally. Faced with such a counterpart, governors in Puebla have opted for a strategy of alternatively coopting certain segments of the private sector with particularistic benefits and confronting and attempting to weaken others—exploiting and deepening existing divisions within the sector. Such a relationship, unsurprisingly, has not been conducive to constructive collaboration on substantive issues of development policy.

c. **Methodology and outline of the dissertation**

The primary goal of this dissertation is to describe key differences in the institutional setting governing relations among government, business, and labor between Puebla and Querétaro and show how these differences explain, in part, the states’ divergent economic performance. The traditional logic employed in such small-N comparisons is that of most-similar cases (or more rarely, most different cases). In this framework, the researcher attempts to identify cases that have equivalent (different) values on all variables that could plausibly affect the outcome of interest, save for one. The difference (equivalence) in this remaining variable, by extension, must account for the observed difference (equivalence) in outcome. Causality is thus demonstrated through cross-case comparison employing an “all else equal” logic similar to that of regression analysis. In comparing the cases of Puebla and Querétaro, however, I do not claim no factors other than state-business-labor relations have affected their economic trajectory. The purpose of presenting a broad comparison of the socioeconomic indicators of the two states pre-liberalization is to establish that Puebla and Querétaro had achieved comparable levels of development by the beginning of the 1980s and were exposed to many of the same national economic trends. Given these endowments, both arguably had the basis to achieve sustained growth, industrial transformation, and upgrading—although only one did so. The logic of this paired comparison is presented in greater detail in chapter 2.
The core content of the dissertation is descriptive case studies of the emergence of distinct institutions for economic governance and their mediation of the states’ policy making processes between 1979 and 2010 (chapters 4-9).\textsuperscript{24} This period coincides with the slow unraveling of the traditional forms of corporatist control under single-party PRI rule and the consolidation of a multi-party competitive electoral system in Mexico. The case studies aim to show systematic and persistent differences between the two states in the profile of actors in both the private and public sectors; the rules, norms, and practices governing interactions between government, business, and labor; and the content and implementation of development policies themselves. In constructing narratives of state-level policymaking, I rely primarily on in-depth, open-ended interviews with political and business elites, complemented by media accounts of key events, and (where available) relevant government documents and secondary source material on the politics of Puebla and Querétaro. Interviews with key actors provide the best source of information on the internal workings of the policy process, including interactions between the public and private sectors, which are little studied at the state level and not well-covered by the media. In addition, interviews and other direct statements by policymakers are uniquely capable of revealing the rationale behind decisions and gauging the relative influence of various actors.

To set the stage for the case studies, chapter 3 establishes systematic differences in the organized private sector in the two states. First, I present biographical data on the leaders of each state’s most important business associations to establish the incorporation of professional managers into the leadership ranks of the Querétaro organizations, in contrast to Puebla, where chambers remained under the tight grip of a small group of traditional family business owners. As a result, important economic players in Puebla—most notably Volkswagen and its largest suppliers—stayed on the margins of the chambers, meaning these bodies lacked broad representation of the state’s

\textsuperscript{24} These years mark the beginning of the Camacho Guzmán governorship in Querétaro and the end of the Mario Marín administration in Puebla and were chosen in order to include five full and nearly simultaneous local governments in both states.
economic sectors and the political weight that leading firms bestow on business organizations. I then show how the different profiles of the states’ private sector leadership resulted in different policy preferences, in line with theories on business organization and collective action discussed above. Chapter 3 reports systematic evidence that business associations in Querétaro were more supportive of free trade, foreign investment, and policies to improve productivity, product quality, and worker training. By contrast, business in Puebla tended to be wary of economic integration and to demand various policy measures that would limit or ameliorate the effects of economic reforms. Before moving on to the empirical chapters, chapter 2 places this research in theoretical and historical context by reviewing the main strands of literature that inform this dissertation and discussing Mexico’s 20th century political economy in more depth.
II. Chapter 2: The Territorial Dimension of Economic and Political Reform: Setting the Stage for Subnational Analysis of Mexico’s Development

Beginning in the mid-1980s many developing countries underwent profound changes in their economic and political models, as democratic systems and market-oriented economies replaced authoritarian regimes and state-led development. The confluence of changes in the political and economic realms led scholars to identify a trend of dual transitions in the developing world. Initially, much of this discourse conveyed the belief that both democratization and market reforms were desirable, mutually supportive, and, indeed, part of an inevitable evolution towards the liberal capitalist consensus immortalized by Francis Fukuyama (1989) as the “end of history.”

However, experience would soon belie such optimism. Economic reforms undertaken without sufficient oversight, competent regulatory agencies, political consensus, or appropriate sequencing exposed economies to financial shocks, volatile growth, and worsening inequality. Transitions from authoritarian regimes in the absence of rule of law and strong states often spawned corruption, political fragmentation, and weak governance, as societies “delegated” power to a succession of unaccountable or incompetent leaders (O’Donnell 1994). Scholars consequently began to rethink the “transition paradigm” (Carothers 2002). Instead of creating synergies, weak political institutions undermined implementation of key reforms in the economic realm while disappointing growth sapped the legitimacy of new democratic governments.

Still, the era of economic reforms was not without successes. In Latin America, for example, market reforms helped bring perennially high inflation under control, while trade liberalization allowed for strong export growth, especially of manufacturing products. At the same time, increased spending in the social sector (which picked up after a sharp decline during the debt crisis of the 1980s) improved education coverage, setting the stage for reductions in inequality in

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25 The idea of a transition paradigm in the study of democratization dates to the seminal work of O’Donnell and Schmitter (1986), which according to Berins Collier (1999) subsequent scholars implicitly or explicitly followed, generating assumptions, at times unjustified, that transitions from authoritarianism lead ineluctably to democracy.
the 2000s (Lustig 2009). On the political front, democratic systems, for all their flaws, had become “the only game in town” in every country save Cuba by the end of the 20th century.

These uneven results motivated scholars to reconsider many of the assumptions of the dual transitions era. Economists who advocated the market reforms in vogue in the 1980s and 1990s began to emphasize the importance of sequencing, implementation, and oversight—and to consider whether important policies had been left out of the initial package (Santiso 2004). More fundamentally, the center of gravity of economic thought moved towards a greater focus on the state and governance institutions. Drawing on the successful performance of East Asian economies, scholars identified the ability of state institutions to manage and direct economic change as a key determinant of growth and industrialization (Amsden 1989, Wade 1990, Evans 1995 are foundational works on the East Asian experience). Calls to “bring the state back in” (Evans et al 1985), “get the institutions right” (Rodrik 2004), and “rethink” development policy (IDB 2014; ECLAC 2008), all reflect this renewed emphasis on the institutions underlying economic policy. The World Bank and IMF, long dominated by economists, explicitly acknowledged the primacy of political institutions in development outcomes.26 Moreover, successful developmental states often flourished in non-democratic settings (Leftwich 2007), complicating the view that democracy and growth are inherently complementary.27 In a similar vein, scholars of democracy identified a host of institutional and structural features, including a strong state, that were necessary for the consolidation of democracy (Carothers 2002).

In short, the diverse outcomes of countries’ dual transitions convinced scholars and policy makers that market reforms and democratization alone were not sufficient to ensure sustained

26 The IMF, in its 2005 World Economic Outlook, wrote that “political institutions determine the distribution of political power, which includes the ability to shape economic institutions and the distribution of resources.” Meanwhile, the World Bank devoted its 1997 World Development Report to the role of the state and the 2004 edition of its flagship publication to accountability. Most recently, the Bank’s 2017 World Development Report, “Governance and the Law” highlights the continuing challenge that “complex political and social settings” present for development policy making and implementation.

27 While this is true of most late industrializers among developing countries in the 20th century, there are also notable examples of successful upgrading in democracies such as Ireland, Finland, and Spain.
development. However, an important yet often under-appreciated part of the story is variation in outcomes within countries. Far from having uniform consequences (good, bad, or somewhere in between) across the national territory, market and democratic reforms often produced political and economic divergence at the sub-national level. Not coincidently, many developing countries simultaneously undertook decentralization reforms that gave local jurisdictions greater policy authority and financial resources. A core motivation of this dissertation is to highlight the importance of the territorial dimension in understanding the outcomes, both positive and negative, of economic and political reforms. While the specific setting for this research is state governments in Mexico, it aspires to draw broader lessons for developing countries which, like Mexico, undertook economic and political reforms in the late 20\textsuperscript{th} century. With this objective in mind, the following sections discuss how decentralization overlapped and interacted with other reforms, in order to place the experience of Mexico in this larger context.

\begin{itemize}
\item \textbf{a. The Territorial Dimension of Developmentalism and Economic Institutions}

\textit{Decentralization: The developing world’s “third transition”}

In many countries throughout Latin America and the developing world, market reforms and democratization were accompanied by a decentralization of political authority and public resources. Many observers in the policy and academic worlds viewed the devolution of power to local actors as consistent with broader efforts to enhance accountability to citizens and introduce salutary competition into political economies. Organizations such as the World Bank and Inter-American Development Bank initially applauded decentralization reforms and made available billions of dollars of financing for such projects.\textsuperscript{28}

\end{itemize}

\textsuperscript{28} The following selection of publications suggests the extent of attention paid to the issue. Even in cases where the authors point to challenges associated with decentralization, the general thrust of these works is to propose ways to bolster and strengthen decentralization processes rather than questioning their inherent value: Peterson (1997) \textit{Decentralization in Latin America: Learning through Experience}, The World Bank; Burk, Perry, and Dillinger (1999) \textit{Beyond the Center: Decentralizing the State}, The World Bank; Litvack and Seddon, (1999) eds. \textit{Decentralization Briefing Notes}, Washington, DC: World Bank Institute; Inter-American Development Bank (2001), \textit{Making Decentralization Work in Latin America and the Caribbean}.
This optimism drew on several lines of theory. Early scholars of federalism viewed decentralization of education, health, and infrastructure as optimal, allowing the level and mechanisms of provision to be tailored to local preferences or jurisdiction characteristics (Oates 1972). Another line of argument, known as market-preserving federalism, holds that the devolution of policy authority discourages burdensome regulations and induces healthy competition to provide public goods and services among sub-national entities aiming to attract footloose capital and labor (Tiebout, 1956; Weingast, 1995). Market reform in itself would encourage such positive dynamics by freeing up capital and labor to seek out optimal local conditions. These theories appeared credible to many observers distressed by the poor state of centralized public services in pre-reform developing countries. In a similar vein, decentralizing services such as education, health, and infrastructure to numerous local entities created the potential for greater policy experimentation by local officials. In this view, state and city governments would become “policy laboratories” where enterprising local leaders put new ideas to the test.

Decentralization would also help strengthen new democracies, many believed. The introduction (or re-introduction) of competitive elections for local offices—political decentralization—often provided a beachhead of political reform that could encourage further liberalization in the context of authoritarian regimes at the national level. Decentralization could also improve the quality of democratic governance by enhancing the ability of citizens to monitor and sanction their elected officials, thus ameliorating the principal-agent problem inherent in democratic governance (Tommasi and Weinsch 2003). Finally, advocates of participatory democracy saw in decentralization the opportunity to expand the use of such mechanisms (Young 2000).

29 Privatization and trade liberalization are good examples of how reforms increase the extent to which capital (and to a lesser extent labor) will be free to seek out economically optimal locations rather than those that are convenient for political or regulatory reasons.
30 Well-known examples in Latin America include the use of participatory budgeting in municipalities in Brazil, which led to more efficient public investment in poor communities and were later replicated elsewhere in the region and beyond (see Inter-American Development Bank 2005 and Abers 1999).
It is safe to say that many of these positive dynamics did in fact take hold, as states and municipalities across Latin America became important drivers for democratization and civic engagement, while taking advantage of greater autonomy to experiment with new policies and forms of democratic decision making.\textsuperscript{31} More often than not, however, decentralization exacerbated the governance and growth challenges that arose with dual transitions. To some extent, the responsibility for these outcomes lies at the feet of national-level politicians and institutions, which for a variety of reasons often undermined the salutary dynamics that decentralization was supposed to have unleashed.\textsuperscript{32} However, the nature of subnational institutions—and their heterogeneity across jurisdictions—also played an important role. To understand local institutional divergence, many scholars have focused on political competition. A credible electoral challenge should incentivize sub-national politicians to respond to constituent demands (Beer 2004), provide growth-enhancing local public goods (Carreaga and Weingast 2003; Díaz-Cayeros 2006), enact more efficient policies (Padovano and Ricciuti 2009), and bargain more aggressively for resources from the central government (Flamand 2006). However, national democratization has not been sufficient to ensure such competition. The literature on subnational authoritarianism has shown how local strongmen can manipulate local electoral rules, control institutions of horizontal accountability, coopt the media, and distribute public resources and offices for political ends, in defiance of national democrats (Gibson 2012).

\textsuperscript{31} For example, growing political competition in local settings in Brazil, Mexico, and Venezuela during the 1980s helped to nurture political plurality and renewed civic participation, which later catalyzed national-level political reform (see Montero and Samuels 2004). In addition, many local governments introduced policy experiments with the goal of increasing citizen participation and oversight of elected officials, as in the case of the widely-praised participatory budgeting practices implemented initially in Brazilian municipalities and later replicated in other parts of Latin America such as Argentina, Bolivia, and Uruguay.

\textsuperscript{32} Many scholars have emphasized how such features have subverted the theoretical positive incentives of decentralization. Decentralization often burdened local governments with policy responsibilities for which they were ill-prepared and under-funded (Oxhorn et al. 2004). Such unfunded mandates reinforce national politicians’ control over their local counterparts, resulting paradoxically in less sub-national autonomy (Wibbles 2004). In addition, central governments in many cases continued to impose conditions on sub-national policy actions and resource transfers that constrain the ability of sub-national leaders to respond to local interests (Montero and Samuels, 2004). Another important explanation draws on the role of electoral institutions and the organization of political parties, arguing that where political parties are centralized and nominations are determined at the national level, career-minded sub-national politicians face incentives to respond to the priorities of the national party leadership rather than the interests of the jurisdiction they nominally represent (Riker 1964; Garman, Haggard, and Willis 2001; Díaz-Cayeros 2006).
Even in localities with strong party competition, moreover, ingrained practices such as clientelism and control of candidate selection by local party bosses can undermine the quality of local democracy (Selee 2011). While civil society is often held up as a safeguard against such abuses, civic engagement in the context of decentralization can intensify demands for resources directed at local officials (ibid), potentially straining subnational finances (Eaton and Dickovick 2004). Furthermore, electoral competition can introduce partisan division and gridlock into local institutions, leading to more contentious decision-making (Grindle 2007). In various ways, these findings all emphasize the complex array of subnational political and social factors that mediated the effects of decentralization on local governance.

Just as political scientists focused more on local political institutions in the context of decentralization, the economics literature began to place more emphasis on the territorial dimensions of growth and development, creating more robust theoretical foundations for subnational analysis. The basis for this shift is the New Economic Geography work pioneered by Helpman and Krugman (1987), which emphasizes how factors such as increasing returns and imperfect competition can generate imbalanced growth across regions. Applied to trade, these models suggest that liberalization allows exporting firms to exploit economies of scale and increasing returns, leading to a concentration of economic activity in locations with privileged access to export markets and preexisting agglomerations of leading firms (Krugman 1991; Krugman and Livas 1996).

This so-called New Trade Theory thus underscores the potential for trade liberalization to provoke regional divergence within countries. Concern over the fate of “lagging” regions in a globalized economy led the World Bank to dedicate its 2009 World Development Report to the geographic effects of trade. However, the more dire theoretical expectations have found only qualified support in empirical studies. In an extensive review, Brülhart (2011) fails to find
consistent evidence that trade liberalization increases regional inequalities; instead, he concludes that regions with better access to export markets benefit disproportionately.33

Regardless of the specific role of trade liberalization, studies of global income distribution have discovered that within-country inequalities make up a rising share of total global inequality (Sala-i-Martin 2006). These disparities reflect widely divergent growth performances of regions and localities within developing countries (Kanbur and Venables 2005). In response to these trends, there has been increasing interest from economists in the determinants of growth on the scale of cities, provinces, and regions. At the same time, technological changes in the organization of production—often described as international fragmentation or global value chains—have elevated the importance of regional characteristics and locally-specific public goods in determining patterns of economic integration (Storper 1995; Keating 1999).34 The majority of this literature has pointed to familiar growth determinants such as physical and human capital, as well as geographical features such as access to important infrastructure, as the main sources of regional economic divergence (Kanbur and Venables 2005).

These findings naturally beg the question of how assets such as physical and human capital come to be distributed throughout the regions of a country. These stocks are not exogenous but rather the result of institutions that arise out of local and national political processes. In fact, Acemoglu and Dell (2010) posit that because the movement of physical and human capital and diffusion of technology face fewer obstacles within national borders, institutions are likely to have more explanatory power over growth within countries. In sum, the renewed focus on regional

33 In essence, the effect on regional inequality depends on whether regions with better export market access were relatively better off pre-liberalization. In the case of Mexico, one of the most studied examples, regional disparities increased precisely because richer Northern states were better positioned to take advantage of the trade opening.

34 The rise of global value chains (GVCs), in which production sites in different countries contribute very specific inputs, tasks, and services to the production of final goods, means that developing economies can participate in international trade by specializing in one particular segment of these production processes, rather than building a vertically-integrated export industry from the ground up. Often, these capacities, which include specialized human and physical capital and access to port infrastructure, can be developed at the regional level. At a time when differences in national-level policy are less pronounced due to the foreclosure of “policy space” in the international trade regime (Rodrik 2004), regional characteristics play an increasingly important role in the location decisions of the multinational firms that control GVCs.
economic performance highlights the importance of local governance institutions’ ability to provide growth-supporting public goods. As described above, decentralization processes shaped the contours of such local institutions and likely led to greater heterogeneity across jurisdictions. Taken together, these stylized facts suggest that decentralization and its effects on local institutional settings may hold the key to understanding regional economic outcomes in the context of growing economic integration.

**Institutions and economic outcomes**

Institutions are a broadly-defined and widely-invoked variable in the social sciences. What are the specific institutions that matter for regional economic performance? As discussed above, the past decades have seen a surge of scholarship on the institutional underpinnings of economic outcomes, most of which has taken a cross-country perspective. This vast terrain of literature can be usefully (if somewhat roughly) grouped into three broad categories: new institutional economics, the developmental state, and varieties of capitalism. Each of these is discussed below, with a brief detour to consider organized business, whose role in shaping development outcomes is increasingly emphasized in the developmental state and VoC literatures.

Drawing on the seminal works of Douglass North (1981; 1990), new institutional economics (NIE) emphasizes the importance of macro institutions such as property rights, contract enforcement, and judicial systems, for economic growth. Central to the approach of North and other NIE scholars is the role of credible commitments to enforce a property rights regime. This view of the developmental impact of institutions has drawn support from the influential quantitative work of Acemoglu, Robinson, and Johnson (2001; 2002) that uses variation in colonies’ settler survival rates to identify the causal effect of institutional quality on countries’ contemporary wealth. Similar studies have been carried out at the subnational level (see for example Banerjee and Iyer 2005; Magaloni et al 2008; and Dell 2010).

Despite these important contributions, there are several shortcomings in the new institutionalist approach. First, the range of institutions considered reflects a bare-bones vision of
the role of the state—protecting property rights, enforcing contacts, mediating disputes. As Rodrik (2004) shows, measures of such “thin” institutions often do little more than suggest more deeply-rooted factors such as trust, coordination, and collective action among public and private actors, casting doubt on the importance of formal rules alone to drive development. In a recent literature review of the state’s role in development, Bardhan (2016) argues that the preference of much of the NIE work for a strong but limited “night watchman” state fails to capture important state functions as “guide, coordinator, stimulator, and a catalytic agent for economic activities” (864). In addition, the use of per-capita GDP to measure outcomes, a common feature in NIE work, arguably provides an overly general view of development, ignoring important differences in economic structure, distribution of income, and the generation of knowledge and innovation.

Developmental state

The developmental state literature, by contrast, has provided a more granular and descriptively thick account of the factors driving economic performance, with a particular focus on the experiences of late industrializers during the 20th century. Often drawing on sociological insights and employing historical case studies, this work emphasizes “how variations in state structure can have consequences for industrial change” (Evans 1995, 33-34). State bureaucracies feature prominently in this work. This emphasis can be traced to Johnson’s (1982) study of Japan’s trade and industry ministry (MITI), which he credits with directing the country’s impressive post-War development record, thanks to its expert personnel, a high-level political mandate, and the consistency of its policy objectives. Peter Evans, whose work represents another fundamental reference point in this literature, also points to the characteristics of bureaucracies as central to

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35 To illustrate this point, Rodrik explains how the indices of property rights used in the AJR paper are based on investor perceptions. These indices consistently rank China, for example, higher than Russia even when the former lacked a formal private property rights regime (in contrast to Russia). He concludes that what these indices really measure are an atmosphere of confidence that the state engenders in investors, the origins of which are unclear, and whose correlation with formal rules on property is far from perfect.

36 Amsden (1987) identifies late industrializers as those economies who industrialized based primarily on learning from the experiences of European and North American predecessors rather than indigenous inventions. This group includes, in her view, Japan, South Korea, Taiwan, Brazil, India, and (possibly) Mexico, India, and others. She argues that successful learning depends on a particular set of institutions that entail “defiance of the market mechanism” (134).
determining whether states will be developmental or predatory. In *Embedded Autonomy* (1995), he describes how features of Weberian bureaucracy such as highly selective recruitment, meritocratic advancement, and long-term career incentives create “corporate coherence” that endows economic policymaking agencies with necessary autonomy. In this way, relations between bureaucrats and private actors do not devolve into individual maximization by self-interested agents.

However, bureaucratic autonomy must be combined with an institutionalized and ongoing relationship with the private sector, which Evans terms “embeddedness,” in order to facilitate information flows and policy implementation. The importance of constructive interaction between public and private actors for developmental success has also come to be seen as a key insight of this literature. Alice Amsden’s (1989) study of South Korea, for example, elucidates the actions taken by the country’s diversified business groups to achieve technological progress. The prominent role for both public and private actors is captured nicely by Doner et al (2005), who define the developmental state as “organizational complexes in which expert and coherent bureaucratic agencies collaborate with organized private sectors to spur national economic transformation” (1).

Like the new institutionalists, however, developmental state scholars have come under criticism for failing to account for the origins of developmental state institutions (Woo-Cumings 1999). These concerns led to renewed efforts to identify the political or structural conditions that give rise to successful developmentalism. Kohli (2004) points to colonial experiences and the force of nationalist politics in determining the emergence (or not) of “coherent-capitalist” (i.e. developmental) states in late industrializers. Doner et al (2005) identify existential threat as the key factor motivating state elites in Northeast Asia to build developmental institutions. In their argument, political leaders’ perception of a dire external threat provided the impetus to resolve the collective action problems inherent in development, thereby generating sufficient resources to meet
popular demands and thus stave off instability. In a review of how politics shape economic institutions, Leftwich (2007) summarizes the basic conditions for developmental states identified in the empirical literature as follows: a cohesive national political elite; a relatively high concentration of power (i.e. in one party or organization), which helps ensure continuity in policy; and an external threat, which provided strong incentives to maintain the first two conditions. Another critique of developmentalism is that despite a clear and often explicit role for the private sector, early developmentalist scholars paid inadequate attention to the structure, organization, and preferences of business (Kuo 1995; Moon and Prasad 1998). This perceived shortcoming has helped motivate a more recent body of work on organized business and its developmental impact.

**Conceptualizing business**

The first task in analyzing the role of business as a political actor is to specify what is meant by “business.” The literature identifies five conceptual approaches to the political economy of business: business as capital, business as sector, business as firm, business as association, and business as network. The first conceives business in an aggregated and homogenous way as a factor of production, without drawing distinctions among different types of economic activity or sectors. The business-as-sector approach, by contrast, acknowledges the heterogeneity of political leaders to pursue national economic transformation.

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37 In this way, the authors amend the received wisdom that developmental states generally benefitted from “autonomy” from the political demands of popular sectors, often due to authoritarian political structures. In contrast, Doner et al argue that such demands, whose risk was accentuated by broader geopolitical instability, provided a main impetus for political leaders to pursue national economic transformation.

38 Important exceptions to this statement do, however, exist. In addition to Amsden (1989), who focuses on the role of organized business in Korea, Chibber (2003) highlights the divergent preferences of organized industrial interests in India and Korea as a key determinant of success or failure of efforts to build developmental states in those cases. In his account, the choice of national development strategy (import-substituting industrialization (India) or export-led industrialization (Korea)) determined whether the business sector would resist or ally with a state that sought to discipline the private sector.

39 In many ways, the idea of the private sector as a developmental partner for the state stood at odds with received wisdom of business as inherently rent-seeking, eager to exploit ties with bureaucrats to secure special privileges at the expense of overall efficiency. This is the general view of business-state relations expressed in Mancur Olson’s work on collective action (1965; 1982) as well as the public choice scholars (see for example Krueger (1974)).

40 This section is based on the summary provided in Maxfield and Schneider (1997).

41 Scholars viewing business through this lens often focus on how private control of economic assets, and asset mobility, gives the private sector leverage over the state, constraining its capacity for independent action or otherwise facilitating capture by private actors.
interests among different economic sectors. In this view, variables such as factor intensivity, asset specificity, trade dependence, and degree of concentration shape preferences.\footnote{For example, Peter Gourevitch (1986) argues that characteristics of a country’s leading economic sector, such as labor intensiveness, vulnerability to demand fluctuations, and competitiveness determine its response to economic shocks. In another seminal work, Rogowski (1990) argues that factor endowments shape political coalitions and conflict within a country.}

These two approaches, however, have trouble accounting for variation in business capacity for collective action.\footnote{An attempt to square this circle can be found in Shafer (1994) who argues that the characteristics of sectors themselves determine collective action potential: lower economies of scale, simpler technology and skill-level, and lower capital requirements for entry lead to less collective action potential, whereas the number of players in capital-intensive sectors with large potential for economies of scale is necessarily small, which facilitates collective action.} The business-as-firm approach brings this consideration into focus by examining how firm structure, size, ownership, and financing influence policy preferences and modes of interaction with political authorities. For example, scholars have argued that the presence of very large, diversified conglomerates—a notable feature of many emerging economies—can enhance business power vis-à-vis the state and facilitate collective action by reducing the number of key private sector actors who must organize (Maxfield and Schneider 1997).

However, even this approach has tended not to delve deeply into the logistics of how business organizes itself to engage with the state. The business-as-association school, by contrast, focuses explicitly on how associations and interest groups aggregate, reconcile, and externalize the preferences of the private sector (either writ large or on a sector basis). The aim is to understand how associations affect the articulation of business interests and thus influence policy. A final option, the business-as-network approach, takes individual managers as the unit of analysis, examining how personal relationships and informal contacts shape the interaction between public and private sector.\footnote{While such personalized, behind-the-scenes interactions may evoke the epitome of influence peddling for some, scholars have found such networks can facilitate information flow and reduce transaction costs in economic policymaking and thus play a positive developmental role, as long as they remain open, transparent, and competitive. Evans (1995) concept of “embedded autonomy” draws on a network approach.}

In reality, different modes of public-private relations—association, firm, network—exist simultaneously and indeed interact with each other. The actions of economically important, large firms, for example, are crucial in determining the strength or weakness of business groups.
Likewise, the presence of credible, representative and developmentally-oriented associations helps build trust and strengthen individual-level networks between business people and bureaucrats. For these reasons, the adoption of the “association,” “firm,” and “network” lenses in conjunction with each other is indispensable for scholars seeking a holistic view of the political activities of business. This approach, fleshed out below, is the one taken in the empirical analysis of business groups in chapter 3 of this dissertation.

Understanding business associations

Recent scholarship on organized business has drawn heavily on theories of collective action. In *The Logic of Collective Action*, Mancur Olson (1965) argues the political arena will be dominated by small, homogeneous groups defending particularistic interests, while the potential force of the majority’s interests, or “common good” will be sapped by the challenge of collective action among a large number of actors with more diffuse preferences. Applying this insight to interest groups such as business associations, he concludes that encompassing, multisector associations are more likely to pursue growth-enhancing policies than seek out special benefits or protections (Olson 1982).

Subsequent authors have built on this distinction between developmental and particularistic business organizations. The former promotes broadly beneficial policies such as property rights, price stability, innovation, education, or technology adoption; the latter seek to gain or protect sector-specific benefits such as subsidies, tariff protection, or privileged access to government contracts, which come at the expense of overall welfare. Much of the literature in this area has agreed with Olson’s basic insight that broad-based, multisector associations tend to be more developmentally oriented. This characteristic, generally referred to as “encompassingness”

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45 The logic underlying this finding is that for encompassing groups the marginal benefit to each member of an increase in overall growth will be greater than that of capturing a larger share of existing wealth. The opposite is true of narrow or particularistic groups that represent only one sector.
46 This section draws on a summary in Durand and Silva (1998).
47 A variation on this finding can be found in Chibber (2003), who attributes the preferences of organized business (in particular, whether they support or resist state efforts to implement developmentalist policies, including discipline of the
implies a diversity of membership and interest representation within an association that ensures it will have incentives to pursue growth-enhancing policies rather than special protections and concessions that reduce overall welfare.

While the concept remains somewhat amorphous (and therefore difficult to measure), it is clear that a key aspect of encompassingness is the inclusion and participation of large firms. When large firms bypass associations to deal directly with officials in personalist ways (business-as-network), transparency, the credibility of organized associations, and trust between the public and private sector all suffer. Other firms may assume that rivals’ advantages derive from rent-seeking and choose to invest in rent-seeking themselves, at the expense of collective action through associations. The participation of an economy’s largest firms also increases the political clout of a business association, forcing officials to engage regularly with these groups and creating a valuable “selective benefit” — institutionalized access to decision makers — that further strengthens associations. According to Doner and Schneider (2000), a major developmental function of business associations is to exert pressure on governments to provide public goods and services — property rights, non-corrupt regulation, and infrastructure — that only the state can provide (“market-supporting activities” in the authors’ parlance). The participation of large firms enhances the efficacy of such advocacy. Moreover, the active participation of large firms in business associations facilitates other developmental tasks such as information provision, investments in training, and coordination of investment — what Doner and Schneider (2000) call “market-complementing activities.” Large firms generally enjoy greater access to market information as

private sector) to the choice of national development strategy. However, as national-level variables are essentially held constant in this study, this approach is less relevant here.

48 Durand and Silva (1998) suggest that various types of business groups have been described as encompassing, including single associations with a sufficiently large and representative cross-section of member firms, confederations of sector-based business chambers, and even regional-based business groups with considerable economic clout. Meanwhile, Maxfield and Schneider (1997) have suggested the individual firms themselves can be “encompassing,” such as the highly-diversified conglomerates common in many developing economies. In this view, the diversified assets of such firms mean their interests transcend those of a particular business sector and become “economy wide.”

49 Schneider and Doner (2000) stress the importance of selective benefits, or those benefits available only to association members, as an internal enforcement mechanism within associations.
well as knowledge of state-of-the-art management and training practices that can improve associations’ services.\textsuperscript{50}

In addition to enhancing associations’ capacity to perform developmental tasks, there are reasons to believe the inclusion of large firms affects their inclination to do so. Drawing on the business-as-firm approach discussed above, a number of scholars have argued that larger firms with more international exposure and business relationships in foreign markets tend to support trade liberalization, lower barriers to internal competition, and a reduced economic role for the state—policies generally associated with economic reforms in developing economies (Durand and Silva 1998). With more modern technology and production processes, such firms depend to a greater extent on high-skilled human capital and therefore support the creation of public goods such as educational and technical institutions.\textsuperscript{51} In short, large, internationally-oriented firms, all else equal, should be more likely to support policies considered to have broader, economy-wide benefits rather than to protect sector-specific benefits or rents.\textsuperscript{52}

The extent to which economic activity is concentrated among a small number of large firms also influences an organization’s capacity for collective action. However, the expectations in this regard are somewhat ambiguous. On the one hand, standard collective action theory suggests that

\textsuperscript{50} An example of this phenomenon from the dissertation’s case studies is the dissemination within Canacintra-Querétaro of new practices surrounding human resources management brought by large, international firms with exposure to trends in Japan and other advanced industrial economies (see chapter 4).

\textsuperscript{51} Moran (2015), for example, argues that the most critical concerns of foreign investors are the availability of infrastructure and trained human capital that facilitate seamless integration into global production networks, and that MNCs are disposed to work with government to create these conditions. It is important to point out that these observations apply to manufacturing firms and may not be true of firms operating in the natural resources sectors where skilled labor is a less relevant input.

\textsuperscript{52} I acknowledge it is controversial to equate policies such as a trade liberalization and deregulation with economy-wide benefits and “developmentalism.” Several qualifications are therefore in order. First, in making these statements, I appeal to standard economic theory which holds that the removal of both internal and external barriers to trade results in overall welfare gains, even if individual sectors and factors of production become worse off. Economic integration also facilitates dynamic gains through induced competition that should encourage growth in the medium term. Secondly, in the context of Mexico in particular and developing economies confronting economic transitions in general, trade protectionism and internal market regulations presented considerable barriers to growth and dynamic economic development; in these situations, therefore, the association of trade liberalization, price liberalization and the loosening of other controls with broader development is arguably more appropriate. Finally, the implication is not that in supporting such policy objectives, larger, more international firms acted altruistically. My assumption is that, as with other firms, their policies preferences emanated from economic self-interest. In this case, that self-interest coincided with policies that promoted broad-based growth.
concentration in a smaller number of firms should facilitate collective action by reducing the number of actors that must organize. On the other hand, at a certain level, concentration could obviate the need for collective action altogether, as a handful of oligopolistic firms may find informal, individualized contacts with officials or cartel-like collusion more attractive strategies to advance their interests.\textsuperscript{53}

The particular circumstances of multinational corporations introduce additional considerations. Some authors suggest that MNCs can undermine associational strength by providing infrastructure and services that strip associations of their \textit{raison d’etre}.\textsuperscript{54} Other scholars find that MNCs tend to remain outside of business associations, or else keep a low profile, either for fear of encroaching on politically sensitive ground or because rotation of managers prevents sustained engagement (Acuña 1998).\textsuperscript{55} However, these outcomes are not guaranteed. In some contexts, especially where MNC managers are locals or production is more locally oriented, these firms do in fact participate actively in associations.\textsuperscript{56} Finally, MNCs can spread a developmental mentality to local firms: some authors suggest that business linkages with MNCs shape local firms’ preferences, making them more likely to embrace economic integration.\textsuperscript{57} In short, large, internationally integrated firms pose a dilemma for business associations: they are more likely to contribute a developmental outlook and facilitate collective action, yet they are also the firms that rely the least on strong organizations to promote their interests. The particular case of MNCs accentuates this tension.

\textsuperscript{53} A key factor in determining whether a relatively small number of large firms acts in a developmentalist or particularist way should be whether they represent sufficiently encompassing interests as a whole, due to a sufficient diversity of sectors.
\textsuperscript{54} These observations may apply equally to large, national firms such as multi-sector conglomerates (or \textit{grupos} as they are called known in Mexico). To give an example, a large international firm (regardless of the ownership of its capital) may have its own in-house training program that it dilutes diminishes its interest in advocating pressuring the government to provide better technical training as a public good (Acuña 1998).
\textsuperscript{55} In some cases, foreign firms are wary of wading into what might be seen as political activity; additionally, high turnover rate among expatriate managers can prevent MNCs from engaging in organizations in a sustained way.
\textsuperscript{56} Palacios (2008) describes an example of such participation at the local level in the Mexican state of Jalisco, where MNC managers in the state’s IT sector played a key role in public-private bodies that promoted upgrading in the sector.
\textsuperscript{57} This outcome, naturally, depends on the emergence of such linkages between MNCs and domestic firms.
By contrast, the preferences of smaller and domestically oriented business tend to be in favor of maintaining barriers to competitive markets. Such regulations often create the conditions that allow such firms to compete in the first place. With fewer opportunities to exploit scale economies that expanding markets (whether domestically or abroad) offer, small firms are more likely to suffer from the increased competition that accompanies market opening (Gluek 1980; Carland et al 1984). These features often coincide with family ownership structure. Family businesses tend to devote fewer resources to innovation, diversification, and investment in training and capacity. Often, the culture of family-run enterprises prioritizes protecting and bequeathing wealth rather than incurring the risks inherent in innovation. A prevalence of small, family firms can therefore be expected to imbue business associations with a more protectionist, inward-looking mentality. To the extent that smaller local firms have been dependent on government regulations and protection, they may be more oriented towards negotiating and bargaining with governments to maintain such policies.

Taken as a whole, this literature suggests that the existence of encompassing business associations that enjoy the active participation of an economy’s leading firms (including MNCs) will contribute to a developmentalist alliance with the public sector. It also implies that the emergence (or not) of encompassing organizations may respond to factors such as economic concentration. If one or two firms play an outsized role in the economy, they may bypass organizations to deal directly with political authorities, undermining the representativeness and political clout of business associations (even if they are nominally encompassing). A somewhat contrasting view, best encapsulated by Schneider (2004), shifts the analytic spotlight back to the

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58 Of course, large firms can also remain family owned, which has been a notable feature of Mexican business (Castañeda 2008), as well as other developing economies. Many scholars argue that the preference for family control arises as a strategy in low-trust societies where personal relationships are valued and faith in public institutions remains weak.

59 An important qualification here is that the mere existence of a nominally encompassing association does not ipso facto guarantee a developmental vocation; what really matters is a broad representativeness of sectors and the inclusion and active participation of large, economically influential firms; in other words, it is necessary to examine internal structure and membership composition, not just the formal rules or mandate of an association.
state, arguing that its actions rather than economic structure or firm size are what determine the organization of the private sector.60

Varieties of Capitalism

If developmentalism emphasizes state structures and business politics the organization of the private sector, the varieties of capitalism (VoC) literature attempts to integrate these approaches into a comprehensive vision of the political economy. The core proposition of this body of work is that differences across economies in the rules and norms governing relations between factors of production create distinct incentives for these actors which, in turn, lead to different economic outcomes.61 In contrast to the developmental state perspective, firms emerge as the central actors in this approach;62 from the VoC perspective, it is firms’ manifold and diverse relationships and strategic interactions with workers, the state, and other private sector actors that ultimately determine macroeconomic variables such as employment, education, wages, and investment. Such interactions are present in several areas central to the life of the firm: labor relations; education and vocational training; corporate governance; and inter-firm relations, which include both supplier/producer relationships and horizontal associations such as joint ventures. Differences in national political economies, the proponents of this approach contend, come down to differences in how firms manage these coordination problems, choices that are shaped by a set of formal rules

60 In comparing the strength of business organizations across Latin America, Schneider (2004) finds that in cases where the private sector is highly organized (including Mexico), business associations have benefitted from explicit state policies to foster the promotion and enhance the status of such organizations.

61 The VoC approach developed out of comparative studies of capitalism in advanced industrial economies and builds on two earlier approaches to comparative capitalism, modernization and neo-corporatism (Hall and Soskice 2001). The modernization tradition overlapped with the developmental state literature to some extent in focusing on variations in the state’s capacity to modernize industries in the post-War setting. Johnson’s (1982) study of Japan’s economic bureaucracy is considered an example of a modernization study, which also helped launch the developmental state literature. Neo-corporatism focuses on the state’s ability to manage economic adjustment by negotiating and coordinating stable agreements with peak labor organizations. In this literature, Olsonian collective action is applied to the structure of unions; the presence of encompassing, peak labor organizations are seen as conducive to agreements to curb inflation by reining in wage growth, for example. Whereas individual or sector-based unions will bargain for higher wages or against wage cuts, even at the risk of inflation, encompassing organizations with broad representation have incentives to moderate wage demands for the benefit of the overall economy.

62 Hall and Soskice (2001), in outlining their approach to comparative capitalism, critique what they see as a tendency of past efforts to account for variation in national economic performance (including some associated with the developmental state school) to “overstate what governments can accomplish” (4).
and informal norms and practices. The rules governing a particular policy domain reinforce the incentives to maintain other features of the institutional environment, creating so-called "institutional complementarities" (Hall and Soskice 2001). The VoC framework thus takes a holistic, relational view of the political economy that includes firms, workers, and bureaucrats, as well as the associations, organizations, and structures through which they act collectively.64

Drawing on this framework, the VoC approach identifies a basic distinction between liberal market economies (LMEs), where market transactions define the vast majority of firms’ relationships, and coordinated market economies (CMEs), which rely to a greater extent on negotiation, coordination and cooperation to facilitate information exchange, monitoring, and sanction among economic actors (Hall and Soskice 2001). Subsequent work distinguished network market economies (NMEs)—essentially the East Asian capitalist systems—in which trust and relational networks provides the dominant mechanism for resource allocation in the economy (Crouch 2005; Hancké et al 2007). While the VoC literature initially drew on the experiences of developed economies, Schneider (2014) examines Latin America’s largest economies through the VoC lens, concluding that capitalism in the region follows a distinct logic, which he terms "hierarchical capitalism." In this variety of capitalism, it is hierarchies—rather than market transactions, negotiations, or trust—that govern the relationships among actors in the economy and anchor common expectations about how each will behave. Following the VoC approach, Schneider places the private sector at the center of his analysis, showing how its structure has influenced development outcomes in the region.65

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63 A key feature of the VoC literature is its broad view of institutions, which includes a prominent role for informal institutions—including concepts such as common practices, customs, or mutual understandings, in establishing actors’ expectations surrounding counterparts’ interests, beliefs, preferences, and likely actions.

64 In this regard, VoC applies insights from the collective action-inspired business politics literature discussed above.

65 However, this work also reflects an extension of the author’s broader focus on the organization of the private sector in Latin America, illustrating the close links between VoC scholarship (with its wide analytical scope) and what has been referred to here as the business politics literature. In motivating his work on hierarchical capitalism, Schneider (2014) writes that “little research, save specialized publications, [have] asked whether there was something distinctive about the domestic private sector” in Latin America (4).
Insights for subnational analysis

Scholars of the developmental state, business politics, and varieties of capitalism have all been primarily concerned with national-level variation. However, this preference for cross-country analysis does not mean the insights of these literatures cannot be fruitfully transferred to the subnational realm. Indeed, Hall and Soskice (2001) invite the application of the VoC framework to subnational analysis, acknowledging that regional variations in the institutions shaping firm interactions are likely to exist within the context of national political economies. Similarly, Sinha (2005), in identifying important regional variation in the effectiveness of India’s development policies, argues that “the search for developmental states or models of global integration has, till now, proceeded at too aggregate a level” (10). This dissertation takes up these calls for more regional analysis in the spirit of these institutionalist approaches to explaining economic outcomes.

Several features of these literatures are particularly useful at the subnational level. First, the nature of bureaucracies, a key variable in developmental state analysis, can differ across national territory. Evans (1995) acknowledges as much in describing how certain bureaucratic agencies can be “islands of excellence” within a weak general institutional setting. State level bureaucracies are, in all but the most centralized systems, subject to local variation in recruitment practices, career advancement, and technical expertise. It is therefore relevant to consider how subnational variation in bureaucratic quality affects regional economic divergence.

The organization of the private sector, too, can vary at the regional level. These differences can emanate from several sources. Variation in industry structure across regions can contribute to divergent economic institutions, as Snyder (2001) illustrates in the case of Mexico’s coffee sector. In addition, Hall and Soskice (2001) suggest that at the smaller scale of regions, individual firms

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66 It is true that some of the substantive issues addressed in the VoC literature such as corporate governance, are the exclusive domain of central governments and therefore less relevant for subnational analysis. In the case of developmentalist scholars, meanwhile, the focus on traditional conceptions of the state has likely tended to push scholars in the direction of national level analysis.

67 The concept of islands of bureaucratic excellence has been central to the analysis of intermediate cases of middle-income countries, including in Latin America, where a number of scholars have used the approach to describe Brazil’s uneven development (Evans 1995; Bersch et al 2013).
may have a greater capacity to shape the institutional environment. This insight suggests that a focus on the strategies of dominant firms in a given region will be critical to the analysis of subnational political economies. Following the literature on business associations, we can imagine that regional differences in industry concentration and firm strategies could affect the consolidation (or not) of encompassing business groups at the local level. Chapter 3 carries out precisely such an analysis for this dissertation’s two main cases. The strength and characteristics of organized labor can also be heterogeneous across national territory. Even when macro variables such as wage and price levels or rules on hiring and firing are negotiated at the national level, these agreements are often modified, enforced, or contested by local affiliates of peak labor organizations. Following the neo-corporatist literature on state-labor agreements, the presence of encompassing labor organizations at the state or regional level should facilitate the stability and credibility of accords reached between local authorities and union representatives.

The set of institutions governing relations between factors of production and public authority can thus evolve differently across regions. How might we account for the origins of such institutional divergence? Here again, the national literature provides useful guidance. A number of contributions to the developmental state literature stress the importance of politics in explaining the emergence of developmental institutions. Many authors identify external threat and internal vulnerability to unrest as providing the political imperative for governing elites to invest in the institution building required for industrial transformation (Kohli 2004 and Doner et al 2005; Leftwich (2007) provides a summary of such cases). In the context of subnational units, decentralization can provide the sort of political shock that drives leaders to construct new institutional arrangements. As the second section of this chapter explains, decentralization in the context of political and economic reform unleashed a series of external and internal threats to subnational authorities that reshaped incentives in a manner not dissimilar to those facing national

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68 Mexico’s education sector provides a good illustration of how regional variation in union strength and characteristics can affect socioeconomic outcomes (see Fernández Martínez 2012).
leaders in a difficult geopolitical context. In short, national-level reforms presented an existential threat to subnational incumbents that forced them to search out new strategies for political survival. Building developmental institutions—capable bureaucracies, alliances with the private sector, and neo-corporatist coordination with organized capital and labor—offered one potential path towards renewed political stability.

However, the literature also cautions, in the words of Hall and Soskice (2001), against “overstat[ing] what governments can accomplish” (4). This admonition is especially relevant at the subnational level, where dominant firms have greater capacity to shape the institutional environment. As a result, local authorities, in comparison to their national counterparts, find themselves more constrained in their ability to forge stable developmental institutions. In particular, they are dependent to a greater extent on an accommodating or supportive stance among the largest private sector actors in their jurisdictions. For this reason, analysis of the organization of the local private sector, and the strategies pursued by dominant firms in particular, will be of fundamental importance in understanding regional variation in economic institutions. The literature on business politics reviewed above provides a fruitful lens for such analysis. Drawing on classic theories of collective action and interest groups, this body of work suggests that encompassing business associations that incorporate a representative cross section of the economy’s dominant firms and sectors can be a valuable partner for developmentally-minded governments. By contrast, when large firms “go it alone,” they undermine the force of organized groups and tend to pursue individual maximization strategies vis-à-vis public authorities that may be inimical to developmental objectives such as sustained growth, economic transformation, and upgrading.

A final relevant lesson from the literature reviewed here is the importance of informal institutions and, by extension, history and culture. This dissertation takes a broad view of

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69 In developing country contexts, these leading firms may be MNC affiliates, potentially further complicating efforts to attain private sector cooperation in development projects.

70 In this case, the local private sector refers to firms that participate in the regional economy via production, research, or marketing facilities located in the jurisdiction, regardless of whether their ownership is foreign, national, local, or mixed.
institutions that encompasses the informal rules and shared understandings that help actors in a political economy generate expectations about each other’s preferences and actions. Hall (1986) refers to these informal mechanisms as “standard operating procedures” that derive from convention as much as formal legal status. Common historical experiences among a set of actors can shape such conventions and expectations, leading to a sort of “common culture” that operates independently of formal institutions. This array of informal institutions or shared understandings can diverge considerably even among neighboring subnational units, as result of distinct historical experiences.

The remainder of this dissertation attempts to bring these insights to bear on the question of subnational divergence in post-reform Mexico. To summarize, the essence of the approach is to identify and document variation in local economic institutions based on factors such as the characteristics of bureaucracies; the organization of local firms; and the nature of the relationships and interactions among government, capital, and labor. It is these variations, partly the result of historical patterns, which shaped the economic trajectories of subnational jurisdictions in the context of Mexico’s economic and political reforms. In this version, decentralization (including democratization at the local level) provided the political shock that forced incumbent subnational authorities to devise new arrangements to govern interactions in the local political economy. Whether these new economic institutions proved favorable for development, however, depended in part on the organization of the business and labor sectors.

This account of divergent economic performance at the subnational level thus stands in contrast to several major strands of literature on decentralization and federalism reviewed above. On the one hand, it places less emphasis on the ability of electoral competition as such to generate incentives for improved economic governance. While the onset of political competition is certainly an important part of this story, it is variations in the responses of political incumbents to growing competition, conditioned by factors such as the structure and organization of the private sector, that shape the evolution of economic institutions. In addition, this approach allows for the exploration
of the deeper, institutional origins of variation in the regional distribution of skilled human capital and educational and physical infrastructure—variables that have been identified in the quantitative literature as the proximate causes of sub-national economic performance in post-reform Mexico. The next section fleshes out the historical context for this study in greater detail by providing an overview of Mexico’s 20th century political economy and the economic and political reforms undertaken beginning in the 1980s; the discussion focuses on how these reforms fundamentally altered the incentives facing subnational authorities.

b. Centralized and Decentralized Development in Mexico

The post-revolutionary political economy

Since independence, Mexico has experienced habitual and often violent conflict between centralized and regional power. During the Mexican Revolution (1910-1920) a diverse group of military and political leaders with regional power bases and differing political and ideological motivations rebelled against federal authority, embodied initially by the dictator Porfirio Díaz (1876-1880; 1884-1911) and later by reactionary leaders who sought to re-impose centralized and illiberal rule. At the end of the violent phase of the Revolution, regional military leaders controlled different parts of the country, fragmenting political power and making centralized authority difficult to achieve (Knight 1986). A decade of political instability, punctuated by outbreaks of violence, ensued.

In an effort to achieve stable governance, Plutarco Elías Calles in 1929 created the National Revolutionary Party (PRN), the forerunner of the PRI, whose overriding logic was to channel the political ambitions of the ideologically and geographically dispersed revolutionary leaders through participation in the party (González Casanova 1970). This formula proved successful in establishing order. The numerous conflicts (economic, political, ideological, and personal) among the inheritors of the Revolution, would, thereafter, play out largely within the confines of the official party (Collier and Collier 1991). Through the incorporation of workers, peasants, and the catch-all “popular” classes in corporatist organizations, the PRI provided a framework to balance
the competing interests of these groups while binding them to the state through official channels of interest articulation.71

This system replicated itself at the state and local levels. Regional leaders would pursue their ambitions within the official party apparatus rather than on the battlefield. Social groups organized at the local level were brought into the corporatist fold as regional affiliates of labor, peasant, or popular sectors; those that resisted were persecuted or excluded from state largesse (Rubin 1996). The consolidation of the official party slowly succeeded in subordinating regional powerbrokers to a top-down national structure. By the 1950s a highly-centralized system emerged in which state-level authorities occupied a position of second-order importance. Nominated by the president (and later confirmed in pro forma elections controlled by the party), governors served at the former’s discretion. Presidents had the power to replace governors who fell out of favor. Bureaucratic posts in the sprawling federal government outranked even top state positions in prestige and authority, encouraging local politicians to seek close ties with the center (Díaz-Cayeros 1997).

National authorities’ political domination of the states was reinforced by economic control. A highly centralized fiscal system, in which the federal government wrested more and more tax powers from local authorities, made subnational governments dependent on the center for public resources. The president and a small circle of top federal bureaucrats controlled the key policy levers affecting local economies, including the rules governing private investment, the distribution of credit from state-run development banks, and the creation of local infrastructure and social programs (Hansen 1974). Federal public investment accounted for the vast majority of government spending, dwarfing states’ own budgetary resources. This meant local authorities’ ability to improve public goods and services in their jurisdictions depended on their capacity to bargain and

71 As Davis (1994) explains, the formation of the National Confederation of Popular Organizations (CNOP), the popular sector of the PRI, was motivated by the need to represent the middle classes, artisans, and urban poor in Mexico City, who did not find a natural home in the party’s labor or peasant sectors.
maintain good relations with key interlocutors in the central government—none being more important than the president of the republic.

At the same time, Mexican policymakers in the post-War period constructed a state-led industrialization model based on import substitution and public ownership in strategic sectors. As Ros and Brid-Moreno (2009) explain, the pillars of this system were protection for domestic producers via tariffs and (especially) import licensing;72 direct subsidies and favorable fiscal treatment for industrialists, who were exempted from most taxes for five to ten years and could receive rebates on imported inputs and capital goods; an undervalued exchange rate that discouraged imports of consumer goods; and finally, a labor regime that ensured low real wage growth, especially during the initial phase industrialization.73 The ability to suppress real wage growth can be attributed both to corporatist control of the labor movement and nearly inelastic labor supply as workers left an increasingly unproductive agricultural sector to seek industrial jobs (Hansen 1974).

This policy mix delivered impressive results for three decades between 1940 and 1970. Real annual growth rates exceeded 6 percent on average over the entire period, while manufacturing production grew at around 8 percent on average (Hansen 1974). This growth was achieved in a mostly stable macroeconomic context. After a devaluation of the peso in 1954 led to sharp price increases, the Bank of Mexico restrained monetary policy to assure price stability while maintaining the value of the peso at 12.5 per dollar. This combination of stability and growth, which prevailed between 1954 and 1970, became known as the era of “Stabilizing Development” and set Mexico apart from the rest of Latin America in this period. Observers spoke of a “Mexican miracle.”

72 More than 80 percent of all imports were subject to licensing during the height of state-led industrialization (King 1970).
73 Sturmfhal (1955) estimates that real wages in industry fell between 1940 and 1950. This finding is compatible with figures from Jeffrey Bortz, cited by Bizberg (1990).
State-led growth had important political implications. From the perspective of center-periphery relations, the top-down nature of the economic model served to reinforce the powerful status of the president and top federal bureaucrats and further minimize the influence of regional politicians. These policy makers controlled tariff and import policies, the fiscal and monetary regimes (Central Bank independence would not be established until 1994), and the distribution of public investment. The president could also influence decisions by private investors through various channels. In the case of FDI, for example, presidents retained considerable discretion over the application of the country’s regulations on foreign investors. While in principle these rules established strict conditions on foreign capital, in practice large multinationals often negotiated special arrangements directly with the president (Hellman 1983). Subnational officials arguably played a role, albeit indirectly, in keeping the economic engine running by intervening with state-level union and peasant leaders to forestall and resolve labor disputes. It is nonetheless reasonable to conclude that governors and their main collaborators in state capitals were neither expected nor empowered to make an active contribution to economic development.

Beyond the realm of federal relations, Mexico’s economic success, at least in macro terms, provided the regime with an important quotient of performance legitimacy. The ability of PRI governments to deliver strong growth over three decades thus contributed to a third pillar of the post-revolutionary political economy: the political dominance of the PRI. Beginning in 1929 (under the aegis of the National Revolutionary Party) the official party won every presidential election for the remainder of the century, controlled Congress (until 1997), and occupied every state governorship until 1989. Despite holding regular elections, the party secured its monopoly on power through strategies ranging from cooptation of opposition forces, control of the information and media environment, extensive clientelist networks, vote buying, and when necessary, electoral

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74 Presidents could take advantage of this leverage to favor certain states and localities with investment. A widely discussed (although not well-documented) example of such influence is the intervention of President Gustavo Díaz Ordaz in 1964 to ensure the Volkswagen plant was established in Puebla, the president’s home state. This decision would shape the state’s development trajectory enormously, as this dissertation shows.
fraud and violent suppression of its opponents. Several small opposition parties such as the Popular Socialist Party (PPS) and right-of-center National Action Party (PAN) served primarily to exert pressure or extract benefits and add a veneer of legitimacy to the system, rather than seriously challenge the PRI for power.

This political monopoly in turn reinforced the other aspects of the post-revolutionary system—a centralized, state-led economic model and the political dominance of the federal government over the regions. One-party rule facilitated top-down economic decision making by confining opposing voices to the political wilderness. With a rubberstamp Congress and subservient judiciary, the president and his top ministers amassed enormous power and discretion over the economy. The PRI’s monopoly on political power also helped sustain a highly centralized fiscal regime. In the aftermath of the Mexican Revolution, the centralization of public finances helped consolidate political control over the divided nation in the face of challenges from local power brokers (Hernández Rodríguez 2006). As the PRI emerged as the dominant political actor in Mexico, the federal government convinced state governments to cede control over most sources of tax revenue. In return, the federal government would distribute a portion of this revenue among the states. These transfers, called participaciones, quickly became the most important source of state government revenue. As Díaz-Cayeros (1997 and 2006) argues, state and local officials acquiesced to this system in exchange for a secure political career, which the PRI could guarantee in the absence of political competition and the prohibition of reelection at all levels of government.

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75 Magaloni (2006) details how the party employed a combination of vote buying, clientelism. With respect to the media, Hellman (1983) details several levers through which PRI governments ensured uncritical media treatment, ranging from control of the paper supply to luxurious Christmas gifts for reporters and, finally, the government’s hefty contributions to newspapers’ bottom lines via advertising.

76 González Casanova (1970) finds that between 1934 and 1964 opposition in Congress to bills proposed by the Executive never exceeded 5 percent; most were approved unanimously.

77 A key development in this regard was the 1947 tax convention between the federal government and the states, which established the former’s exclusive taxation authority over foreign trade, natural resources, and banks, as well as excise taxes on alcohol and other products.

78 A legacy of Francisco Madero’s Anti-reelectionist campaign against Porfirio Díaz that ignited the Mexican Revolution, the rule against reelection ensured a steady supply of political offices that could be used to distribute power and appease the demands of competing factions within the party.
A final component of the post-revolutionary regime that served a dual economic and political function was the corporatist organization of industrial and agricultural workers. The official labor and peasant sectors of the party allowed PRI governments to exert top-down control over these groups via their official leaders. Corporatist control of labor facilitated economic management. In the initial phase of industrialization, wage growth remained under tight wraps, actually decreasing in real terms between 1939-1946 and only growing by a total of 8 percent over the subsequent six years (Bizberg 1990). After the loss of macroeconomic stability led to the first in a series of economic crises in 1976, corporatism helped foist the burden of adjustment upon workers, who saw the minimum wage lose 40 percent of its value by 1985 (Trejo 1987, cited in Bizberg 1990). In addition to facilitating economic adjustment, the corporatist organizations provided a critical source of electoral support for PRI candidates in national and local elections over several decades of one-party rule.

In this way, the various pillars of the post-revolutionary political economy—centralization of power, state-led industrialization, one-party rule, and corporatist control of labor—each supported and reinforced one another, in a phenomenon similar to the “institutional complementarities” emphasized in the variety of capitalisms literature. As such, the unraveling of one of these pillars necessarily made the others more difficult to sustain. In the event, each pillar of the system would begin to weaken in the 1970s and eventually come to be supplanted entirely by the turn of the 21st century. The new dynamics that would take their place—dispersion of power, open markets, multi-party competition, and “atomized” labor relations—to implied enormous social, political, and economic changes for Mexico. Of particular relevance for this dissertation is how these changes affected subnational leaders. In the course of two decades, they moved from the

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79 The officials in these organizations often ascended to high-level posts in the federal bureaucracy and national legislature in return for their successful mediation (and more often than not moderation) of demands from their affiliates.
80 Organized labor also played a key role in the negotiations to establish economy-wide agreements on wage and price levels, in coordination with peak business associations, in the 1987 Economic Stability Pact, which is discussed in more detail below.
81 The term “atomized” to refer to Mexico’s post-corporate labor relations is borrowed from Schneider (2014), who used it to define a labor regime characterized by low levels of unionization and short-term, transient employment relationships.
bureaucratic backwaters to the frontlines of a rapidly changing political economy, grappling with
global economic competition, an invigorated political opposition, and social effervescence all at
once.

*Liberalization, democratization, and decentralization: Mexico’s three reforms*

Although the PRI would continue to rule Mexico until 2000, the post-revolutionary political
and economic model was showing signs of strain by the 1960s. The underlying source of
tension was the distribution of gains from the country’s economic growth. The combination of
restrained real wage growth and a regressive fiscal regime featuring low overall tax rates and
generous exemptions for owners of capital resulted in growing income disparities. By the mid-
1960s, Mexico ranked among the most unequal of Latin America’s large economies (ECLA (now
ECLAC) 1967). In the agricultural sector, the number of landless peasants increased by 1 million
between 1950 and 1960, as a small number of large, modernized farms increasingly dominated
production.

The growing gap between labor and capital, and between advanced agroindustry and the
masses of *ejidal* farmers, would soon provoke fissures in the revolutionary political coalition.
Within the party structure, restive labor groups affiliated with the CTM began to stake out a more
confrontational stance towards the government. Intellectuals representing the left-wing of the party
accused the PRI of having abandoned its commitment to social justice in pursuit of industrialization
(Krauze 1996). Discontent crystallized into a formidable social movement in the summer of 1968
when an ongoing conflict between the government and student activists drew in groups on the

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82 According to an IMF study of fiscal effort in the mid-1960s, Mexico ranked 66, 67, 70 on three measures of tax revenue
salary in 1960 was six percent less in real terms than it had been in 1940. Bank of Mexico estimates suggest that the
average incomes of Mexico’s bottom three deciles fell between 1950 and 1963.

83 *Ejidos* are communally-held agricultural lands whose creation was a pillar of the post-Revolutionary economic and
political regime. Until constitutional reforms under President Salinas in 1991, *ejidal* land could not be bought, sold, or
used as collateral.
political left, independent unions, and segments of the middle class in support of the students.84 These diverse groups mobilized increasingly large protests over the course of several months as Mexico prepared to host the 1968 Summer Olympics, representing the most serious popular challenge the PRI had witnessed. The movement reached a tragic climax on October 2, 1968 when the army opened fire on a demonstration of several thousand people in a Mexico City plaza. The Tlatelolco massacre, which claimed hundreds of lives but whose precise death toll remains uncertain, marked a decisive break in state-society relations that some observers cite as the beginning of the end of PRI hegemony.85

Mexicans also made their discontent known at the polls—or, more precisely, by their absence at the polls. With opposition parties still largely symbolic, abstention became a common way to express disapproval of the PRI. Despite obligatory voting, abstention reached 38 percent in the 1976 presidential election. In response, the PRI undertook tentative political reforms aimed at instilling legitimacy into the system without, however, endangering its monopoly on power. The new federal electoral legislation, proposed by president López Portillo in 1977, greatly facilitated the registration of new parties and opened more space for opposition participation in Congress by increasing the total number of seats to 400, including 100 to be assigned by proportional representation (PR) to minority parties.86 These reforms did contribute to a limited pluralization of the political system, with a proliferation of new parties and other political groups, as well as growing representation for opposition parties new and old both in Congress and in municipal presidencies.

The party’s recognition of the need to change course was most clearly manifested in the economic arena. Rather than a move towards the market, however, the first attempt to reorient

84 Most dramatically, elements of the armed forces occupied the National Autonomous University (UNAM) in September, which spurred more moderate teachers and students across the country, as well as groups outside of the university, to rally behind the students’ cause.
85 While the student movement did lose steam in the aftermath of the attacks and subsequent crackdowns, its impact on Mexican politics would become clear in the Echeverría administration, which devoted considerable political capital (and public resources) to winning back the “Generation of 1968” and bringing its leaders into the party fold (see Krauze 1996).
86 Still, the new rules limited the extent to which any opposition party could become a serious force in the Congress.
Mexico’s development model entailed a considerable expansion of the role of the state, with the aim of achieving a more equitable distribution of wealth. Taking office in 1970, President Echeverría, sought to reestablish the party’s putative revolutionary ideals by courting industrial workers, the peasantry, left-wing intellectuals, and former leaders of the 1968 student movement, while casting aspersions upon capitalists, whom he blamed for the country’s yawning socioeconomic inequality and social discontent. In a sharp break with the principles of the Stabilizing Development model, Echeverría greatly increased public spending in an attempt to address social demands and expanded the size and number of SOEs to assert more control over the rate and distribution of investment. Foreign investment would be subject to stringent new controls aimed to ensure that greater benefits accrued to the Mexican economy rather than the coffers of foreign firms. The president also attempted to boost labor’s bargaining power vis-à-vis capital by sponsoring the creation of the Congreso de Trabajo, or Labor Congress, an economy-wide peak workers’ organization. A harsh anti-capitalist rhetoric accompanied these actions. These policies would deliver a shock to Mexico’s long-stable macroeconomy. Growth responded as expected to the expansionist turn, increasing by more than 7 percent in each of the first two years of new administration, but by the mid-point of the sexenio inflation had reached an historic high of 24 percent, and public deficits were rising, forcing the government to lean increasingly on foreign borrowing. The external debt doubled during the second half of the Echeverría administration and

87 Echeverría was not the obvious figure to carry out such a rapprochement with the more radical elements of the PRI. As secretary of government under his predecessor, Gustavo Díaz Ordaz, Echeverría had overseen the military and policy operations that resulted in the massacre of student protestors at Tlatelolco in October 1968, an event that catalyzed the very unrest and opposition that President Echeverría would attempt to address as president by governing from the PRI’s left wing.

88 The size of the public sector ballooned during the Echeverría years employment in the government grew at an annual average rate of 28 percent (Krauze 1996). The expansion of the activities of SOEs had series consequences. Because SOE prices did increase in real terms, their operations represented a growing strain on the country’s finances (Bazdresch and Levy 1991).

89 Despite appearing to expand opportunities for domestic capitalists, this element of the Echeverría program in fact provoked opposition, as many Mexican industrialists relied heavily on foreign firms (and the flexibility in the implementation of rules governing their operations) for capital and technology.

90 The first oil shock in 1973 facilitated the strategy of foreign-debt financed spending as a flood of petrodollars cycled through the global financial system, increasing the supply of low-interest rate loans to developing countries.
outflows of private capital intensified as investor confidence in the government dwindled.\textsuperscript{91} The administration was forced to devalue the peso from 12.5 to 22 per dollar and accept an IMF rescue package in its final year. This loss of macrostability marked the definitive end of Mexico’s vaunted run of stabilizing development.

Not surprisingly, there were also major political ramifications. The statist turn in economic policy under Echeverría provoked outrage among the business class and more technocratic-minded sectors of the bureaucracy.\textsuperscript{92} This (mutual) antagonism between the government and business was exacerbated by the president’s tendency to bash capitalists and bankers in public speeches as greedy, unpatriotic, and even “un-Mexican” (Hellman 1983). The first half of the 1970s thus witnessed, in spite of the president’s goals of solidifying the PRI coalition, a social and political polarization that pitted left-wing movements and radical labor unions against an increasingly intransigent conservative business sector. The latter responded to Echeverría’s policy and discourse by organizing politically through the formation of independent business associations, and increasingly, formal affiliation or informal ties with the center-right PAN, Mexico’s oldest opposition party.\textsuperscript{93}

José López Portillo, who succeeded Echeverría as president, also set out to heal a fractured body politic upon taking office in 1976. In contrast to his predecessor, however, López Portillo offered his olive branch to a disgruntled private sector. The new president’s economic plan, dubbed the Alliance for Production, aimed to regain private sector confidence in the government’s economic policies and reestablish healthy public finances. However, the discovery of massive offshore oil reserves in the Gulf of Mexico in 1976, combined with the second global oil shock in

\textsuperscript{91} One estimate puts the total dollars sent abroad between 4 and 6 billion in 1976 alone (Whitehead 1980)
\textsuperscript{92} Chapter 3 discusses the evolution of state-business relations, and their breakdown during the Echeverría administration, in more detail.
\textsuperscript{93} In 1975, a dozen elite businessmen formed the Business Coordinating Council (Consejo Coordinador Empresarial, or CCE), which would quickly become the most influential business association in the country. They also invested growing resources in Coparmex, an independent employers’ association founded in 1929 that adhered to free-market principles and became an increasingly vocal source of opposition to the PRI after the mid-1970s. See chapter 3 for a detailed discussion of business associations in Mexico.
1979, derailed plans for fiscal retrenchment and a transformation of the economy. Instead, the government’s calling card became “administer the abundance;” a sharp increase in public spending fueled by heavy foreign borrowing based largely on short-term debt ensued, in a rerun of the Echeverría years. Total foreign debt more than doubled between 1978 and 1981 (Bazdresch and Levy 1991); critically, the majority of this borrowing was contracted via short-term commercial bank loans with variable interest rates. This formula proved catastrophic after the 1981 Volcker shock, which sent U.S. policy rates as high as 21 percent, causing Mexico’s obligations on its private bank debt to skyrocket. A downturn in global oil prices further exacerbated the situation. With reserves dwindling and capital flight accelerating, López Portillo was forced to nationalize Mexico’s banks and default on over $80 billion of external debt in the last months of his term.

After the economic debacle of 1982, the fractures of the post-revolutionary political economy would prove beyond repair. It fell to the administration of Miguel de la Madrid (1982-1988) to contend with this bleak economic reality and its political implications. Amid budget austerity and triple-digit interest rates, the economy failed to grow over the course of the sexenio, while inflation averaged 86 percent per year and real wages fell by 40 percent (González 2008). The economic privations of the 1980s sapped much of the PRI’s already tenuous legitimacy. The sudden scarcity of public resources removed a key tool in the PRI’s arsenal of political control over its corporatist sectors—labor, peasants, and bureaucrats. Despite the administration’s attempts to bolster the power of the state to manage the crisis, the economic and political realities of the debt crisis era led ineludibly to a diminishing of presidential prerogative and, in turn, the PRI’s stranglehold on power.

In the economic realm, a variety of forces favored the dismantling of Mexico’s state-led growth model. Under pressure from official creditors, Mexican policymakers initiated a series of market-oriented reforms, beginning with unilateral trade liberalization in 1985. Despite the prospect of import competition, most business people supported the opening as a necessary measure to stem inflation (Pastor and Wise 1994).
to win back the confidence of the business community, which had evaporated after the 1982 bank nationalization and convince them to invest in the economy again. To accomplish this rapprochement, the government reprivatized a third of nationalized bank assets, paying compensation to expropriated bankers, and consulted regularly with prominent business leaders on the administration’s key policy moves.  

This tentative but distinct embrace of economic liberalization, in close consultation with top industrialists, had the predictable effect of complicating the party’s relationship with labor. The policy of the de la Madrid administration was to restrain wage growth in order to rein in inflation. The negotiation of the economy-wide Economic Solidarity Pact between capital, labor, and the administration in 1987 illustrated the strength of the state-business alliance, at the expense of workers. Even though leaders of the CTM participated as labor’s official representative, the content of the agreement, which again used wages to anchor inflation, reflected the reality that private sector interests had become ascendant (González 2008).

The PRI would pay a steep political price for forcing workers to bear the cost of adjustment. The 1980s saw an intensified round of urban protests and social movements directly questioning the party’s fitness to retain power as Mexicans’ living standards plummeted. Neighborhood-based, independent popular organizations sprung up in urban areas around the country. Even official labor leaders accused the government of betraying the party’s historic alliance with labor. Nor was the mobilization against the PRI confined to the working class. In contrast to past manifestations of discontent, the middle class played a major role, supporting a variety of social organizations

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94 This reconciliation with the private sector also effected a shift in the balance of power within the Mexican business elite that elevated a younger group of capitalists with more interests in the newly-liberalized financial sector. The group of business people benefitting from the re-privatization of nationalized bank assets under de la Madrid, for example, was closer to the government and more supportive of its liberalizing reforms (Morales 2014; see also González 2008, 121).

95 In carrying out this strategy, the government attempted to dilute the power of the CTM by bringing outside unions into contract negotiations and promoting a decentralization of wage bargaining.

96 These groups, which served both a political function in organizing groups outside of the party apparatus and an economic one in providing material support for the urban poor, played a prominent role in the response to the devastating earthquake that struck Mexico City on September 19, 1985. The government’s flat-footed reaction to this tragedy further sapped the PRI’s credibility.
promoting causes ranging from debt forgiveness to anti-corruption, to election monitoring (González 2008). In the electoral realm, opposition parties took advantage of this generalized discontent to mount increasingly serious challenges to the PRI, especially at the municipal level. In its Northern strongholds, the PAN wrested control of the important cities of Chihuahua and Ciudad Juárez from the PRI, buoyed by middle class professionals and small business owners that swelled the party’s ranks in the 1980s.97

Dissent also erupted within the party itself. The acute challenges of the debt crisis years exacerbated a long-simmering rift between, on the one hand, a modernizing wing that supported market-oriented reforms as the PRI’s best hope to resuscitate both the economy and its own prospects and, on the other, a more nationalist element whose prescription was to re-embrace the party’s revolutionary ideals of social justice, nationalism, and solidarity with the working class. While this tension had existed since the founding of the party, and had played out in bitter cabinet disputes during the Echeverría and López Portillo years, the market opening and ascendance of technocrats in the de la Madrid government constituted an existential threat to the PRI’s core values in the view of the nationalist wing. This internal clash came to a head after party leaders chose Carlos Salinas de Gortari, a young, Harvard-educated economist and technocrat par excellence as its candidate to succeed de la Madrid.98 In response, the nationalist faction, known as the Democratic Current, split from the PRI and rallied behind the candidacy of Cuauhtémoc Cárdenas, its most prominent figure.99 Cárdenas mounted a formidable challenge against his former party. In

97 The government’s economic liberalization and reconciliation with organized business did not suffice to stem desertion from the PRI among segments of the business community for several reasons. For starters, free-market minded business people remained wary of de la Madrid’s commitment to economic reform; his refusal to fully re-privatize banking assets contributed to this distrust. A second reason has to do with divisions among the business sector itself. While the elite business leaders brought into the highest circles of power often preferred to work with the government, small and medium sized independent business people, who bore the brunt of the macroeconomic dislocations of the 1980s, eagerly supported the PAN, especially at the local level. In many cases they featured as candidates in the PAN’s early municipal and state-level victories (Mizrahi 1994).

98 Salinas, as Secretary of Budget and Planning under De la Madrid, had been at the helm of an influential group of technocrats. After prevailing in a clash with the Finance Minister Jesús Silva over whether to negotiate external debt reduction unilaterally with the United States or as part of debtors’ cartel with South American countries (Salinas favored the former approach), he had ascended to a position of unmatched authority in the De la Madrid cabinet (González 2008).

99 Cárdenas is the grandson of Lázaro Cárdenas, the iconic PRI president who governed from 1934 to 1940 and solidified the party’s nationalist identity through actions including the nationalization of the oil sector in 1938.
the late hours of election day, authorities shut down voting under the pretext of a computer crash, later declaring Salinas the victor with 50.4 percent of the vote.\textsuperscript{100} While the PRI managed to cling to power, its days of unquestioned domination had clearly come to an end.

Despite the dubious circumstances of his election, and the presence of formidable opposition parties on the left and right, Salinas proved to be a strong president. On the economic front, the president moved decisively to accelerate the process of liberalization and market reforms begun in the de la Madrid sexenio. Most notably, Salinas consolidated Mexico’s historic shift towards global economic integration by proposing and negotiating the NAFTA agreement with the United States and Canada. In another major transformation of the country’s economic landscape, the government oversaw a large program of privatizations, with over a thousand state owned enterprises passing into private hands.\textsuperscript{101} The administration also continued the practice of economy-wide wage and price negotiations to manage inflation—a system that Salinas himself had engineered as a member of the de la Madrid cabinet and which continued to earn support from the private sector and opposition from organized labor (González 2008). The alliance between the government and the business sector elite thus solidified during the Salinas sexenio, although the wholehearted embrace of economic integration also divided the business community.\textsuperscript{102}

The political corollary of Salinas’ economic opening was a concentration of power in the executive. Arguing that achieving economic reform required political stability, Salinas attempted to slow the pace of political reform and reassert the tradition of the strong presidency in Mexico. Upon taking office, the president struck dual blows against the powerful leader of the oil workers

\textsuperscript{100} Cárdenas, who received 31.1 percent of the vote according to the official tally, is widely believed to have had the election stolen from him by fraud, provoking generalized outrage among the population. The PAN’s candidate, business leader Manuel J. Clouthier, received 17.1 percent. Despite its third-place finish, the 1988 presidential election represented the PAN’s most assertive challenge to PRI rule on the national stage and marked the emergence of a “modern right” in Mexico according to Loaeza (1989).

\textsuperscript{101} The privatizations, which included important holdings such as the telephone monopoly (Teléfonos Mexicanos or Telmex), the national airline, and the remaining nationalized banking assets, have been carried out in a setting that lacked transparency, competition, or oversight, resulting in the creation of poorly-regulated private monopolies in key sectors.

\textsuperscript{102} Smaller firms with mostly domestic operations tended to be wary of economic integration, while the policy enjoyed the full support of large exporters and firms with interests in the financial sector. At the same time, a segment of the business community continued to staunchly oppose the PRI for its authoritarianism and systemic corruption. See chapter 3.
union, Joaquin Hernández, and the banker Eduardo Legorreta. These moves, which landed both men in jail, served as warnings that presidential authority was alive and well and would not brook opposition to the government’s agenda. Salinas also had a heavy hand in dealing with PRI governors, many of whom hailed from the nationalist wing of the party and took a dim view of market reforms. The president removed a full 17 PRI governors from office, the highest number in a single administration. ¹⁰³

However, the political reality of the country had become too complex for top-down single party rule. In order to secure support for his reform package, Salinas sought an informal truce with the center-right PAN, which was seen by the government as preferable to the PRD with its nationalist economic vision and links to radical labor groups. ¹⁰⁴ A clear manifestation of this modus vivendi between the Salinas government and the panistas was the practice of concertaciones—a portmanteau of the Spanish words for agreement and concession—whereby the PRI agreed to recognize PAN victories in certain (usually smaller) local jurisdictions in return for political support on policy issues or accepting continued PRI control over more valuable local posts. Naturally, these arrangements were not declared openly.

The upshot of these changes was that the PAN won increasingly important sub-national victories. The first non-PRI governorship since the Revolution became a reality with the triumph of businessman Ernesto Ruffi in 1989 in Baja California. Additional panista gubernatorial wins followed in Chihuahua (1992) and Guanajuato (1995). ¹⁰⁵ Despite facing more aggressive repression from the ruling party, the left-wing PRD also gained ground in local elections, especially

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¹⁰³ The reasons for these destitutions varied. Some of the governors were tapped for high-level cabinet posts such as Francisco Barrios of Veracruz, who became secretary of government. More common were cases in which PRI governors lost their post for having “allowed” Salinas’ rival Cárdenas to win their states in the 1988 election or for their involvement in acts of repression or corruption. An example that demonstrates the increasingly tenuous position of PRI governors is that of Ramón Aguirre whom Salinas asked to step down after having been declared winner of a contested election in Guanajuato in 1991. The president intended to sacrifice Aguirre’s post in a quid pro quo with the PAN (Proceso Sept. 7, 1991, “La renuncia de Aguirre por órdenes del presidente Salinas”). Clearly, governors had to navigate an increasingly uncertain relationship with the presidency under Salinas.

¹⁰⁴ The PRI had lost the super-majority needed to reform the Constitution in the 1988 elections, which meant that PAN congressional support was needed to enact the banking sector re-privatization.

¹⁰⁵ However, Guanajuato had been governed by an appointed PAN politician since 1991 (see footnote 103).
In Michoacán, Guerrero, and Mexico City. In this way, even as Salinas moved to consolidate power at the national level, the subnational electoral arena grew increasingly competitive. From the perspective of incumbent PRI governors, this meant the electoral guarantee that had underpinned federal-state relations for much of the 20th century ceased to operate. Their ability to ensure party continuity—and thus advance their own political ambitions—increasingly depended on their ability to manage political and social conflict locally, in a context of growing opposition strength.

This task had become more difficult due to decentralization of the health and education systems during the de la Madrid and Salinas administrations, respectively. These reforms assigned greater policy responsibility to subnational governments without sufficient financial resources, while also exposing local officials to pressure from organized interests such as teachers’ unions (Ward and Rodríguez 1999). The weakening of the PRI’s traditional corporatist structures—another key feature of Mexico’s reform experience—loosened local-level unions and organizations from national control, potentially freeing them to make more assertive demands.

One consequence of this new scenario was that governors felt empowered to demand greater financial and political resources to deal with increasingly complex local governance environments (Ward and Rodriguez 1995; Snyder 1999; Flamand 2006). This was especially true under the administration of Ernesto Zedillo (1994-2000), who succeeded Salinas and, in stark contrast to his predecessor, committed himself to depoliticizing the presidency, which had traditionally served a dual role as unofficial head of the PRI. Some PRI governors took this abdication of informal power as an invitation to challenge federal authority on a range of issues.107

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106 As described above, the highly-centralized nature of the Mexico development model traditionally afforded local leaders scarce resources with which to operate. Governors thus mounted increasingly vocal demands for a greater share of public resources, advocating for a larger share of federal revenues. The federal government did increase percentage of revenues distributed among the states three time during the 1990s, although not by the magnitude that governors had demanded.

107 Prominent among these was the use of federal resources within the states. Manuel Bartlett Díaz, governor of Puebla during most of the Zedillo sexenio was one of the most assertive governors. He famously passed a law to determine the distribution of transfers among Puebla’s municipalities (which was supposed to be decided at the federal level). The so-called Ley Bartlett had clear electoral intentions (Ward and Rodriguez 1995).
Finally, the embrace of economic integration and market reforms by successive PRI national governments raised the economic stakes for subnational governments. The influx of foreign direct investment under a fully liberalized regime after the entry into force of NAFTA in 1994 meant local governance conditions took on greater importance in the distribution of productive investment. States competed among themselves to attract the growing numbers of MNCs investing in Mexico. Subnational officials became important ambassadors for their states, and credible and persistent promotional campaigns directed at MNCs and foreign governments became a key job function for growth-minded governors.

Of course, governors employed different strategies to deal with changing subnational political economies. As Snyder (1999) outlines, these decisions responded in part to individual ideological preferences and leadership styles. But they also depended to an important degree on the array of social and political institutions and organizations present in each state. In short, the overlapping and multi-dimensional political and economic reforms at the national level fundamentally altered the dynamics of subnational politics (see Table 2.1). On the one hand, they increased the political stature of governors and the amount of resources they controlled. At the same time, however, other actors in the subnational sphere who could potentially challenge incumbent governors became more politically assertive. Finally, the way in which governors dealt with heightened political contestation had unprecedented implications for states’ economic prospects, as market reforms unleashed economic competition among the states.
Table 2.1: Effects of political and economic reforms on subnational politics in Mexico

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Pre-Reform Logic (1940-1982)</th>
<th>Post-reform logic (1982-present)</th>
<th>Effect on subnational politics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal relations</td>
<td>Centralized control</td>
<td>Division of power</td>
<td>Increase capacity of governors to pursue independent projects</td>
</tr>
<tr>
<td>Political system</td>
<td>Hegemonic party electoral authoritarianism</td>
<td>Multiparty competition</td>
<td>Increase governors’ incentives to respond to local conditions</td>
</tr>
<tr>
<td>Economic model</td>
<td>Inward-looking state-led industrialization</td>
<td>Global integration and market competition</td>
<td>Greater importance in investor decision making</td>
</tr>
<tr>
<td>Interest group mediation</td>
<td>State corporatist</td>
<td>Interest group dispersion/competition</td>
<td>Increase local societal demands</td>
</tr>
</tbody>
</table>

Source: Author

Governors had to devise new strategies to deal with this increasingly complex situation. The argument developed in this dissertation will focus on these strategies and their implications for states’ economic trajectories. The next section discusses the state-level political and economic outcomes of Mexico’s reforms, highlighting the divergence that has been a notable feature of this performance. It also shows why existing explanations for regional divergence are either insufficient or incomplete and proposes a new argument based on gubernatorial strategy and the features of the local institutional setting that shaped these strategies.

c. The Results of Reform: Economic and Political Divergence

Mexicans continue to debate the consequences of the fundamental economic and political reforms carried out starting in the 1980s. The purpose of this section is not to review or, less still, attempt to resolve these but rather to apply a regional lens that illustrates how the reforms led to different outcomes in different parts of the country. This approach allows for a more even-handed evaluation of the impacts of economic and political liberalization and represents a necessary first step towards understanding the underlying factors behind regional divergence.
On the economic side, the effect of Mexico’s rapid and deep trade liberalization on regional economies has been studied extensively. Most of this work has taken a quantitative approach, employing data on macroeconomic indicators such as income per capita or FDI across all thirty-one Mexican states and attempting to determine the proximate causes of these outcomes via regression analysis or other statistical methods. The large body of work on this issue is thus quite consistent on the following three points: i) the incomes of Mexican states diverged after its trade liberalization in 1985, in the sense that previously richer states, on average, grew faster than their poorer counterparts (Esquivel 1999; Messmacher 2000; Rodríguez Oreggia 2001; and Rodríguez-Pose and Sánchez-Reaza 2002; Chiquiar 2005); ii) the Northern border states experienced particularly strong growth in this period, especially in the years after NAFTA entered into force, while the remote Southern states of Chiapas, Guerrero, and Oaxaca languished (Esquivel et al 2002; Aroca et al 2005); and iii) after Mexico’s trade opening, factors such as the quality of human capital (proxied by education levels), infrastructure, and pre-existing industrial agglomerations became the main determinants of state-level growth (Esquivel et al 2002; Jordaan and Rodríguez-Oreggia 2012). Combining these findings produces a concise and intuitive story in which trade opening increased incentives for firms to locate at the border in order to reduce transport costs. These incentives were reinforced by the fact that the North also enjoyed comparatively high levels of infrastructure, education, and manufacturing before 1985—and thus was among the richest regions before liberalization. The coincidence of lower transport costs and better conditions for production led to fast post-liberalization growth in the North and relative stagnation in the South where the

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108 In fact, Brülhart (2011) speculates that Mexico is the most-studied case of the regional effects of trade liberalization because of the rapid and profound nature of its economic opening after 1985. Interestingly, he also argues that the Mexican experience of divergence has led scholars to inappropriately generalize the effects of trade liberalization on within-country growth convergence. As discussed above, there are several theoretical reasons to expect that economic liberalization would bring more benefits to relatively advanced economic regions; the empirical record, however, shows this has not always been the case.

109 The Chiquiar paper is more definitive among this set of studies for including a more thorough range of control variables and more extensive data on post-NAFTA years. The paper finds evidence of divergence after 1985 even when controlling for a variety of socioeconomic and geographic variables that theory suggests would affect growth rates; this stands in contrast to the period between 1970 and 1985 when poorer states on average experienced faster growth.
opposite conditions prevailed. This outcome led mechanically to divergence because the North had been richer than the South before 1985.\footnote{In addition, it is highly plausible that the North’s relative wealth stemmed in turn from its closeness to the United States. Trade with the US economy helped spur the industrialization of the North in the late 19th and early 20th centuries. The rise of a state-led economic model moderated states’ natural geographical advantages to some extent, especially between 1970 and 1982 when successive presidents made explicit attempts to address regional disparities through public investment.}

However, this is not the entire story. The narrative that Northern border states thrived while the distant South struggled overlooks important variation \textit{within} these and other sub-regions of the country.\footnote{Even among the six border states (Baja California, Chihuahua, Coahuila Nuevo Leon, Sonora, and Tamaulipas), which grew on average 1.64 percent between 1985-2001 (versus a national average of 1.13), there is considerable variation between Chihuahua (3.08 percent) and Baja California (0.86 percent). During the shorter sub-period between 1993 and 2001, the performance of the six border states was more uniform and more clearly superior to the national average (see Chiquiar 2005).} As work by Aroca et al (2005) suggests, a large group of states in central Mexico experienced quite different growth records post-liberalization—that is to say, their economic performance does not seem to have been strongly determined by their common geographic features. Moreover, many of these states had similar socioeconomic endowments going into Mexico’s reform period. As Figure 2.1 shows, for a large group of states the common growth determinants cited in the econometric literature—human capital as measured by schooling, basic infrastructure stocks, and preexisting industrial concentration—do not appear to have been very strong predictors of economic performance. The trend line is largely determined by border states Chihuahua and Nuevo León and the southern laggards—Chiapas, Guerrero, and Oaxaca.
A more microscopic view of the state-level data thus reveals important divergence in growth performance among states with broadly similar socioeconomic and geographic characteristics. In addition, scholars and policy makers have increasingly focused on economic outcomes that go beyond growth rates to include economic diversification, productivity, and domestic value added—components of the concept of upgrading, which is discussed in more detail below. Such “deeper” measures of economic performance were generally not included in the first wave of scholarship on regional divergence in Mexico, potentially missing important differences even among relatively fast-growing states.

Explaining these facets of Mexico’s divergence therefore requires going beyond the proximate growth determinants emphasized by most econometric work and considering in depth the role of economic institutions and the political factors behind them. It is also requires defining the dependent variable in a broader way that captures the multi-dimensional nature of economic transformation and upgrading. As discussed above, the cross-national literature suggests a focus on
the organization and structure of public sector bureaucracies and private sector organizations, as well as the mechanisms governing their interactions. Such mechanisms, following the VoC literature, will likely encompass both formal rules and informal norms, practices, and even historico-cultural characteristics of particular regions. The next section identifies a compelling setting to study the institutional origins of subnational divergence: Puebla and Querétaro, two states which, on the eve of Mexico’s liberalization, would have appeared to most observers to have had similar chances of prospering in the era of economic integration.

d. Case Selection

Socioeconomic endowments and geography undoubtedly played a role in regional growth patterns in Mexico post-liberalization. However, the evidence cited above also presents a strong case that such factors are insufficient for understanding the full contours and complexities of states’ economic trajectories, including “deeper” measures of performance such as structural transformation and upgrading. A more complete vision also requires an explanation for divergence among previously similar states, as well as an account of the nature and origins of institutions that can only be achieved through a case study approach.

The logic of this dissertation is therefore to identify and examine a setting where institutional variation plausibly accounted for regional divergence. To do so, I consider the economic trajectories of two states, Puebla and Querétaro, with relatively similar socioeconomic and geographic characteristics circa 1985 but significantly different economic outcomes thereafter. Table 2.2 provides a broad justification for this case selection. On basic indicators such as average schooling and coverage of communications and transportation infrastructure, there was little difference between the two states on the eve of Mexico’s trade liberalization. Studies citing those variables cannot explain the particular case of divergence between these two states.
Table 2.2: Socioeconomic and geographic indicators of Puebla and Querétaro, 1985

<table>
<thead>
<tr>
<th></th>
<th>GDP/capita (USD)</th>
<th>Distance to US border (km)</th>
<th>Average schooling</th>
<th>Railroads/100 km2 (km)</th>
<th>Telephones / 100 persons</th>
<th>Households w/ electricity (%)</th>
<th>Manufacturing (share of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Querétaro</strong></td>
<td>2,397</td>
<td>921</td>
<td>4.95</td>
<td>2.63</td>
<td>6.37</td>
<td>73.05</td>
<td>39.5</td>
</tr>
<tr>
<td><strong>Puebla</strong></td>
<td>1,823</td>
<td>969</td>
<td>4.65</td>
<td>3.03</td>
<td>6.29</td>
<td>76.2</td>
<td>25.82</td>
</tr>
<tr>
<td><strong>National</strong></td>
<td>3,052</td>
<td>n/a</td>
<td>5.58</td>
<td>1.34</td>
<td>10.6</td>
<td>81.29</td>
<td>24.84</td>
</tr>
</tbody>
</table>

Sources: Chiquiar (2005), INEGI

Note: Distance to U.S. border measured from capital city to closest major border crossing; GDP per capita data are from 1988

Both states were also below the national average of per-capita income as of the late 1980s. Although it is true that Querétaro was richer on average than Puebla at the time Mexico initiated economic reforms, this gap had been present for several decades (see Figure 2.2) and had remained more or less stable until the early 1990s. In the period between 1994 and 2012, by contrast, Querétaro achieved an annual average growth rate of 5.4 percent, the highest rate among all Mexican states, compared with 3.7 percent in the case of Puebla.\textsuperscript{112} Notably, this strong performance held both during the immediate post-NAFTA period (1994-2001) as well as the subsequent sub-period (2002-2012) during which Mexico’s economy faced the dual shocks of China’s entry into the WTO (which affected the manufacturing sector in particular) and the 2008 global financial crisis. By 2010, the GDP per capita in Querétaro stood at US$ 10,494, nearly double that of Puebla (US$ 5,879).\textsuperscript{113}

\textsuperscript{112} The GDP figures cited here are based on data from INEGI’s Sistema de Cuentas Nacionales de México, accessed July 2015

\textsuperscript{113} These figures are based on 2010 prices.
However, Querétaro’s economic success goes beyond aggregate growth. Its economic evolution has been accompanied by large inflows of foreign direct investment in manufacturing. The state received an annual average of US$ 171 per capita between 1999 and 2012, compared with US$ 71 in the case of Puebla. The promise of foreign direct investment in developing economies is that it will spur dynamic development gains by bringing new industries with a growing technological component, demand for highly skilled labor, learning-by-doing, and greater capacity for innovation to local economies. These features in turn hold the potential to produce spillovers to other firms and areas of the economy beyond the boundaries of the MNC.
Table 2.3: Evolution of top manufacturing industries in Puebla and Querétaro

<table>
<thead>
<tr>
<th>Industry</th>
<th>Share GDP</th>
<th>Industry</th>
<th>Share GDP</th>
<th>Industry</th>
<th>Share GDP</th>
<th>Industry</th>
<th>Share GDP</th>
<th>Industry</th>
<th>Share GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td>7.9%</td>
<td>Automotive</td>
<td>7.5%</td>
<td>Automotive</td>
<td>11.3%</td>
<td>Auto parts</td>
<td>16.0%</td>
<td>Auto parts</td>
<td>12.7%</td>
</tr>
<tr>
<td>Cellulose and paper products</td>
<td></td>
<td>Food products</td>
<td>5.3%</td>
<td>Cellulose, paper, and cardboard</td>
<td>3.7%</td>
<td>Synthetic rubbers and fibers, resins</td>
<td>4.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>5.6%</td>
<td>Automotive</td>
<td>5.5%</td>
<td>Food products</td>
<td>5.3%</td>
<td>cultivation</td>
<td>3.7%</td>
<td>Grains and seed processing</td>
<td>4.0%</td>
</tr>
<tr>
<td>Artificial and synthetic fibers</td>
<td>4.9%</td>
<td>Electronics equipment</td>
<td>3.9%</td>
<td>Electronics equipment</td>
<td>5.2%</td>
<td>Grains and seed processing</td>
<td>3.5%</td>
<td>Food products</td>
<td>3.8%</td>
</tr>
<tr>
<td>Other food products</td>
<td>4.8%</td>
<td>Meat</td>
<td>3.8%</td>
<td>Beverages</td>
<td>5.1%</td>
<td>Cellulose and paper products</td>
<td>3.4%</td>
<td>Plastic products</td>
<td>3.5%</td>
</tr>
<tr>
<td>Electrical machinery and equipment</td>
<td>4.3%</td>
<td>Confections</td>
<td>3.5%</td>
<td>Household appliances</td>
<td>5.0%</td>
<td>Household appliances</td>
<td>3.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HHI</td>
<td>0.06</td>
<td></td>
<td>0.04</td>
<td></td>
<td>0.04</td>
<td></td>
<td>0.04</td>
<td></td>
<td>0.03</td>
</tr>
</tbody>
</table>

Source: INEGI Censos Económicos 1989-2009

Notes: Industries defined at four-digit level. Due to changes in the classification scheme over time, automobiles and auto parts were not distinguished until the 2004 census. HHI refers to the Herfindahl Hirschman Index, a commonly-used measure of industry concentration. The index ranges from 0 to 1, with higher values representing greater levels of concentration.

The influx of foreign capital into Querétaro has helped bring about a structural transformation of the state economy towards increasingly skill-intensive and frontier sectors. One
notable development in Querétaro’s manufacturing sector in the 21st century has been the rise of the state’s aeronautic sector, which has seen rapid growth since the arrival of Bombardier in 2006, increasing at 15 percent on average between 2010 and 2015. Despite this fast growth, the aerospace sector still accounted for just 0.5 percent of state GDP by 2010. As Table 2.3 shows, however, there has been considerably more churn and diversity in the top industries in Querétaro over the two decades between 1988 and 2008 than in the case of Puebla, which has retained essentially the same mono-industrial structure dominated by the automobile industry since the 1980s. In addition, Querétaro has maintained greater industrial diversification throughout the entire economy during this period, as measured by the Herfindahl Hirschman Index (see Table 2.3). In fact, the state’s economic structure has grown continually more diverse over the two decades starting in 1988, while Puebla experienced an initial spike in industry concentration before reverting to a lower yet still comparatively high level by the mid-2000s. Figure 2.4 provides more systematic evidence that this evolution has brought increasingly technologically-intensive industries to Querétaro, showing that the state experienced an increase in average industry complexity (a measure of the knowledge inputs of different economic activities) of 26 percent over this period, compared with 2 percent for Puebla.

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114 Because INEGI’s classification scheme started to distinguish between automobile assembly and auto parts production in the 2004 census, the dominance of the auto sector appears less strong in the 2004, 2009. However, given the dominance of Volkswagen over the entire sector (including parts producers), the combined participation of these two sectors gives a better sense of the degree of concentration.

115 The measure of industry complexity used in these calculations attempts to capture the amount and complexity of knowledge and know-how incorporated in different products. Higher values of the index indicate more complex and knowledge-intensive industries. See the Mexican Atlas of Economic Complexity for more information: http://complejidad.datos.gob.mx/?locale=en-mex
Querétaro’s structural change in the direction of more knowledge-intensive industries has also spurred an increase in innovation and quality. While inherently difficult concepts to measure, the indicators presented in Table 2.4 (patents solicited, ISO-9000 certified firms, and number of researchers) are commonly used and easily accessible proxies. These indicators, which show that Querétaro has been among the top performers in Mexico during the 21st century while Puebla is in the middle of the pack, matter because they provide evidence, albeit in broad strokes, of the type of activities carried out in the factories, offices, and laboratories of the two states. In the context of global value chains, national and regional economies are increasingly defined less by the industries they participate in than the type of inputs or activities they contribute to a good or service’s production process. The trend in recent decades has been for middle-income developing economies such as Mexico to play a leading role at the manufacturing stage of products such as automobiles, electronics, aircraft, and other relatively advanced industrial sectors dominated by foreign
investors.\textsuperscript{116} However, activities such as research, product design, marketing, and branding—which represent the segments of value chains where most value is added—have continued to be dominated by the advanced economies.

**Table 2.4: Innovation indicators, 2010**

<table>
<thead>
<tr>
<th>States</th>
<th>Patents/million inhabitants</th>
<th>Ranking</th>
<th>ISO-9000 firms Certified firms/100 firms</th>
<th>Ranking</th>
<th>Researchers/10,000 PEA*</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Puebla</td>
<td>7.54</td>
<td>8</td>
<td>1.77</td>
<td>23</td>
<td>2.48</td>
<td>15</td>
</tr>
<tr>
<td>Querétaro</td>
<td>26.84</td>
<td>2</td>
<td>5.68</td>
<td>5</td>
<td>5.29</td>
<td>5</td>
</tr>
</tbody>
</table>

*Source: IMCO 2012 Indice de Competitividad Estatal*

*Note: Ranking indicates each state’s relative position among Mexico’s 32 federal entities.*

*PEA is the Spanish acronym for economically active population.*

The capacity to carry out research, design, and other high-value added activities locally is linked to the concept of upgrading, which can generally be thought of as innovations (broadly conceived) that allow for greater value added. Scholars have identified distinct channels for upgrading in the context of global value chains: process, product, functional, and inter-sectoral upgrading (see Humphrey and Schmitz 2000). Process upgrading involves increasing productivity and reducing costs through improving the production processes or incorporating new technology (Schmitz 1999); product upgrading entails shifting to more sophisticated or better quality products (Gereffi 1999); functional upgrading requires moving into higher value-added activities within a value chain (Bair and Gereffi 2001); while inter-sectoral upgrading means diversifying into new products altogether (Guerrieri and Pietrobelli 2004). Reflecting the multidimensional nature of the concept, Doner (2009) describes upgrading as involving three processes: increasing value added, incorporating local inputs into production, and achieving insertion in global value chains. What distinguishes upgrading in general, then, is its reference to the nature of production processes, the quality and sophistication of products, and the types of activities performed. Upgrading is therefore a distinct—and more institutionally demanding—phase of development than structural change, \textsuperscript{116}The aerospace sector provides a good example of the global value chain structure of production. Gereffi et al (2005) estimate that 80 percent of an airplane’s total value is outsourced.
which depends on the types of industrial sectors present in an economy without reference to local firms’ specific contribution to production (Chen 2014).\footnote{117} In light of its multifaceted nature and reference to qualitative concepts such as sophistication and quality, upgrading is not easily captured in a precise indicator. Still, the measures presented in Table 2.5 provide reasonable proxies for the various components of upgrading that serve to show suggestive divergence between Puebla and Querétaro on this dimension. In particular, in the area of productivity (process upgrading), Querétaro’s median industry has considerably outpaced that of Puebla, even as the states started from similar levels in 1993. In addition, data on patents and high-technology exports\footnote{118} (functional and inter-sectoral upgrading) also indicate an advantage for Querétaro. On the other hand, the states have comparable levels of value added as a share of total production (product upgrading).

Table 2.5: Indicators of upgrading in Puebla and Querétaro

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Process upgrading</td>
<td>Median industry productivity</td>
<td>27.1</td>
<td>47.3</td>
<td>76.2</td>
<td>91.0</td>
<td>31.9</td>
<td>68.8</td>
<td>100.0</td>
<td>133.9</td>
</tr>
<tr>
<td>Product upgrading</td>
<td>Total value added</td>
<td>0.24</td>
<td>0.36</td>
<td>0.46</td>
<td>0.37</td>
<td>0.33</td>
<td>0.40</td>
<td>0.42</td>
<td>0.38</td>
</tr>
<tr>
<td>Functional upgrading</td>
<td>Patents</td>
<td>n/a</td>
<td>n/a</td>
<td>2.6</td>
<td>3.9</td>
<td>n/a</td>
<td>n/a</td>
<td>6.5</td>
<td>11.8</td>
</tr>
<tr>
<td>Intersectoral upgrading</td>
<td>High-tech manufacturing</td>
<td>n/a</td>
<td>n/a</td>
<td>5.2%</td>
<td>3.4%</td>
<td>n/a</td>
<td>n/a</td>
<td>4.9%</td>
<td>8.5%</td>
</tr>
</tbody>
</table>

Sources: INEGI Economic Census (1994-2009), IMCO Índice de Competitividad Estatal (2014), and Atlas de Complejidad Económica

Notes: Median industry productivity is the labor productivity of the median industry (by total production), defined at the four-digit level; Patents are reported as number of patents solicited per 1,000,000 economically-active inhabitants.

\footnote{117}{For Doner (2009), the distinction between structural transformation and upgrading captures the essence of the “uneven development” that characterizes many middle-income countries and, in his view, has been understudied by scholars caught up with national comparisons. The evidence of upgrading in Querétaro’s economy—supported by linkages among firms, universities, and public and private research centers—thus represents a phenomenon of considerable academic and policy interest.}

\footnote{118}{High-technology exports are defined using the OECD industry classifications. Classifying industries based on their technological or knowledge requirements is inherently complex, and each approach has advantages and drawbacks; the OECD classifications employed here have the benefit of being simple and applicable over longer periods of time. For a critique of existing classifications schemes see Carroll, Pol, and Robertson (2000).}
We have thus seen evidence of divergence between the case states on the dependent variable—economic performance, defined broadly to include sustained growth, structural transformation, and upgrading—as well as data indicating their similar levels of socio-economic development before the onset of Mexico’s reforms. In comparing two relatively industrialized states, this dissertation applies the logic of most-similar cases. As laid out by John Stuart Mill (1847), this approach attempts to identify cases that have equivalent values on all variables that could plausibly affect the outcome of interest, save for one. The difference in this remaining variable, by extension, must account for any observed difference in outcomes. Causality is thus achieved through cross-case comparison employing an “all else equal” logic similar to that of standard regression analysis. However, the pretensions of this dissertation are both more modest and more expansive. The two case states indeed have similar (although not equivalent) values on the key variables that have been identified in large-N cross-state comparisons as determining economic performance. The significant differences in outcomes described above must therefore owe, I propose, to other factors such as institutions. Much of this dissertation will be devoted to accounting for and describing differences between Puebla and Querétaro in the organization of the private sector and unions (institutions-as-organizations) and the mechanisms and practices governing relations among these groups and the sub-national state (institutions-as-rules). These institutions represent the key variable that explains economic divergence in my argument.

Of course, such institutions do not appear out of thin air. Instead, they evolved over time through a historical process punctuated by numerous contingencies and molded by each state’s distinctive cultural characteristics. Skeptics might therefore argue that these deeper explanatory factors should be properly thought of as causes of the state’s divergent economic trajectories. This is where the “modesty” comes in. I accept criticisms that the institutions I discuss are not purely exogenous and therefore do not approximate experimental interventions—a standard many social scientists aspire to. Instead, following the spirit of the varieties of capitalism literature, my approach is to focus on how these institutions and organizations function, support each other, and shape
economic outcomes. I also embrace their historico-cultural grounding by providing an account of the origins of the states’ economic institutions that encompasses historical endowments such as culture and economic structure as well as the political strategies of key actors during Mexico’s market reforms. It is in this sense that the dissertation is perhaps more expansive in its view of casual factors.

In addition, there are important, if subtle, differences between Puebla and Querétaro on some of the variables the research design aims to control for. The most relevant of these is geography. Although it is certainly true that the states’ main industrial centers are almost equidistant from the U.S. border, Querétaro has benefitted from a more strategic location thanks to its proximity to Mexico’s other key economic hubs such as Guadalajara, Monterrey, Estado de México, and more recently, its Bajío neighbors Aguascalientes and Guanajuato. The state, and the area around the capital in particular, have also enjoyed easy access to infrastructure such as the North-South highway connecting Mexico City and Monterrey (now dubbed the NAFTA highway for its importance to U.S-Mexico trade). These are significant considerations. However, these geographical and infrastructural advantages likely only tipped the scales so much. Other similarly situated states, such as San Luis Potosí and Zacatecas, have failed to experience the same economic dynamism, although San Luis Potosí has in recent years seen an uptick in manufacturing investment. In addition, these geographical factors are not as exogenous as they may initially seem. The fact that Querétaro finds itself in the middle of an economically-thriving region and that its surrounding highways and rail lines are considered “strategic” is partly due to the economic success of Querétaro itself, the basis for which, as I will argue, was laid in the early 1980s.

Having anticipated and addressed some objections to the research design, I will now lay out the essence of the argument. The economic divergence between Puebla and Querétaro in the post-reform era can be explained by differences in the economic institutions that emerged in response to political and economic upheaval beginning in the 1980s. In Querétaro, political elites established an institutional setting that allowed for sustained, policy-oriented coordination with the
organized private sector (and in many cases the state’s peak labor unions) via consultative forums and the formal inclusion of representatives of both groups in key government posts. These mechanisms for cooperation helped the state develop and implement policies to avoid damaging labor conflict, build and maintain key educational and industrial infrastructure, and attract investment in a growing range of sectors—allowing Querétaro to adjust quickly to economic shocks and achieve competitiveness. By contrast, the relationships among state governments, business, and labor in Puebla were atomized and characterized by cycles of conflict and cooptation motivated by partisan political concerns. Governments and business leaders often viewed each other as political adversaries rather than developmental partners, undermining the type of economy-wide consultative mechanisms that have defined the queretano experience. As a result, Puebla failed to establish a policy environment conducive to economic transformation and upgrading in a context of global economic competition.

These divergent economic institutions emerged out of the breakdown of Mexico’s highly centralized post-revolutionary political economy. As described above, one upshot of these changes was that governors had to devise new strategies to manage relations with social actors such as business, labor, and opposition parties after traditional systems of control ceased to function effectively. They also had to consider their state’s viability in a competitive global economy. In crafting such strategies, however, governors faced different social milieu. Far from being blank slates, Puebla and Querétaro presented important differences in the organization and structure of organized interest groups that shaped governors’ strategies and the resulting institutions in important ways. In the case of Querétaro, the private sector (and to a lesser extent labor unions) was organized into coherent, encompassing peak associations characterized by broad representation of key firms and a developmentalist mindset. In Puebla, these social actors, especially the organized private sector, were less representative, more fragmented, and more politicized. In short, the organization of business and labor in Querétaro was such that a strategy of cooperation on the part of the government proved more feasible. By contrast, the fragmentation
and politicization of Puebla’s organized business sector in particular made government attempts at cooptation and confrontation more attractive to incumbent political elites.

**Alternative explanations**

This dissertation thus advances an argument for economic divergence based on differences in the institutions governing interactions between the subnational state and organized business and labor. However, there are several possible alternative explanations that appear to be consistent with the basic empirical facts laid out above. Before concluding this chapter, I will briefly address two such explanations, which also draw on aspects of the institutional environment—namely, political party competition and federal-state relations.

The two case states exhibit important differences in the evolution of political competition beginning in the 1990s. Puebla remained a PRI stronghold long after Mexico’s presidential transition in 2000, with its governors continuing to engage in the authoritarian practices the party used to maintain power for seven decades (Giraudy 2010; Rebolledo 2012). When the PAN finally won its first gubernatorial race in 2010, it did so with a prominent *priista* who only split with the party after failing to secure a Senate candidacy. By contrast, Querétaro has been one of the more politically competitive states in Mexico by many measures. The PAN won an early gubernatorial victory in 1997, and the state has experienced two subsequent transitions. The state legislature has also exhibited high levels of party plurality, and the pattern of fierce two-party competition has been a feature of the municipalities of Querétaro and San Juan del Río, the state’s two most important cities.

Political competition, as discussed above, can promote better economic outcomes by enhancing accountability to constituents and improving the quality of policy. However, this line of argument is unlikely to hold much water in the present case. The most important reason is timing.

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119 The decision of Rafael Moreno Valle, the grandson of a former Puebla governor and Secretary of Finance in the PRI state government of Melquiades Morales, to launch his candidacy with the PAN (and with support from a smattering of left-of-center parties) took place in the context of the scandal-ridden administration of Mario Marín (see chapter 9). However, most observers attribute Moreno Valle’s defection to the Senate issue rather than a rejection of the various human rights and corruption scandals surrounding the Marín government.
As this dissertation will show, the critical changes in governance that underpinned the economic boom in Querétaro emerged as early as 1980, when the state was still a bastion of authoritarianism. These policies began to show their full effect in the early 1990s, when the state was still governed by a highly popular PRI governor, Enrique Burgos García, who had cruised to victory with a 55 percent margin of victory in 1991. Moreover, when the PAN did win office in 1997, to the surprise of nearly everyone, the party largely continued the same core policies, even keeping cabinet secretaries from the prior government. The most common interpretation of the PAN victory in Querétaro is rejection of the national level PRI after the political violence and economic shocks of 1994-5, especially among the state’s growing middle-class, which swelled thanks to significant migration into the state during the 1980s.\textsuperscript{120} In short, economic change led to political competition in the case of Querétaro, not the other way around.

A commonly heard refrain in Mexico is that states’ capacity to carry out economic and social policies depends heavily on the federal government. This sentiment reflects the highly-centralized nature of Mexico’s fiscal system. Paradoxically, a series of decentralizing reforms that increased the public resources available to state governments also enhanced their dependence on federal transfers, which continue to account for the bulk of their income; by contrast, own tax revenues accounted for a meager 8 percent states’ incomes on average in 2010. Federal transfers are thus critical to the fiscal accounts of state governments. While the amount of transfers each state receives is, in principle, determined by formulas, a number of studies as well as anecdotal evidence suggests that political factors and personal relations also influence the final allocation of federal funds (Flamand 2006; Díaz-Cayeros 2006; Armesto 2013).

Drawing on these features of Mexico’s federal system, one might propose that relationships with federal authorities hold more importance for a state’s economic prospects than any local

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\textsuperscript{120} The combination of a relatively strong economic performance (in the context of a brutal recession at the national level) and the massive earthquake that rocked Mexico City on September 19, 1985 led to an influx of Mexicans from neighboring states into Querétaro. The population increased from just over 700,000 to 1.05 million between 1980 and 1990.
factors. Could differences in state-federal relations explain divergence between the two case states? In fact, the perception exists among members of the political and economic elite in Puebla that the state has been the subject of discrimination in the allocation of federal resources, while governments in Querétaro have generally enjoyed strong relations with the federal government.¹²¹ However, a look at the available data does not support the conclusion that Querétaro has received favorable treatment—at least not to such an extent that it could plausibly account for the states’ observed economic trajectories. Figure 2.4 shows the evolution of *participaciones* transfers per capita to each state. While Querétaro did outpace Puebla on this measure by the early 2000s, this gap could hardly explain the economic divergence between the two states, which had begun a full decade earlier. As Figure 2.4 shows, the states received comparable levels of per-capita *participaciones* transfers during most of the 1990s.¹²²

¹²¹ Interviews with business leaders and former state government officials in Puebla and Querétaro provide the basis for this statement. These sentiments may be the legacy of historical trajectories of the two states. In the case of Puebla, tension between the federal government and state governors during the Echeverría administration, which resulted in the resignation of two state executives under federal pressure. Querétaro by contrast had a tradition of maintaining close relation with presidents of differing ideological stripes.

¹²² It is important clarify that while *participaciones*, which are untied transfers of budgetary resources from federal to local governments, have been a major source of state government income since the early 1990s, they are only one of several mechanisms for the federal government to distribute resources to sub-national jurisdictions. The federal government also undertook direct investments in infrastructure and other public goods in the states, and this mechanism, classified as Public Federal Investment (IPF), represented far and away the most important source of public resources for states prior to the decentralization reforms of the early 1990s. As chapter 4 discusses, Querétaro did receive considerably larger shares of IPF during the 1980s.
However, this is not to imply that relations with the federal government did not play a role in the two states’ economic performance. As the case studies will illustrate, the ability to prevail upon federal authorities to win backing for key infrastructure and educational initiatives proved critical to Querétaro’s development trajectory. However, the success of state authorities in securing such support often depended on their credibility and tenacity in presenting projects to the federal government. These factors in turn responded to many of the same underlying features of the local governance environment—consistency in policy objectives, the ability to manage conflict—that are highlighted in this research. In short, federal support did matter, but the level, nature, and consistency of this support depended in important ways on local factors.

This chapter has presented the historical and theoretical context for the key empirical puzzle motivating this research—economic divergence between two ex ante similar states during a period of growing economic and political competition. The argument to be developed herein rests

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123 However, federal support was neither necessary nor sufficient. In the case of Querétaro’s international airport, which would play a key role in the evolution of the state’s aerospace sector, federal authorities refused to grant permits for an airport of the dimensions necessary to allow for industrial development and commercial aircraft. In the end, the state government proceeded with their original plan in spite of federal specifications (interview with Ignacio Loyola Vera, April 22, 2016).
on how politicians’ strategies led to variation in the institutions governing relations between the state, organized business, and labor. However, as this chapter has stressed, these strategies responded to preexisting features of the states’ economic and political landscape. Paramount among these factors was the organization of the private sector, which differed in important ways between Puebla and Querétaro. The next chapter traces the origin of these differences to the economic transformation of local economies beginning in the 1970s, showing how and why organized business became an enthusiastic developmentalist partner in the case of Querétaro and a source of political conflict in Puebla.
III. Chapter 3: Explaining Local Business Divergence in Puebla and Querétaro

Business associations have a poor reputation in political discourse. No less an eminence than Adam Smith wrote that “people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public”.124 It is safe to say that denunciations of organized business groups who capture policymakers, bend rules in their favor, dilute regulations, and generally undermine the public good have only intensified with the rise of global capitalism. In addition to popular perceptions, this view of business as a pernicious political actor finds formal scholarly support in the seminal work of Mancur Olson (1982), who identified entrenched interest groups (including business associations) as the reason for the relative decline of advanced industrial nations beginning in the 1970s.

Capitalists in Latin America have certainly not escaped such indictments. Business people in the region tend to be portrayed negatively by the media and academics alike, who have at times viewed them as rent-seeking, tax evading, and quick to support authoritarian governments in order to protect their wealth. This unfavorable perception of domestic business is present in classic works of social science in the region such as Cardoso and Faletto’s (1979) dependencia theory and Albert Hirschman’s (1971) evaluation of industrialization in Latin America.

However, there exists an alternative, less negative outlook on business groups. According to this line of thinking, the organized private sector can play a crucial role in the development of modern industrial economies. In fact, some scholars go so far as to identify a well-organized, developmentally-oriented, and politically-engaged private sector as a sine qua non for successful industrialization (Amsden, 1989). Rather than undermining economic progress, organized business emerges in these accounts as an essential partner to the public sector in achieving structural transformation and sustained growth.

How can we reconcile these starkly different views of the political activities of business? The answer lies in specifying, disaggregating, and problematizing the concept of “business” or “the private sector”. Understanding the political role of business—the overarching goal of this chapter—is impossible without first grappling with basic questions such as level of analysis, firm characteristics, and mode of business organization. These factors in turn influence both the nature of business preferences and their capacity to advance those preferences in the public arena. In short, business itself must be understood as a variable, which can affect the process and outputs of the political system in which it is inserted.

This chapter seeks to observe and account for systematic differences in the political and policy vocation of business groups in Puebla and Querétaro. Even between two states in the same region of Mexico, the composition, preferences, and cohesiveness of the organized private sector has varied considerably. In Puebla, business organizations tended to be skeptical of the economic changes taking place in the country that would introduce greater international competition and demand modernization of production and management. They frequently made public statements criticizing the fast pace of the federal government’s trade liberalization and lamenting the dismantling of policies to support domestic firms. The Puebla chambers also reveal more division among themselves, in particular surrounding partisan political identification. These divisions provoked factionalism both among and within the state’s business associations.

Querétaro’s private sector, by contrast, has had comparatively consistent preferences in favor of economic liberalization and international competition and an ethos of firm modernization and technological adaptation. In addition, the state’s various business organizations have been more unified and coherent in these views. As I will argue in subsequent chapters, these basic differences led the private sector to play a very different political role and helped shape distinct institutional settings in Puebla and Querétaro during the decades of democratization and economic reform beginning in the 1980s.
What explains the divergent preferences, organization, and cohesiveness of business groups in the two states? This chapter points to a simple difference that had profound implications. Beginning in the 1960s, both states witnessed the arrival of large national and transnational manufacturing firms, which transformed the local economy. Only in Querétaro, however, did these firms integrate politically into the state, via active participation and leadership in the state’s main business associations. As a result, the business chambers in Querétaro developed a modernizing mentality and became more representative of the state’s changing economic structure. In Puebla, by contrast, these firms remained distant from the local business chambers, at best maintaining a nominal affiliation. The state’s traditional businesses (primarily textiles, construction, and locally-oriented commercial firms) retained control of Puebla’s peak business associations.125

This chapter uses data on the states’ economic structure, the makeup of business chambers’ leadership, and their political and economic preferences as captured in public statements to advance this argument. The data are drawn from the period between 1986, the year Mexico entered GATT, and 2010, the end of the final gubernatorial administration covered in this dissertation’s case studies. Before presenting the results of this empirical exercise, the following sections review the key underpinnings of the chapter’s empirical analysis and discuss the relationship between business and the private sector in Mexico during the 20th century.

a. Organized Business and Development

Scholarly treatment of business associations, reviewed in chapter 2, suggests the following: encompassing business organizations—those that bring together large and small firms from a representative cross-section of the economy—are the ones that have the greatest potential to advance a broadly developmental, growth-promoting agenda.126 The theoretical basis for this

125 The use of the term “peak” in relation to business associations has been common in various branches of literature to describe an organization that brings together various sectors and regions under a single representative institution that becomes the voice of the private sector as a whole (see Durand 1992); it was initially used in the context of neo-corporatist accounts of economy-wide interest mediation (see Schmitter and Streeck 1981).

126 This is not to imply that encompassingness is the only characteristic that matters. Scholars emphasize that organizational and institutional issues surrounding member density, internal decision-making and monitoring, leadership quality, and selective benefits will also affect the institutional strength and thus the ability of a peak association to serve
assumption is the logic of collective action whereby an interest group must be sufficiently broad to ensure that its members benefit more from an improvement in overall welfare than a redistribution of existing wealth to a particular group.

It is also clear, however, that the mere existence of a nominally encompassing business association does not ipso facto guarantee these desirable incentives will materialize. A business organization can be encompassing in its formal structure and membership rules yet narrow and particularistic in practice. Assessing the developmental vocation of encompassing associations requires a focus on internal structure and membership composition to ascertain whether an organization truly embodies encompassing features—namely a broad representativeness across sectors and the inclusion of large, economically influential firms.

These propositions provide the taking off point for the empirical analysis in this chapter. I focus on how the incorporation and active participation of new, more competitive manufacturing firms—including but not exclusively MNC affiliates—affected the preferences and collective action potential of encompassing state-level business associations. These large firms, with greater export capabilities, strong international linkages, and more technologically intensive and modern production process, are precisely the types of businesses that can be expected to favor policies such as free trade and liberalization. The inclusion of such firms therefore encouraged the formation of a developmentalist, modernizing mentality within business associations and also ensured they (and their leadership in particular) achieved and maintained the encompassing characteristics which, the literature suggests, encourage associations to pursue developmentalist objectives. As these new firms made up an increasingly important share of the local economy, their inclusion and

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127 See chapter 2 for a more thorough discussion of the concept of “encompassingness” and its components.
128 Such a lens is particularly appropriate for understanding differences in regional associations that have the same formal structure as national chambers.
participation became critical for business associations to be sufficiently broad-based and representative.

This chapter will argue that the evolution of business associations in Puebla and Querétaro indeed hinged on this factor: the incorporation and active participation of large, modernizing manufacturing firms. In both states, such firms made up increasingly important economic actors beginning in the mid-1960s. However, only in Querétaro did they become integrated into encompassing business organizations. As a result, these chambers in Querétaro took on a developmental orientation and maintained representativeness of the state’s economy, thus articulating the interests of the local private sector writ large. In Puebla, by contrast, local business associations defended the particularist interest of traditional economic sectors and lost influence due to the weak participation of the state’s most important firms. In short, only in Querétaro did these nominally encompassing organizations acquire truly encompassing characteristics. The next section briefly discusses the evolution of Mexican business organization and business chambers in particular in the 20th century. This discussion provides the context for the empirical analysis of the composition and preferences of business associations in Puebla and Querétaro.

b. Organized Business in Mexico

Business and government in Mexico have a long history together. During the country’s first development push in the late 19th century under Porfirio Diaz (1876-1880; 1884-1911), close ties between the dictator and owners of capital underwrote a major expansion of infrastructure and investments in energy, mining, and industry. These personal relationships allowed investors to overcome the pervasive uncertainty that had inhibited economic activity since independence. In this way, the Porfirian state achieved growth through the selective provision of property rights, guaranteed not via law and formal institutions but rather through personalized networks and relationships, conceptualized by Haber et al (2003) as vertical political integration.129 This system

129 Vertical political integration took several forms, including the participation of asset holders in government positions or as key advisors, which allowed capitalists to shape policy and monitor the government to ensure their property rights.
of selective property rights, and the channels of personal influence that bolstered them, gave rise to nascent business groups that in many cases established regional or sectoral monopolies. Many of these powerful firms survived the tumult of the Mexican Revolution largely intact. Even during the violent phase of the conflict (1910-1920), successive governments of different ideological stripes found it necessary to recreate Porfirian political integration strategies with owners of capital in order to ensure the availability of key economic inputs (Haber et al 2003).

The chaotic post-Revolutionary period ended with the consolidation of power by a dominant political party in 1929, which employed a corporatist system of interest mediation. This new political order entailed important changes in the interaction between business and the state. As might be expected, the party charged with implementing revolutionary ideals initially had a fraught relationship with the capitalist class inherited from the Porfiriato, as evidenced by conflicts over largescale strikes in 1934-35 and the nationalization of the oil sector in 1938 (Collier and Coller 1991). However, a modus vivendi between business and the state emerged by the 1940s. On the one hand, business would remain outside of the party’s formal corporatist structure. Despite the opposition of some business leaders, the PRI did not include a business sector alongside workers, peasants, and the catch-all “popular” sector. Instead, the government passed the Law of Chambers of Commerce and Industry in 1936 to organize firms into sector-based chambers with mandatory affiliation. In 1941, President Ávila Camacho split the confederation of industry and commerce to create a new manufacturing chamber, Canacintra, whose affiliates were generally small and medium-sized firms supportive of the government’s interventionist development policies. The creation of Canacintra thus empowered this segment of the private sector (Schneider, 2004). The 1941 legislation also established the chambers as ‘organs of consultation with the state’ to be overseen by the Secretary of Industry and Commerce.130

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130 Interestingly, the law determined that at least 80 percent of the chambers’ directors would be Mexican capitalists by birth.
Canacintra grew quickly under state tutelage, amassing 6,700 members and a considerable operating budget by 1945.\textsuperscript{131} It also developed an overtly pro-government posture, wholeheartedly supporting Mexico’s import-substituting industrialization (ISI) strategy, including restrictions on foreign investment, various forms of state intervention in the economy, and even wage increases—a somewhat anachronistic set of positions for an association ostensibly representing capitalists.\textsuperscript{132} Its closeness to the state and enthusiastic support of developmentalism fostered the impression that Canacintra leaders were no more than unofficial representatives of the state itself (Shafer, 1973).

For much of the 20th century, then, interactions between business and the state unfolded in a corporatist framework that constrained overt political activism by the private sector. Firms were legally required to join the corresponding sector-based chamber, which were organized by and dependent on the state\textsuperscript{133} and therefore enjoyed little freedom to develop independent positions. Nor did business as a sector receive the same formal quotas of power allotted to labor and peasant organizations.\textsuperscript{134} Many capitalists informally supported PRI candidates, especially those based in and around Mexico City, who benefitted the most from state-led industrialization (Davis 1994).\textsuperscript{135} Still, they generally did not devote significant resources to influencing electoral outcomes (via candidate selection within the PRI, for example). The private sector thus had limited political

\textsuperscript{131} Over half of these, however, were located in Mexico City (Shadlen 2002). Canacintra, despite nominally being only one of several dozen chambers in the Concamin, enjoyed the more material and human resources than either of the peak associations by the 1960s (Schneider 2004).

\textsuperscript{132} Mexico’s inward-looking ISI model was well in line with the main precepts of development thinking at the time, especially in Latin America where both international institutions such as the UN Economic Commission for Latin America ECLA (later ECLAC) and academia advocated for these policies. The emergence of a state-led export-oriented in East Asia in the 1970s represented an innovation.

\textsuperscript{133} The chambers’ dependence on the government—and resulting limitations in taking independent and critical postures—derived from several sources. Most fundamentally, the combination of mandatory affiliation and government control over the formation of new chambers meant chambers’ influence and in fact their viability depended on the state. In several instances in the 1960s, groups of businesses representing the chemical or automotive sectors sought to break from Canacintra, but the government, which retained the exclusive right to sanction new chambers, refused (Schneider 2004). This power in turn enhanced the government’s leverage over Canacintra’s leaders, who understood that permitting important sectors to “go solo” would weaken their organization. In addition, links to federal agencies provided the chambers with access to selective benefits such as permits, etc, that made membership valuable.

\textsuperscript{134} Leaders of the Mexican Workers Confederation (CTM) and National Peasants Confederation (CNC) generally received a share PRI nominations (and therefore elected posts) for seats in the local and national legislatures.

\textsuperscript{135} The political orientation of Northern industrialists, by contrast, in particular the powerful Monterrey group, was generally more antagonistic towards the PRI-government.
vocation; a norm of business “refraining from politics” emerged as part of the post-Revolutionary political order (Loaeza 1989).

This is not to say, however, that business interests suffered under the PRI’s rule. On the contrary, in exchange for the business sector’s tacit abdication of political activity, successive post-War PRI governments ensured favorable conditions for the profitable deployment of capital. A conservative macroeconomic policy maintained price and exchange rate stability. The government’s ISI strategy introduced protections from foreign competition and subsidies for domestic producers that allowed powerful national business groups (commonly known as *grupos*) to establish (or consolidate) oligopolistic positions in sectors ranging from finance to beer to capital goods (King 1970). The presence of state-owned enterprises in the energy and mining sectors ensured access to low-cost industrial inputs, on the public sector’s dime, to fuel the growth of the *grupos* (Castañeda 2008). Nor did firms contribute much to fiscal accounts: Mexico’s tax rates remained among the lowest in Latin America during its industrialization boom, a feature that remains to this day (Izquierdo 1995). Finally, corporatist control of labor generally ensured that worker demands were moderate, although the state had to constantly be on guard against independent labor movements in strategic industries and large firms (Middlebrook 1995). Even

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136 This is especially true for the period between 1954 and 1970, known as the era of “Stabilizing Development” for its combination of macro stability and strong growth. Between 1940 and 1954, the peso was devalued twice, the second of which led to a year of steep price rises. However, these fluctuations would pale in comparison to the series of crisis that hit the Mexican economy between 1976 and 1994.

137 Industry protection relied heavily on import licensing, which excluded the possibility of importing products for which close domestic substitutes existed. The structure of protection had an escalating nature in which downstream production stages received greater protection. Moreno-Brid and Ros (2009) report that effective protection levels reached 85 percent for consumer durables and capital goods by 1960.

138 As suggested, corporatist control of labor was not complete. Independent unions such as the CROC and the FROC resisted incorporation into the official CTM, and the emergence of independent labor movements in strategic sectors such as railways, electricity, and later, automobiles was a recurring headache for officials throughout the ISI period (see Middlebrook 1995). As the dissertation will show, important differences also existed at the regional level. Some states, as in the case of Querétaro, the control of official unions, extended to nearly every sector and major firm, giving the state government extensive power to keep union activity under tight wrap. Puebla, by contrast, represents a state where independent and radical worker movements dating from the Revolutionary period, continued to be a major force in the state. At the same time, the presence of an independent unions at the state’s most important firm, Volkswagen, complicated state government efforts to control labor.
if business leaders lacked a formal political role, PRI governments developed a habit of consulting them on major economic policy changes.139

Still, a certain segment of the business community resisted accommodation with the official party. Coparmex, formed in 1929 by Monterrey industrialists in opposition to pro-labor legislation, remained independent and consistently critical of PRI governments (Shafer 1973).140 Officially an employer’s union rather than a business chamber (and therefore not bound by corporatist regulations), Coparmex represented a lonely voice in defense of free market ideology. However, Coparmex would remain relatively weak compared with other associations until the 1980s (Camp 1989).141 During the quarter century of post-War economic stability and growth, therefore, business-government relations were generally strong. The alliance was cemented, on the one hand, through the corporatist organization of small and medium businesses in Canacintra and other chambers and, on the other via, personal ties between political leaders and coddled captains of industry.

This equilibrium in business-state relations broke down in the 1970s. President Luis Echeverría (1970-1976) brought the left wing of the PRI to power, ushering in a considerable expansion of the state’s economic role: public spending took off, state-owned enterprises grew rapidly, and workers enjoyed more government backing to press their demands.142 The government

139 Shafer (1973) reports that the government regularly consulted with business leaders on taxation, price controls, and trade policies, especially when new legislation was under consideration.
140 The founding of Coparmex, by the powerful Garza Sada family, occurred in a context where the government was considering national labor legislation to formalize and ensure the broad worker rights articulated in the 1917 Constitution and increasingly assertive labor movements such as the Confederación Regional Obrera de México (CROM) were gaining power and political influence. Business leaders, worried about the implications of these trends, saw an independent business association as a check on labor’s growing clout. Despite having limited membership for most of the 20th century, Coparmex was “of use to business because it speaks to government publicly with a bluntness other organizations consider inadvisable” (Shafer 1973, 59).
141 The ability of Coparmex to criticize the government won support especially among Northern businessman based in Monterrey who had been traditionally skeptical of developmentalism. Its success in attracting a contingent of economically important members gave Coparmex sufficient clout that the government regularly consulted, or at least provided prior notification to Coparmex, along with other associations, before making important policy changes (Bravo Mena 1987).
142 These economic policies created a boom-bust cycle typical of economic populists (see Dornbusch and Edwards 1991). While expansionist policies spurred fast growth, by 1973 inflation had reached double digits and public deficits were mounting. Easy access to external financing after the first oil shock encouraged foreign borrowing, which doubled in the second half of the Echeverría sexenio. The government was forced to accept an IMF rescue package in 1976.
conducted a series of large land expropriations in the Northwest of the country that particularly enraged the more free-market segments of the private sector grouped in Coparmex. To make matters worse, the president curtailed the practice of consultation with business leaders on economic policy according to Vega (1997).

These actions were accompanied by sharp anti-capitalist rhetoric. In a break with past presidents, Echeverría frequently lambasted large businesses, blaming them for the stagnant living standards and growing inequality that had been sparking social unrest since the 1960s.143 This rhetoric fueled growing tensions between radical segments of the labor movement, supported by other leftist social organizations, and Mexico’s private sector, which were reflected in increasingly confrontational labor relations in many parts of the country.144 This growing societal rift was thrown into stark relief after the murder of Eugenio Garza Sada, a prominent Monterrey industrialist during a botched kidnapping attempt in 1973. Many in the business community openly blamed the government’s aggressive rhetoric for creating an atmosphere of hostility towards the private sector that facilitated the crime.145

The anti-business words and actions (perceived and real) of the Echeverría administration created incentives for business leaders to organize and invest resources in voluntary business associations. Before Echeverría took office, twelve of Mexico’s most prominent businessmen had formed an informal group called the Mexican Council of Public Relations.146 This group would

143 This unrest, reflecting a wide range of social and political, in addition to economic grievances, exploded into violence in 1968 during the infamous massacre of student protestors in Tlatelolco square in Mexico City. Echeverría himself had played a key role in executing the repression as Secretary of Government. Once installed as president, however, he attempted to regain the support of disaffected leftists through his aggressively expansionist economic program and rhetorical support for workers and peasants.

144 The Echeverría administration encouraged the formation of independent labor unions outside the control of corporatist federations such as the CTM. These new organizations were more aggressive in pushing worker demands (Middlebrook 1995). Echeverría even took the remarkable step of openly criticizing longtime CTM leader Fidel Velázquez in an attempt to express solidarity with rank-and-file unionists, although he later retracted those statements (Krauze 1996). The government also promoted the Congreso de Trabajo, an encompassing workers group, to boost labor’s negotiating power vis-à-vis business owners.

145 In 2011, the Excelsior newspaper reported that the Echeverría government had known about plans to kidnap Garza Sada and other business people over a year before the attempt. See: http://www.excelsior.com.mx/opinion/2011/09/19/jorge-fernandez-menendez/706295

146 The Council’s initial objective, as the name implies, had been to burnish the country’s image with foreign investors, which the businessmen believed had suffered during the López Mateos administration (1958-1964).
evolve into the most influential business association by the mid-1980s. Under a new name, the Council of Mexican Businessman (CMHN), this small, elite circle created in 1975 the Business Coordinating Council (CCE), a peak association made up of various business organizations rather than individual firms. The CCE soon became the country’s most important peak business association, representing through its member chambers all sectors and regions of the economy. The CMHN provided crucial inputs to both the CCE and Coparex in this period, investing heavily in their organizational infrastructure.\textsuperscript{147}

The status of the CCE would receive an additional boost after the nationalization of the banks by President López Portillo in 1982, an event which marked the decisive break of the post-Revolutionary \textit{modus vivendi} between business and the state.\textsuperscript{148} Miguel de la Madrid, who succeeded López Portillo in the presidency, courted the CCE as part of his attempts to regain the confidence of the business community. Business outrage over the bank nationalization at the end of the López Portillo administration, the culmination (or, in the view of the private sector, the nadir) of twelve years of increasingly interventionist economic policy, put a definitive end to the private sector’s docility.\textsuperscript{149} The main private sector organizations not only denounced the government’s actions, they also openly questioned the unspoken convention that business leaders not engage directly in politics.\textsuperscript{150} Coparmex president Alfredo Sandóval did not obfuscate on this point, telling

\textsuperscript{147}Unlike the CMHN itself, the CCE developed a full-time staff, research capabilities, and a public presence through publications and media outreach. Interestingly, Echeverría was not hostile to the new organization as one might have expected; instead, the president sought out CCE leaders, inviting them to breakfast in Los Pinos, the presidential palace, to learn about the structure and proposals of the new organization (Schneider 2004).

\textsuperscript{148}Within a week of the nationalization, the CCE published a manifesto calling the action “a definitive blow to business activity and a clear signal of the entrance of the country to socialism...which concentrates all the political and economic power in the government” (quoted in Sotelo and Amaya 1998). To make matters worse, a little over a month after the bank nationalization, Mexico announced it would default on its external debt, plunging the country (and much of Latin America) into a severe recession that would last the better part of the decade. See Devlin (1989) and Kraft (1984).

\textsuperscript{149}Business sector’s denunciations of the nationalization were intense, even if the practical implications for some of the country’s major financiers were not as dire as one would think. Manuel Espinosa Yglesias, owner of Bancomer, Mexico’s largest bank, had progressively sold off his shares in anticipation of nationalization. In addition, the De La Madrid administration began to pay restitution to expropriated bankers on favorable terms.

\textsuperscript{150}A review of public statements by national business association leaders in 1985 found that the most common political sentiment expressed by Coparmex and CCE leaders was to advocate for a more active public role for business people. See Montesinos Carrera (1992).
the media in 1985 that “instead of reacting, we want to participate in the process of making decisions over the long-term” (quoted in Hernández Rodriguez 1986).\textsuperscript{151}

To stave off a private sector revolt, De la Madrid offered the country’s top business associations an olive branch: a voice at the highest levels of economic policymaking. The CCE in particular would play a key role in Mexico’s initial trade liberalization and the economic pacts aimed at reducing the high inflation and debt levels that beset the economy with renewed force in the second half of the De la Madrid sexenio.\textsuperscript{152} The CCE also provided a valuable mechanism to monitor firms’ compliance with the price, wage, and tax agreements established in the pacts. The inclusion of business at the high table of government decision making has been seen as a contributing factor in Mexico’s ability to reestablish macro stability and initiate market reforms in the late 1980s (Pastor and Wise 1994). The influence of top business groups persisted throughout the negotiations of NAFTA with the United States and Canada. The CCE created, with government endorsement, the Coordinator of Foreign Trade Business Organizations (COECE), a grouping of mostly large firms charged with representing the preferences of business on tariff levels and other minutiae of the complicated negotiations. The COECE remained in close consultation with Mexican negotiators throughout the NAFTA process.\textsuperscript{153}

The CCE thus provided a formidable vehicle to advance the political aspirations of big business in Mexico. For elite associations like the CMHN and Coparmex, the encompassing, broad-based nature of the CCE enhanced the legitimacy of their gripes with the government. In reality, however, the balance of power within the organized business sector was steadily shifting towards

\textsuperscript{151} Sandóval, a native of Puebla, was one of several poblanos to ascend to the CCE presidency during this period; his comments are thus also indicative of the aggressive posture of the Puebla business sector towards PRI governments, whether national or local, in this era.

\textsuperscript{152} In this period, Mexico unilaterally reduced all tariff rates to a band between 0 and 20 percent while cutting the share of products subject to import licenses from 100 to 27 percent. Private sector support for unilateral trade liberalization, even among firms that stood to suffer from import competition, can be attributed to the widespread belief that liberalization was critical to reestablish price stability and therefore a necessary first step towards recovery (Pastor and Wise 1994).

\textsuperscript{153} The closeness was literal: COECE representatives occupied rooms adjacent to those where negotiations were carried out in order to provide real time input into details of the agreement (Schneider 2004; Vega 1997).
large, internationally-oriented firms—in particular the diversified business groups with major financial sector assets that benefitted from the Salinas-era privatizations.\textsuperscript{154} The government’s embrace of economic integration and other market reforms allowed large players to reap considerable benefits while removing the protectionist cover that smaller, domestically-oriented firms depended on. This change in economic orientation provoked new frictions in government-business relations. Chambers such as Canacintra found themselves compelled to go along with a change in the country’s economic model that would damage many of their constituents’ interests (Shadlen 2002). In response, some members defected to form new groups, such as the National Association of Industry of Transformation, which lambasted the government’s liberal turn and demanded the reinstatement of protectionism (Garrido and Puga 1992). Canacintra and other non-elite chambers suffered an additional, legal blow in 1997 when Mexico’s Supreme Court ruled that mandatory association was unconstitutional, leading to a revision of the 1941 Chambers Law.\textsuperscript{155} As expected, the new law had severe consequences for membership: Canacintra lost two-thirds of its members in the five years after the new law passed (Schneider 2004).

However, the growing influence of formal business associations (or the most powerful among them) was not the only manifestation of the private sector’s newfound assertiveness. Business leaders also turned to electoral politics—where real competition began to take hold in the 1980s—to directly challenge the PRI’s monopoly on power. The center-right PAN, an opposition party founded in 1939 with close links to Catholic groups, provided the natural refuge for disaffected members of the private sector. The entrance \textit{en masse} of business people into the ranks of the PAN during the 1980s was so notable that this new bloc within the party became known

\textsuperscript{154} As Basave (2001) details, Mexico’s large, diversified business groups took advantage of largescale privatizations under Salinas, financial and trade liberalization, and their pre-existing links to international markets to consolidate their economic dominant position and expand into a growing range of sectors. Along with automotive MNCs, firms such as Grupo Alfa, Grupo Vitro, Cemex, Grupo DESC, and Carlos Slim’s Grupo Carso accounted for around 37 percent of Mexico’s manufacturing exports by 1995.

\textsuperscript{155} Still, the law contained a variety of stipulations aimed to maintain tight state reins over the chambers: only officially-sanctioned groups could use the apppellations of chamber or “confederation,” the law charged chambers with being “an organ of consultation and collaboration with the State for the design and execution of policies, programs, and instruments that facilitate the expansion of economic activity” (Schneider 2004).
as the *neo-panistas*.\(^{156}\) The opposition’s electoral efforts initially focused on local races, where the PRI grudgingly accepted defeats first in municipalities and later at the state level, beginning with the PAN’s 1989 victory in Baja California.\(^{157}\) Business leaders—often young political neophytes—were the protagonists in many of the PAN’s key early victories.\(^{158}\)

The business-government divorce thus played out in states and municipalities across Mexico. Many local business groups, following the lead of the national chambers, became increasingly conscious of their role as political actors and inclined to criticize local authorities (Garrido and Puga 1992). In fact, business rebellion against PRI governments arguably took on a sharper edge at the local level, where opposition candidates had the real opportunity to wrest political office from the ruling party. State and municipal governments, mirroring trends at the national level, attempted various strategies to neutralize the politicization of local business leaders.

As discussed in previous chapters, in some cases state governors chose to cooperate with the private sector by giving business leaders a greater voice in policy decisions; in other cases, governors attempted to coopt the private sector by placing allies at the helm of chambers or doling out specific benefits to their leaders; still other governors opted for outright confrontation with the private sector.

While the emergence of competitive elections empowered local business leaders, other factors militated against their political influence. First, these local groups, like their national counterparts, had to contend with changes in the legal framework that threatened their membership

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\(^{156}\) In contrast to the titans of industry and finance who integrated the leadership of the CCE and CMHN, the profile of the *neo-panista* was generally that of an independent small or medium business owner, although managers of multinational enterprises were also included. A prominent example of the latter is ex-president Vicente Fox, a former Coca-Cola executive who joined the PAN in 1988.

\(^{157}\) The PRI did not accept these defeats out of a newfound enthusiasm for political liberalism. Allowing contained openings at the local level was seen as a strategy on the part of national party leaders to diffuse growing pressure for reform. Many of the local election victories of the opposition had to be negotiated in infamous *concertaciones*—whereby the PRI would agree to concede, or make a concession of certain, usually less populous municipalities in exchange for a tacit agreement to avoid unseemly post-electoral conflicts elsewhere.

\(^{158}\) Ernesto Ruffo Appel, the victor in Baja California’s landmark 1989 gubernatorial race, had been president of the state’s peak business association before entering politics. Business people-turned-politicians subsequently won governorships for the PAN in Guanajuato (1995) and Querétaro (1997). Entrepreneurs were the driving force behind the rise of the PAN in the state of Chihuahua, as documented by Mizrahi (1994).
The end of mandatory affiliation threatened to provoke a vicious cycle whereby dwindling membership sapped chambers’ influence vis-à-vis the government, leading in turn to further desertion. In addition, the shift towards a more open economic model—a change over which local actors, whether public or private, had little influence—put local chamber leaders in the uncomfortable position of having to go along with changes that went against the interests of many of their members. As federal subsidies and incentives for small firms dried up under the Salinas administration, chambers also lost access to crucial resources for which they often served as mediators between government agencies at firm recipients.

While these challenges were not unique to local business, they proved more dire to regional and local chambers. The reason, as outlined above, has to do with the structure of regional versus national business groups. Local business chambers are, almost by definition, populated by small, domestically-oriented firms. While large national and transnational players had an important economic presence in many states via production plants or distribution and marketing infrastructure, they often abstained from local politics. Local chambers thus faced an inherent challenge in incorporating the largest, most dynamic economic actors and achieving authentic representativeness of the local economy. In other words, they were less likely to be encompassing. The absence of large firms deprived chambers of economic and political weight, making them less formidable interlocutors vis-à-vis local governments. Such a situation undermined a key benefit they could offer members: close access to decision makers. It also made strategies of cooptation and confrontation to neutralize business more tempting for incumbent PRI governors.

Importantly, the pattern of interaction between the public and private sector that arose out of the breakdown of traditional corporatism beginning in the early 1980s varied across Mexico’s

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159 The reasons for such reluctance to participate in local politics range from disinterest due to lack of business linkages to local firms; the ability to “opt out” of local public goods through in-house training and infrastructure; social or cultural barriers preventing out-of-state (or sometimes expatriate) managers from integration into the local political scene; and the incentives to invest in federal rather than local political activity due to the greater importance of federal-level policy.

160 With the onset of a severe economic crisis after Mexico’s 1982 foreign debt default, the state could no longer guarantee the material benefits (jobs, decent wages, housing, and health services) that had cemented the corporatist system for decades. In the political realm, challenges to the PRI’s monopoly on power undermined the representative logic of
states. Its particular path depended on the decisions and preferences of actors on both sides of the government-business divide, but one key influencing factor was the composition of local business chambers. Theories of business groups suggest that encompassing associations—those that represent a broad cross-section of the economy and include large firms—are more likely to have a developmental vocation and therefore partner with the public sector to achieve mutual policy goals. By contrast, business groups dominated by particularist sector interests are more likely to pursue rent-seeking and devolve into factionalism—making them easy targets for government cooptation.

The next sections apply this insight to the dissertation’s two case states, Puebla and Querétaro, showing how business in the two states came to be populated by a different profile of firms, with consequences for the chambers’ positions on economic and political issues. These varying preferences in turn set the stage for divergent business-government relations, whose evolution and developmental implications are discussed in subsequent chapters.

c. **Empirical analysis**

*Economic changes*

Puebla and Querétaro, as states located in Mexico’s central region surrounding the sprawling metropolitan zone of Mexico City, were exposed to similar economic and demographic forces during the period encompassed in this study. Beginning in the mid-1960s, but accelerating markedly in the subsequent decade, both states experienced an economic transformation driven by the arrival of large and medium sized manufacturing firms. These firms, representing a combination of national and foreign capital, pertained primarily to the heavy manufacturing and capital goods sectors. They produced the steel, glass, electrical parts, industrial machinery, and automobiles that made up the heart of Mexico’s post-War industry.
In both states, these new arrivals coexisted with traditional industries. Puebla, and to a lesser extent Querétaro, had a strong industrial vocation dating to the early 19th century. In the case of Puebla, the capital and its surrounding municipalities comprised one of the centers of Mexico’s thriving textile sector during the first half of the 20th century. Propelled by an export boom during WWII, textiles represented Mexico’s most important manufacturing industry during the 1940s, and Puebla accounted for around a third of national production during this period. Driven by textiles, Puebla ranked as an industrial powerhouse through the mid-1950s. In 1955, the sector accounted for two-thirds of the state’s economy (Gauss 2010).

In addition to its importance for the local economy, the textile sector in Puebla had several noteworthy characteristics. The industry had been traditionally dominated by several dozen Spanish immigrant families. This group was defined by its cultural conservativism as well as its strong preference to maintain social and business ties within the Spanish immigrant community (Gamboa 2008). Staunchly Catholic, they were skeptical of the nationalist-secular ideology that came to rule the country with the rise of the PRI. In the early twentieth century, a group of Lebanese immigrants challenged Spanish dominance of the sector, establishing a new pole of economic and social influence in the state. These new arrivals, like the Spaniards, preferred to do business and engage socially with other members of the Lebanese community. This conservative and inward-looking mentality permeated their business operations. Beginning in the 1940s, Puebla’s main textile firms failed to invest in modernizing their production processes. Instead, many of the traditional textile families chose to establish real estate and construction businesses while maintaining increasingly retrograde textile operations (Villavicencio 2013).

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161 Mexico’s textile exports increased ten-fold between 1940 and 1945 as the US, European, and Japanese producers channeled all textile goods to the war effort. Despite a post-War slump, the sector accounted for 19 percent of national manufacturing output in 1955 (Gauss 2010).

162 In contrast to the Spaniards, however, the group of Lebanese textile entrepreneurs forged close ties with local political authorities, a feature that has lasted to the present day.

163 The fact that textiles accounted for 70 percent of total investment in Puebla in 1955 was therefore more an indication of the state’s failure to diversify than the dynamism of the textile sector.
Due to its smaller size, Querétaro did not achieve the same importance as Puebla in the country’s manufacturing base during this period. Still, the state had developed several important industrial sectors by the mid-20th century. Rich in fertile agricultural land, the state boasted a long history of grain production and cattle raising, which formed the basis for an economy based on food processing and light manufacturing of cereals, meats, and dairy products. Querétaro too was home to a textile manufacturing sector in the early 20th century. While far from rivaling that of Puebla in absolute size, textiles accounted for 15 percent of Querétaro’s manufacturing output in 1955 and included several of the state’s oldest and largest factories such as La Concordia and Textiles Hércules. In short, as of 1960, both Puebla and Querétaro had economic structures dominated by traditional, light manufacturing sectors as well as important primary and commercial activities.

Over the ensuing two decades, both states underwent an important transformation of their industrial landscape. New, capital-intensive manufacturing sectors such as steel, machinery, automobiles, and electrical components took hold in Puebla and Querétaro, supplanting traditional textile and agroindustry as the drivers of growth. In many cases these investments were made by the large domestic business groups (grupos económicos) and major transnational firms that dominated Mexican manufacturing in the post-War period. After the federal government introduced an industrial deconcentration strategy under President Echeverría in the mid-1970s, these firms could take advantage of tax incentives and direct subsidies to set up factories in the relatively undeveloped urban centers surrounding the capital. Both Puebla and Querétaro were designated as highest-priority areas for new investment (Rodríguez 1997). By establishing operations in these mid-sized cities, firms could avail themselves of government incentives and avoid the growing congestion costs of Mexico City, while remaining within 200 kilometers of the country’s industrial and commercial hub.

164 In 1950 Querétaro had a population of 286,000 (just over 40,000 more than in 1910), compared to 1.6 million for Puebla.
Faced with this set of incentives, it is not surprising that firms flocked to Puebla, Querétaro, and other central states. In the case of Querétaro, examples of these new major players in the local economy included domestic groups such as ICA, which built key infrastructure in the state (including the all-important Mexico-Querétaro highway) and, via affiliated companies such as Tremec and Industria del Hierro, helped establish the state’s metal-mechanic and auto parts industries. Vidriera de Querétaro (an affiliate of the powerful Monterrey-based Grupo Vitro), Grupo Desc (now Grupo Kuo), and MNCs such as Singer, Black and Decker, and Massey Ferguson were among the other firms that propelled Querétaro’s industrialization in this period. In Puebla, meanwhile, it was the arrival of Volkswagen de México in 1964 that triggered similar changes in the state’s economic structure. With an initial workforce of over 5,000, the company immediately became the largest employer in the state and turned Puebla into a key player in Mexico’s burgeoning automobile industry. The presence of Volkswagen also spurred major investments by auto parts suppliers, as well as in sectors such as metal-mechanics, plastics, and chemicals. As Table 3.1 shows, both Puebla and Querétaro had by 1985 developed a more modern industrial structure in which new, heavy manufacturing supplanted traditional sectors. Both states thus saw their industrial structure evolve from traditional, light manufacturing with a limited regional extent to more dynamic, capital-intensive and larger-scale heavy manufacturing, with considerable links to national and international markets through trade and investment.

165 The close personal relationships between Bernardo Quintana, the president of ICA, and the queretano political and economic elite proved crucial to the state’s initial industrial surge in the 1960s. As Miranda (2005) shows, Quintana partnered with successive state governors to promote and win federal financial support for a series of major projects in Querétaro. He also helped introduce local business leaders to large capitalists interested in investing outside Mexico City. Although a native of Mexico City and better known for emblematic works in the capital, Quintana became something of an adopted native son in Querétaro, with major thoroughfares, schools, and an industrial park bearing his name.

166 The company’s decision to establish its major Mexican production facility in Puebla (the firm had had a small presence in the State of México beginning in 1962) remains subject to some debate. Most observers point to the influence of the president at the time, Gustavo Díaz Ordaz, a native of Puebla, who presumably intervened in favor of his home state. At the same time, the state offered strategic elements as well, such as its location halfway between the port of Veracruz, the entrance point for key imported inputs and capital goods, and the country’s main consumer market in Mexico City.

167 Some of the key firms in these sectors include Hylsa, owned by the powerful Garza and Sada families of Monterrey, in steel and metal; Alumex, a major aluminum producer; and Polímeros de México in the chemical and plastics sectors.
Table 3.1: Economic Structure of Puebla and Querétaro, 1985

<table>
<thead>
<tr>
<th>Sector</th>
<th>Puebla</th>
<th>Querétaro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td>31.9</td>
<td>13.3</td>
</tr>
<tr>
<td>Fabrics and textile fibers</td>
<td>12.1</td>
<td>12.6</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>7.7</td>
<td>9.5</td>
</tr>
<tr>
<td>Basic chemicals</td>
<td>6.2</td>
<td>8.7</td>
</tr>
<tr>
<td>Beverages</td>
<td>4.0</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Source: INEGI Censo Industrial, 1986

Effects on business associations

The economic changes described above brought important consequences for the political representation of business at the state level. The period of rapid economic transformation coincided with the breakdown of the post-Revolutionary consensus between the private sector and the Mexican state, leading to new opportunities—and incentives—for leaders of businesses large and small, local and global, to participate in politics. In Puebla and Querétaro, two very distinct patterns of local business-government relations took hold. Local business groups in Puebla experienced a series of confrontations with local PRI governments, followed by periods of reconciliation underwritten by public contracts and special privileges for key local firms. These clashes tended to revolve around partisan politics—namely the business sector’s (perceived or real) support for the opposition. In Querétaro, by contrast, business and government carried out a less politicized, more stable relationship focused on creating and maintaining the conditions to attract investment in the state.

One major explanation for this divergence is differences in the composition of local business chambers beginning in the 1980s. This difference arises from the incorporation of professional managers and executives from the large, modern manufacturing firms that
spearheaded economic change over the previous two decades—or lack thereof.168 In the case of Querétaro, representatives of firms such as Tremec, Vidriera de Querétaro, Celanese Mexicana, Singer, Massey Ferguson, and others became active participants in the local branches of Canacintra, Coparmex, and other business chambers. These newcomers—in the majority of cases, the managers were not native queretanos—integrated into the political and social fabric of the state and quickly took on leadership roles in the private sector, just as these organizations attained greater political importance in Querétaro and across Mexico. We see initial evidence of this process in Table 3.2, which presents information on the Governing Board of Canacintra-Querétaro in 1984.169 The majority of the chamber’s board members represent either local affiliates of multinational corporations (MNCs), or companies belonging to major Mexican business groups. The Canacintra leadership also features several of the state’s most internationally integrated firms in this era. A 1986 list of the state’s top 20 exporters shows that four of those firms had been part of the Canacintra Board two years earlier (Government of Querétaro, 1986).

This trend of top manufacturing firms participating in leadership roles would be consistent feature of Querétaro business associations for the subsequent two decades. Table 3.3 provides biographical information on the presidents of the local Canacintra branch from 1987 to 2006. These data show the lasting influence of firms such as Tremec, Vidriera and Condumex, as well as multinationals such as Massey Ferguson and less well-known but economically important auto

168 It is important to mention here that the modifier “modern” or “modernizing” is applied in a relative way. Due to their well-documented oligopolistic market control and use of political ties to advance business interests, Mexico’s domestic business groups were far from a model of productivity and efficiency; even foreign investors, operating behind tariff barriers and facing steep domestic content requirements had little incentive to deploy state-of-the-art technology in Mexico. Still, these firms had by the 1980s developed modern production processes based on advanced (if generally imported) technology. As Mexico began to open its economy in the middle of the decade, links between domestic groups and the global economy deepened rapidly, bringing these firms closer to the technology frontier. Investments in capital and technology increased throughout the 1980s among large manufacturing firms (Castañeda 2008). Trade liberalization brought about enhanced import competition, outside of a few lingering protectionist niches in infrastructure and energy. Compared with traditional, locally oriented manufacturers, the large firms that arrived en masse in Puebla and Querétaro beginning in the 1960s were indeed modern, and this gap would only increase over subsequent decades.

169 The empirical portion of this chapter is limited in many ways by the difficulty of obtaining data on business associations (local or otherwise in Mexico). Chambers tend to be reluctant to release information on their directors or affiliates, often citing confidentiality reasons. The biographic information provided on chamber leadership structures in this chapter is therefore based on reviews of local press, interviews with business leaders, and the occasional chamber publication encountered in archives and libraries.
parts producers such as Autoforjas, Brevin SA, and Arvin Meritor. All in all, the presidency of Canacintra was held by an individual currently working, or with previous experience as a manager of a large domestic group or MNC affiliate during 75 percent of the time between 1987 and 2006. The contrast with Puebla, where the Canacintra presidency was held by a manager of such a firm for a mere two years during this period, is stark. The leadership of Canacintra-Querétaro thus maintained representativeness of the state’s changing economic structure, unlike its counterpart in Puebla.

**Table 3.2: Canacintra-Querétaro Board of Governors, 1984**

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Firm</th>
<th>Sector</th>
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<tbody>
<tr>
<td>Víctor M. Amieva Pérez</td>
<td>President</td>
<td>Automator, SA</td>
<td>Electric-electronics</td>
</tr>
<tr>
<td>Carlos de la Mucha Icazbalcete</td>
<td>Vice-president</td>
<td>Vidriera de Querétaro^</td>
<td>Non-metallic minerals</td>
</tr>
<tr>
<td>Manuel Pizarro Suarez</td>
<td>Vice-president</td>
<td>Kostal Mexicana*</td>
<td>Electric-electronics</td>
</tr>
<tr>
<td>Enrique Martínez Garza</td>
<td>Secretary</td>
<td>Fundiciones y Maquinado de Querétaro</td>
<td>Metal-mechanic</td>
</tr>
<tr>
<td>José Rivera Frausto</td>
<td>Treasurer</td>
<td>Tremec^</td>
<td>Metal-mechanic</td>
</tr>
<tr>
<td>Javier García Bartning</td>
<td>Advisor</td>
<td>Turbo Productors Dresser, SA*</td>
<td>Metal-mechanic</td>
</tr>
<tr>
<td>Rafael Pina Martín del Campo</td>
<td>Advisor</td>
<td>Productos Gerber*</td>
<td>Food products</td>
</tr>
<tr>
<td>Mario Chávez Mayer</td>
<td>Advisor</td>
<td>Magal, SA</td>
<td>Food products</td>
</tr>
<tr>
<td>Rodolfo Esquivel Ramírez</td>
<td>Advisor</td>
<td>Palancas Automotrices Ralís, SA</td>
<td>Auto parts</td>
</tr>
<tr>
<td>Francisco Martínez Parente</td>
<td>Advisor</td>
<td>Cordaflex, SA^</td>
<td>Auto parts</td>
</tr>
<tr>
<td>Guillermo Ibarra Sandoval</td>
<td>Advisor</td>
<td>Celanese Mexicana^</td>
<td>Chemicals</td>
</tr>
<tr>
<td>Gustavo Lomelí Pozo</td>
<td>Advisor</td>
<td>Maquinados Numericos, SA</td>
<td>Business machines</td>
</tr>
<tr>
<td>Fernando Albarrán Carbalá</td>
<td>Advisor</td>
<td>Magnoflex, SA</td>
<td>Auto parts</td>
</tr>
</tbody>
</table>

*Indicates a multinational enterprise
^Indicates an affiliate of a major domestic business group

### Table 3.3: Presidents of Canacintra-Querétaro, 1987-2006

<table>
<thead>
<tr>
<th>Period</th>
<th>Name</th>
<th>Firm (while president)</th>
<th>Previous Firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987-1989</td>
<td>Alejandro Espinoza Medina</td>
<td>Massey Ferguson*</td>
<td>n/a</td>
</tr>
<tr>
<td>1989-1990</td>
<td>Mario Rodriguez Hernandez</td>
<td>Autoforjas*</td>
<td>n/a</td>
</tr>
<tr>
<td>1990-1991</td>
<td>Gustavo Lomeli Pozo</td>
<td>Maquinados Numericos</td>
<td>Brevini SA* (General Manager)</td>
</tr>
<tr>
<td>1991-1992</td>
<td>Jose Rivera Frausto</td>
<td>Tremec^</td>
<td>n/a</td>
</tr>
<tr>
<td>1992-1993</td>
<td>De la Mucha, Carlos</td>
<td>Vidriera de Querétaro^</td>
<td>n/a</td>
</tr>
<tr>
<td>1994-1996</td>
<td>Carlos Monroy</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td>1998-2000</td>
<td>Jorge López Machuca</td>
<td>Singer de México*</td>
<td>n/a</td>
</tr>
<tr>
<td>2000-2002</td>
<td>Gabriel Anaya Serrano</td>
<td>Electrolog, SA</td>
<td>Condumex^</td>
</tr>
<tr>
<td>2002-2003</td>
<td>Isidoro Mata Cano</td>
<td>EMCON Industries*</td>
<td>Tremec*; Arvin Meritor^</td>
</tr>
<tr>
<td>2003-2006</td>
<td>Sergio Villaseñor Pelayo</td>
<td>Galnik SA de CV</td>
<td>n/a</td>
</tr>
</tbody>
</table>

*Indicates a multinational enterprise

^Indicates an affiliate of a major domestic business group

Sources: Canacintra (1996) Diario de Querétaro, Tribuna de Querétaro, El Nuevo Almanecer

As discussed above, Coparmex carved out a unique position in the universe of Mexico’s business groups as more independent and critical. From the beginning Coparmex also adopted a distinctive free-market philosophy that stood in contrast to the official chambers’ embrace of nationalist economy policy, as well as a broader social and humanist doctrine that emphasized broader the role of the entrepreneur in society—presumably including politics. Coparmex, too, developed a regional structure including delegations in Puebla (founded in 1934) and Querétaro (1978). These local affiliates generally maintained a similar profile of independence, a greater inclination to criticize PRI governments, and concern with a broader set of social and political issues than defense of industry per se. As a voluntary and encompassing association, theory suggests Coparmex would be a propitious forum for developmentalist collective action by the private sector.

Coparmex developed a very different profile—and role in economic development—in the cases of Puebla and Querétaro. In a similar manner as Canacintra, the wave of new industrial firms
that arrived in Querétaro in the 1970s made an important contribution to the human capital behind the initiative to found Coparmex in the state. One founding member, Ramón Eberstadt, was an executive of Singer, the US-based producer of capital goods that would figure among the state’s top ten exporters by 1988. Eberstadt served as president twice, first in the early 1980s and again in the early 1990s and remains an important elder statesman in the organization. Even if to a lesser extent than Canacintra, Coparmex-Querétaro saw several MNC and domestic business group managers rise to the presidency, including Gabriel Anaya Serrano, a former manager of the Querétaro affiliate of Cordamex, a large domestic conglomerate now part of Grupo Carso; and Alejandro Espinosa Medina, who served as director of human resources for Massey Ferguson.

Coparmex in Querétaro thus integrated the new ranks of corporate managers alongside the state’s traditional economic elite—primarily local commercial firm owners and a few industrialists in textiles and light manufacturing. In this way, the organization reflected the state’s changing economic structure—in fact, its very founding was influenced by newly-established professional managers working alongside traditional business people. By contrast, Coparmex-Puebla remained the redoubt of owners of traditional, locally and regionally-oriented businesses in the textile, commercial, and construction sectors. At no point, for example, does an auto parts executive figure as a president of the association. The composition of the group’s leadership thus undermined its ability to act as a representative, authentically encompassing voice of the private sector. Important differences can also be seen in the partisan tendencies of Coparmex leaders in the two states. In Puebla, the organization has been dominated by business people either directly affiliated or linked through family to the PAN. Coparmex-Querétaro has not abstained from politics: a former president, Ignacio Loyola Vera, became the state’s first panista governor in 1997. However, the

170 The emblematic representatives of Querétaro’s traditional economic elite, and those who played the largest role in the state’s 20th century development, were Roberto Ruiz Obregón and Jesús Olveida. Ruiz Obregón ran a family bottling company, which acquired the rights to distribute and market Coca-Cola products in Querétaro in the 1940s. He founded the local chapter of Canacintra in 1946, helped establish the Club de Industriales in the early 1970s, and remained a powerful figure in local politics until his death in 2001. Olveida owned a local hardware store, which he grew into a major supplier of materials for the state’s industrial and infrastructure projects in the 1960s. He founded the local commercial chamber, Canaco (Díaz Aldret 2011).
leadership of the organization has essentially been bipartisan, with past presidents such as Alejandro Espinoza Medina, Tonatiuh Salinas Munoz, and Rafael Rodrigo Tolentino holding positions in local PRI governments.\textsuperscript{171}

It is important to acknowledge that the different trajectories of Coparmex in the two states have much to do with historical factors that predate the economic changes of the 1960s and 1970s. The fact that Coparmex established a delegation in Puebla over four decades before doing so in Querétaro reflects the strong economic and social presence of Puebla’s traditional industrialists—led by the leading textile families who have played an outsized role in the state’s social and political development. This tight-knit local elite—bound by cultural conservatism, shared religious values, and a strong identification with their Spanish ancestry—developed a distinct worldview and group cohesiveness that set them apart from broader regional and national trends. In addition to these cultural and familial characteristics, the traditional business elite in Puebla held deeply conservative political views, supporting the Church and its traditional values against the secular-nationalism of the post-Revolutionary Mexican state—especially its more left-wing tendencies.\textsuperscript{172}

These preferences would transform into a firm political consciousness during Puebla’s fierce social conflicts of the 1960s. This upheaval began with a clash between liberal and conservative student groups for control of the Autonomous University of Puebla (now referred to as the BUAP), Puebla’s public university, which would inspire a wide-ranging social movement including peasant groups, dairy producers, informal vendors, radical unions, and others—who had generally been suppressed by the conservative state governments that had ruled Puebla, in league with the economic elite, since the Mexican Revolution. The rise of a Communist Party bloc that fought for control of the university provoked a vitriolic anti-Communist reaction among the

\textsuperscript{171} Later chapters will present evidence on the differences in business leaders’ participation in government.

\textsuperscript{172} While these positions put Puebla’s elite in conflict with the PRI governments (especially its more nationalist wing), the conservatism of the city’s bourgeoisie predated the Mexican Revolution and reflects the historical conflicts between liberals and conservatives that have marked Mexican history. To wit, the city of Puebla opposed the liberal reforms of Benito Juárez in the late 1850s, was sympathetic to the Emperor Maximilian (1864-1867), and resisted the revolutionary pulses of the early 20th century—so much so that LaFrance (2010) characterizes the Mexican Revolution in Puebla as a counter-revolution.

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Puebla’s elite, of which the private sector represented the most reactionary and strident segments (Pansters 1995). Many prominent members of Puebla’s business associations from the 1980s onwards cut their political teeth as leaders of anti-Communist student groups of the 1960s. 173

The prior development of a cohesive identity and political vocation among Puebla’s traditional business elite undoubtedly constrained their ability and willingness to incorporate the new managerial class of business people into the state’s socio-political fabric. By contrast, newly-arriving executives and managers found more hospitable ground to integrate into elite business circles in Querétaro, where the traditional private sector was smaller and had more of a cultural inclination to include new social and economic forces without conflict (Díaz Aldret 2011). 174

Unlike in the case of Puebla, the local business sector in Querétaro identified a clear economic opportunity in the arrival of largescale capital from Mexico’s industrial centers and abroad;

173 Puebla’s roiling social conflict made the state increasingly difficult to govern, leading to the early resignation, under federal pressure, of three governors in the decade between 1963 and 1973. This political turmoil was resolved only with the arrival of Guillermo Morales Blumenkrom as provisional governor in 1973. A politician whose career was forged in federal politics and who enjoyed close links to President Echeverría, Morales Blumenkrom was viewed as an unwanted federal imposition by the local elite. His arrival represented the withdrawal of federal support from Puebla’s local political class and thus signaled the end of the conservative political dynasty of the Ávila Camacho clan and their allies, whose control of the state was supported by Puebla’s traditional business elite. This history is discussed in greater detail in chapter 5.

174 As Díaz Aldret (2011) and Miranda (2005) describe, the Club de Industriales, founded in the early 1970s by a combination of local elites such as Roberto Ruiz Obregón and newly-arrived managers such as Ramón Eberstadt of Singer, was envisioned precisely for this purpose: to establish a space for the social integration of new business people arriving in Querétaro. Over the course of the subsequent several decades, the Club would bring together an increasingly influential cohort of private sector leaders, achieving considerable political and social importance. Governors frequently visited and consulted with its members through the early 21st century. The cultural openness of Querétaro’s economic elite, in the view of these authors, could be a legacy of the city’s position along the silver road between Mexico City and Zacatecas during the Colonial period, which brought a regular stream of travelers from other parts of Mexico. Another possible factor has to do with the smaller size and more diverse economic interests of Querétaro’s traditional economic elite, which militated against the formation of a strong local entrepreneurial identity, as opposed to the textile-dominated local elite in Puebla whose common interests around the sector fostered strong group identification, especially as they clashed with the federal government over proposed labor reforms in the first half of the 20th century (Gauss 2010). In addition, while textile industrialists in Puebla also identified strongly with their Spanish (and later Lebanese) ethnic roots, at the exclusion of outsiders, the traditional economic elite had no such distinct ethnic or national identification, which at times bordered on chauvinism in the case of Puebla. Another factor that plausibly facilitated the incorporation of new economic actors into the organizational spaces of the business sector is Querétaro’s small size in general, especially compared with Puebla (as of 1970, the latter had a population of more than 2.5 million while Querétaro was home to just over 485,000 inhabitants). The smaller scale of Querétaro likely facilitated personal contacts between local and out-of-state business people and, as theories of collective action suggest, cooperative efforts between the two groups. While it is difficult to gauge the relative weight of this explanation, it is worth pointing out that other small states in central Mexico such as Morelos and Tlaxcala (Mexico’s smallest state) have had very different socio-economic trajectories marked by conflict and the absence of a strong, coherent business sector.
beginning in the 1960s, leaders of local business chambers participated actively in the state’s efforts to court Mexico City and Monterrey-based firms.\textsuperscript{175}

However, another crucial factor in the decision of professional firm managers to integrate or not in local business associations was economic concentration, which as Table 3.1 shows varied considerably between Puebla and Querétaro. In the case of the former, the wave of industrialization beginning in the 1960s left the state with an industrial structure where one firm, Volkswagen, played an outsized role in the state economy. As a result, Volkswagen managers had the influence to engage on a bilateral basis with the high-level decision makers in the state and federal governments—a privilege they regularly exercised, as the case study chapters in this dissertation show. With direct access to policy makers, the firm had little incentive to participate actively in business associations. By contrast, Querétaro’s more diversified economic structure as of 1985 (see Table 3.1), meant that individual firms could increase their bargaining power vis-à-vis the government via from collective action through business associations.

Puebla also developed another voluntary, encompassing organization—the CCE—that came to serve as the state’s peak business group. As discussed above, the national CCE was perhaps the most important business group driving the growing political assertiveness of the private sector in the 1970s. Business leaders in Puebla mirrored the formula of the national CCE in 1978, creating a peak association comprised not of firms but of the state’s major business organizations themselves. In another reflection of national trends, the government in Puebla provided a stamp of support to the CCE, establishing in law the status of its president as the “official” representative of the state’s private sector. Notably, the CCE did not take hold in Querétaro. Although discussions of forming such an association of association occasionally arose, the existing organizations resisted

\textsuperscript{175} Miranda (2005) describes how local Canacintra and Canaco leaders made frequent promotional trips to expound on the benefits of Querétaro. According to Miranda, this open attitude towards outside capital can be explained in part by the fact that these new sectors would be complementary and not in direct competition with local businesses; however, the same could be said with respect to local Puebla industrialists, whose textile, real estate, and construction interests could have offered important linkages to newly-established manufacturing sectors. The differences, it would therefore appear, derived more from the cultural factors described above in footnote 174.
such a move, fearing that it would compromise the independence and dilute the voice of each individual group.176

Given the CCE’s privileged status as the primus inter pares of business groups in Puebla, the profile of its leadership is especially noteworthy. Here again, the dominance of the traditional elite is evident. As Table 3.4 shows, the presidency of the CCE remained in the control of owners of small, family-owned businesses primarily in the textile, commercial, and construction sectors.177 These firms participated in local or (in some cases) regional markets and reflect the state’s traditional sectors rather than the (comparatively) new industries such as auto parts, metallurgy, and machinery that had come to dominate the state’s economy by the 1980s. Beyond their business interests, the CCE presidents share additional, noteworthy characteristics: first, they have familial ties to several of Puebla’s traditional Spanish textile families (even when they have pursued other business activities);178 secondly, they have a distinct panista profile, as several of the presidents either ran for elected office or have familial ties to PAN officials; finally, they reveal close links to other institutions associated with Puebla’s traditional elite such as the Junta de Mejoras and the Popular Autonomous University of the State of Puebla (UPAEP). It is clear, moreover, that they do not reflect the profile of the professional managerial class that ran the state’s most important firms during this period, and as a result, Puebla’s peak encompassing business association

176 Interview with Alejandro Espinoza Medina (March 17, 2016). Interestingly, Querétaro did recently see the establishment of a CCE with a similar structure of grouping together various chambers. However, this body, formed with the state government’s support in 2014, failed to consolidate. According to interviews with former officials, the CCE’s perceived closeness to the government made many members of the private sector wary that the organization’s real raison d’etre would be to provide support the governor’s initiatives. As a result, many important firms choose to keep their distance from the new organization.

177 A partial exception to this pattern is CCE President Luis Regordosa Valenciana (2002-2005), who served as president of Grupo Embotellador Bret, a company that bottled and distributed Pepsi products in four southeastern states including Puebla. Regordosa took the firm public in 2002, which notably, was the first public listing of a Puebla firm since the failure of Banco de Oriente in the 1990s. Grupo Embotellador Bret was bought out in 2004 by Grupo Embotelladoras Unidas. However, in terms of his social and political profile, Regordosa Valenciana is a full-fledged member of the Puebla conservative business elite; his brother-in-law is Herberto Rodríguez Concha, former president of the CCE, Canacintra, and the Junta de Mejoras. See CNN Expansión: http://expansion.mx/negocios/2008/04/21/las-batallas-de-guevara and El Universal http://archivo.eluniversal.com.mx/finanzas/27810.html

178 The second and third-generations of many traditional textile families often pursued other business activities such as commerce, real estate, and construction. Often, this diversification was a response to increasingly intransigent labor relations in the textile sector, and several authors point to this pattern as a factor in the under-investment in Puebla’s textile sector that contributed to its decline beginning in the 1980s (Villavicencio 2013). In this sense, CCE presidents such as José Yitani and Juan José Rodríguez Posada are typical of this pattern.
increasingly lacked representativeness of the state’s economic structure. In short, economic change in Puebla was not accompanied by political change in the organization of business interests.

The persistence of the traditional bourgeoisie at the helm of Puebla’s peak private sector organization did not occur by chance. These individuals employed a variety of tactics to ensure their continued control over the CCE and other business organizations. In general, the CCE insisted on presenting candidates of unity in choosing new leaders, meaning that the future president and other officials would be decided for all intents and purposes behind closed doors, allowing existing leadership to exert considerable influence over the process. Another unwritten rule held that any aspiring president should have the backing of an ex-president, which further consolidated the control of the traditional elite over leadership renewal. The preference for candidates of unity (not unknown in business chambers or other spheres of Mexican politics) meant that the official voting was generally a formality: any dissention among member chambers was addressed beforehand in informal negotiations.179

These tactics, not surprisingly, provoked resentment among sectors of the business community who saw their potential to gain influence within the CCE stymied. Beginning in the late 1990s, a younger group of business people in the state (representing a combination of heirs to traditional family businesses, and transplants from other parts of Mexico) attempted to infuse new life into the chambers, many of which had fallen on hard times financially and lost members after the 1997 Chambers Law. However, these would-be reformers ran up against the reluctance of the old guard to yield control over the state’s highest private sector leadership positions. Tensions came to a head in 2005 when a conflict erupted over the selection of a new president of the organization. The traditional families supported the candidacy of Juan José Rodríguez Posada, a staunch conservative and combative figure who owned a well-known chain of clothing stores in the city.180

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179 This description of the CCE leadership selection is based on interviews and the reporting of Socorro López Espinosa.
180 Rodríguez Posada was active in the social conflicts of the 1960s, playing a leading role in the anti-Communist student faction. As Table 3.4 indicates, he was a founder of the Catholic UPAEP university, and as of 2016 served on its board.
Breaking with the practice of candidates of unity, Rodríguez Posada was opposed by Eduardo García Migoya, who had the support of many younger members of the business community (García Migoya was also seen as closer to the PRI governments). In the end, Rodríguez Posada was declared the winner by one vote in a disputed election that led to the withdrawal of several chambers that supported García Migoya—including Canacintra, CITEX (textiles), and CMIC (construction)—from the CCE. These groups formed the COE, a rival encompassing association that exists alongside the CCE in Puebla to this date.

In sum, business associations in Puebla and Querétaro have had notably different profiles since the early 1980s. This section has shown that in general terms the main peak business chambers in Puebla—Canacintra, Coparmex, and the CCE—have remained under the firm control of traditional family business owners primarily representing the state’s legacy industries such as textiles, commerce, and construction, as well as chemicals and plastics production linked to the textile sector. The presidents of these associations have almost without exception represented domestically-oriented businesses with a local or regional scope (in some cases with operations expanding to neighboring states such as Oaxaca, Veracruz, Morelos, and Estado de México).

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181 García Migoya too comes from a powerful Puebla textile family, although they were not part of the same conservative social milieu as the traditional chamber leaders. He had previously been the president of the Textile Industry Chamber of Puebla and Tlaxcala (CITEX) and served as a Vice-President of the CCE between 2002 and 2005.

182 According to Eduardo García Migoya and journalists with knowledge of the incident, the deciding vote in favor of Rodríguez Posada was cast by an individual firm, in violation of CCE bylaws.

183 The “excision” of the CCE was the most significant and public rupture within the Puebla IP, but the dispute, as suggested, reflected long-standing divisions among organized business in Puebla, along partisan, business, and ethnic lines. The formation of the COE was exploited by the government of Mario Marín, who tacitly supported the rival to the CCE by granting it equal status in various public forums and events.
Table 3.4: Presidents of CCE Puebla, 1983-2008

<table>
<thead>
<tr>
<th>Term</th>
<th>Name</th>
<th>Business</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-1992</td>
<td>Humberto Ponce de León</td>
<td>Food products</td>
<td></td>
</tr>
<tr>
<td>1993-1996</td>
<td>Jorge Espina Reyes</td>
<td>Construction</td>
<td>Cousin of state PAN leader, Juan Carlos Espina</td>
</tr>
<tr>
<td>1996-1999</td>
<td>José Manuel Rodoreda</td>
<td>Commercial</td>
<td>Member of prominent Spanish textile family</td>
</tr>
<tr>
<td>1999-2002</td>
<td>José Yitani Maccise</td>
<td>Auto dealerships</td>
<td>Member of prominent Lebanese textile family</td>
</tr>
<tr>
<td>2002-2005</td>
<td>Luis Regordosa Valenciana</td>
<td>Soft drink bottling</td>
<td>Member of prominent Spanish textile family; President of a firm that bottled Pepsi products and went public in 2002</td>
</tr>
<tr>
<td>2005-2008</td>
<td>Juan José Rodríguez Posada</td>
<td>Clothing; textiles</td>
<td>Member of prominent Spanish textile family; founder of UPAEP</td>
</tr>
</tbody>
</table>

Sources: *El Universal, La Jornada de Oriente, El Sol de Puebla, e-consulta.com, interviews with Socorro López Espinosa*

In addition to these distinctive business characteristics, leaders of the CCE and Coparmex in Puebla have been marked by close ties to the PAN and to several social and educational institutions associated with the conservative elite of the city of Puebla; the UPAEP and the Junta de Mejoras stand out among these. Notably, Canacintra presidents have emerged from a distinct socio-political milieu, even as their profile as businessmen remains similar. Especially since 2000, Canacintra has been the redoubt of Puebla’s Lebanese business community as the surnames of some recent presidents—Psíhas, Mtanous—makes clear. While the political preferences of this group have been less overt, both Canacintra presidents in general and Lebanese business leaders in particular have tended to be closer to the PRI in Puebla.\(^{184}\) These differences between the leaders of Coparmex and the CCE and one hand and Canacintra on the other reflect broader divisions within Puebla’s organized business community between a traditional, ultra-conservative, often

\(^{184}\) One example where this affiliation was explicit is Charles Mtanous, who left the Canacintra presidency in the middle of his term in 2009 to became the Subsecretary of Industrial Promotion in the government of Mario Marín. This move was criticized by many fellow members of the Puebla business community.
Spanish, and generally panista group and a less conservative (often Lebanese), more PRI-friendly group.

Querétaro’s business chambers, by contrast, have been populated by a more diverse group of leaders who represent a combination of traditional economic elites and professional managers of large, often multinational industrial powerhouses. In the case of Canacintra, the state’s premier encompassing industrial chamber, the influence of firms such as Tremec, Singer, and Massey Ferguson is clear. These firms represented key economic sectors such as metal-mechanics, auto parts, and machinery that became the driving force of the state economy beginning in the early 1980s. In this way, the chamber leadership reflected the changing economic structure of the state, giving meaning to the chamber’s status as an “encompassing” body capable of representing the interests of the private sector writ large. Coparmex, too, shows a distinct influence of the new managerial class in Querétaro, although here the balance between large firm managers and owners of small businesses is more equal. In addition, the partisan vocation of Querétaro business leaders was far less pronounced than in the case of Puebla. These differences will be further drawn out in the next section. Nor were there notable socio-cultural divisions within the business sector in Querétaro, whose constituents did not have the distinct ethnic identities or strong ideological preferences seen in Puebla. The existence of social spaces such as the Club de Industriales, created with the explicit aim of socializing newly-arriving business people into the state, eased the assimilation of out-of-state transplants. As a result, the organized private sector in Querétaro, as reflected in its two peak encompassing organizations, Coparmex and Canacintra, was more integrated, more modernizing and international in its outlook, and more representative of the state economy as a whole.

185 As described above, the presence of a strong contingent of Spanish-descended families within Puebla’s textile sector in particular, joined by Lebanese newcomers in the mid-20th century, led to the balkanization of the business community along ethnic lines. Similarly, the staunchly conservative political and ideological stance of the traditional business leadership in Puebla provoked divisions along these lines as well. Such fault lines did not development within Querétaro’s traditional business elite.
These differences matter because theory suggests that encompassing business organizations may be uniquely positioned to advance developmentalist, modernizing policies and thus serve as a more productive partner in public-private relations. In the context of Mexico in the 1980s and 1990s, we might imagine that a developmentalist encompassing organization would be more likely to help promote economic strategies to adapt to the new realities of economic integration and market competition. Did the differences chronicled between the two states’ business leaders translate into different economic and political positions and viewpoints vis-à-vis economic reform and policy during Mexico’s transition? The next section provides evidence on the policy positions and preferences of the organized private sector in the two states, drawing on a systematic review of the public statements of chamber leaders over the course of more than two decades.

d. Economic and Political Views of the Private Sector

Leaders of business chambers are relevant figures in local politics. Regardless of their business background, they generally enjoy access to the highest public officials at the state level, with whom they appeared frequently at public events and met often in private. These individuals were seen as important voices on economic and political matters local, national, and global. As such, they regularly made public statements that were widely reported in local media. These statements thus provide a consistent and temporally extensive record of the attitudes, preferences, and positions of these individuals and the organizations they represent.

This section takes advantage of this public record to systematically compare the views of business leaders in Puebla and Querétaro on a range of policy and political issues over the course of two plus decades. The sources used for this exercise were the major local print media in the two states during the period between 1986 and 2010—*Sol de Puebla*, *Diario de Querétaro*, and *Noticias de la Mañana* (Querétaro). Given the unfeasibility of reviewing 24 years of media reports across two states, I collected data from a sample of relevant dates within this period, which correspond to major economic changes such as Mexico’s entry into GATT or the signing of NAFTA and political milestones such as elections or major legislative changes. The data also include a selection of
“random” date ranges that serve as a point of comparison. The basic methodological approach is as follows. Each statement of an economic or political position, viewpoint, or opinion by a representative of a local business organization was identified, recorded, and coded according to the primary viewpoint expressed: support for economic integration, calls for industry protection, statement of a partisan opinion, etc. Appendix I provides a full description of the ten categories of economic and political preferences used, as well as examples of the coding process. In addition, each statement was classified as “supportive,” “neutral,” or “critical” of local and federal government. The business association and (where applicable) economic sector of the individual making the statement was also recorded. The resulting dataset, which serves as the basis for this analysis, includes 634 opinions expressed by 250 local business people representing 54 associations.

Before presenting the results of this analysis, it is important to address the nature of the sources used to extract these data. Local newspapers in Mexico are not necessarily impartial arbiters of public discourse. State governments tend to exercise important influence over local media, through the use of government advertising and other forms of financial and political leverage that constrain the former’s freedom to veer from “official” viewpoints. These dynamics have proved resilient to local political transitions and the broader expansion of political liberties at the national level since the 1980s (Espino and Mendoza, 2015). These features of the local media landscape might lead one to question the reliability of these sources as a barometer of opinions of individuals who are supposed to represent a counterweight to government authority.

Despite these concerns, there are several ameliorating circumstances that validate the use of these data. First, they should apply more or less equally in both states. Although Querétaro has

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186 A total of 54 weeks of newspaper coverage are included in each state. See Appendix I for details on the date ranges covered as well as other aspects of the methodology used in this exercise.

187 The data also includes statements made by individual business people in their capacity as public citizens; these are, however, far rarer. In cases where two distinct opinions (by one person) were expressed in the context of one newspaper report, these were coded and entered into the dataset separately. The unit of analysis is therefore the statement of a distinct economic or political preference by a business leader.
advanced further than Puebla on many indicators of democratic governance over the past two decades, government influence over local print media continues. Secondly, the risk of “self-censorship” by business leaders is belied by the presence of many critical statements (sometimes made obliquely) in these media. Often, coding these statements required more active interpretation or “reading between the lines.” Instead of directly criticizing the PRI, for example, a business leader might complain of tactics used by “the party that has always wanted to stay in power.” In addition, detected bias on the part of the media can itself provide valuable information. For example, a decline in the frequency of reported statements by local business could reflect a worsening of its relations with the state government. The final rationale for using an admittedly imperfect source is simply that they provide the only continuous and readily-available coverage of local politics. With the aforementioned adjustments, I believe they serve the purpose of this chapter in providing a consistent point of comparison between the two case states.

i. Political or economic activism

Recall that the profiles of business leaders presented above revealed differences in leaders’ partisan identification. In the case of Puebla, the business community had a more distinct partisan profile: the conservative faction dominating the CCE and Coparmex had extensive personal and familial links with the PAN. By contrast, the partisan preferences of Querétaro business leaders tended to be more muted. While these individuals often went on to participate in state government, they generally did so in more technocratic posts in the economic bureaucracies—and participated in panista and priista governments in equal measure.

188 Espino and Mendoza (2015) make this point. They show how the two major daily newspapers, Diario de Querétaro and Noticias de la Manana, have been subject to manipulation by local governments, a practice that lasted well into the panista administration of Francisco Garrido (2003-2009), a period when the state featured a high level of electoral competition and political plurality.

189 For example, in Puebla it is well known that relations between the Bartlett administration and the local private sector soured after the 1995 mid-term elections. The appearances of private sector leaders’ statements in Sol de Puebla, whose pro-government position in that period was readily apparent, declined according to the data collected here.

190 The nature of business leaders’ participation in government is dealt with in more depth in subsequent chapters.
As a first comparison between business in the two states, we can pose the question of whether the Puebla private sector was more likely to address political rather than economic issues in their public statements. If this is the case, it would provide evidence for the notion that the business sector in Puebla was more politicized and less focused on technocratic issues of economic management. To test this proposition, the statements included in the dataset were divided into two categories: those expressing a “political” view—support for electoral participation, calls for social tranquility, statements of partisan preference, evaluation of the performance of particular officials, etc—or an “economic” view addressing topics such as trade liberalization, inflation, budgets, and a range of other policy issues.

The results of this exercise are displayed in Table 3.5. At first blush, we do not see much difference between states in the tendency to opine on political versus economic matters. In both periods of economic change and political change, business leaders mostly confined themselves to making statements on economic issues. However, a closer look at the data reveal noteworthy differences in the content of the political statements made by business in Puebla and Querétaro. In short, business leaders in Puebla were far more likely to criticize the PRI or make an otherwise partisan political statement. In the case of Puebla, this class of political statement made up 23 percent of all political statements, while in Querétaro the corresponding figure is a mere 4 percent (see Table 3.5).

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191 As described above, the periods from which business leaders’ opinions are drawn overlap with either major economic changes such as important milestones in Mexico’s GATT entry and the NAFTA process or major political events such as elections. The former are referred to as “economic events” and the latter as “political events.”

192 As opposed to a non-partisan statement, such as calling for “peaceful elections” or for the vote to be respected, which made up an important part of private sector discourse around elections in both states. By contrast, the Puebla business sector often made comments suggesting that any threat to democracy or social peace emanated from “the party that has refused to accept losses” or “wants to always keep power”—essentially criticizing the PRI without mentioning the party by name. Appendix I provides more examples of the exact language used to identify each class of statement.
Table 3.5: Political and Economic Statements of Business Leaders

<table>
<thead>
<tr>
<th>Period</th>
<th>Puebla</th>
<th>Querétaro</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Economic</td>
<td>Political</td>
</tr>
<tr>
<td></td>
<td>statement</td>
<td>statement</td>
</tr>
<tr>
<td>All</td>
<td>82%</td>
<td>18%</td>
</tr>
<tr>
<td>Economic event</td>
<td>89%</td>
<td>11%</td>
</tr>
<tr>
<td>Political event</td>
<td>63%</td>
<td>37%</td>
</tr>
</tbody>
</table>

*Partisan statements calculated as a share of political statements in each period

Moreover, looking at the content of the comments at certain key periods shed more light on the sharper edge to the Puebla private sector’s political rhetoric. Recall that a key shift in private sector discourse occurred in the mid-1980s after the controversial 1982 bank nationalization. In the subsequent years, national business leaders began to openly assert the right (or even the obligation) of business to seek political power. Such comments clearly communicated a not-so-subtle threat to PRI governments that business would no longer be content on the sidelines of the political arena.

In Puebla, this rhetoric figured prominently into the statements of business associations, especially those of Coparmex and CCE leaders.¹⁹³ Throughout 1985, Coparmex president Jorge Ocejo Moreno frequently made assertions that “business people do aspire to power” and “have full liberty to participate based on individual rights”.¹⁹⁴ Another Coparmex leader, José María Basagioti, similarly opined that “it is time that the Chamber of Deputies has capable economists that put in place realistic and congruent steps.”¹⁹⁵ The politicized, confrontational nature of Coparmex-Puebla in this period can also be seen in statements made denouncing the (perceived) infiltration of

¹⁹³ In fact, the aspirations to power among some sectors of the Puebla business leadership had become evident earlier. In 1979, for example, Governor Alfredo Toqui stated that “not all the private sector, but some of its members, do intend to rise to political power and become factors in political decisions”, in response to comments by the then-president of CCE-Puebla that student protests augured a wave of instability in the state (quoted in Sotelo and Araya 1998)
¹⁹⁵ Diario Cambio, “Balance semanal,” January 18, 1985
socialists in Puebla’s main labor confederation (CTM); Ocejo called socialism a “threat to all Mexicans” and affirmed the duty of business to speak out on the matter.196

This rhetoric contrasts notably with that of queretano business leaders during the same period. Their comments criticized the government for excessive and inefficient bureaucracy and demanded tax reforms—but the more confrontational rhetoric of business people asserting their right to seek political office did not figure into the Querétaro business leaders’ discourse. No such comments were found in the corresponding periods between 1984 and 1986. Instead, presidents of Coparmex in Querétaro stressed their cooperative relationship with local governments in a series of reminiscences.197 Business in Puebla thus carried on a more partisan, more confrontational discourse in their political statements in comparison to the organized private sector in Querétaro.

ii. Criticism or support of the government

Another perspective from which to examine differences in the public positions of business in the two states is to consider whether business leaders are more prone to criticize or support the government. As discussed above, each statement recorded in the dataset was classified as being “supportive,” “critical,” or “neutral” with respect to both federal and local authorities. The results of this exercise are presented in Table 3.6, and clearly show that business chambers in Puebla have been more likely to criticize both federal and local authorities than their counterparts in Querétaro.198 During the entire period under study, 17 percent of the Puebla business sector’s statements criticized the federal government, compared with 11 percent in the case of Querétaro. For state governments, the figures are 12 percent (Puebla) compared with 4 percent (Querétaro). By contrast, the private sector in Querétaro has been much more likely than its counterpart in Puebla to express support for both federal (15 percent versus 5 percent) and state (11 percent versus 2 percent) authorities.

196 These statements provoked a sharp rebuke from CTM leaders who called them “a political fiction.” Diario Cambio, “Se quiere implantar el socialism en el país: empresarios” August 1, 1984.
197 See “Coparmex Querétaro 35th Anniversary”
198 As described in Appendix I, statements were only identified as critical or supportive when explicit mention of a government official or agency was made.
Of course, part of the function of private sector associations is precisely to air legitimate grievances against the government and defend the interests of firms. There is nothing wrong or malicious, in principle, with frequently criticizing political authorities. However, a look at the data in Table 3.6 broken down by the party in power reveals important partisan differences. In short, Puebla business associations have been more eager to denounce PRI governments in particular, while the private sector in Querétaro, in their public statements, tended to support PRI governments at both the federal and local levels. Viewing these findings in light of the broader context of Mexico’s business-state relations—and the sharp nature of Puebla business leaders’ rhetoric described in the previous section—one can surmise that the Puebla chambers took a more confrontational stance towards the government precisely at the time when business started to become more politically active. With the PAN in power at the federal level after 2000, Puebla business people criticized the government less frequently.

We can also detect a partisan hue in the position of Querétaro’s business chambers. Most notably, the private sector in Querétaro has been much more critical, and less supportive, of panista presidents. They also criticized local authorities more frequently after the PAN took control over the governorship in 1997. At first blush, this is puzzling given the links between Querétaro business leaders and the PAN.199 A closer look at the nature of criticisms of the Fox administration suggest that Querétaro business leaders were sorely disappointed at the government’s failure to pass fiscal, energy, and labor reforms. Some of this criticism was directed at the PRI-controlled legislature. One might conclude that the political transition engendered high hopes among the business community; when these were not met, they felt emboldened to criticize a president that was in many ways one of their own.

199 This closeness is most apparent in the case of Gov. Ignacio Loyola Vera, the first panista governor in Querétaro, who had been president of Coparmex before launching his campaign. President Vicente Fox, too, had personal ties to many of the state’s business leaders; Fox came from the private sector himself and as president travelled frequently to the state, often meeting in private with Loyola and members of the business community.
### Table 3.6: Criticism and Support of Federal and Local Government

<table>
<thead>
<tr>
<th>Period</th>
<th>Critical of federal government</th>
<th>Supportive of federal government</th>
<th>Critical of state government</th>
<th>Supportive of state government</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>17%</td>
<td>5%</td>
<td>12%</td>
<td>2%</td>
</tr>
<tr>
<td>PRI in power</td>
<td>20%</td>
<td>3%</td>
<td>12%</td>
<td>2%</td>
</tr>
<tr>
<td>PAN in power</td>
<td>10%</td>
<td>11%</td>
<td>n/a*</td>
<td>n/a*</td>
</tr>
<tr>
<td>Querétaro</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All</td>
<td>11%</td>
<td>15%</td>
<td>4%</td>
<td>11%</td>
</tr>
<tr>
<td>PRI in power</td>
<td>7%</td>
<td>17%</td>
<td>2%</td>
<td>10%</td>
</tr>
<tr>
<td>PAN in power</td>
<td>30%</td>
<td>6%</td>
<td>10%</td>
<td>14%</td>
</tr>
</tbody>
</table>

* Puebla did not have a PAN governor until after 2010

iii. **Positions on economic reforms, competition, and modernization**

The fundamental motivation in studying business associations is to understand their effect on development. The literature reviewed above suggests that business associations with encompassing characteristics are more likely to play a constructive role supporting growth-enhancing reforms as opposed to seeking special protections that are detrimental to the economy. The data presented in this chapter provided evidence that business associations in Querétaro took on encompassing features—they included a more representative cross-section of the state’s key economic sectors and elevated economically-important large firms to leadership positions—while in Puebla they remained dominated by a handful of traditional, backward sectors. Did these differences result in divergent preferences on economic issues, as theory suggests?

Table 3.7 suggests that business associations in Puebla and Querétaro did indeed have distinct policy preferences. Business associations in Querétaro consistently voiced support for economic integration—including free trade deals, efforts to attract foreign investment, and firm internationalization—a position that characterized a full 42 percent of their statements on economic issues. Combined with their backing of greater competition and liberalization as well as active development policies\(^{200}\), the three most commonly-expressed preferences of Querétaro chambers

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\(^{200}\) Competition and liberalization include statements in support of policies such as price liberalization and statements in support of ideas that competition, productivity, and quality are the keys to economic progress; “active development
can be characterized as being in favor of broadly growth-enhancing policies. In contrast, business associations in Puebla clearly advocated for a different set of policies. They generally opposed economic integration (20 percent opposing, versus 9 percent supporting) and were more likely to demand an industry-specific subsidy or credit (17 percent). Taken together, a full 37 percent of the statements of Puebla business associations aimed to extract protection for local industry, compared with only 10 percent in the case of Querétaro. This is not altogether surprising if we consider the makeup of the business associations in the two states. As detailed above, the organized business sector in Puebla was dominated by locally-oriented firms in traditional sectors that were highly vulnerable to export competition; by contrast, Querétaro’s chambers were populated by larger, more international firms.

The data presented so far reflect the preferences of the full universe of business leaders in each state. However, it is also important to compare the peak associations. Theory suggests that these groups, due to their nominally encompassing structure, are the most likely to adopt developmentalist rather than rent-seeking preferences. As Tables 3.8 and 3.9 demonstrate, the differences in policy preferences between business Puebla and Querétaro are also present when comparing these individual chambers. In the case of Canacintra, an encompassing industrial association, the local delegation in Querétaro strongly supports economic integration (47 percent of all opinions), while the Puebla branch tended to demand industry subsidies (25 percent) or oppose opening the economy (23 percent). Despite the nominally encompassing structure of both groups, only in Querétaro does Canacintra embody typically encompassing preferences.

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policies” include support for industrial parks, technical training, and policies to support industry linkages. See Appendix I.
Table 3.7: Preferences on Economic Issues, All Private Sector

<table>
<thead>
<tr>
<th>Position</th>
<th>Occurrences</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oppose economic integration</td>
<td>33</td>
<td>20.2%</td>
</tr>
<tr>
<td>Demand subsidy</td>
<td>27</td>
<td>16.6%</td>
</tr>
<tr>
<td>Support competition, liberalization</td>
<td>23</td>
<td>14.1%</td>
</tr>
<tr>
<td>Support structural reforms</td>
<td>22</td>
<td>13.5%</td>
</tr>
<tr>
<td>Criticize economic conditions</td>
<td>21</td>
<td>12.9%</td>
</tr>
<tr>
<td>Criticize competitiveness or mentality of local business</td>
<td>18</td>
<td>11.0%</td>
</tr>
<tr>
<td>Support economic integration</td>
<td>15</td>
<td>9.2%</td>
</tr>
<tr>
<td>Support active development policies</td>
<td>4</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Position</th>
<th>Occurrences</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support economic integration</td>
<td>71</td>
<td>42.0%</td>
</tr>
<tr>
<td>Support competition, liberalization</td>
<td>28</td>
<td>16.6%</td>
</tr>
<tr>
<td>Support active development policies</td>
<td>21</td>
<td>12.4%</td>
</tr>
<tr>
<td>Criticize economic conditions</td>
<td>18</td>
<td>10.7%</td>
</tr>
<tr>
<td>Demand subsidy</td>
<td>13</td>
<td>7.7%</td>
</tr>
<tr>
<td>Support structural reforms</td>
<td>12</td>
<td>7.1%</td>
</tr>
<tr>
<td>Oppose economic integration</td>
<td>3</td>
<td>1.8%</td>
</tr>
<tr>
<td>Criticize competitiveness or mentality of local business</td>
<td>3</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

In the case of Coparmex, the differences are less pronounced but still evident. In both states, Coparmex advocated structural reforms (fiscal, labor, or energy) more frequently than any other policy preference. However, on the question of economic integration, the Coparmex delegations reflect the more general differences between the two states, as Table 3.9 shows. Coparmex-Querétaro leaders expressed support for economic integration in 22 percent of their statements (compared with zero recorded statements opposing integration) while in Puebla, Coparmex opposed economic integration 20 percent of the time (compared with 7 percent of statements supporting integration). Finally, it is worth reviewing the preferences of the CCE in Puebla, given the association’s status as the lead private sector organization in the state. As Table 3.10 shows, the CCE has, like Coparmex, frequently advocated for fiscal, labor, or energy reform. Beyond that, however, this organization has demanded industry-specific subsidies (20 percent) and opposed
economic integration (10 percent) more often than it has supported economic integration (5 percent).

**Table 3.8: Preferences on Economic Interests, Canacintra**

<table>
<thead>
<tr>
<th>Position</th>
<th>Occurrences</th>
<th>Share</th>
<th>Position</th>
<th>Occurrences</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand subsidy</td>
<td>10</td>
<td>25.6%</td>
<td>Support economic integration</td>
<td>16</td>
<td>47.1%</td>
</tr>
<tr>
<td>Oppose economic integration</td>
<td>9</td>
<td>23.1%</td>
<td>Support competition, liberalization</td>
<td>6</td>
<td>17.6%</td>
</tr>
<tr>
<td>Criticize economic conditions</td>
<td>6</td>
<td>15.4%</td>
<td>Support active development policies</td>
<td>5</td>
<td>14.7%</td>
</tr>
<tr>
<td>Support structural reforms</td>
<td>4</td>
<td>10.3%</td>
<td>Support structural reforms</td>
<td>3</td>
<td>8.8%</td>
</tr>
<tr>
<td>Criticize competitiveness or mentality of local business</td>
<td>4</td>
<td>10.3%</td>
<td>Critical of economic conditions</td>
<td>2</td>
<td>5.9%</td>
</tr>
<tr>
<td>Support competition, liberalization</td>
<td>3</td>
<td>7.7%</td>
<td>Demand subsidy</td>
<td>2</td>
<td>5.9%</td>
</tr>
<tr>
<td>Support economic integration</td>
<td>2</td>
<td>5.1%</td>
<td>Oppose economic integration</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Support active development policies</td>
<td>4</td>
<td>2.5%</td>
<td>Criticize competitiveness or mentality of local business</td>
<td>0</td>
<td>0.0%</td>
</tr>
</tbody>
</table>
Table 3.9: Preferences on Economic Interests, Coparmex

<table>
<thead>
<tr>
<th>Position</th>
<th>Puebla</th>
<th>Querétaro</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Occurrences</td>
<td>Share</td>
</tr>
<tr>
<td>Support structural reforms</td>
<td>7</td>
<td>46.7%</td>
</tr>
<tr>
<td>Oppose economic integration</td>
<td>3</td>
<td>20.0%</td>
</tr>
<tr>
<td>Support competition, liberalization</td>
<td>2</td>
<td>13.3%</td>
</tr>
<tr>
<td>Support economic integration</td>
<td>1</td>
<td>6.7%</td>
</tr>
<tr>
<td>Criticize economic conditions</td>
<td>1</td>
<td>6.7%</td>
</tr>
<tr>
<td>Support active development policies</td>
<td>1</td>
<td>6.7%</td>
</tr>
<tr>
<td>Demand subsidy</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Criticize competitiveness or mentality of local business</td>
<td>0</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

As in the cases of Canacintra and Coparmex, then, Puebla’s peak business association, has not advocated the type of developmentalist policies associated in the literature with encompassing business associations. Instead, these groups have tended to demand protection or subsidies, along the lines of particularistic or rent-seeking business groups so often denounced by academics and
policy makers alike. By contrast, Querétaro’s business groups in general, and the encompassing associations Canacintra and Coparmex in particular, have consistently advocated for economic integration, greater competition, and more active policies to support technical education, worker training, and industrial infrastructure. In so doing, they have articulated precisely the type of preferences assigned to developmentalist business associations.

iv. **Consistency of private sector preferences**

As this section has suggested, in both states the private sector is far from monolithic. The universe of business associations analyzed consists of 28 groups in Puebla and 26 in Querétaro. These range from the peak associations representing the entire state economy to niche groups of restauranteurs or small shop owners. A relevant question, therefore, is how unified and consistent are the preferences of the private sector, given this wide range of associations. If the voice of the private sector is spread across numerous organizations, which may have different policy views, the political weight of business as a whole could be diluted. While it is difficult to precisely measure these concepts, an approximation of the concentration and consistency of private sector views can be attained using the data at hand. “Concentration” is intended to reflect the extent to which the voice of the private sector resides in a small number of influential organization as opposed to being distributed among a larger group of associations. Table 3.11 shows most “outspoken” chambers in each state. In the case of Querétaro, the three chambers most frequently issuing public views in the media—Canacintra, Canaco, and Coparmex—account for 57 percent of all statements, whereas the top three chambers in Puebla together represent only 48 percent of all statements. These figures suggest that the voice of Puebla business was slightly more dispersed—a consequence of the presence of the CCE, an additional encompassing association not present in Querétaro, and the high profile of the traditionally powerful Chamber of the Textile Industry of Puebla and Tlaxcala (CITEX).
### Table 3.11: Concentration of Statements among Chambers

<table>
<thead>
<tr>
<th>Chamber</th>
<th>Sector</th>
<th>Number</th>
<th>Share</th>
<th>Chamber</th>
<th>Sector</th>
<th>Number</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canacintra</td>
<td>Industry</td>
<td>55</td>
<td>19.4%</td>
<td>Canacintra</td>
<td>Industry</td>
<td>70</td>
<td>21.7%</td>
</tr>
<tr>
<td>Coparmex</td>
<td>Encompassing</td>
<td>41</td>
<td>14.5%</td>
<td>Canaco</td>
<td>Commerce</td>
<td>58</td>
<td>18.0%</td>
</tr>
<tr>
<td>Canaco</td>
<td>Commerce</td>
<td>40</td>
<td>14.1%</td>
<td>Coparmex</td>
<td>Encompassing</td>
<td>56</td>
<td>17.3%</td>
</tr>
<tr>
<td>CCE</td>
<td>Encompassing</td>
<td>38</td>
<td>13.4%</td>
<td>Coparmex</td>
<td>Encompassing</td>
<td>56</td>
<td>17.3%</td>
</tr>
<tr>
<td>CITEX</td>
<td>Textile</td>
<td>31</td>
<td>11.0%</td>
<td>AMIQRO</td>
<td>Microindustry</td>
<td>15</td>
<td>4.6%</td>
</tr>
<tr>
<td>Canirac</td>
<td>Restaurant</td>
<td>8</td>
<td>2.8%</td>
<td>Canirac</td>
<td>Restaurants</td>
<td>11</td>
<td>3.4%</td>
</tr>
<tr>
<td>Conacex</td>
<td>Foreign Trade</td>
<td>7</td>
<td>2.5%</td>
<td>CNIC</td>
<td>Construction</td>
<td>10</td>
<td>3.1%</td>
</tr>
<tr>
<td>CNIC</td>
<td>Construction</td>
<td>6</td>
<td>2.1%</td>
<td>CNIC</td>
<td>Asoc. de Industriales de QRO</td>
<td>18</td>
<td>5.6%</td>
</tr>
<tr>
<td>Asoc. de Microindustriales de San José de Alto</td>
<td>Construction</td>
<td>10</td>
<td>3.1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>n/a</td>
<td>57</td>
<td>20.1%</td>
<td>Others</td>
<td>n/a</td>
<td>75</td>
<td>23.2%</td>
</tr>
</tbody>
</table>

Finally, Table 3.12 presents the three most-commonly stated preferences of the three most vocal chambers in both states: Canacintra, Coparmex, and Canaco. The objective is to gauge the consistency of opinion across these three associations. While the evidence is again subtle, in Querétaro all three chambers share two common preferences: i) economic integration and ii) competition and liberalization. In Puebla, there is no commonly shared view across all three chambers, and each two-chamber pair shares only one common opinion. By this (admittedly rough) measure, the Querétaro business associations show more consistency in their preferences than do their counterparts in Puebla. As with all the evidence presented in this chapter, these findings will be supported through qualitative evidence in the case studies that follow.
Table 3.12: Consistency of Views across Top Chambers

<table>
<thead>
<tr>
<th>Canacintra</th>
<th>Coparmex</th>
<th>Canaco</th>
<th>Canacintra</th>
<th>Coparmex</th>
<th>Canaco</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand subsidy</td>
<td>Support structural reforms</td>
<td>Demand subsidy</td>
<td>Support economic integration</td>
<td>Support structural reforms</td>
<td>Support economic integration</td>
</tr>
<tr>
<td>Oppose economic integration</td>
<td>Oppose economic integration</td>
<td>Criticize economic conditions</td>
<td>Support competition, liberalization</td>
<td>Support economic integration</td>
<td>Support competition, liberalization</td>
</tr>
<tr>
<td>Criticize economic conditions</td>
<td>Support competition, liberalization</td>
<td>Support competition, liberalization</td>
<td>Support active development policies</td>
<td>Support competition, liberalization</td>
<td>Criticize economic conditions</td>
</tr>
</tbody>
</table>

**e. Conclusions**

This chapter has presented evidence that business chambers in Puebla and Querétaro exhibited systematic differences in their policy preferences during the two-and-a-half decades since Mexico initiated global economic integration (1986-2010). The organized private sector in Querétaro consistently supported broadly growth-enhancing policies such as economic integration and liberalization while their counterparts in Puebla clamored for protection and industry subsidies. In accounting for these differences, this chapter pointed to the varying composition of two states’ main encompassing business organizations, showing that in the case of Querétaro these associations successfully incorporated new, large manufacturing firms beginning in the 1970s. As a result, the Querétaro associations acquired authentically encompassing qualities and assumed the mentality of competitive, modern firms.

These results align with existing theoretical and empirical work suggesting that business associations can take on either developmentalist or rent-seeking proclivities depending on their structure and composition. This literature also suggests that developmentally-oriented business associations can serve as a crucial partner for the state in promoting economic outcomes such as industrialization, structural transformation, and upgrading, as well as effectively managing labor...
relations. The following chapters explore how differences in local business organization contributed to divergent business-state and capital-labor relations and, in turn, economic outcomes in Puebla and Querétaro.

The sexenio of Rafael Camacho Guzmán (1979-1985) represented a break with several decades of governance in Querétaro. Successive state governments had been led by established members of Querétaro’s genteel political elite who generally presided over periods of social order and economic progress. By contrast, “El Negro” Camacho was a brusque and often impolitic labor leader who had ascended through the ranks of the Confederation of Mexican Workers (CTM). His administration witnessed an outbreak of social conflict, driven by radical labor unions and left-wing groups that had gained force during the increasingly polarized 1970s, and to which perennially tranquil Querétaro would no longer be immune.

Despite initial skepticism among the local elite, the gruff union leader would successfully broker accords among the state’s major interest groups (local economic elites, national and transnational business managers, and official labor leaders) and establish a critical institutional architecture to defend the state against the potentially destabilizing forces convulsing much of the country. In response to labor unrest at several of Querétaro’s key firms, the state government closed ranks with official union leaders and business associations to preserve stability through a series of coordinated efforts orchestrated by the governor. Of particular importance was the creation of the Tripartite Commission, a regular dialogue held among government, business, and labor, which would continue well into the 21st century and become a pillar of governance in the state.

The Camacho Guzmán administration thus laid the foundations for the state’s remarkable economic record during the upheavals of the 1980s and 1990s. The mechanisms for dialogue, coordination, and conflict mediation instituted during this period would help Querétaro avoid the polarization and turmoil that beset other Mexican states as traditional corporatist control weakened and economic and political reforms introduced new pressures and demands. These institutions ensured the conditions for successive governments to attract new investments, implement productivity-enhancing public policies, and when necessary, control societal demands.
Background: outbreak of conflict amid a backdrop of social tranquility

Since the early 1960s, governors in Querétaro had hailed from traditional upper-class queretano families and had pursued professional careers in the state (mainly as lawyers or accountants) before entering politics. These governors thus enjoyed strong local roots and good relations with various political and social groups. Partly for this reason, Querétaro had generally avoided the political and social conflicts surrounding gubernatorial succession that at times complicated governance in other states during this period.

The arrival of Rafael Camacho Guzmán on the local political scene broke with each of these traditions. On a personal level, Camacho lacked the privileged social pedigree of most of his predecessors. He had become a radio and television operator at a young age and entered politics through the Union of Television and Radio Workers (STIRT). Camacho Guzmán rose to the union’s top leadership position by 1961, in the process becoming a close friend and confidant of Fidel Velázquez, the all-powerful leader of Mexico’s peak labor organization, the Confederation of Mexican Workers (CTM). This alliance would be indispensable to Camacho Guzmán’s political rise and success as governor.

Unlike his predecessors, Camacho Guzmán’s nomination as the PRI’s candidate for state governor was contentious. The outgoing governor, Antonio Calzada Urquiza, promoted the candidacy of his Secretary of Government, Fernando Ortiz Arana, an impeccable representative of the local elite. However, Camacho Guzmán’s connections with the top echelons of power in Mexico City would prove decisive. His candidacy was thus perceived as a federal imposition by many members of the local political elite (Díaz-Aldret 2011). Their skepticism was exacerbated by

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201 Juventino Sánchez (1967-1973) was atypical in that he came from a more modest background, although he later became close with a longstanding member of the local political elite and former governor, Agapito Pozo, which allowed him to integrate into the local political establishment (Lámbarrí Malo 2015).

202 Camacho Guzmán had served as the official locutor for the presidency, and his friend Fidel Velázquez advocated for his candidacy directly with the president. Another factor working in Camacho Guzmán’s favor was the association of Calzada with former president Echeverría, whose Secretary of Government, Mario Moya Palencio, was a close friend. In a shift characteristic of internal PRI politics in this era, politicians close to Echeverría found themselves out of favor under the new administration. The choice of Guzmán provoked a division between him and Ortiz Arana that would mark local politics for the ensuing decades.
the labor boss’ penchant for bluntness, tawdry language, and publicly upbraiding colleagues and rivals alike. Local resentment over the PRI’s candidate selection did not endanger its prospects at the polls, however. Querétaro stood out in the 1960s and 1970s as a PRI bastion, even in a political system dominated by the party. Camacho Guzmán ran unopposed and received 100 percent of the vote.

Upon entering office, the new governor thus faced a local elite that viewed him with distrust and an increasingly volatile social situation marked by a growth in radical movements. Labor unrest, protests by the urban poor, and rural land invasions by peasants had presented a growing governance challenge during the preceding Calzada sexenio. Camacho Guzmán would prove up to the challenge of managing this difficult scenario. By the end of his sexenio, “Don Rafael” would be well regarded throughout queretano society, leaving a legacy of important public works, strong industrial development despite a severe economic recession at the national level, and perhaps most importantly, a lasting mechanism for managing labor conflict. The governor achieved these outcomes through a combination of a domineering political persona and close coordination with local business and labor leaders.

The general outlines of this strategy can be seen in the composition of the governor’s cabinet. On the one hand, his personality loomed large. Following the example of President López Portillo, Camacho Guzmán placed his son Rafael Camacho Sandoval at the helm of the budget and planning ministry. However, the governor also reached out to members of the local political and economic elite, young and old. Enrique Burgos, a rising political star who had been elected mayor...
of San Juan del Río at the age of 23, was named the governor’s private secretary.207 Ignacio Paulín Cosío, a member of a prominent queretano family, served as Finance Minister for most of the sexenio and Jorge Gómez Eichelmann, a financial consultant with close ties to the local private sector, managed the day-to-day business of the government as Secretary of Administrative Services. Alejandro Espinoza Medina, who succeeded Eichelmann in this role, also had a background in the private sector208 and would play a major role in business-union relations. These personnel decisions, especially the rise of Burgos as the governor’s most trusted collaborator, would shape the trajectory of the state’s politics for years to come.209

Camacho Guzmán took office at a moment when the local private sector was preparing itself to take on a more prominent role in the state’s public life. Local economic elites in Querétaro had worked closely with governors since the sexenio of Manuel González Cosío (1961-1967), who created the Consejo Económico de Querétaro, a public-private council to promote the state’s industrialization.210 However, the policy engagement of the local private sector in this period differed from these earlier activities in important ways. First, the new private sector organizations that arose in the late 1970s reflected the independent initiative of business leaders, in contrast to

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207 In addition to his post as mayor of Querétaro’s second city, Burgos, a member of the labor sector of the party (CTM), had previously served in the local legislature, where he made a reputation for himself by denouncing corruption in the local judiciary. Amid various cabinet changes, Burgos remained the closest collaborator of the governor and the official responsible for managing the political operations of the administration.

208 Espinoza Medina had worked as human resources manager for Massey Ferguson, a major transnational firm that had been a stalwart of the state’s metal-mechanic industry since the 1970s, and at Grupo Spicer, a large domestic grupo. He later served as the president of Canacintra and Secretary of Government under the Burgos administration. In these roles, Espinoza Medina represented and negotiated among the government, business, and labor, helping give continuity to the Tripartite Commission and facilitating informal dialogues between human resource managers and labor leaders during the tumultuous 1980s. His outreach to the state’s organized labor organizations were facilitated by his familial relation with Ezequiel Espinoza, leader of the CTM in Querétaro between 1979 and 2006.

209 Burgos would become governor in 1991 and remained an influential figure even after the PAN took control of the state in 1997. He also served as an important conduit between business leaders, with whom he maintained close personal ties, and the labor sector, which he was connected to via affiliation with the CTM, during the government of Mariano Palacios Alcocer (1985-1991). See below for more discussion of these interactions. Jorge Gómez Eichelmann, likewise played a key role, often informal, as an interlocutor between political and economic power over ensuing sexenios.

210 The Consejo included Roberto Ruiz Obregón, the deacon of the local business community during the 20th century, as well as the president of the local chamber of commerce (Canaco) as the time, Jesús Oveido, but was still dominated by representatives of the public sector (including the governor himself as well as several former governors) and clearly a state-sponsored initiative. Perhaps the most influential activities of the private sector during this period occurred at a less formal, individual basis between local business leaders, most notably Ruiz Obregón, and representatives of national businesses interested in Querétaro. These contacts were often mediated by Bernardo Quintana, whose firm ICA played a fundamental role in building the infrastructure to launch the state’s development (Miranda 2005; Díaz-Aldret 2011).
the government-sponsored bodies of the earlier period. The clearest example of organic organization among local business was the founding of the Querétaro affiliate of Coparmex, Mexico’s independent employers’ union, in 1978.211 This project was driven by a diverse group of large and small businesses with the support of key figures in the national business community including Bernarndo Quintana, president of Grupo ICA; Andrés Marcelo Sada, the national leader of Coparmex; and Saturnino Suárez, another ICA partner (Coparmex 2013).212

The participation of prominent national business leaders in the founding of Coparmex-Querétaro reflects another distinguishing characteristic of this period of private sector organization: representatives of large national and transnational firms played a leading role. Whereas members of the local business elite had often reached out on an ad hoc basis to national capitalists to promote investment projects in the state, by the late 1970s the distinction between the purely local and the national had been blurred, as the professional managers of large out-of-state firms operating in Querétaro were now fully involved in efforts to organize the local private sector. A key actor in the formation of Copamex in Querétaro, Ramón Eberstadt, embodies this integration.213 A manager at Tremec, a Grupo ICA firm, and later at U.S.-based Singer, Eberstadt served as president of the organization during its crucial early years in the Camacho Guzmán sexenio, and remained active as an ex-president for two and a half decades.

The consolidation of a new business elite, composed of traditional local business owners and newly-arrived professional managers, can also be seen in the emergence during this period of another key institution of the private sector, the Club de Industriales. The club was founded in 1969

211 Coparmex had been staunchly independent (and often vocally critical) of PRI governments since its founding in 1929. As discussed in chapter 3, the very fact that Coparmex-Querétaro was not created until 1978 is noteworthy, as it suggests the closeness of the local business elite to PRI governments during the 1950s and 1960s. With their ability to consult with successive governors in the context of existing corporatist business chambers such Canaco and Canacintra, the small local business elite did not need an independent organization. The contrast with Puebla, where a strong, traditionally confrontational bourgeoisie existed since the beginning of the 20th century, and formed a local branch of Coparmex in 1934, is stark.

212 As discussed in chapter 3, ICA had played a central role in the first phase of industrialization in Querétaro beginning in the 1950s.

213 Eberstadt arrived in Querétaro from Mexico City in 1965 and served as president of Canacintra in the state in 1970 and 1971. He later played a role in the creation of the Club de Industriales, and served as its president in 1975-1976, a few years before helping establish Coparmex.
by Roberto Ruiz Obregón, the most influential representative of the local business community, with the explicit intention of integrating the executives of non-queretano firms into the state’s social life and fostering an esprit de corps among business people in the state (Club de Industriales 2001). The composition of the founding members and first Board of Directors of the organization, reflect the integration of local, national, and transnational firms that was the institution’s mission. The club would come to play a pivotal, if largely informal, role in the state’s political and economic trajectory. Prominent business leaders credit the institution with fostering close communication among the state’s leading firms and helping disseminate new practices and ideas. By the mid-1980s, its current and former presidents were meeting regularly with the governor to discuss development issues.

This integration of the new managerial class of large, outside firms also transformed the local chapter of Canacintra, the official business chamber for industry in post-Revolutionary Mexico. Transnational firms such as Singer, Carnation, and Massey Ferguson (now New Holland) and large domestic business groups such as Tremec, Celanese Mexicana, Industrias del Hierro, and Grupo Intra participated in the chamber’s board of directors during the first half of the Camacho Guzmán sexenio. In this way, the profile of Canacintra-Querétaro evolved to reflect the

214 Founding members included stalwarts of the local economy such as the Victoria bottling company of Ruiz Obregón and Textiles Hércules, a textile factory inaugurated in 1887; representatives of Mexico’s dominant domestic business groups such as Industria del Hierro, Tremec, Primsa, and Spicer; and transnationals such as Kellogg’s, Singer, and Purina.  
215 Ramón Eberstadt recalls the Club de Industriales forged close links, both personal and commercial, among a group of “visionary business people...who are contributing to the industrialization of the state” (Club de Industriales 2001). This view is echoed by Abel Baca, another prominent private sector leader, who arrived in Querétaro the year after Eberstadt as a Massey Ferguson executive and later became Secretary of Economic Development. He credits the club with creating an atmosphere of “very easy communication” within the private sector (interview, February 9, 2017).  
216 In addition to these informal channels, a representative of the Club participated in the monthly tripartite meetings with public officials and labor, which became a key governance mechanism in the state (see below). The Club’s leaders in some cases also went on to hold official positions in the state’s economic bureaucracy. Two former presidents from the 1980s, Jaime López Trincado and José Rivera Frausto, occupied high-level positions in the Secretary of Economic Development under Enrique Burgos.  
217 Canacintra was organized by the Mexican government in the early 1940s when the corporatist structure of the post-revolutionary political system was taking shape. Successive PRI government’s nurtured Canacintra as an ally in state-led industrialization and natural home for the ranks of small and medium-sized enterprises that served the protected domestic market. However, Canacintra-Querétaro had started to include the state’s largest firms. At the beginning of the Camacho Guzmán sexenio, the presidency of Canacintra-Querétaro was occupied by Víctor Manuel Díaz, at the time the General Manager of Singer, the U.S.-based producer of capital goods. Díaz would leave his post several months before the end of his second year-long term due to an executive position with Grupo Vitro in Monterrey.
economic changes underway in the state.218 Increasingly, professional managers (often from outside the state) would be at the helm of the organization, where they comiled with local owner-managers who had close ties to Querétaro’s political class. These managers thus came into close contact with local political authorities, laying the groundwork for a collaborative relationship between representatives of external capital and local governments.219

The origins of tripartite cooperation in Querétaro

More so than past governors, Rafael Camacho Guzmán confronted a complicated socio-political scenario upon taking office in 1979. The state was undergoing, if to a lesser degree than elsewhere in the country, a period of social effervescence. The sexenio would witness a major university strike, street demonstrations led by the rector of the UAQ, and land occupations to call attention to the lack of urban housing in the outskirts of the city of Querétaro. However, the most formidable challenge, and the one most threatening to the state’s economy, came from independent labor activists.

By 1980, Querétaro’s industrial growth had introduced new dynamics in labor relations.220 The creation of new industries required, in addition to external capital, the arrival of workers from outside the state to supplement its small indigenous population. This influx of new workers challenged the tight local control of the labor movement the CTM and the Federation of Workers of the State of Querétaro (FTEQ)221 had exercised in the state’s traditional industries. In some cases,

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218 In many ways, this experience distinguished Querétaro from national trends. As Shadlen (2002) shows, Canacintra continued to have the profile as the home of smaller, domestically-oriented firms through the end of the 20th century, a feature that provoked conflict within the business sector during the period of economic reforms. In Querétaro, by contrast, the integration of big players was so pervasive that the president between 1983 and 1984, Victor Manuel Amieva Pérez remarked that he felt compelled to make the chamber more responsive to the needs of small firms given the impression that large firms were dominant (Canacintra 1996).

219 Relationships between business chamber leaders and local governments were facilitated by the more neutral political stance that the queretano private sector had traditionally maintained. This tendency was reinforced by the entry of managers from outside the state starting in the late 1970s. Even as disaffected business people swelled the ranks of the PAN across many parts of Mexico (and in Querétaro), the local business chambers in the Querétaro maintained a more conciliatory approach to PRI governments. This characteristic marked a sharp contrast with Puebla. Chapter 3 provides evidence that Querétaro business leaders where consistently more supportive of PRI governments than their counterparts in Puebla.

220 See chapter 3 for a description of the economic transformation that the state experienced in the 1960s and 1970s.

221 The FTEQ had been founded in 1936, a year before the local CTM, on the basis of a Catholic-inspired doctrine that stressed conciliation, non-aggression, and a spirit of “sacrifice” among workers. The FTEQ, for example, emphasized in its doctrines the idea that workers should “adjust” to larger social and economic needs. Despite being the state’s oldest
the new workforce brought a more assertive attitude towards labor relations characteristic of some unions in neighboring states such as Estado de México, Guanajuato, Michoacán, and San Luis Potosí. These workers often rejected the conciliatory approach of the state’s traditional union confederations and attracted the attention of outside labor activists looking to upend corporatist control in Mexico’s labor relations. At the same time, the increased mechanization and fast pace of new manufacturing activities spawned worker unrest in many of the heavy industries experiencing fast growth in Querétaro, creating further demands for new forms of union representation (Middlebrook 1995). With their growing size and complexity and in a context of increasingly contentious labor relations at the national level, Querétaro’s unions became politicized.

The first major episode of unrest occurred at petrochemicals firm Celanese in late 1979, months after the election of Camacho Guzmán. Denouncing management for a variety of abuses, a group of workers organized outside the confines of the firm’s official union and filed a formal complaint against the company for violating its collective contract. The company moved quickly to nip this independent movement in the bud, firing its leaders and threatening massive dismals. However, the decisive blow came with the intervention of the state’s official labor organizations and state authorities, who convinced the independent leaders to resign, thus ending the movement. A similar episode occurred in the emblematic Kellogg’s factory several months later, when a group of newer workers linked up with a small opposition party, the Mexican Workers’

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222 The emphasis on “peace and tranquility” in labor relations had been a characteristic that state officials used to promote Querétaro as early as the 1960s. Labor problems in other parts of the country were often a motivation for firms to relocate to Querétaro, including in the case of Spicer (interview with Eduardo Miranda, August 3 2016).

223 Some observers speculate that the presence of a prominent labor leader in the governor’s office made Querétaro a target for national labor activists seeking to bring about a broader revolt against corporatist labor organization in Mexico.

224 Labor leaders initially offered the leader of the independent movement the choice between taking a position in the national petrochemicals union, allied with the CTM, and resigning. If both were refused, the firm threatened to lay off 200 workers (Silva 1984).
Party (PMT), and organized internally as the “Democratic Current of the Kellogg’s Workers’ Union” with the aim of taking over the union’s leadership. Attempts to defuse this challenge by management and official union leaders failed, and workers organized several work stoppages and other protests. The movement lost steam only after the intervention of state officials and the Democratic Current leader’s detention on charges of damaging public property (Silva 1984).

These incidents at two of the state’s major firms presaged a more consequential outbreak of labor unrest at Tremec in late 1980. Part of the iconic Grupo ICA, the firm played an outsized role in the state’s economy as its largest employer and exporter, and was a key supplier for Ford, GM, and Nissan in Mexico. In addition, the Tremec Querétaro plant had a reputation for excellent labor relations, even serving as a model for negotiations in plants throughout the region (Silva 1984). As in the prior cases, the unrest initiated internally as sectors within the union organized to support leaders independent of the CTM. After several such attempts, the dissident group achieved its goal of installing a sympathetic leader as general secretary of the union in September 1980. The firm responded by firing several members of the new union leadership, which led workers to occupy union and company headquarters. Tensions continued over the ensuing months, with independent leaders facing harassment from the firm as they pressed for salary increases of 50 percent in the annual collective contract revision. The CTM, as in other cases, exerted pressure on the recalcitrant leaders to end the conflict. Of particular concern for official union leaders and state authorities was the role of a group of labor activists called the Democratic Lawyers, who had participated as advisors to independent labor movements throughout the country.

The governor, himself a representative of official labor power in Mexico, took aggressive action to quash these challenges to the established order. He created an investigative group to gather information on the activities of troublesome union leaders in the state’s major firms. Several dozen

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225 The Kellogg plant, one of the first foreign investments in the state, had been established in the early 1950s. As in the case of Celanese the prior year, the complaints motivating the Democratic Current were essentially overbearing and exploitative conditions at the plant. Among their demands, for example, were a functioning cafeteria (Silva 1984).

226 The Tremec union, with between 4,000 and 5,000 members, was far and away the state’s largest (Díaz-Aldret 2011), and the firm accounted for 90 percent of Querétaro’s exports in 1980 (Silva 1984).
informants were placed within firms with the participation and consent of firm managers, and this group produced a daily report on union activities (González Arias 2008). In carrying out these missions, the government had an ally in the state’s official labor leaders, who shared an interest in neutralizing independent labor mobilization. Local CTM boss Ezequiel Espinoza even intervened personally in some instances, appearing before workers at the Gerber and Spicer plants to try to temper their demands. It was Espinoza himself who urged state authorities to intervene in the escalating situation at Tremec, warning that the union had the firm in a difficult position. In the view of the CTM, these disturbances did not reflect genuine movements for union independence but rather attempts at destabilization and extortion by external “invaders” motivated by political agendas or personal profit (Díaz-Aldret 2011).

In sum, key power brokers in government, business, and labor undertook coordinated efforts in response to independent union organizing to restore the state’s prized labor stability. These interventions were facilitated by close personal relationships among the main actors (the governor, cabinet members, representatives of large firms, and official union leaders), and proved successful in the immediate objective of defusing hotspots of labor agitation within major firms.

Institutionalizing coordination to manage economic shocks

Local leaders in Querétaro would soon go beyond ad hoc, reactive efforts and develop institutions designed to preempt potentially damaging conflicts. These more robust efforts were motivated by growing economic instability at the national level. The increasingly erratic economic policies of the López Portillo administration led to double-digit inflation and falling real wages after 1979 (Bazdresch and Levy 1991). Workers’ precarious situation translated into increasingly contentious contract negotiations in firms throughout the state. In response to this worsening...
climate, punctuated by intense conflicts at several key firms, these three actors—state, business, and organized labor—created an institutionalized framework to avoid future disruptions to the state’s economic progress via tripartite negotiations. The governor initiated the aforementioned Tripartite Commission in Querétaro in the beginning of 1981, at the height of the labor disturbances at Tremec and Kellogg’s, convoking the leaders of the state’s main business associations (Canacintra, Coparmex, and Canaco, among others) and labor organizations (CTM and FTEQ). As described by several participants in the early iterations of the Commission, its explicit intention was to avoid further confrontations through dialogue, negotiation, and coordination among the three sides.230 While the accords reached in this forum lacked legal standing, the practice of agreeing on joint actions and meeting regularly to discuss their progress allowed the institution to consolidate into a pillar of economic governance that would last for four sexenios.231

These practices helped the state consolidate a labor culture based on “harmony” among factors of production that emphasized conciliation, negotiation, and mutual understanding. Business was encouraged to take an enlightened self-interested view of workers’ conditions, and workers in turn were expected to moderate their short-term demands in view of the potential for greater long-run gains via continued economic development.232 In this way, the tripartite mechanism encouraged norms of compromise and the elevation of a conception of the “common good” above factional interests.233 The results of the Tripartite Commission are evident in the

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230 Interviews with state labor secretary official (21 July, 2016) and economic development official (20 July, 2016). The former describes the spirit of the commission as follows: “instead of having a confrontation, it was about understanding the situation that [each side] was experiencing, and looking for [a solution].”

231 In discussing the nature of the agreements made in the Tripartite Commission, a former labor leader and state cabinet official stresses that the agreements, despite being informal, “stuck, because we took minutes, we committed to respecting [the agreements] it was a commitment of a moral, political, and economic nature that we each had, and in the most part, in a very high percentage, they were met” (interview, July 21, 2016). This characterization of the Tripartite is based on interviews with eight individuals who participated in these meetings during the 1980s, 1990s, and 2000s and include former government, private sector, and labor representatives.

232 According to Alejandro Espinoza, business leaders acknowledged the role of management in provoking the labor disputes of the early 1980s and understood the need to change course (interview, April 15, 2016). Similarly, an official in the CTM in Querétaro reports that its leaders during the 1980s promoted the view that “it was important to look after the interests of the worker, but also the interests of the employer” (interview, April 27, 2016).

233 It is important to note that what is being described is a vision of the common good held by elites—in government, the private sector, and union organizations—that cannot be assumed to have been shared among all the state’s workers, firms, or society writ large. Indeed, Díaz-Aldret (2011) makes reference to evidence from anthropological studies within unions suggesting considerable rejection among the rank-and-file of the positions taken by official leadership.
declining number of strikes, which dropped from 10 in 1982 to three in 1983 and four in 1984.\textsuperscript{234} Overall, Querétaro averaged six strikes a year from 1983 to 1989, compared to a national average of 23 and an average of 69 a year in Puebla.\textsuperscript{235}

The usefulness of coordination among the state government, business, and labor would become clear when the national economy took a turn for the worse after 1982. The Tripartite Commission, initially oriented towards avoiding labor intransigence and threats to official unions, would begin to focus on the more urgent goal of avoiding firm closures as the country’s macroeconomic indicators deteriorated sharply. In this context, the Commission provided local elites a space to coordinate management of the shocks emanating from the national economy.

In some cases, this effort involved informally moderating decisions taken at the national level.\textsuperscript{236} In 1983, the administration of President Miguel de la Madrid stipulated an increase in salaries of 20 percent (in nominal terms) to help support real wages in the face of growing inflation. Many in the business sector believed the measure would be devastating to small and medium-sized firms. In Querétaro, the local affiliate of Coparmex raised these concerns with the governor, and state leaders, in the context of tripartite negotiations, came to an agreement whereby “each firm would increase [salaries] as much as it could without having to follow the rule imposed by the President” according to Miguel Weinstein, Coparmex-Querétaro’s president at the time.\textsuperscript{237} The ability of Coparmex to achieve an important policy goal of the business sector, facilitated by its institutionalized access to top officials, strengthened the position of the business association in the

\textsuperscript{234} During one major strike in 1983, which lasted for two months at Astral Industries, local authorities did use heavy-handed tactics such as sending security forces to break up picketers and leaned on the local arbitration council to declare the strike void (\textit{Diario de Querétaro} 6 August, 1983, “Se quejan los obreros de Astral”).

\textsuperscript{235} \textit{Anuario Estadístico de los Estados Unidos Mexicanos}, various years.

\textsuperscript{236} The decisions reached in the Commission were “informal” in the sense that they did not have a legally binding status, but rather represented agreements among the participants who in turn held responsibility for the enforcement among their respective affiliates. Monitoring of agreements was likewise done informally within the confines of the Commission, as the secretary responsible for organizing the monthly sessions would report on the status of the agreements reached previously at the opening of each session (interviews with state Economic Development official, July 20, 2016; and Ignacio Loyola Vera, April 22, 2016).

\textsuperscript{237} Quoted in Coparmex (2013)
state. Over the course of 1983, membership grew by 47 percent, reaching 189 firms by the end of the year (Coparmex 2013). Weinstein credits the agreement on wage increases for this influx of new members during his term (ibid).

The satisfaction of business leaders with these emergent local institutions was evident in August 1983, when a national-level “Solidarity Pact” was signed among the CTM, Concamin (a national association of business chambers), and the federal Labor Secretary. Querétaro business leaders responded to this development with skepticism and indifference and asserted that in Querétaro they already have such a pact—even if it is unwritten—that has functioned with great efficiency. Weinstein, the Coparmex leader, also praised the governor as a “clear example of someone who is concerned with stability and social peace” and affirmed that while the state has encountered many problems, “at all times we have maintained a great social, economic, and political stability.”

In the wake of the economic collapse of 1983, another accord reached in the Tripartite softened the blow to the state’s workers and reinforced the position of the CTM in the local political economy. CTM representatives negotiated an agreement with business leaders that workers from outside the state would be dismissed first if layoffs became necessary; the positions of queretano workers would be preserved at all costs. Governor Camacho highlighted this feature of the state’s economic management in his fifth Informe de gobierno as a strategy to limit the social costs of the recession (Government of Querétaro 1984). The ability of the CTM to achieve tangible results from the tripartite consolidated its status as the state’s dominant labor confederation. Its close ties with organized business had a similar effect, as these associations advised newly-arriving firms to

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238 This result lends support to the expectation expressed by Doner and Schneider (2000) that a key determinant of the institutional strength of business associations is their control of value selective benefits, including access to decision makers. Such selective benefits, which are made available only to association members, incentivize firms to affiliate and also facilitate internal control by making defections costlier.

239 These comments were made by Coparmex president Miguel Weinstein and an unnamed representative of Canacintra. Diario de Querétaro 20 August 1983, “Enfoque”.

240 Diario de Querétaro 9 August, 1983, “Ponderan los empresarios el equilibrio social”

241 Díaz-Aldret (2011) quotes CTM leader Ezequiel Espinoza confirming this arrangement.
contract with a CTM-controlled union.242 In this way, the early achievements of the Tripartite Commission served to strengthen its participants internally, helping them attract new affiliates. This result increased the representativeness and, in turn, the credibility of these groups at the negotiating table, in a virtuous cycle.

Cooperation between the state government and business associations was facilitated, as discussed above, by the modern, technocratic profile of Querétaro’s organized private sector. The incorporation of managers of large national and multinational firms drove local chambers such as Canacintra to take on technical issues surrounding workforce training and industrial upgrading. In the early 1980s Canacintra established an initiative to link the state’s industry with local higher education institutions, especially the UAQ and the Querétaro campus of the Monterrey Technological Institute (ITESM-CQ). Efforts to apply technological innovations and research findings from the university sector to the state’s industry would be a consistent feature of Canacintra’s work in the ensuing decades.243

This emphasis on enhancing the technology of the state’s industrial platform also infused the discourse of the state government. In his penultimate Informe de Gobierno, Camacho Guzmán stressed the importance of Querétaro’s industry to the national economy “for its qualitative, more than quantitative characteristics,” highlighting the advanced technology of firms such as Turborreactores, a producer of airplane engines, and the exporting prowess and international competitiveness of Tremec, Vidriera de Querétaro, Kimberly Clark, and Melco among others firms (Government of Querétaro 1984). The state government also ramped up its efforts to attract investment, taking advantage of the federal investment stimulus programs available to Querétaro

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242 This practice continued through the PAN administrations of Ignacio Loyola Vera (1997-2003) and Francisco Garrido Padrón (2003-2009), despite the CTM’s formal affiliation with the PRI. According to Díaz-Aldret (2011), 80 percent of the state’s unions were members of the local CTM during the Loyola sexenio.

243 In this period, the chamber launched an “Industry-School” initiative and also started a program to place university students into temporary internships with local industrial firms (Canacintra 1996).
and other medium-sized cities. These activities were complemented by a large expenditure on public works, which accounted for 56 percent of the state government’s expenditures.\(^{244}\)

Another factor that favored constructive relations between the Camacho Guzmán government and local business chambers was the absence of partisan conflict between the two sides. The 1982 mid-term elections did witness the first signs of real electoral competition in Querétaro, as the PAN won 42 percent of the vote in the mayoral race in the capital city (Cuenca 2008). However, unlike in the case of Puebla, organized business did not play an active role, reflecting its traditional apolitical stance.\(^{245}\) In this respect, the contrast with Puebla, where a local business leader challenged the PRI in contested local elections in 1983, could not have been sharper.

Even by the 1985 gubernatorial elections, the most important competition occurred within the PRI. While Camacho Guzmán had maneuvered to install his protégé Enrique Burgos as successor, the political class soon fell in line behind Mariano Palacios Alcocer, a rising political star who had already held the post of rector of the UAQ and been elected to the Senate in 1982.\(^{246}\) Camacho Guzmán left office with widespread approval, including among the initially-skeptical political and economic elite.\(^{247}\) While his authoritarian personality and tactlessness continued to

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\(^{244}\) However, investment from the federal government, as discussed in previous chapters, overshadowed state’s own budgetary resources. In this sense, the state benefitted from federal largesse, receiving on average 15.6 million pesos of public federal investment per 1000 habitants between 1979 and 1985, compared with 6.5 in the case of Puebla. The majority of this spending went to public works such as highways and electricity infrastructure. As discussed in chapter 2, this advantage for Querétaro petered out in the 1990s, when the formula-based budgetary transfers known as participaciones became the most important source of federal government resources for the states. For most of the 1990s and 2000s, Querétaro and Puebla received comparable levels of participaciones on a per-capita basis (see chapter 2).

\(^{245}\) Díaz Aldret (2011) argues that the Querétaro business sector had been more concerned with maintaining good conditions for development than seeking political power, even before the influx of managers from outside the state in the 1970s. She suggests that the creation of public-private bodies such as the Economic Council of Querétaro in the 1960s meant that local business leaders could exercise influence without participating directly as public officials, reducing the appeal of open political activism.

\(^{246}\) A gifted orator, Palacios had won a seat in the local congress at the age of 21 and impressed then-presidential candidate José López Portillo with his speeches on the campaign trail. Palacios built a reputation in the Senate as an intelligent and formidable politician, and this support secured his nomination as the PRI’s candidate for governor (González Arias 2008). As the son of a former mayor of Querétaro, he also brought impeccable credentials as a member of the local political elite.

\(^{247}\) This is not to say that his record was unblemished. Questions over the state’s finances and, in particular, the source of financing for key public works such as the emblematic Corregidora stadium, would haunt the governor for years to come. As with many politicians, he left government with considerable wealth, including properties and bank accounts in Miami (see Proceso 22 June 1985, “Las cuentas en dólares de Camacho Guzmán en Miami” http://www.proceso.com.mx/141502/las-cuentas-en-dolares-de-camacho-guzman-en-miami). In addition, the governor’s
chafe, the lasting legacy of the administration would be the ability to close ranks with leaders in business and labor, while maintaining good relations with the federal government, and thus deliver stability and growth during a period of national turmoil.

_Economic results of the Camacho Guzmán sexenio_

Rafael Camacho Guzmán oversaw six years of strong economic growth in Querétaro. On the whole, the state’s economy nearly doubled the annual growth rate of the national economy during this period (see Table 4.1). More remarkable, however, was the resilience of the local economy to the severe recession that hit the Mexican economy in the wake of its foreign debt default in August 1982. The state managed a solid annual average growth rate of 2.6 percent during the second half of the Camacho Guzmán sexenio, a period when the national economy barely grew. Querétaro was also able to minimize the loss of employment, which had been a central goal of tripartite negotiations during this period. Employment in small and medium enterprises in Querétaro increased each year between 1982 and 1985, even as Puebla saw a decrease of 6 percent in 1983 (Secofi 1988).

In addition, this growth was accompanied by a considerable diversification of the state’s industrial base, a trend that would continue in subsequent years. While the auto sector accounted for 21 percent of the state’s industrial output in 1980, followed by machinery and equipment (13 percent) and synthetic fibers (9 percent), by 1985 the state’s leading industrial sector, synthetic fibers, made up only 13 percent of total production, followed by the automotive sector (12 percent) and paper and cellulose products (10 percent).

approval must be qualified in that it refers to broad acceptance among the major sectors of society and factions of the PRI. Given the various instances of repression against radical groups, including the government’s interventions against independent labor organizers discussed in this chapter, it cannot be assumed that such “official” support entailed widespread organic support among the broader population.
Table 4.1: Growth Rates in Puebla, Querétaro, and Mexico, 1979-1985

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<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>3.9%</td>
<td>8.8%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Puebla</td>
<td>4.4%</td>
<td>9.9%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Queretaro</td>
<td>6.2%</td>
<td>11.0%</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on data from Puig and Hernández Rivas (1989)

In celebrating the relative economic success of the state during his final informe de gobierno, Camacho Guzmán gave a rhetorical nod to the norms of cooperation that had developed under his watch, congratulating both workers and business owners for their willingness to put the collective good ahead of all other interests (Government of Querétaro 1985).

Continuity under Mariano Palacios Alcocer (1985-1991)

While several states and large cities had become politically competitive by 1985, the PRI’s dominance in Querétaro remained unquestioned. As mentioned above, the PAN and several other small opposition parties managed to field gubernatorial candidates, as the political reforms initiated at the national level in 1977 finally took effect in local elections, but their participation did not pose a real challenge to Palacios, who won 84 percent of the vote.

The eloquent and polished Palacios could not have differed more in style than his predecessor, and the new administration also brought a cadre of local politicians linked to the university back to power. In an implicit rebuke of Camacho Guzmán, the new governor promised to avoid overspending and focus on social policy and education rather than extravagant public works. Despite these shifts, the broad pillars of economic governance established under Camacho Guzmán would be maintained and deepened during the Palacios sexenio. The governor’s

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248 At the time of the 1985 elections, the opposition’s total elected posts in the states were confined to three seats in the local legislature and one in the national chamber.

249 In contrast, the group of politicians associated with Rafael Camacho Guzmán found themselves excluded from nearly every elected or appointed post in the state. After being selected as the candidate for governor, Palacios successfully maneuvered to secure nominations for his preferred people in legislative and mayoral races. The one bridge to the outgoing group was Enrique Burgos, the governor’s protégé, who served as federal deputy between 1985 and 1988.
preoccupation with maintaining peaceful labor relations via dialogue and coordination was already evident during the campaign, when he told a group of industrialists that “coordination and concertation are the two principles upon which Querétaro must move forward” and that a “fair balance between the factors of production, capital and labor…must be the unwavering focus of the new administration” (Partido Revolucionario Institucional 1985). The governor’s first informe emphasized that “a climate of tranquility and harmony prevails in the workplaces” of Querétaro despite challenging economic conditions and affirmed “the responsibility of the government to bring together the factors of production, provide investment security, and encourage the creation of sources of employment” (Government of Querétaro 1986). From the onset, the governor was committed to continuing the strategy of cooperation with local business and labor that had served the state well under his predecessor.

The alliance between state and business would be bolstered with the appointment of Víctor Manuel Amieva, the president of Canacintra in 1983 and 1984, as Secretary of Economic Development, the most important economic development official in the state.250 In collaboration with an increasingly modernizing local private sector, the state government pursued an economic program tailored to the new challenges arising in the context of Mexico’s nascent market reforms: export promotion, human capital development, and state-of-the-art industrial infrastructure. The basis for these policies would continue to be the labor tranquility and harmony between factors of production that political and economic elites had come to view as the state’s golden goose.

The unity of policy makers and business leaders behind this vision was on full display during a visit to Mexico City to promote Querétaro to major investors early in Palacios’ sexenio.

250 The career trajectory of Amieva encapsulates well the process of integration between local queretano business elites and the outside professional manager class, and the subsequent ascension of this new, integrated economic elite as a key interlocutor with state governments. A native queretano Amieva worked his way up the ranks of Tremec, eventually rising to the position of Manager of Manufacturing in the Querétaro plant. He later left to found an independent firm, and his connections to both large national industrial groups and small local firms allowed him to arrive at the presidency of Canacintra in 1983. This same combination of local bona fides and ties to the state’s industrial powerhouses also made Amieva an attractive candidate to enter the new administration. Increasingly, individuals with this profile would occupy top posts in the state’s economic bureaucracies, further solidifying the developmental alliance between state government and local business (Canacintra 1996).
Accompanied by his top deputies and local business leaders, the governor discussed the actions his administration would take to attract industry to the state, including the construction of new industrial parks and modernization of the communications network, while emphasizing the need to avoid at all costs “absurd disputes among factions.”\textsuperscript{251} He also laid out the specific types of firms the state sought: labor intensive and high-wage, exporting, and ecologically friendly.\textsuperscript{252} These objectives would be pursued over the course of the \textit{sexenio} by government, capital, and labor—at times through independent actions but always in the framework of coordination and consultation nurtured in the Tripartite Commission. State authorities in Querétaro thus followed a strategy of cooperation with business and labor that facilitated the local economy’s adjustment to a new series of shocks in the second half of the 1980s. In contrast, Puebla Governor Mariano Piña Olaya used cooptation of individual business leaders to undermine the organizational strength of the private sector, which he viewed as a political threat.

\textit{Local adjustment to trade liberalization and global competition}

The economic strategies adopted in Querétaro evolved to meet the new challenges of the period. The second half of the 1980s witnessed Mexico’s unilateral trade liberalization and entry into the General Agreement on Tariffs and Trade (GATT), the predecessor to the WTO, in 1986. These decisions, which entailed dismantling the system of tariff barriers and import licensing that had for decades protected domestic industry, were taken at the federal level. It was left to local actors to adjust as best they could. As with the conflicts of the early 1980s, coordination between cohesive and well-organized interest groups, convened by the state government, facilitated the

\footnotesize{\textsuperscript{251} \textit{Diario de Querétaro} 28 August 1986, “Hay que evitar disputas absurda de los sectores y satanización de actividades” \\
As discussed in more detail below, concrete actions were taken in both policy areas. One of the first actions in the economic policy realm had been to petition the president to create an Industrial Corridor, with the associated fiscal incentives for investment, in the area linking the major industrial municipalities. The Secretary of Transportation and Communications, in coordination with the Secretary of Economic Development in Querétaro, would soon. \\
\textsuperscript{252} State officials and business leaders in Querétaro were acutely aware of the challenges surrounding the scarcity of water resources in the state and incorporated this limitation into their plans for industrial development beginning in the 1980s. On the other hand, the governor’s emphasis on industries that would bring a critical mass of relatively well-paying jobs reflects the relevance of the concerns of organized labor and the imperative of preserving all-important harmony in labor relations.}
adjustment of *queretano* firms and workers to Mexico’s economic opening, supporting the insertion of leading firms into the global economy while managing the costs of increasing global competition.

Within the private sector, leaders of Querétaro’s technically-focused business chambers developed a vision for the state’s global competitiveness centered on the concept of total quality.\(^{253}\) The promotion of a “culture of quality” first took hold within Canacintra-Querétaro in the mid-1980s and informed various policy efforts taken both within the chamber and through coordination with state government and the labor sector.\(^{254}\) The Canacintra leadership in this period, encouraged and guided by the directors of many of the state’s largest firms, put in place various initiatives to disseminate among its members ideas and practices surrounding quality. A group of large, exporting firms, which included Tremec, Engranes Cónicos, Vidriera, Kostal Mexicana, Industrias Astral, and Singer sponsored a program that sent quality control technicians to Japan to learn directly from Japanese firms that had pioneered the concept of total quality.\(^{255}\) In the same period, Canacintra founded the Querétaro Institute of Quality,\(^{256}\) with the objective of helping members develop strategies to enhance quality based on state-of-the art management practices, thus boosting the state’s global competitiveness.\(^{257}\) In the words of Alejandro Espinoza, Canacintra president at

\(^{253}\) The doctrine of “total quality” reflected current trends in industrial organization and management theory, drawing heavily on the Japanese experience during its post-World War II industrial boom. In practical terms, it entailed a focus on improving human resources, new management techniques and philosophies, and the incorporation of technology in the state’s industrial plant.

\(^{254}\) The relationship between this orientation towards quality and the trade opening at the national level is expressed by José Rivera Frausto, president of Canacintra in 1985 and 1986: “the Quality movement arises in Querétaro well before the national level, as its precedents date back to 1986, when the Mexican government implemented a significant decrease in tariffs” from 100 percent on average to 30 percent (Canacintra 1996).

\(^{255}\) This group of firms, which contributed financial resources and personnel to the Japan mission, which was organized by Canacintra, featured five of the state’s fifteen largest exporters in 1989. During the 1980s, Mexico’s dominant business groups, of which many of Querétaro’s leading firms were subsidiaries, rapidly deepened links the global economy, taking advantage of domestic consolidation facilitated by a government bailout of private sector debtors under President de la Madrid (Basave 2001). As part of this restructuring, investments in capital and technology increased throughout the 1980s among large manufacturing firms (Castañeda 2008).

\(^{256}\) The firms behind this initiative included Vidriera Querétaro, Celanese Mexicana, Industrias Astral, Autoforjas, Tremec, Singer, and Kostal Mexicana, again reflecting the participation of the state’s most important firms and collaboration between representatives of national and transnational capital.

\(^{257}\) This new philosophy drew on global trends in manufacturing based largely on the Japanese experience that emphasized ways in which organizations could achieve constant improvements though a focus on management practice, an emphasis on excellence, especially in human capital, and the incorporation of new technology. The Japanese model stressed “quality circles” and a more harmonious role for shop-floor managers as facilitators of productivity rather than supervisors or authority figures.
the end of the Palacios years “the idea we had in that time was that Querétaro would be an international center of high productivity.”

In promoting quality as a defining feature of the state’s industry, Canacintra and other local business associations provided a space for interactions between local firms and foreign investors that facilitated the adaptation of new ideas and practices. Alejandro Espinoza credits the participation of American, German, Japanese, and Spanish companies “in the very open universe of firms that we enjoyed” as critical in consolidating efforts to enhance quality in the state’s industrial plant. Abel Baca, another prominent business executive who later participated in the state government, likewise points to the “international vision” and “maturity” of firms in Querétaro as creating a mentality of collaboration, communication, and dedication to continuous improvement in the state’s private sector during this period. The active participation of foreign investors in Querétaro’s business association was thus a key factor in this phase of the state’s development, a condition that did not emerge in the case of Puebla.

These efforts to instill a culture of quality represented a deliberate response to Mexico’s new reality of global economic integration. This connection is clear in the public statements of queretano business leaders during this period. Canacintra leaders, for example, asserted that “what exporting requires is simply a commitment to quality.” Coparmex manager Humberto Reyes similarly underscored the need to produce with quality to compete globally and boost trade. This mentality also permeated the mindset of small and medium-sized firms. The president of the local college of mechanical and electrical engineers, Felipe Martínez Uribola, reported that many mid-

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258 Interview with Alejandro Espinoza Medina, March 17, 2016
259 Interview with Alejandro Espinoza Medina April 15, 2016, Querétaro. It is worth underscoring that the ability of Canacintra to function as a site for dissemination of ideas and practices surrounding quality depended on the active engagement of current managers and executives of the state’s largest firms. Such participation is by no means guaranteed, as large, dominant firms have various disincentives to participate in such associations, as chapter 2 discusses in detail.
260 Interview with Abel Baca, February 9, 2017. Baca arrived in Querétaro in 1966 to help Massey Ferguson, a Canada-based producer of tractors and other agriculture machinery, set up production facilities in Mexico. He later worked for a Massey affiliate in Italy and served as the firm’s General Director in Mexico before joining the state government of Enrique Burgos García (1991-1997) in Querétaro. See chapter 6.
261 Noticias de la Mañana 24 September 1986, “Los contratos de exportación, prueba de la capacidad productiva de los mexicanos”
262 Noticias de la Mañana 23 September 1986, “Debemos producir con calidad competitiva: Coparmex”
sized businesses had made efforts to establish contacts and acquire technology from the United States in order to support exports, echoing the view of the peak business associations that the state “needed to be competitive internationally to deal with difficult internal conditions.”263 The leader of the San Juan del Río branch of Canacintra, whose members tended to be smaller, local-capital firms, similarly affirmed that GATT required “a new mindset” and the conquest for new markets.264

The concept of “total quality” as key to the state’s global competitiveness had thus firmly taken hold in the local business sector by the middle of the Palacios sexenio. The enthusiasm across the private sector for global economic integration also meant that organized business in Querétaro would be fully on board with the economic program of president Carlos Salinas de Gotari, who took office in December 1988 and quickly embarked on a deepening of Mexico’s market reforms.265 While this doubling down on liberalization divided the business community in Mexico (see chapter 3), the Querétaro private sector coincided with the view of Gustavo Lomelí Pozo, president of the local Canacintra, that the new president’s program was “good news for Querétaro industrialists.”266

The vision of Querétaro as a center of productivity and quality also shaped relations between capital and labor. Business leaders and government officials drew on their close ties to the state’s peak labor organizations, strengthened via regular consultation in the Tripartite Commission

263 Noticias de la Mañana 27 September 1986, “Se hace necesaria la exportación”
264 He continued that achieving this “change of attitude” matters more than financial resources. Noticias de la Mañana, 9 December 1988, “Los industriales de SJR, dispuestos a propiciar el crecimiento del país”
265 As described in chapter 2, the key pillars of Salinas’ economic program were the continuation of economic pacts to manage inflation (now called the Economic Stability Pact), extensive privatizations of state-owned enterprises, including the banking sector assets still under public control, and the ambitious pursuit of a free trade agreement with the United States and Canada. The negotiations towards what would become NAFTA began officially in February 1991, but the Salinas administration’s intention to pursue such a deal had been made public through a leak in early 1990.
266 Noticias de la Mañana 3 December 1988, “Buenas noticias para los industriales el mensaje de CSG expresó Lomelí Pozo.” The views of local Canacintra leaders thus diverged considerably from the stance of the national leadership. Canacintra, the traditional voice of Mexico’s smaller, domestically-oriented firms, would suffer sharp internal divisions during the Salinas sexenio, as a segment of affiliates rebelled against the government’s reforms (see chapter 3). Such major ruptures would not occur in the case of Querétaro. The divergence between the attitude of local Canacintra leaders and the messages coming out of the national headquarters in Mexico City were on display during the Querétaro delegation’s 1988 assembly, where the national president denounced the rapid reduction of tariffs since 1986, which had led to “unfair competition.” The pronouncements of queretano industrialists at the very same assembly stressed the state’s good export potential and the importance of a “new culture” among business that embraces risk and modernization (Noticias de la Mañana 9 December 1988, “Estamos seguros que saldremos del bache: presidente de Canacintra”)
since 1981, to disseminate a new conception of industrial relations and the management-employee relationship based on the precepts of total quality. At the initiative of a small cohort of business and government leaders, an informal working group was created in late 1985 with the leaders of the state’s peak labor confederations. The goal was to convert the labor sector to a win-win view of industrial relations in which both factors of production were partners in the project of enhancing quality and productivity. These new labor practices had already been applied at several key firms in the state in response to the labor unrest of the 1970s and shared within the private sector through discussions in the state’s main business chambers.

In making this case to union representatives, the new economic strategy of the federal government loomed large. In the words of Alejandro Espinoza, a driving force behind this informal group due to his familial ties to CTM leader Ezequiel Espinoza, “when GATT arrived, this important change in the country helped us…create a different labor culture” in Querétaro. The message of the Querétaro managers and former government officials leading this working group was that the changes involved—greater worker training, education, and more efficient production processes—entailed an opportunity rather than a threat for labor. The ability to communicate these ideas through sustained, informal discussions over the course of several years, reflects the closeness of the parties—a legacy, in part, of the Tripartite Commission, which facilitated dialogue and trust.

267 The group brought together private sector leaders active Canacintra, especially human resource managers at the state’s large manufacturing firms, public sector figures from the outgoing Camacho Guzmán administration, such as future governor Enrique Burgos, and union leaders. They met regularly over the course of three years, often spending all day on Saturday at a ranch in Huimilpan, outside the city of Querétaro, that the CTM owned.

268 In this way, these efforts represented an attempt to provide an enduring rationale for avoiding labor conflicts, a goal that had been behind the formation of the Tripartite Commission. While the Commission had been successful in reducing conflicts via negotiation, the work of business and labor leaders in these informal sessions sought to inculcate a shared, positive vision of competitiveness in a globalized economy via cooperation between labor and capital. These efforts in Querétaro foreshadowed the promotion of the “New Labor Culture” by Coparmex at the national level beginning in 1996, which similarly aimed to adapt labor relations to an environment of international competition.

269 For example, at Massey Ferguson management decided to make contract revisions open to all workers and employees to enhance transparency and also discontinued the use of time cards in an effort to foster an atmosphere of trust. Interview with Abel Baca, February 9, 2017.

270 Interview with Alejandro Espinoza, 17 March 2016. Although Mexico formally joined GATT in August 1986, the De la Madrid government’s intention to adhere to the international agreement, which had been considered and later rejected under López Portillo, had been clear as early as 1984.
Cooperation among Government, Business, and Labor

The government of Mariano Palacios had entered office convinced of the importance of cooperation with business and labor and promoting direct consultation between these sectors. The efforts within the private sector and between business and labor to promote quality and productivity encouraged the administration’s disposition towards cooperation. The government found increasingly willing partners for dialogue and coordination in local business and labor unions. The clearest manifestation of this strategy of cooperation was the continuation during the entirety of the

271 The individuals involved in these dialogues reflect the closeness among government, business, and labor leaders. Presidents of Canacintra Mario Rodriguez (a manager at Autoforjas, a multinational autoparts firm), Gustavo Lomeli Pozo (the owner of Maquindos Numerados, a small local-capital firm) and other members of the managerial class such as José Berrondo Mír (the corporate director of Industrias Mabe for Latin America and president of the Club de Industriales in 1981-1982), Juan Alberto Quezada (director of human resources for Black and Decker), Guillermo Escalona (director of human resources for Celanese Mexicana) and Abel Baca (a director in several large firms, including Massey Ferguson, and Secretary of Economic Development between 1994 and 1997). Former and future government officials such as Alejandro Espinoza and Enrique Burgos García also participated. Interviews with Alejandro Espinoza (17 March, 2016 and 15 April, 2016) and Enrique Burgos García (29 March, 2016).

272 According to Alejandro Espinoza: “contract revisions that had lasted a month began to be resolved in eight days, then three days, and today, revisions last one day” (interview, March 17, 2016).

273 Noticias de la Mañana 2 December 1988, “Gran parte de los obreros cuentan con un 60% de capacitación”

274 As an example of this, Coparmex affirmed that even if many of the workers who enter local industrial firms do not have the full set of skills necessary, “Querétaro is privileged in this sense because the business associations train workers until they attain a level of specialization.
sexenio of the Tripartite Commission established under Camacho Guzmán. These meetings reflected and in turn reinforced the prioritization by capital and labor of social peace and tranquility to avoid damaging confrontations.275

The abiding concern with preserving social peace as a condition for development, and the sense that each party had a responsibility to contribute to this desirable outcome, pervades the public statements of government, business, and labor leaders during this period. In a meeting with Coparmex and Club de Industriales leaders at the height of the 1986 recession, the Governor exhorted the private sector to maintain employment and promised his government would, in return, boost education and infrastructure.276 In this way, they would “maintain the harmonic development that we need in the environment of tranquility and social peace that characterizes us.”277 Similarly, Coparmex president Senén Gómez Alcocer stressed in several public statements that the most important concern was to preserve the social peace that had prevailed through tough economic times and, to that end, firms would do everything possible to avoid unemployment. Gómez asserted that it was “the responsibility of employers to help resolve the employment problem.”278

275 Scholars of the state’s history and political culture have emphasized that the culture of Querétaro prioritizes order and tranquility as core values, a characteristic captured in the idea of queretaneidad (Díaz Aldret 2011). These features thus did not originate in the 1980s labor conflicts, but these events and the response of capital, labor, and public authorities represent an adaptation and transmission of these cultural traits to a new socioeconomic milieu, via mechanisms such as the Tripartite, whose success in managing conflict in turn reinforced and strengthened Querétaro’s cultural preference for tranquility and order.

276 The Club de Industriales had evolved by the mid-1980s to take on a more active role in the policy issues facing the state, including working to reestablish labor relations on a more cooperative footing according to presidents during this period such as José Rivera Frausto (who also served as president of Canacintra and later as a key economic development official in the state government) and Carlos de Mucha. In 1986, the Club’s Board began holding regularly meetings with its ex-presidents and the governor, playing a more assertive role in transmitting the ideas of the business community to the public sector. At the same time, it maintained its original purpose of socializing newly arriving business people into queretana society. Carlos de Mucha, who arrived in Querétaro from Northern Mexico as an executive of Grupo Vitro, is a good example of the Club’s function in this regard. De Mucha reports that his first contact with Querétaro society was through the Club; he became its president in 1986, a mere seven years after moving to the city (Club de Industriales 2001). De Mucha later served in government as the Director of the Councils for Citizen Concertation during the Loyola administration (1997-2003) (see chapter 8).

277 Gómez also outlined several of the concrete actions the organization had taken to attack unemployment: “in Coparmex we have a complete structure for training, because in general people who are left without work are the least trained; we are providing consulting to firm, we have a job bank that brings together employers with potential workers, to accelerate hiring” (Diario de Querétaro 15 August 1986, “Baja la demanda de productos por el bajo poder adquisitivo”); 26 August 1986, “Descapitalización por falta de crédito bancario”; Noticias de la Mañana 4 September 1986, “Empieza a ser ya grave el índice de desempleo en Querétaro;” and Noticias de la Mañana 4 September 1986 “Empieza a ser ya grave el índice de desempleo en Querétaro”).
This ethos of cooperation also entailed a willingness to sacrifice factional interests for the common good. For example, business leaders, in their public statements, promoted the idea that firms should practice austerity and forgo excessive profits in order to be “fair” and promote “greater social justice” in the words of Canacintra president Gustavo Lomeli Pozo. When national actors began to employ economic pacts to control prices after 1987, such attitudes facilitated the local implementation of these agreements in a harmonious way. After a tripartite meeting in late 1988 to discuss Salinas’ Economic Stability Pact, Lomeli Pozo again urged businesses to do all they could to avoid raising prices. Pointing out that the 8 percent salary increase envisioned in the Pact would not be sufficient to maintain workers’ purchasing power, he implored his members to compensate for higher input prices by seeking to increase productivity, or, if that were not possible, to accept lower profits; increasing prices of final goods must be the last resort, he concluded. In a subsequent tripartite meeting, business associations agreed to absorb the coming year’s salary increase, helping preserve purchasing power and, in turn, social tranquility (Coparmex 2013). Labor leaders, too, echoed these calls for burden sharing. In an indicative comment, CTM secretary general Ezequiel Espinoza urged business leaders to take on their fair share of the burden of economic hardship, calling for closer cooperation with labor unions on this issue.

Coordination between public officials and representatives of the productive sector shaped the actions of the state government, which advanced a policy agenda in line with the objectives of increasing quality and productivity. In the area of training and human capital, the government created the Science and Technology Council of Querétaro in 1986, the first such institution at the state level, to coordinate efforts in the public and private sectors to promote scientific research and

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279 Noticias de la Mañana, 6 December 1988, “La alineación de precios evitará desalinear la producción: GLP”
280 Noticias de la Mañana 19 December 1988, “Exhorto de Canacintra a empresarios”
281 Noticias de la Mañana 22 August 1986. This mild public rebuke of the attitude of business reflects the reality that conflict did, naturally, arise and the monthly sessions among government, business, and labor were often heated. The participants stressed the importance of the confidentiality of these sessions, which allowed all sides to speak freely without fear of causing a commotion in the media. Comments such as those of Ezequiel Espinoza cited above can be read as a public reminder to the business sector of the principles of coordination and sacrificing sectoral gain for the higher good of social peace.
train workers for the specific needs of new industries. The training component featured enhanced efforts to match job seekers with appropriate employers and established a scholarship program that trained nearly 500 workers in its first year for new skills. State authorities collaborated with Canacintra and its “Industry School” initiative in putting in place these policies (Canacintra 1996).

Another key priority was the expansion of the state’s industrial infrastructure. The Palacios government doubled the available industrial land between 1985 and 1989, and by the end of the sexenio the state had eight operating industrial parks in four municipalities, with a combination of public and private administration. The installation of the Bernardo Quintana industrial park by the government added 330 hectares of industrial land; by 1991, the final year of the Palacios government, over 90 percent of the lots had been occupied and electricity, sewage, telecommunications, paved roads, and public lighting had been installed. This policy of developing state-of-the-art industrial parks with participation of the private sector would remain a consistent objective of the state governments for years to come.

The government’s efforts to promote a competitive, internationally integrated industrial base can also be seen in its creation of a fund to support exporters, drawing on support from the National Foreign Trade Bank (Bancomext). This entity, the Promotora Queretana de Exportaciones, provided co-investment with foreign firms and a range of informational and consulting services to potential exporters. The government also set up a subcontracting exchange, in a joint initiative with Canacintra, to help small local firms pursue opportunities to provide goods and services to the state’s growing number of large exporting firms and thus become “indirect exporters.”

The pillars of the government’s industrial strategy were formalized in the 1989 Industrial Development Law for the State of Querétaro. The content of the law reflected the state’s strategic approach to industrial promotion, setting guidelines for the type of industries the state would seek to attract—those that allowed the existing industrial plant to substitute imported inputs, boosted the
state’s exporting potential, and did not further strain the state’s natural resource stocks, especially of water (Sombra de Arteaga, 18 May, 1989).

This atmosphere of cooperation between business and government was again facilitated by the absence of partisan conflict. Mid-term elections in 1988 proceeded calmly, as the PAN saw its vote share in the municipality of Querétaro fall to 33 percent. The alliance between the PAN and the business sector, which had taken hold in many states and municipalities, especially in the North of Mexico, had not yet emerged as a major factor shaping the electoral landscape in Querétaro.

In crafting its strategy for international competitiveness, public and private sector actors in Querétaro continued to take advantage of a federal policy framework that encouraged decentralization. In January 1985, the federal government published a decree that established extensive subsidies for industries that relocated from the metropolitan area of Mexico City to various priority zones around the country. The municipalities of Querétaro, El Marqués, Pedro Escobedo, and San Juan del Río were among those receiving the highest level of federal support. The following year additional incentives for investment and employment creation in these zones were created.282

In his penultimate informe Palacios reviewed what had become the key pillars of the state’s economic in a context of global integration. Echoing the priorities and mentality that had come to characterize the state’s outward-oriented private sector during this period, the governor identified “political stability…industrial park infrastructure, quality control, technological innovation, and coordination with the educational system” as the keys to the state’s industrial success (Government of Querétaro 1990).

Economic results of the Palacio sexenio

The Palacios sexenio thus saw a concerted effort on the part of organized business and the state government, in conjunction with allies in the labor sector, to adjust to Mexico’s market

282 The initial package of stimulus envisioned a full rebate for taxes on profits earned by firms that had relocated to national or state priority areas.
reforms and prepare the state’s industry for global competition. These initiatives, carried out within the business sector, between business and labor, and through tripartite coordination, paid dividends in the consistent expansion of the state’s industrial base and its increasing orientation towards international markets (see Table 4.2). By the end of the sexenio, the value of the state’s exports had increased more than thirteen-fold, and the percentage of exporting firms had more than doubled from 5 percent in 1985 to 11 percent in 1991. Notably, the state’s exporting prowess did not depend heavily on the maquila model, which became the prominent mode of international insertion in the border states. By 1991, maquila exports made up only 4.3 percent of the state’s total.

Table 4.2: Growth of industrial firms and exporters in Querétaro, 1985-1991

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<tbody>
<tr>
<td>Total firms</td>
<td>1,273</td>
<td>1,338</td>
<td>1,378</td>
<td>1,415</td>
<td>1,490</td>
<td>1,544</td>
<td>1,592</td>
</tr>
<tr>
<td>Exporting firms</td>
<td>65</td>
<td>80</td>
<td>95</td>
<td>101</td>
<td>114</td>
<td>126</td>
<td>171</td>
</tr>
<tr>
<td>Value of exports (USD millions)</td>
<td>40.44</td>
<td>110.4</td>
<td>230</td>
<td>300</td>
<td>440</td>
<td>480</td>
<td>538</td>
</tr>
<tr>
<td>Share of exporters in total firms</td>
<td>5%</td>
<td>6%</td>
<td>7%</td>
<td>7%</td>
<td>8%</td>
<td>8%</td>
<td>11%</td>
</tr>
<tr>
<td>Exporting maquilas</td>
<td>4</td>
<td>5</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>12</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: Anuario Económico del Estado de Querétaro (1988-1992)

In addition to exports, Querétaro also began to attract considerable FDI inflows during the second half of the Palacios administration. The state received US$ 89.5 million in FDI between 1989 and 1991 (the first years for which comparable state-level data are available), compared with US$ 39 million in the case of Puebla. Adjusting for the size of the states’ economies, Querétaro received more than seven times as much foreign investment per dollar of GDP in this period.283

In terms of overall growth, the state economy experienced a fast recovery after 1986, when a collapse of oil prices provoked another sharp contraction in the Mexican economy. While the absence of yearly state-level GDP data between 1989 and 1992 prevents an analysis of the entire sexenio, Querétaro’s economy achieved aggregate growth of 3.74 percent in the two years after the nadir of 1986, compared with a recovery of 2.79 percent in the national economy and only 2.03

283 These calculations are based on FDI statistics from Mexico’s Economy Secretary. See http://datos.gob.mx/busca/dataset/inversion-extranjera-directa
percent in the case of Puebla. As Table 4.2 shows, the increasing capacity to export helped the state return to growth after the 1986 recession.

In sum, by the end of the Palacios sexenio Querétaro had achieved a swift recovery from the 1986 crisis, based on a growing export capability that positioned the state well to thrive in the context of globally integrated national economy. In achieving this adjustment, the state relied on the support of interest groups representing business and labor, which were well-organized and disposed to cooperation.

The consolidation of the Tripartite Commission as an effective institution for economic governance in this period owes to several factors. First, as discussed above, the perception of a common threat among state, business, and labor elites in the form of independent union movements provided a key catalyst for collective action. Another important ingredient was the leadership of Camacho Guzmán, whose forceful personality and ability to engage with local business, labor leaders, and high-level politicians helped bring together various actors in the political spectrum. Finally, the forum’s informal and flexible nature appears to have contributed to its consolidation. Initially convened to deal with labor disputes, the Tripartite adapted to address new concerns that arose with the 1982 economic debacle, such as adjusting to federally-mandated price and wage levels. The early “wins” for the participants on the Commission bolstered the status of its constituent groups, which in turn lent enhanced credibility to these actors before their counterparts in the Commission. The success of coordinated economic management provided the basis for the deepening of this model during the critical years of the 1990s under the administration of Enrique Burgos. By contrast, in nearby Puebla, the failure of key social actors to coordinate in response to economic shocks had exacerbated the effects of Mexico’s economic crisis and set the stage for further cycles of conflict and cooptation under Governor Manuel Bartlett (1993-1999).

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284 These calculations are based on data from Puig and Hernández Rivas (1989).
Chapter 5: Partisan Rivalry between Government and Business in Puebla, 1981-1993

The administration of Guillermo Jiménez Morales (1981-1987) in Puebla began under what appeared to be auspicious conditions to promote the state’s industrial development. The local economy had grown by leaps and bounds prior to his ascension to the state’s top office, buoyed by the free-spending López Portillo government and the late-1970s oil boom. Federal policies to decentralize industry from Mexico City offered an array of valuable fiscal incentives to establish manufacturing plants in the state. In addition, Puebla’s political climate appeared conducive to a forward-looking development strategy. The government of Alfredo Toxqui (1975-1981), through a policy of “pacification,” had finally put an end to the open ideological confrontation and social mobilizations of the 1960s and early 1970s.285

By the end of the sexenio, however, this opportunity had gone unrealized. The state grew at a woeful annual average rate of 0.32 percent, and firm closures undermined its once-storied industrial base. While this record partly reflects the sharp downturn in the Mexican economy after the economic crash of 1982, the national economy grew at triple the rate of Puebla’s during the years coinciding with the Jiménez Morales government (1981-1986).286 This poor performance can be attributed in part to the inability and unwillingness of local actors to take coordinated actions in response to the shocks of the 1980s. While local elites in Querétaro cooperated to mitigate the effects of the crisis and put the state on a path towards global competitiveness, no such strategy arose in the case of Puebla. Instead, the difficult relationship between the state government and the local private sector, as well as labor unions, undermined the possibility of a stable developmental alliance. Tepid attempts at economy-wide coordination fell victim to partisan political conflict.

285 This social conflict pitted the state’s conservative elite, including many segments of the traditional business sector, against an array of progressive social movements, radical leftist groups, and university students in a fight for control over Puebla’s key institutions. Initially focused on the state’s public university, the Autonomous University of Puebla (UAP), the conflict would spread to encompass a variety of public policy and political battlegrounds, including control of the governor’s office itself. See chapter 3 for more description of this conflict and the role of Puebla’s business elites, in particular.

286 Jiménez Morales left office in early 1987, so this year’s growth is not attributed to his sexenio in these calculations, which come from INEGI (1990).
between organized business and the state government during the mid-term elections of 1983. Even when local officials and business cooperated briefly in the second half of the *sexenio*, the projects they pursued did not address the challenges of adjustment to Mexico’s new economic context.

**Background: Social conflict and a fragmented private sector**

Puebla experienced a period of dramatic social upheaval in the 1960s. Mirroring broader historical patterns in Mexico, the state had long been divided socially, politically, and economically between a conservative, staunchly Catholic economic and political elite and a more diverse group of secular, nationalist, and progressive forces.287 For several decades after the consolidation of power by the PRI, the former group dominated Puebla’s political and economic institutions. A series of conservative governors starting with Maximino Ávila Camacho (1937-1941) resisted national-level policies such as land reform and socialist education and repressed left-wing workers and peasant movements.288 This political elite, identified as one of Mexico’s most durable regional *cacicazgos*, maintained close links with the business elite in the textile and commercial sectors, with whom they shared conservative political and social values and an interest in quashing demands for land reform and labor rights (Hernández Rodríguez 2014).289

In 1961, a cadre of students at the Autonomous University of Puebla (UAP) challenged conservative control of the state’s leading educational institution. The students supported a member of the communist party to become the new rector, provoking a backlash from conservative, Catholic

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287 The resonance of the conflict in Puebla with deep-seated historical divisions in Mexico between liberals and conservatives is captured in an essay by the iconic writer Carlos Fuentes entitled “Puebla de los Ángeles vs Puebla de Zaragoza.” In this piece, Fuentes blames the Puebla bourgeoisie for turning justified efforts by students to secure a modern education into a Manichean battle between opposing and epochal ideological visions of the country.

288 According to Pansters (1995) land reform in Puebla had mostly come to a halt by 1940, leaving the state with a highly unequal distribution of land. Ávila Camacho also repressed more radical elements of the teachers’ union in the state and promoted moderate, pro-Catholic unions in an attempt to influence public education in the state. Knight (2014) calls Puebla in the 1940s a “laboratory” of the conservative counter-movement in Mexico that became ascendant during the presidency of Manuel Ávila Camacho (1940-1946), the younger brother of Maximo. These attitudes put Puebla governors at odds with national-level politicians during left-leaning PRI administrations. In the period of Fausto Ortega (1957-1963), the federal government pressured the governor to sever ties with the Ávila Camacho clique, as part of an effort to undermine the influence of regional strongmen (Manjarrez 1991).

289 With their interest thus protected, the local business community saw little reason to be politically active during this period. (Sotelo and Amaya 1998); Manjarrez 1991 calls the rule of Maximo Ávila Camacho and his disciples (including his brother and another former general Rafael) during the 1930s, 1940s, and 1950s, the most feared *cacicazgo* in Mexico during this period, and, according to Pansters (1990) a time of “excellent” relations with the local capitalist class.
student groups, who received support from the city’s virulently anti-communist business elite.\textsuperscript{290} The university conflict soon awakened the demands of other popular groups—textile workers, peasant associations, informal vendors, labor activists, and others—who had generally been suppressed by the state’s conservative governors, leading to a wave of social mobilization and widespread protests (Pansters 1995).\textsuperscript{291}

The social effervescence of these years made Puebla increasingly difficult to govern. Between 1963 and 1973 three governors were forced to resign under pressure from the federal government due to their inability to resolve the state’s unrest and violence (Camp, 1993). The arrival of Guillermo Morales Blumenkron as provisional governor in 1973 marked the beginning of the end of the conflict. The new governor, a politician with a career trajectory based in Mexico City and close links to President Echeverría, successfully negotiated a resolution to the students’ demands. This outcome entailed a loss of power for Puebla’s traditional ruling class, who could no longer count on having a member of the conservative local political elite as governor.\textsuperscript{292}

It fell to the government of Alfredo Toxqui to reconcile the state’s warring social factions. Toxqui, a respected politician who built his career in the local party apparatus and served in the state congress, was well-prepared for this role. Drawing on his ties with leaders across the local political spectrum, Toxqui succeeded in “pacifying” the state and putting an end to the most disruptive manifestations of the conflict (Pansters 1995; Sotelo and Amaya 1998). However, the political power of Puebla’s conservative bourgeoisie did not disappear overnight. Instead, the traditional elite retreated into various socio-political spaces where they could continue to exert

\textsuperscript{290} In fact, many of prominent members of Puebla’s business associations from the 1980s had been on the front lines of the university battle as leaders of anti-Communist student groups.

\textsuperscript{291} One reason for the vehement reaction of the local bourgeoisie, according to Sotelo and Amaya (1998) was precisely this knock-on effect to groups such as textile workers, whose activism directly affected their economic interests.

\textsuperscript{292} The President, whose political sympathies lay with the students, had refused to support the increasingly heavy-handed tactics of the Moreno Valle administration (1969-1972), tacitly disavowing the governor (Pansters 1995). This withdrawal of federal backing made the governor’s position untenable, although the official reason given for his resignation was poor health. When Moreno Valle’s successor, Gonzalo Bautista O’Farrill (1972-3) also proved unable to manage the conflict, federal authorities, intervened to replace O’Farrill and install Guillermo Morales Blumenkron as interim governor. As Sotelo and Amaya (1998) describe, this action consolidated the antagonism of the local business sector towards the federal government. In response, the business sector called a general strike and accused federal authorities of having carried out a “coup…against democracy by forcing the governor to resign” (ibid).
influence over public life: the PAN; the Popular Autonomous University of the State of Puebla (UPAEP), founded in 1973 by conservatives in the wake of the UAP conflict; various social organizations with religious undertones such as the Junta de Mejoramiento Moral, Cívico y Material (Junta de Mejoras) and Asociación de Padres de Familia; and, of course, the local business associations they had traditionally controlled.293

When the PRI announced the candidacy of Guillermo Jiménez Morales to succeed Toxqui as governor of Puebla, he faced a calmer social environment than any of his predecessors for several decades. However, the new governor knew that renewed conflict with the state’s powerful and ideological local business groups was never far off.294 Even if the open confrontations of the university battle were a thing of the past, organized business in Puebla maintained an antagonistic attitude towards the PRI throughout the 1980s.295 The attitudes of the local affiliate of the Business Coordinating Council (CCE),296 founded in Puebla in 1976 (a year after its creation at the national level), and Coparmex continued to reflect the longstanding sentiments of the local business elite: staunch conservatism and anti-communism, hostility towards PRI governments, and a strong ideological predilection for individual freedom in contrast to the oppressive “statism” of the ruling

293 The Junta de Mejoras was officially a private civic organization whose mission was to carry out public works to improve the urban infrastructure in the city of Puebla. However, it received public money from local government to do so, fostering a sense of rivalry with local governments. The precedents of the Junta date back to 1927 when a group of business people, state officials, and other local grandees, including U.S. consul William O. Jenkins established a committee to help invest in public works projects in the municipality. The committee was supported by a special tax, which would continue to be the funding scheme for the Junta, an arrangement that has been criticized as unconstitutional by many (Manjarrez 1991). The Junta in its present form was established several decades later in 1958.

294 As a politician with a career trajectory based in Mexico City—Jiménez Morales had studied at the UNAM and served in various posts in the federal bureaucracy prior to becoming governor—the new governor also had to contend with the perception that he was a representative of the national party and thus a federal “imposition.” This perception was especially grating for the local business elite, which had traditionally resented national PRI governments due to the historical and social factors described above.

295 At least during the Jiménez Morales sexenio, however, their ire would be directed more often at the federal authorities rather than local governments.

296 The CCE-Puebla would be politically assertive and ideological from its inception, railing against the government’s “opening to the left” and warning of unions becoming “a weapon of socialist revolution” at conference major conference of Latin American bishops held in Puebla in 1979. The CCE also sponsored actions such as a general strike to support holders of public transport concessions, after a group of UAP students commandeered buses to protest a fare hike in 1979. This dispute ended with the return of the buses taken by students but its political effects would linger into the 1980 election campaign, when the private sector regularly accused the communist party of having infiltrated the UAP.
The discourse of Puebla’s private sector leaders during this period is marked with combative and confrontational language directed at the government, referring repeatedly to “the fight as a sector” against a “populist,” “demagogic,” and “dangerous” government. This antagonism towards PRI governments led Puebla business leaders to enthusiastically embrace the project of contesting the PRI for power. This approach, they believed, represented the only way to resolve the country’s economic problems, and they did not hesitate to express this attitude publicly.

In addition to their strong ideological and political vocation, the leaders of local chambers tended to be inward-looking, risk-averse, and defensive in their business mindset. Puebla’s textile-firm owners, for example, who made up the traditional core of the business elite, were notorious for their failure to invest sufficiently in the modernization of their equipment, preferring instead to transfer capital from their textile concerns to set up construction businesses or purchase real estate beginning in the 1960s. This neglect left the sector unprepared to compete beyond Mexico’s protected market (Villavicencio 2013).

Statements to this effect were common from the early 1980s onwards: “The gravest error made by business has been to leave in the hand of professional politicians the most important decisions of national interest,” affirmed Herberto Rodríguez Concha, a deacon of the local bourgeoisie and CCE president from 1983 to 1986. The project of the Puebla private sector to vie for political power (or more precisely, to recover the political power they lost after the resolution of the university conflict) originated in their fierce opposition to the expansionist economic policies of Echeverría the mid-1970s. According to several journalists covering state politics, key leaders of the business community dined with then-presidential candidate José López Portillo in 1975 and made it clear they believed that the business sector should acquire real quotas of political power on par with those reserved for labor and the popular sector. Opposition to the expansion of the state under Echeverría motivated the Puebla business sector in this regard. López Portillo, somewhat disingenuously, replied that what the businessmen referred to was corporatism, not democracy.

Reflecting this view, labor leaders also frequently accused business of failing to take steps to modernize during the 1980s (see Cambio 23 March, 1986, “Serios conflictos enfrenta la industria textil”).
entrepreneurial and modern.” Indeed, members of the business community themselves frequently acknowledged as much in public statements.301

These characteristics of Puebla’s lead business organizations are intricately tied to another distinguishing feature highlighted in chapter 3: the limited role of multinational and large domestic firms.302 Volkswagen, the state’s largest firm by far, had the ability to engage directly with top policymakers at the federal level.303 The firm’s unmatched bargaining power could only be diluted through association with other firms.304 In addition, the combative political position that the Puebla business organizations had staked out since the 1970s further reduced the appeal for Volkswagen and other MNCs of collaboration with these groups.305 As a result, the modernizing outlook of these firms and their local managers did not permeate the local business community, as occurred in Querétaro (see chapter 4).306

In a fundamental way, therefore, the private sector was divided between traditional, ideological, and locally-oriented businesses that dominated the chambers and the modern, globally-

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301 For example, the president of Canaco stated that there were opportunities for local business to export with the imminent signing of NAFTA, but what was lacking was the willingness to take risks. Sol de Puebla 18 September 1993, “Oportunidades hay, solo falta que el empresario se arriesgue: Canaco”

302 While such firms, most importantly Volkswagen for its outsized role in the state economy, often maintained a nominal membership in one or more business associations, the leadership positions of these organizations continued to be held by a close-knit group of local business owners, often in the state’s traditional textile and commercial sectors. See chapter 3 for details. Several former business leaders in Puebla acknowledged, and representatives of the firm itself confirmed, this lack of participation by Volkswagen in interviews with the author. The contrast is stark with the case of Querétaro, where its leading firm in the early 1980s, Tremec, played a pivotal role in the state’s public life. Tremec managers occupied the presidency of Canacintra and the Club de Industriales and in a few cases even moved on to occupy top positions in the state’s economic development bureaucracies.

303 This was true starting in the mid-1970s, when the firm, facing a challenging scenario due primarily to problems in its U.S. and Brazil operations, negotiated directly with the federal Secretaries of Finance (Hacienda) and Industry and Commerce an exception to a decree by president Echeverria requiring the industry increase production relative to imports (Castillo and Garcia 1986)

304 While economic concentration can be conducive to collective action among business by reducing the number actors that must cooperate, the relationship is likely to be non-linear. As Schneider (2004) writes, “at very high levels of concentration, formal collective action becomes dispensable if those who control the largest firms can coordinate better informally and prefer direct individual access.” This insight appears to capture well the case of Volkswagen in Puebla. Chapter 3 discusses in more detail differences in economic concentration between Puebla and Querétaro and their effect on business organization.

305 Representatives of foreign capital often tread warily in areas that could be politically sensitive (see Maxfield and Schneider 1997 for examples). The highly-politicized nature of Puebla local business chambers, in contrast to the less ideological tone in Querétaro, thus represents a likely cause as well as a consequence, of the differences in foreign investor participation across the two states.

306 The analysis in chapter 3 shows that private sector leaders in Puebla consistently spoke out against economic integration and called for measures or protections to moderate its effects—in sharp contrast to the preferences held by the business associations in Querétaro, which favored economic integration.
integrated, and highly professional large firms that remained outside of formal business associations and conducted individualized interactions with public authority. The fragmentation of the private sector is also reflected in divisions within the local business community, between the traditional families of the CCE and Coparmex, who often shared common Spanish cultural heritage, and a more recently-established sector of Lebanese-descended business people more friendly towards the PRI.307 As this chapter will argue, the fragmentation of the private sector undermined the capacity and interest in coordination between the government and the private sector on economy-wide policy efforts. Instead, responses to politico-economic change in Puebla proceeded on two distinct tracks: one dominated by the political ambitions and provincial concerns of traditional organized business, and state governments’ attempts to coopt this potential threat; and another characterized by intra-firm adjustment to enhance competitiveness and productivity by the state’s dominant firms, with a limited role for state authorities.

Economic shock and the renewal of political and economic conflict

Jiménez Morales took office in 1981 well aware of the politically assertive nature of organized business.308 An ambitious politician with his sights set on the nation’s highest office, the governor also knew he would need to oversee an orderly and productive sexenio to advance his political career. Jiménez Morales therefore initially sought a conciliatory approach with the business sector. To do so, the governor ramped up public support for the Junta de Mejoras, the organization controlled by leaders of the business community that developed public works projects

307 An additional division can be seen in a group of more modern, outward oriented local business who did not share the cultural milieu of either of the above groups. These business people tended to reject the traditional chambers, which they viewed as political entities that did not constructively address issues that mattered for their business. This smaller cadre of Puebla firms, some of whom grouped in the Chamber of Foreign Trade (COMCE), felt that the traditional chambers had been coopted by the ideological agenda of the traditional business groups and moreover were populated by individuals who had failed in business and therefore sought an alternative route via business politics. According to a former leader of the chamber in Puebla, this group of more open, internationally-oriented business people were “reduced in number” (interview, December 1, 2015).

308 In fact, the private sector in Puebla had arguably influenced the selection process of the PRI’s gubernatorial candidate, as Horacio Labastida, a left-wing contender who provoked strong opposition from the business sector, had been ruled out (Manjarrez 1991).
using state money, over the objections of some local politicians. Another tactic employed by the incoming administration to preempt private sector opposition was the creation of a new committee to oversee government acquisitions, on which members of the local business elite received prominent roles. The governor also included in his cabinet officials respected by business people and avoided figures associated with the left and the university (Manjarrez 1991).

However, the September 1982 bank nationalization dealt a blow to this nascent reconciliation. Coming in the final months of the López Portillo administration, the move provoked outrage among national business leaders. In response, incoming president Miguel de la Madrid attempted to win back support of the disgruntled private sector by opening spaces for consultation and dialogue with top business leaders and re-privatizing a portion of nationalized banking assets. State-business cooperation would be formalized through economy-wide pacts in 1987. These efforts largely succeeded in placating the country’s top business leaders.

The drama between government and business played out at the local level too. In Puebla, the context of economic austerity after 1982 provoked another round of conflict between the public and private sector. Business leaders objected strenuously to a series of federal taxes (particularly a move by the federal government to increase electricity tariffs) and threatened to refuse payment. The business sector then took a hard line in salary negotiations, supporting a cap of 12.5 percent on any pay raise (half of that demanded by workers as an emergency salary support). In the end, the employers agreed to 15 percent, but not without extracting additional financial support from the state government (Manjarrez 1991). The tone of these negotiations was, once again, contentious

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309 The finances of the Junta had been a sensitive issue since the late 1970s when the dissolution of a tax on business income threatened its main source of income. A temporary agreement had been brokered to find alternative funds to support the Junta. At the same time, many local politicians resented the Junta, which they saw as encroaching on the mandates of the local government (Manjarrez 1991).

310 According to Manjarrez (1991), several business leaders took advantage of this role for personal enrichment.

311 In a statement released in the days after the nationalization, the national CCE released a statement calling the nationalization “a definitive blow to business activity and a clear signal of the entrance of the country to socialism” and warned the county was on the path to “totalitarianism.”

312 They also issued a legal challenge (amparo) against Hacienda (Diario de Puebla 2 November 1983, “Hoy protestan los industriales contra las tarifas eléctricas”); Canacintra president Othón Necoechea, who the previous month had called for a Tripartite dialogue, led this act of protest alongside CCE president Herberto Rodriguez.
and ideologically charged. Leaders of business associations lambasted the state’s longtime CTM secretary general, Blas Chumacero as “demagogic, hypocritical, and corrupt,” while Canacintra called for the creation of new unions outside of corporatist control (Manjarrez 1991, 139).

Important divisions also existed within the labor sector itself. In addition to the CTM, the Regional Workers and Peasants Federation (FROC) had traditionally been strong in Puebla, due to its large contingent of textile firms, starting in the 1920s. The Regional Confederation of Mexican Workers (CROM) also had a strong presence in the textile and sugar industries based in Atlixco and Izúcar, where it clashed with the FROC for control. In the 1930s and 1940s, Governor Ávila Camacho and his conservative successors exploited union divisions, promoting yet another regional confederation, the Federation of Workers of Puebla (FTP) as allies (Pansters 1995). This early precedent resulted in a persistent fragmentation of the labor sector, with several confederations vying for control of the state’s unions. By the 1980s, the FROC regularly feuded with CTM leadership, complicating negotiations between workers and firm managers (Sotelo and Amaya 1998). In addition, the state’s most important workers’ organization, the Volkswagen union, had separated from the CTM in 1972 and joined the now-defunct Independent Workers’ Unit (UOI), before finally establishing its independence from that confederation as well in 1981. As a result, the state’s workforce was dispersed across various groups, each with their own leaders and agendas, in contrast to Querétaro where the dominance of the CTM was unquestioned. This scenario limited the possibility for economy-wide negotiations among peak interest groups that prospered in Querétaro under the tripartite system.

313 As of 1967, the FROC-CROC was the largest labor confederation in the state with 130 unions and 30,000 affiliates; the CTM had 19,000 affiliates, while the CROM had 104 unions (suggesting its force was on par with that of the FROC-CROC). The Federation of Workers of the State of Puebla (formerly the FTP) had 31 unions and 4,200 affiliates (Comisión de Promoción Industrial-Puebla 1967).

314 Interestingly, the forces motivating the VW union to seek independence were similar to the dynamics that discouraged the firm from participating in business associations. The size and economic importance of the union meant that it gained little by negotiating collectively with the CTM or other umbrella groups (Castillo and García 1986). The independence of the Volkswagen union from the CTM meant that public authorities in Puebla had less leverage to intervene in labor disputes in the state’s most important firm than their counterparts in Querétaro, where state governments allied with CTM leaders to put a lid on labor activism in key firms such as Tremec, Kellogg’s and Celanese Mexicana.
Faced with a potential escalation of conflict amid worsening economic conditions, Jiménez Morales attempted the sort of economy-wide coordination that had been successfully employed in Querétaro to negotiate and distribute the burden of adjustment. In the first weeks of January 1983, the governor convened leaders of the state’s main business associations and labor unions to sign two grandly-named agreements—the Solidarity Pact of Puebla and the Pact of Unity and Responsibility—to address inflation, debt, and other current economic challenges. At the signing of the Solidarity Pact, Jiménez Morales urged the sides to meet one or two times a week to discuss the problems facing the state, sector by sector. However, these efforts proved largely symbolic and did not result in any meaningful coordination; in fact, both initiatives would be abandoned by the end of the year. Instead, distrust and recriminations among government, business, and labor abounded, an atmosphere reflected in the public comments of leaders of each group.

A major reason for the ineffectiveness of these pacts was the renewal of partisan conflict between organized business and the state government as mid-term elections loomed in November 1983. During a visit to Puebla earlier that year, national CCE president Manuel J. Clouthier told his poblano counterparts the private sector should not practice partisan politics, suggesting

315 In fact, state labor leaders had initially proposed a bipartite pact with business to enhance productivity and retain jobs; during his New Year’s address, the governor took up the call himself, promising to convene both sides in the coming days (Diario de Puebla 1/3/83, “Pleno apoyo del gobierno de GJM, al pacto obrero-patronal poblano” The Solidarity Pact between labor and business was signed on January 8 in the presence of the governor. On the side of business, the signees were the CCE, Coparmex, Canacintra, Canaco, CITEX, Asociación Empresarial Textil, and CNIC; on the labor side, FTP-CTM, CROM-FROC CROC, and Federación Sindical de Trabajadores. At the signing, Canacintra president Othón Necochea called for the establishment of a Tripartite Commission with the state government, which was never taken up.

316 Diario de Puebla 1/9/1983, “Sellado el pacto de solidaridad entre obreros y patrones”

317 Business suspicion of the state’s labor unions, which they viewed as agents of the hard left, was a consistent feature of their attitudes in this period. For example, Coparmex president Jorge Ocejo accused a group of “pseudo-intellectuals” within the CTM and Workers’ Congress of trying to install socialism in Mexico (Cambio 1 August 1984 “Se quiere implantar el socialismo en el país: empresarios.”) Labor leaders, for their part, regularly blamed business owners for the state’s economic troubles, claiming they had failed to invest and modernize and were simply waiting for government support for their industries (Cambio 23 March, 1986, “Serios conflictos enfrenta la industria textil”; Sol de Puebla, 6 August 1986, “Agenda Empresarial”). In addition, the governor publicly admonished business, exhorting the sector to reduce profits as much as possible (Diario de Puebla, 4 September, 1983, “El precio del pasaje urbano en esta ciudad no se incrementará: GJM”), whereas in Querétaro this idea was embraced jointly by government and business leaders in tripartite setting (see chapter 4). The challenge of establishing a tripartite arrangement in Puebla was underscored by comments from Alfredo Sandoval, president of Coparmex, in February 1983, that despite efforts of Coparmex to reach an agreement with workers at the national level, “under no circumstances will the conditions of the Secretary of Labor be accepted,” which aim to force employers to increase benefits (Diario de Puebla, 2/19/1983, “La iniciativa privada tratará de mantener el empleo: ASG”).
cooperation was preferable to confrontation in the current context. However, the Puebla business community was not convinced. Soon after this visit, Ricardo Villa Escalera, the president of Puebla’s powerful textile chamber, defied the country’s top business leader and announced his intention to run for mayor of Puebla. Villa Escalera caught the PRI and its lackluster candidate, Jorge Murad, by surprise with his energetic door-to-door campaign. The traction the PAN’s campaign gained owed much to a generalized rejection of the PRI among broad swaths of the city’s middle classes, especially in the wake of the 1982 economic debacle (Melé 1990).

The November vote was marred by blatant abuses such as stolen ballots and vandalized polling stations, and both sides immediately declared victory. PRI and PAN supporters took to the streets in daily demonstrations punctuated by outbreaks of violence. The official results, delayed until January 1984, gave the PRI an implausible 67 percent of the vote, even as the PAN claimed to have won by an even larger margin. Eventually, the national leadership of the PAN stopped supporting the claim of fraud in return for recognition of its victory in Tehuacán, the state’s second-largest city, and the protest died out. Still, the episode had damaged the PRI, which emerged as the “clear moral and political losers” according to Pansters (1995).

318 Villa Escalera had been at the frontlines of the university conflict in the 1960s. In announcing his bid, he explained his decision in these terms: “it is necessary to participate in politics, because while business people were dedicating themselves to their businesses and staying out of politics, you see what happened; what happened? Mexico is plunging into crisis.” He would be named the PAN’s candidate in early September 1983, after several months of intense campaigning as an independent. Many members of civil society groups linked to the local private sector also joined the ranks of the PAN at the same time provoking a split with more traditional panistas in Puebla (Sotelo and Amaya 1998).

319 Groups associated with the state’s key business leaders, such as the DHIAC and the Women’s Civil Association openly backed Villa Escalera; in voicing this support, both groups echoed language frequently employed by the private sector, calling for limits to the “asphyxiating presence of the state” and the abuses of the government (Manjarrez 1991, 139). The national PAN infrastructure also mobilized considerable support for the campaign, viewing Puebla as a key proving ground for the party outside of its traditional northern strongholds (Melé 1990).

320 In this way, Villa Escalera was able to broaden his support beyond the relatively narrow base of the city’s traditional business elite. It also meant that his strong showing in the polls reflected opposition to the PRI perhaps more than organic support for the conservative agenda of the business sector. In his campaign speeches, Villa Escalera did not emphasize the traditional themes animating the conservative business sector in Puebla such as anti-communism and opposition to the university but rather focused on broader issues such as democracy and respect for the vote.
Post-election appeasement: political calm but modest economic progress

After the dust-up surrounding the 1983 elections, local governments in Puebla attempted to appease the private sector and thus avoid the open confrontations that had marked the state's recent history. These efforts were greatly facilitated by the political skill and administrative competence of the new mayor of Puebla, Jorge Murad, who quickly won the support and praise of even the most intransigent members of the Puebla business community. These circumstances created a window of opportunity for constructive cooperation between the public and private sectors to address the state’s key development challenges. Dominated by local commercial and textile firms, a major concern of the local business chambers in this period was dealing with the informal vendors who had occupied Puebla’s historic center with increasing frequency beginning in the early 1980s, to the dismay of business owners in the zone. Enlisting the government’s support in removing these unwelcome competitors was perhaps business’ number one priority in this period. This concern is reflected in the frequency with which local business leaders spoke out on the issue of informal vendors: such comments account for 22 percent of the total by leaders of the local commerce chamber during the period covered in this chapter (1981-1993). The municipal and state governments worked together to address these concerns with the construction of an official market to house the street vendors near the city’s new bus terminal (another important legacy of this municipal administration). These actions were complemented by a broader set of

321 In early 1985, CCE president Herberto Rodríguez Concha praised the mayor’s team and said the city was better in all respects, citing his management of the city’s public services and new public works (Cambio 15 February 1985, “Eficiente la administración municipal: los empresarios”)
322 Interviews with leaders in Puebla’s main business associations at the time, including Canaco (the local chamber representing commercial firms. The fact that the local business community used this window of opening and reconciliation with local government to push the issue of ambulatory vendors points to the provincial nature of their concerns, in turn a reflection of the composition of the chambers, and the absence of participation of the more modern, outward-looking firms in the sector, which in the case of Querétaro, helped oriented the actions of the state government towards technical upgrading and international insertion.
323 This figure is based on the data collected in the dataset of business leaders’ public statements used in the analysis in chapter 3. As explained in that chapter, the data reflect comments drawn from a review of local newspapers during specific months in the period between 1986 and 2010. While the design of the data collection process aimed to generate a representative view of business sector sentiments, the dataset contains only a sample of business leaders’ public comments during this period.
324 The previous bus terminal had been located inconveniently in the center of the city, causing congestion problems.
much-needed improvements to the urban environment in the city of Puebla carried out through cooperation between the state and municipal administrations.\textsuperscript{325}

The business sector also cooperated with the municipal government in this period to upgrade the 5 de mayo industrial park, the state’s oldest. Businesses contributed funds through the Regional Union of Industrialists for public lighting at the park.\textsuperscript{326} The state government also initiated construction of two additional industrial zones in 1981, the Puebla 2000 and Texmelucan industrial parks. Both local business leaders and the state government also entertained the idea of promoting \textit{maquila} production as a strategy to take advantage of the impending trade opening and the increasing emphasis on export promotion in national policy circles.\textsuperscript{327} Canacintra, along with the textile chamber and Secretary of the Economy held a forum on the possibilities of \textit{maquila} production in the state, with representatives of the local private sector speaking in exuberant terms of the potential for this model to resuscitate the flagging sector.\textsuperscript{328} The textile sector would, in fact, become increasingly oriented towards \textit{maquila} operations, in which firms mass-produced clothing, often for major U.S. brands. \textit{Maquila} production increased five-fold between 1991 and 1993 alone, displacing many traditional producers of fabrics, cloth, and final garments.\textsuperscript{329}

Through attention to key local issues and a savvy distribution of political favors, Jiménez Morales managed to defuse tensions after the 1983 elections. In this atmosphere of relatively good will, local governments and organized business in Puebla did cooperate productively on a modest agenda of urban improvement projects and upgrades to the state’s industrial infrastructure,

\textsuperscript{325} Upon taking office Murad announced a program for the revitalization of the city center as a centerpiece of his agenda. This project was possible thanks to 100 million pesos from a state government program for emergency support for employment in urban areas (Melé 1990). As a result of these projects, the city achieved its goal of being named a UNESCO World Heritage site in 1988.

\textsuperscript{326} The 5 de Mayo industrial park, whose construction began in 1968, was one of the earliest industrial parks in the country. Initially undertaken by a consortium of private investors, the state government took over the construction and administration of the park in 1973 after the consortium encountered financial difficulties, making use of federal incentives to create spaces for industry outside of the Mexico City metropolitan zone (Iglesias 2014).

\textsuperscript{327} \textit{Maquila} production refers to factories that would take advantage of a longstanding government program whereby firms could import inputs duty-free and receive other fiscal incentives provided they exported the resulting products.

\textsuperscript{328} Canacintra also promoted efforts to identify opportunities for local textile firms to supply the growing number of \textit{maquila} operations at the U.S. border with inputs. \textit{Cambio} 13 August, 1986, “Las maquiladoras ayudarán a salir de la crisis”.

\textsuperscript{329} These calculations are based on INEGI (1997).
channeling increased resources from federal programs to promote industrial parks and zones. The government also took thorough steps resolve what was probably the most important concern of organized business by transporting hundreds of street vendors to a new market well away from the city center.

This period of improved relations between the public and private sectors in Puebla came at a time when Mexico was taking decisive steps towards global economic integration, with a major unilateral tariff cut in 1985 followed by entry into the GATT the following year. However, the tangible outputs of tentative government-business cooperation in Puebla were not up to the task of confronting global competition, an indication of the inward-looking, provincial mindset of the local business sector. Presented with an opportunity to cooperate with local governments, business leaders advanced an agenda that reflected their concern with maintaining local market niches rather than a forward-looking vision for competitiveness in a changing economic environment. While industrial park promotion did represent an important policy to boost local competitiveness, Puebla’s tentative steps during this period to build industrial infrastructure as a public good did not prosper, as subsequent chapters will illustrate. In short, the brief period of cooperation between the state government and representatives of peak business groups did not engender robust efforts to prepare the state’s economy for global integration, as occurred in the case of Querétaro.

A key reason for this outcome is that the state’s most important economic actors were implementing (or attempting to implement) such strategies at the individual firm or sector level. While organized business was preoccupied with local issues, Volkswagen was carrying out a substantial transformation of its production process to ensure its continued competitiveness in a changing economic environment. Starting in the late 1970s, the firm took steps to increase the flexibility of its labor force, further mechanize production, and leverage its global manufacturing
footprint to lessen the blow of shocks to the local market. The new strategies resulted in two major worker layoffs in the late 1970s as well as the creation of a temporary workforce (eventuales) that the firm used to quickly adjust production to current economic circumstances. These policies had the effect of progressively weakening the company’s historically assertive and independent union, which had severed ties with the CTM in 1972 and subsequently achieved greater control over various aspects of internal organization and relations with management (Middlebrook 1995). In addition, over the course of the 1980s, as the policy framework at the national level increasingly encouraged exports rather than production for the local market, VW took advantage of this shift to construct new plants dedicated exclusively to exports to the United States (Millones Espinosa 2012). A major investment in 1982 in a new industrial plant (Nave 6) for the production of motors facilitated the strategy of exporting motors and other auto parts, which became an increasingly important part of Volkswagen’s Puebla operations throughout the 1980s, helping compensate for the declining domestic market. These intermediate goods were generally shipped to other VW factories around the world, taking advantage of the firm’s increasingly global footprint (Juárez 2005). The export en masse of assembled vehicles did not begin until the 1990s, however, after a 1989 decree for the automotive sector introduced major fiscal incentives for exporting cars from Mexico (Juárez 2006).

This evolution towards flexibilization and internationalization of Volkswagen’s operations would continue throughout the 1980s and reach a culmination in the early 1990s, when the firm carried out a major restructuring of its production process. The upshot of these changes was a consistent evolution towards greater productivity, technological advancement, and international

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330 These changes were initiated in response to problems that originated outside of Mexico, such as challenges faced by the Beetle, its dominant model, in the U.S. market. However, they were deepened and expanded in an effort to adjust to the changing economic environment in Mexico after the early 1980s.
331 Another implication of this federal decree, as discussed in chapter 7, was to encourage Tier 1 suppliers for major automotive OEMs to establish operations in Mexico.
332 The centerpiece of these adjustments was the outsourcing of many production tasks to VW suppliers, which laid the groundwork for the globalized production chain and “just-in-time” model that would prevail in the NAFTA period and beyond. This consolidation of the firm’s transformation in the early 1990s is discussed in the next section of this chapter.
linkages. Importantly, however, these adjustments occurred within the boundaries of the firm. Unlike in the case of Querétaro, they did not lead to dissemination or spillovers to other firms in the economy, facilitated by mutual participation in the state’s business chambers. The lack of participation of Puebla’s leading firms, especially Volkswagen, in its business chambers thus exacerbated the duality between the modern and traditional sectors of Puebla’s economy.

In a similar fashion, Puebla’s textile sector attempted to adjust to Mexico’s nascent economic reforms with sector-specific rather than economy-wide strategies—although their efforts would be far less successful than those of Volkswagen. Starting in the mid-1980s, local textile firms, organized through the powerful Textile Industry Chamber of Puebla and Tlaxcala (CITPT), faced acute challenges due to their unpreparedness to compete either with growing imports or in new export markets. In response, the chamber launched a strategy oriented primarily towards lobbying federal officials to maintain protection, increase trade enforcement, and support textile exports in various ways. While the chamber did undertake efforts to adjust to challenging economic conditions via collective action, most notably through the creation of a credit union, these initiatives met with limited success. By the chamber’s own estimation, moreover, the policy response of the federal government consisted of “isolated measures” that were inadequate given the challenges facing the sector. In pursuing these policy goals, the textile chamber, traditionally the most influential segment in the local business community, opted for its own strategies and

333 The experience of Volkswagen is highlighted in this section due to the firm’s paramount important for Puebla’s economy. However, a similar trend appears to have occurred in other large firms in Puebla such as Hylsa, a major producer of steel and construction materials that is part of the Monterrey Group. Present in Puebla since the 1960s, the firm developed its own patented technology which had been marketed in South America and Asia. The firm also undertook a major modernization in the early 1990s, investing US$ 35 million to upgrade its technology and reach new export markets. Like Volkswagen, however, Hylsa managers never participated as directors in any local business chamber in Puebla, despite being a Mexican firm (see Sol de Puebla 31 August, 1994, “Comparsa Hylsa costos de su producción con los internacionales”).

334 This strategy is laid out in greater detail in the second section of this chapter.

335 Actas del Consejo Directivo de la Asociación de Empresarios de la Industria Textil de Puebla y Tlaxcala, 24 January, 1994. CITPT Archives.
projects, contributing to the fragmentation of the local private sector and undermining economy-wide coordination.336

A final factor militating against economy-wide policy cooperation was the specter of partisan conflict between government and the private sector, which would emerge again at the close of the Jiménez Morales administration. First, local business associations lashed out against a new tax measure in 1985.337 Echoing familiar rhetoric, Coparmex president Jorge Ocejo accused the state of imposing unfair conditions on the private sector and fueling inflation.338 Coparmex led several local business associations in bringing a petition to abrogate the measure before federal authorities, provoking another round of tension between the private sector and the government (Manjarrez 1991). With state elections looming at the end of 1986, the potential for a renewal of damaging partisan fighting was clear to both sides.339 In the first week of January, the governor convened leaders of the private sector for a meeting, during which both sides agreed on the need to maintain unity during the upcoming year in order to not set back the state’s progress (Tecuanhuey 1994). In the end, the business sector would mobilize for the 1986 elections anyway, although with less success than three years earlier. Ricardo Villa Escalera, now a rising star in the local PAN, decided to contend for the governorship, and the institutional apparatus of the local private sector supported his candidacy. The PRI’s candidate, Mariano Piña Olaya,340 beat Villa Escalera badly, although record-high levels of abstention, estimated at 70 percent, pointed to growing

336 As discussed below, this go-it-alone approach proved damaging in areas where economies of scale could have existed such as in credit unions, a mechanism attempted throughout the country to mitigate the effects of soaring interest rates in the country.
337 The proposal involved the inclusion of a value-added tax in the final price of goods, which business leaders felt would undermine the ability of the private sector to be competitive in comparison to state-run enterprises.
339 For example, the combative Coparmex leader, Jorge Ocejo, had affirmed openly in 1985 that business people do aspire to power, a sentiment expressed commonly among local business leaders, although he stressed as citizens rather than grouped in private associations. Cambio 13 February, 1985 “Los empresarios sí aspiran al poder, dice Jorge Ocejo”
340 The party’s nomination of Piña Olaya, at the time a member of the national congress, reflected the continuation of political control over the state by federal officials. Jiménez Morales had maneuvered to install as successor his friend and former finance minister, Puebla mayor Jorge Murad, but President de la Madrid insisted on the candidacy of Piña Olaya, his former law school classmate. Murad was struck by a car and killed a few days before the unveiling of the gubernatorial candidate. His death was widely mourned in the state, and he continues to be remembered across the political spectrum as the city’s best mayor in the modern era.
dissatisfaction with the PRI (Melé 1990). The electoral atmosphere thus led to a distancing (if not outright clash) between the government and official business leaders in the last year of the Jiménez Morales sexenio. Reflecting their ambivalence towards collaboration with a government they viewed as inherently suspicious, business leader Francisco Bernat acknowledged the desirability of trying to “join forces with the government,” but at the same time underscored the need for business to avoid becoming “slaves of an omnipotent group.” These comments took place at an event attended by the governor.

In addition to provoking partisan tensions, the strong ideological predilections of the Puebla business community undermined the potential for productive cooperation for a more fundamental reason. The tendency to reject any government policy as “statism” left little space for joint public-private actions on a development strategy for the state. Indeed, local officials were also skeptical of the private sector’s commitment to cooperating on policy issues. Jesús Morales Flores, president of the local Congress in the mid-1980s and a veteran political operator, expressed his frustration that instead of working together, the private sector “just criticize[s] everything the government does.”

In sum, the response of Puebla’s private sector to the 1982 economic debacle was to mount a political challenge to PRI control of the prized capital city. By contrast, economic upheavals motivated local government and organized business in Querétaro to coordinate to avoid the worst

341 The poor showing of Villa Escalera in 1986 reflects the challenging electoral geography in state-wide elections for the PAN, whose popularity is highly concentrated in the cities of Puebla and Tehuacán. In the mayoral race, the PAN candidate was Francisco Fraile, another figure closely associated with the traditional business elite, who failed to expand his appeal to a broader swath of poblano society as Villa Escalera had in 1983 and was defeated convincingly.

342 Cambio 20 December 1984, “Los industriales, obligados a colaborar con el Gobierno: Bernat”

343 This instinctive antagonism and criticism of the government at times led to contradictory viewpoints from business leaders who may have benefited from cooperation or even government largesse. In statements that an economic recovery “can only be achieved with a break on statism,” Herberto Rodríguez Concha went on to warn that further public spending cuts would damage commercial activity, while simultaneously blaming the government for increasing prices in the parastate and SOE sectors. Rodríguez is thus calling for more government spending to support the flagging economy while simultaneously decrying state intervention in the economy. Sotelo and Amaya (1998) suggest that this “double discourse” or contradictory rhetoric was a defining characteristic of rent-seeking Puebla business, which depended on state protection for its survival while engaging in anti-state discourse at every turn.

344 Morales also served as secretary of education in the state governments of both Guillermo Jiménez Morales and Mariano Piña Olaya. His brother, Melquiades Morales, would become governor of Puebla from 1999 to 2005. Cambio 6 December 1984 “Los empresarios deben ser más nacionalistas: Jesús Morales”
effects of the crisis. Meanwhile, Puebla’s economic behemoth, the German carmaker VW, took advantage of its privileged position to opt out of local political and economic turbulence. Its network of global affiliates allowed the firm to soften the blow of the economic downturn, while also negotiating directly with top federal bureaucrats to obtain preferential policy treatment. Ironically, the large VW union also exercised a sort of exit strategy, wresting itself definitively from corporatist control in 1981 and thus reducing the possibility of economy-wide negotiation and agreements.

Economic results of the Jiménez Morales sexenio

Puebla’s economy experienced a sharp decline over the first half of the 1980s. After an extraordinary boom during the oil-fueled heyday of 1980, Puebla decelerated sharply in 1981 before experiencing two years of economic contraction more severe than that at the national level (see Table 5.1). The state grew a mere 0.32 percent a year on average during the Jiménez Morales years, while the Mexican economy on the whole managed an average of 1.03 percent during the same period. Even in a period of recession then, Puebla significantly underperformed the national average. The inability to adjust was especially evident in the textile sector and among smaller firms. Exports of cotton-based textiles, an important product for the industry in Puebla, had fallen from 28,000 tons in 1983 to 2,500 in 1987 (CITPCT). In addition, total employment in Puebla’s small and medium-sized firms increased just 10 percent in aggregate between 1982 and 1987, compared with 17 percent across Mexico and 26 percent in Querétaro (Secofi 1988).

Table 5.1: Average Annual Growth in Mexico, Puebla, and Querétaro, 1980-1986

<table>
<thead>
<tr>
<th>Year</th>
<th>Mexico</th>
<th>Puebla</th>
<th>Querétaro</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>8.32%</td>
<td>15.32%</td>
<td>13.17%</td>
</tr>
<tr>
<td>1981</td>
<td>8.77%</td>
<td>5.05%</td>
<td>9.10%</td>
</tr>
<tr>
<td>1982</td>
<td>-0.63%</td>
<td>-0.74%</td>
<td>0.21%</td>
</tr>
<tr>
<td>1983</td>
<td>-4.20%</td>
<td>-4.9%</td>
<td>-2.01%</td>
</tr>
<tr>
<td>1984</td>
<td>3.61%</td>
<td>3.46%</td>
<td>6.10%</td>
</tr>
<tr>
<td>1985</td>
<td>2.58%</td>
<td>3.56%</td>
<td>5.97%</td>
</tr>
<tr>
<td>1986</td>
<td>-3.96%</td>
<td>-4.53%</td>
<td>-5.3%</td>
</tr>
<tr>
<td>1981-1986*</td>
<td>1.03</td>
<td>0.32</td>
<td>2.34</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on Puig and Hernández (1989)

*Annual average
A major priority of the Jiménez Morales administration had been to reignite the state’s industry after a decade-plus of conflict and the subsequent “pacification” of the state under Toxqui. On some measures there were signs of success, such as the initiation of the Industrial Park 2000, the inauguration in 1985 of the Texmelucan industrial park project, and a major extension of a nearby petrochemical complex. However, this progress was partial and would prove fleeting: infrastructure projects, in which the local private sector had shown modest interest (their main priority had been the removal of informal vendors from the city center) would suffer from neglect in subsequent years and fail to be realized according to the vision laid out by the governor.345

In addition, the main actors in the state did not develop durable coordination mechanisms to address the impending challenge of adjustment to global competition. Attempts to establish such institutions, such as the solidarity and unity pacts convened by the governor in early 1983, were ad hoc, symbolic, and fleeting. Instead of providing the basis for a coherent, tripartite project as in the case of Querétaro, relations among local government, organized business, and labor continued to be fragmented and dispersed with cyclical conflict and cooptation defining the state-business relationship. Meanwhile, the state’s dominant firm used its outsized influence to negotiate with authorities on its own terms.


With the inauguration in 1987 of Mariano Piña Olaya, a UNAM-trained lawyer and longtime federal bureaucrat, Puebla once again confronted with skepticism a governor who lacked strong local roots.346 Nowhere was this feeling more pervasive than within the business sector.347

345 For example, the Texmelucan industrial complex saw scant progress during the subsequent administration. Upon taking office in 1993, top officials in the government of Manuel Bartlett (1993-1999), found the industrial park in “deplorable” conditions with only 10 percent of the lots occupied and without basic amenities such as paved roads, lighting, and electricity (Sol de Puebla, 5 March, 1993, “Deplorable panorama presenta el Parque Industrial Texmelucan”)

346 In the case of Piña Olaya, the usual skepticism of federally-imposed governors was exacerbated by a series of campaign follies in which the governor proved to be out of touch with poblanosociety With most of his prior experience coming in bureaucratic positions in parastatal entities, Piña Olaya had had little time to develop a popular political touch (Camp 1993).

347 Several journalists report a disastrous social encounter between Piña Olaya and several deacons of the local private sector before the former had been officially unveiled as the PRI’s gubernatorial candidate. Among other faux pas, the soon-to-be-governor told his hosts that if he knew for sure he would be the nominee, he would not be wasting his time with them. He later mortified the assembled business people by explaining how he had gotten his first million dollars as
The governor did little to help his cause with his cabinet appointments, which favored officials who, like Piña Olaya himself, had only tenuous ties to local politics (Manjarrez 1991). In contrast with Jiménez Morales, the new governor did not appoint any officials held in esteem by the private sector.

During the first half of the Piña Olaya sexenio, the relationship between the government and Puebla’s peak business associations was proper but not close. The longstanding tensions between the two sides had been smoothed over during the Jiménez Morales administration through a series of favors and perks but had certainly not been resolved. Unlike his predecessor, however, Piña Olaya lacked the political shrewdness to placate the traditional business elite, nor did he appear to have the desire to do so. Instead, the governor promoted the economic interests of a new group of business people outside the close-knit and clubby circle of the chamber leadership. In practice, this strategy entailed recruiting allies among Puebla’s Lebanese business community, which had challenged the traditional, mostly Spanish families for dominance starting in the middle of the 20th century. The governor also forged a close relationship with the president of the textile chamber, Salvador Cué Silva (the heir of a traditional Spanish textile family) who became his main interlocutor in the business community, and would join the government as Secretary of Economic Development in 1990.

The administration thus settled into a pattern of formal, distant relations with traditional private sector leaders and chummy, often questionable ties with a group of (generally more recently-established) business people. This latter group increasingly made political connections

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348 Part of the animosity between the governor and the state’s main business leaders stemmed, in the view of many observers from personal style. The socially conservative and traditional bourgeoisie who presided over Puebla’s business chambers perceived the brash and often tactless Piña Olaya as déclassé. In turn, the governor considered the businessmen elitist and snobby.

349 The rivalry between Spanish and Lebanese in the Puebla business sector continues to this day. See chapter 3 for a more complete discussion.

350 Several of the business people who became close to the governor would end up implicated in the infamous fraudulent expropriation of land outside the city of Puebla that marred the governor’s term. This pattern personalistic relations with business leaders extended even to Volkswagen, whose manager in Puebla at the time, Martín Josephi had a close and controversial relationship with Piña Olaya, who intervened to reinstate a legally dubious purchase of ejidal land.
and won government contracts, much to the chagrin of the traditional business sector (Manjarrez 1991). In this way, the governor exploited existing social, cultural, and political divisions within Puebla’s private sector. One leader of a local business chamber summed up the situation as follows: with Piña Olaya, “there was no opening to the private sector except through corruption.” In addition to coopting a segment of the business sector, Piña outsourced most political and administrative work to Alberto Jiménez Morales, the brother of the former governor who served as an informal adviser.

In this context, little progress was made on policies to promote the state’s industrial development during this critical period of deepening economic reform in Mexico. The government’s most notable public work ended up being a highway between the city of Puebla and nearby Atlixco, whose legacy would be marred by a scandal surrounding the expropriation of ejidal lands along its trajectory. Progress on industrial infrastructure initiated under Jiménez Morales stagnated. In the first years of the administration, the issue of informal street vendors flared up again, as vendors aligned with the 28 de Octubre movement unexpectedly occupied the city center, sparking renewed demands from leaders of the CCE to address this issue. However, Piña Olaya proved unable to defuse the problem, and his interventions ended up provoking still greater public unrest.

The governor travelled to Germany several times at the invitation of Josephi, who also acquired one of the country’s largest coffee plantations during the Piña administration (Snyder 2001).

Perhaps the most notorious example was the relationship Piña Olaya forged with Kamel Nacif, a controversial textile magnate who would become embroiled in a major corruption scandal at the end of the sexenio and later, in the administration of Mario Marín (2005-2011), become a central player in the sordid Lydia Cacho affair, the details of which are provided in chapter 5. Nacif would amass considerable maquila assets in Puebla’s textile sector, and accusations of corruption, abuse of workers, and links to organized crime would dog him throughout his career.

Interview with president of a local business chamber during the Piña Olaya years (March 8, 2016).

The archives of the CITPPT indicate that the issue of public protests and informal vendors in the city center was a consistent preoccupation of the CCE during 1988 and 1989.

In fact, the governor launched a heavy-handed campaign to evict informal vendors by force, which led to an escalation of protests and further rejections from the private sector (Snyder 2001). In an effort to blunt private sector criticism, the governor attempted a coup de grace against the 28 de Octubre movement, arresting and imprisoning its leader, Rubén Sarabia, in July 1989, under circumstances criticized harshly by Mexico’s National Human Rights Commission (CNDH).
Conflict and corruption at the end of the Piña Olaya government

Despite his tenuous political standing with many segments of poblanosociety, the governor managed the mid-term elections of 1989 without major scandal. The PAN nominated a relatively weak candidate, Ana Teresa Aranda, who was plagued by a dispute over her eligibility during the nomination process.\footnote{A native of Guanajuato, Aranda had to request a special exemption from the local Congress to stand in the mayoral election.} While abstention remained high, the PRI won handily without resorting to the blatant fraud that had sparked unrest six years earlier. However, this period of calm would not last. The governor’s inability to resolve the street vendor movement continued to provoke the ire of the local commercial sector, which called a strike in mid-1991. Over one thousand local firms participated. Around the same time, the leader of the local Chamber of Commerce (Canaco) declared a “divorce” between the private sector and the government (Synder 2001). Federal legislative elections in 1991 provoked accusations of fraud by the private sector, which claimed that PAN victories were not recognized and people felt defrauded by the outcomes.\footnote{Sol de Puebla 25 August 1991, “Habrá desconfianza de la ciudadanía en los próximos cómicos porque se siente defraudada de estos: Tenorio”}

In the final years of the sexenio, corruption and illicit enrichment on the part of the governor and his associates reached new heights, bringing the administration to an ignominious conclusion. In 1991, Piña Olaya obtained permission from the federal government to expropriate over a thousand acres of ejidal lands just south of the city of Puebla under the guise of an urban planning reform. However, in June 1992 the local congress approved a gubernatorial initiative permitting the private sale of the expropriated land, much of which quickly passed into the hands of Piña associates and business people with close links to the governor.\footnote{Critically, the governor failed to comply with requirements under the federal Law of Human Settlements, meaning the lands never officially passed from federal to state control. The state government proceeded with the transactions despite this situation. Among those who acquired plots of the ill-gotten land at cut-rate prices were Alberto Jiménez Morales (the chief political operator of the Piña government), Eduardo Cué Morán, Salvador Cué Silva (the state’s secretary of economic development), Valentín Diez Fernández, and Rafael Posada Cueto.} In carrying out the expropriation, the state government strong-armed ejidatarios into abandoning their lands despite pending legal
claims and forced them to accept compensation of less than 1 percent what federal authorities in the Secretary of Urban Development determined they were owed.

Many of these plots were resold to developers and other investors at much higher prices. Leaders of the state’s peak business associations began to raise concerns over these transactions, urging affiliates involved in the project to divest themselves of the expropriated land. Coparmex president Luis García, for example, charged that the expropriation “always had the goal of profit” for the governor and his cronies. After receiving complaints from member firms, the CCE and Coparmex proposed a joint public-private committee to oversee the implementation of the legal proceedings pertaining to the expropriation, an idea Piña Olaya promptly rejected. Despite growing outrage, the state government refused to halt the development project in the zone, which foresaw the creation of luxury residences, office buildings, and shopping centers along the new highway from Puebla to Atlixco.

After being ignored by state authorities, local business associations led by the CCE brought their case to the Secretary of Social Development at the federal level, the agency in charge of implementing the expropriation. Puebla business leaders urged Donaldo Colosio, the head of the agency, to intervene and halt the process of transferring land to the state government. They also organized a series of demonstrations against the state government. These actions united a diverse swath of civil society against the egregious abuses of the state government, which had succeeded in alienating most poblanos by 1991. The issue would be resolved definitively by Manuel Bartlett, who succeeded Piña Olaya as governor and swiftly nullified the decree with which Piña Olaya had sold the land.

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358 The plans of the investors included constructing a complex of luxury apartments, offices, and shopping centers along the new highway between Puebla and Atlixco.
359 Proceso 26 December, 1992 “Quiere pagar 300 millones por tierras que valen 45,000 Proyecto de Piña Olaya para hacer con amigos “la nueva Puebla” en predios ejidales”
360 The private sector went ahead with the plan, and the resulting oversight committee estimated that US$ 100 million in profits were made by the various parties to the fraud.
361 Bartlett summoned each individual who had purchased land illicitly to his office and duly informed them that they would be returning the land to the state and would receive the initial (lower) price they had paid as compensation. The only business person to protest this arrangement, was the Piña Olaya crony Kamel Nacif. Nacif would later accept after
Private sector adjustment outside of local institutions

How could the relationship between government and business deteriorate to such lows of collusion and personal deal-making? One reason is that the state’s most important firm had largely extricated itself from the constraints of local political and economic conditions and enjoyed unparalleled influence with local authorities. As discussed above, Volkswagen introduced internal changes starting in the early 1980s that increased labor flexibility and global integration of its production process. These reforms aimed to enhance productivity and shield the company from economic shocks in any one market. However, they also provoked resistance from the firm’s independent union, which had broken from the shackles of corporatist control in the 1970s. In 1987, the union carried out a successful 57-day strike to oppose contract modifications that would have diluted union control over hiring, promotion, and the movement of workers within the plant (Middlebrook 1995).

In 1992, however, the firm took a leap forward in its evolution towards a leaner, more flexible production model and landed a decisive blow against union power in the process. In that year, Volkswagen implemented a major restructuring that entailed outsourcing key stages of its production previously done in-house. These changes came as part of a US$ 1.1 billion expansion to convert the Puebla plant into the firm’s main source of North American exports in the context of NAFTA. At the same time, the firm’s management imposed a new contract on its union that introduced even more flexibility into the firm’s labor relations (Millones Espinosa 2012). VW justified these new labor practices by referring to the need to enhance productivity to confront the impending passage of NAFTA (Middlebrook 1995). In so doing, the firm took advantage of an internal union conflict to lock out its workforce and later won a court ruling allowing it to abrogate the existing contract with its union, fire 14,200 workers, and rehire them under terms more

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being arrested in Las Vegas for tax evasion, leading some to speculate that Bartlett had used his contacts at the federal level to put pressure on Nacif. See La Jornada 16 February, 2006, “En 1992, Nacif compró de modo ilegal terrenos de una reserva” http://www.jornada.unam.mx/2006/02/16/index.php?section=politica&article=005n2pol
favorable to management (Middlebrook 1995). In carrying out this coup, the firm benefitted from the support of the state government, which intervened to ensure a favorable ruling from the local labor court (Montiel 2007).

Volkswagen’s decision to outsource production of key components and services entailed major changes in the structure of the auto sector in Puebla. Increasingly, the Volkswagen plant would function as a final assembler of a range technologically-sophisticated auto parts produced by its most important, “Tier 1” suppliers. A corollary of this vertical disintegration was the adoption of “just-in-time” production principles which demanded, above all, extreme flexibility to adjust production levels on a daily and even hourly basis. These dual processes of outsourcing and shifting to just-in-time production required a high level of coordination and constant communication between VW and its key Tier 1 suppliers—themselves large, technologically-advanced, and almost entirely transnational firms (García and Lara 2010). VW insisted that these firms establish operations in Puebla in order to integrate into this new mode of production and helped install state-of-the-art information systems to manage the flow of inputs.

In principle, the influx of major auto parts providers represented an opportunity to diversify the structure of Puebla’s most important sector and expand linkages with local firms. In practice, however, the restructuring allowed VW to continue to exercise hierarchical control over its production chain, while extricating itself from the risks and responsibilities associated with vertically-integrated production. In the realm of labor relations, for example, the outsourcing resulted in a sharp decrease in the number of employees, from 20,249 in 1990 to 11,000 in 1994.

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362 The 1992 collective contract came after a period of conflict between management and the union and within the union itself. VW initially agreed on the implementation of flexible schemes such as subcontracting and use of temporary workers (eventuales) through an agreement with the Union’s executive committee reached without consulting or even informing the general workforce. This lack of transparency provoked an internal conflict in the union, which VW took advantage to further dilute the power of the union and would later reach an agreement with the union leadership, again without a general consultation of the rank and file, on the 1992 contract that deepened and formalized flexibilization measures, through clauses allowing for greater management discretion in moving workers within the firm, filling vacancies, and reducing hours and shifts in response to production needs. The contract also changed the union’s internal structure, removing certain classes of more-skilled workers by reclassifying them as “employees” (de confianza) and reducing worker representation on the committee to negotiate contracts (Millones Espinosa 2012).

363 The government’s support for the firm is hardly surprising considering the firm’s economic heft. In 1991, VW was the country’s largest car producer and was in the midst of a US$ 1 billion plus expansion.
(including *eventuales*) (Millones Espinosa 2012). This reduction dealt a major blow to the VW union and increased management’s leverage in labor negotiations. VW exerted similar control over its suppliers. At VW’s insistence, these firms signed exclusive supply contracts, making them dependent on VW’s business for their survival. These contracts also included requirements to participate in an extensive system of quality controls, oversight, and sanctions for under-performing firms. In this way, VW imposed productivity on its suppliers, while forcing them to bear the risk of any interruption in production (Montiel 1993). In many cases, VW even dictated the sourcing decisions of its Tier 1 and Tier 2 suppliers (García and Lara 2010). Volkswagen’s strategy to confront Mexico’s trade opening thus reinforced its hierarchical control of Puebla’s most important sector. It also proceeded entirely independently of any state-level policies to enhance productivity and competitiveness.

At the same time as VW carried out its firm-specific adjustment, Puebla’s textile sector was grappling with the consequences of international competition after Mexico’s entry into GATT. While differing greatly from that of the auto sector, the textile sector’s approach shared the characteristic of prioritizing sector-specific policies at the expense of economy-wide efforts to enhance Puebla’s competitiveness. For Puebla’s inward-oriented textile sector, Mexico’s trade opening presented a grave threat. This evaluation is plainly evident in the language of CITPT leaders, who frequently denounced the “excessive,” “unregulated,” or even “violent” trade opening that had led to a proliferation of “unfair practices” and an “indiscriminate and out of control importation of textiles.”

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364 While many of the dismissed workers would be absorbed by the newly-arrived Tier 1 suppliers, these firms generally paid salaries only half those workers received in VW during this period according to Espinosa (2012).
365 According to Martínez (2008), Volkswagen imposed fines of between US$ 600 and 1,000 per minute on providers that failed to meet production and delivery obligations on time.
366 These quotations are taken from comments by Alejandro Coutteoenc Villar, Salvador Cué, and Fernando García Teruel, all of whom served as directors of the Textile Chamber of Puebla and Tlaxcala (CITPT) or affiliated the Asociación de Empresarios de la Industria Textil de Puebla y Tlaxcala between 1988 and 1990. *Actas del Consejo Directivo de la Cámara de la Industria Textil de Puebla y Tlaxcala*, 17 December, 1990, 15 January 1990, and *Actas del Consejo Directivo de la Asociación de Empresarios de la Industria Textil de Puebla y Tlaxcala*, 4 February 1991.
Based on their diagnosis of the sector’s woes, the CITPT focused its policy efforts on convincing federal authorities to stem the flow of imports and provide support for the sector’s exports. The chamber sought in early 1988 to expand Mexico’s export quotas in the U.S. market and secure the right to control their distribution among firms in the sector.\footnote{CITPT president Antonio Sánchez Díaz de la Rivera complained to Secofi Secretary Héctor Hernández in early 1988 that export quotas were managed “like a state secret,” that the representatives of the sector were not considered in the negotiations, and their outcomes remained hidden. CITPT Actas 28 January, 1988.} Later in the year, trade negotiators reached a new agreement on textiles with the United States, which envisioned annual increases of 6 percent in the share of Mexican exports of cotton, wool, and synthetic textile fabrics for four years, an outcome that the chamber deemed “acceptable, if not spectacular.”\footnote{The CITPT played a role in winning larger quotas for bedding and carpets in 1988, although these were not the core products of interest to the sector. CITPT Actas 21 November, 1988.} Leaders of the chamber would regularly advocate for local control of quotas between 1988 and 1989 with officials at the Secretary of Commerce and Industry (Secofi), with limited success.\footnote{These meetings were described as tense and progress slow, despite some headway on issues such as allowing exchanging of quotas among exporters. CITPT Actas 4 December, 1989.} The Puebla textile chamber also made common cause with textile producers in Mexico City, Guadalajara, and Monterrey to lobby the federal government to subsidize textile exports to the United States (an effort that ultimately failed).

Beyond the issue of export quotas and subsidies, representatives of the textile sector regularly advocated with federal officials to moderate the effects of the trade opening on the sector.\footnote{In a 1988 visit of presidential candidates to the city, for example, the chamber put together a packet of information for the candidates emphasizing “the danger that our industry faces with the economic opening, which has not been done in a gradual manner.” CITPT Actas 15 February, 1988.} Most of these efforts would also fail to produce tangible results. After a 1989 meeting with the Secofi Sub-secretary for Foreign Trade, the textile representatives were told that anti-dumping cases are very hard to prove and costly to pursue and were directed to another office, the National Tariff Commission, which had yet to be set up.\footnote{CITPT Actas 4 December, 1989} The chamber then sent a memo to Hacienda outlining their concerns regarding dumping, under-billing, and illegal imports, and stressing their concern over these issues did not receive a favorable response from Secofi. At the
end of 1989, CITPT president Salvador Cué summed up the predicament of a textile chamber reduced to more or less futilely lobbying the federal government, telling colleagues the role of the chamber was “to make clear the damage being done to the industry” to federal officials.372

Starting in the mid-1980s, the chamber did undertake efforts to resolve challenges facing the industry through collective action and cooperation. An initiative for a regional credit union was first discussed in early 1986 and identified as one of the chamber’s priorities by CITPT president Antonio Sánchez Diaz.373 By mid-1988, however, the project was struggling to secure participants. President Salvador Cué reported to his directors in June that thirteen of the initially interested firms had gone under.374 The initiative was clearly hampered by the textile chamber’s unwillingness to join forces with an existing national credit union for the textile sector or state-wide projects for all industries.375 Only by the end of 1990 had the chamber secured the participation of a sufficient number of firms to launch the project in 1991. In addition to this initiative, the textile chamber made proactive efforts to promote exports by creating a Foreign Trade Department to help firms with administrative and informational barriers to trade.376 These efforts would intensify in the early 1990s, but most of the firms that developed significant export operations would be those that converted to maquila production.

In short, the strategy of the textile industry focused on sector-specific objectives such as import protection and subsidies and, moreover, was oriented towards federal officials.377 In addition

372 CITPT Actas 4 December, 1989
373 In addition to the credit union project, the chamber also discussed coordination among firms to ensure the availability of cotton inputs and avoid hoarding and to sanction firms that purchased contraband articles. CITPT Actas 14 April, 1986.
374 The chamber needed to hire a consultant to help identify the twenty firms necessary to make the project viable. CITPT Actas 27 June, 1988.
375 This decision is indicative of a commonly-remarked upon aversion to collective action and partnerships on the part of Puebla business people. The mentality of the traditional Puebla industrialist has been described as individualistic to the point of being inward-looking, an attitude reflected, in the view of many poblanos in the lack of strong local business groups, or associations of firms, that have been the primary form of large firm organization in many other parts of Mexico (Sotelo and Amaya 1998; interviews with Socorro López and José Ramón Lozano).
376 CITPT Actas 17 December, 1990.
377 The focus of the chamber’s lobbying at the federal level may have also facilitated cronyism between the governor and CITPT president Salvador Cué, as the textile sector did not bring substantive policy issues before the state government. Instead, the governor used Cué as his administration’s key interlocutor with the private sector.
to being mostly unsuccessful, this approach served to reinforce the fragmentation of the private sector’s responses to economic change among firm-level adjustment in the case of Volkswagen, the sector-specific and federally-oriented lobbying of the textile sector, and the local, largely inward focus of peak business associations. Ironically, the end of the Piña Olaya government did witness strong collective action by the private sector in its resistance to the government’s corruption and abuses of power. The governor came under increasingly intense political pressure and left office in disgrace. Still, the unity and forceful action of the private sector was directed towards opposing and discrediting a PRI government—however justified the goal may have been in this instance—rather than advancing an economic agenda.

**Economic results of the Piña Olaya sexenio**

The sexenio of Mariano Piña Olaya coincided with the first stage of Mexico’s trade opening. The country implemented unilateral tariff reductions beginning in 1985 and took the long-discussed step of joining GATT the following year. Tariff rates continued to fall over the course of the Piña Olaya administration, exposing the country’s industries to unprecedented levels of foreign competition. On the whole, the state’s economy performed moderately well during this period, growing by an annual average of 2.9 percent between 1988 and 1993. This return to solid growth was welcome after the lost decade of the 1980s. However, the state still lagged behind the national economy, which grew at an average rate 3.8 percent and that of Querétaro (3.4 percent).

Another feature of Puebla’s economic performance during this period that casts doubt on the underlying strength of its growth, as well as its broader developmental implications, is the growing dominance of the automotive sector. The share of automobile production in the state’s total industrial output jumped from 26.8 to 38.7 percent in the five years between 1988 and 1993. Meanwhile, the textile sector continued its long decline, falling from 13.2 percent to 8.5 percent

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378 Piña Olaya failed to appear in Congress to deliver his final informe de gobierno, in violation of Mexico’s constitution, presumably to avoid a final humiliating public appearance (Snyder 2001).

379 These beginning and end points correspond with the economic census carried out by INEGI closest to the starting and ending point of the Piña Olaya years. These figures reflect the auto sector’s share of the state’s industrial sectors, not the overall economy.
over the same period. Increasingly, the sector would convert to *maquila* operations, whose production increased from 30.7 million pesos in 1991 to 165.5 million in 1993 (INEGI 1997; figures in real 1993 pesos).

This concentration would have growing ramifications for the state’s trajectory in the era of full-blown economic integration. First, the adjustment of Puebla’s industrial base to global competition largely occurred within the context of one firm. Even as VW outsourced more of its production, it maintained hierarchical control over its supplier and sub-supplier network, imposing productivity enhancements on these surrounding firms, which depended on Volkswagen for their own survival. The go-it-alone approach to adjustment stands in contrast to the case of Querétaro, where the participation of technically-minded MNC managers in local business chambers created a space for dissemination of practices and strategies for adjustment as well as greater demand for supportive public policies to boost productivity across the state’s economy.

In addition, this economic concentration had political consequences. Volkswagen’s dominance created strong incentives for Puebla’s development strategy to revolve around the preferences and demands of the firm and its key suppliers. On the other hand, the local businesses that dominated the Puebla’s chambers finished the Piña Olaya era diminished economically due to their unpreparedness for global competition but empowered politically after their successful opposition to the outgoing governor, as well as the increasing frequency of opposition victories in state and municipal elections across the country. In this way, the two key tendencies of the Puebla private sector—the political vocation of the traditional group and the preference and capacity of VW for unilateral economic and political actions were accentuated as Mexico entered the NAFTA era. The full effect of these dynamics would be evident in the decisive Bartlett sexenio (1993-1999).
VI. Chapter 6: Consolidation of a Developmental Alliance in Querétaro, 1991-1997

When Enrique Burgos García took office as governor of Querétaro in October 1991, the state had an institutionalized framework for managing relations among government, business and labor. The Tripartite Commission, which convened leaders of the state’s main business chambers, labor confederations, and top government officials including the secretaries of economic development and labor, had met regularly since its creation in 1981 during the Camacho Guzmán administration. The new governor would have been well acquainted with the inner workings and effectiveness of the Tripartite Commission as well as other mechanisms of cooperation among public authorities and the state’s business and labor leaders. After all, he had had a hand in the construction and consolidation of these institutions as Camacho Guzmán’s personal secretary, a position in which Burgos oversaw political relations between the governor and other political and social actors. After leaving that post, Burgos participated in the working group on labor relations created by private sector leaders to encourage productivity-enhancing labor practices in the state’s firms (see chapter 4). In addition, Burgos himself was a member of the labor sector of the PRI, which nominated him for various elected posts, including the governorship.380

Burgos had thus witnessed firsthand the achievements of Querétaro’s cooperative institutions for economic governance and labor relations. He also had close ties to both labor and the business sector, in addition to being well-known in local political circles due to his service as Camacho Guzmán’s right-hand man (where it often fell to the impeccably polite Burgos to smooth over the governor’s rough edges). It is not surprising, then, that Burgos, once installed as governor, would continue to prioritize coordination among government, business, and labor, including through the now decade-old Tripartite Commission. In addition to ensuring continuity of the mechanisms he inherited, the new governor would deepen the state-business alliance by bringing

380 Underscoring his closeness to the labor sector, it was CTM Secretary-General Fidel Velázquez himself who officially “unveiled” Burgos as the PRI’s candidate for governor of Querétaro in early 1991. (El Nuevo Amanecer 4-10 March 1991, “Enrique Burgos: Más escrúpulo en la conducción de Querétaro”).
top private sector leaders, including individuals who had served as chamber presidents and managers of the state’s most important firms, into his campaign team and cabinet.

These business leaders helped devise and implement a developmental agenda aimed at enhancing the productivity, global competitiveness, and technological sophistication of the economy—goals promoted in the state’s business associations since the 1980s. The modernizing mindset of the local private sector thus permeated the state government, resulting in a clear vision for Querétaro’s economic development in the context of deepening global integration in Mexico.

*Consolidating a developmental alliance between business and government*

As with his predecessors, Burgos benefitted from Querétaro’s tranquil political climate. The PAN had seen its vote share in local elections increase steadily over the course of the 1980s, driven by the growth of the middle class and influx of professionals from nearby Mexico City and other urban areas.\(^{381}\) Reflecting this strength, the PAN did secure a victory in the 1991 elections in the state’s second-largest city, San Juan del Río, after a contested vote and the intervention of national PRI leaders, who allowed an opposition victory as part of a deal between the parties (González Arias 2008). Still, the race for the governorship had never been in doubt, and Burgos won handily with 73 percent of the vote.

In contrast to Puebla (and several Northern states), moreover, the local private sector was not decisively aligned with the PAN as the party began to seriously contest Querétaro’s main cities.\(^{382}\) Instead, business leaders’ overriding concern during the 1991 elections was the preservation of stability. They spoke out against rabble-rousing by the opposition which, in the view of Canacintra president José Rivera Frausto, might diminish confidence in the economy and

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\(^{381}\) The massive earthquake that rocked Mexico City on September 19, 1985 led to largescale emigration of former residents of the capital to Querétaro.

\(^{382}\) A business candidate, Francisco Barrio, would win the governorship of Chihuahua for the PAN in 1992, and in Guanajuato future president Vicente Fox battled the PRI to a contested election in 1991. Eventually another *panista* would assume control of the governorship after an intervention by President Salinas.
tarnish the state’s reputation for social peace. Coparmex, too, refrained from politically charged comments despite the more confrontational inclinations of its national leadership.

One major reason for the absence of a strong business-PAN alliance in Querétaro was that the local private sector enjoyed ample space for participation in policy making thanks to the cooperative strategy pursued by PRI governments. This cooperation, which as discussed in chapter 4 dated back to the 1960s, was on clear display from the early days of the 1991 election season, as members of the business elite took leading roles in Burgos’ campaign. Jaime López Trincado, a manager at Tremec and former president of the Club de Industriales, coordinated a series of campaign meetings to discuss the state’s economic modernization. These events brought together key stakeholders on various economic issues facing the state to generate policy proposals for the presumptive Burgos administration. These activities illustrated once again the active participation of professional managers from major national and transnational firms in the political life of the state. The plenary session on industrial modernization, for example, included top managers of Kimberly Clark, Black and Decker, Tremec, Spicer, and Polaroid, along with leaders

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383 These comments, coming in the weeks before the vote, alluded to denouncements by panistas in San Juan del Río of intimidation and other electoral malfeasance by the PRI (Diario de Querétaro 8 August, 1991, “Comicios limpios, espera Canacintra”). Pablo Troffinoff, a member of the Board of Coparmex, warned that businesses interested in investing in the state “would change their minds if they perceive an environment of political instability”. In another indication of this attitude, business leaders were quick to praise “clean, transparent” elections that would inspire confidence in the state, despite the contentious resolution of the vote in San Juan (Diario de Querétaro, 24 August 1991, “Important avance democrático en la entidad, los pasados comicios). The PAN would challenge the election result there, and the electoral authority eventually ruled in their favor, in what is widely interpreted as a Salinas-era concertación.

384 For example, Coparmex president Pablo Troffinoff stated mildly in August 1991 that “we have lived a long time under the leadership of only one group… it is not that they are bad, but rather that they just tend to diverge from their path. In contrast, when everyone participates, those digressions are less common.” The statements regarding political competition among the Coparmex leadership reflect clear differences with the case of Puebla, where the business sector had openly declared its intention to win power beginning in the 1980s. (Diario de Querétaro, 18 August 1991, “Necesitamos mejorar el sistema democrático”).

385 In an interview with a local newspaper during the 1991 election season, Querétaro academic Eduardo Miranda commented that in Querétaro “business groups have always been very close to the PRI, they have never been with the PAN and that plays an important role” in the state’s political tranquility (El Nuevo Amanecer 18-24 March, 1991, “Impactará en Querétaro la efervescencia política en San Luis y Guanajuato”).

386 These events, which consisted in a series of forums on various issues relating to the state’s economy held throughout the state, were part of a larger group of “Encounters with Civil Society” that the Burgos campaign held with stakeholders in various policy areas, such as security, education, health, and others. These engagements generated concrete policy objectives that formed the basis of the Burgos administration’s Economic Development Plan.
of local business chambers and directors of the Monterrey Institute of Technology and Advanced Studies in Querétaro (ITESM) and the Querétaro Institute of Technology (ITQ). In these sessions, business leaders (several of whom would soon become top economic officials), articulated a policy vision oriented towards the global integration of Querétaro based on quality and productivity. Echoing ideas that circulated in the state’s business chambers starting in the mid-1980s, José Rivera Frausto, called for greater efforts “to instill this culture [of quality] in our firms through a holistic approach that includes worker training, technical education, and a greater emphasis on industry-university linkages.” Many business leaders likewise called for an intensive focus on improving the technical education system and research institutions, as critical components of the state’s international competitiveness. Summing up the recommendations of this group to the future governor, López Trincado highlighted industrial parks; a strategy to enhance cooperation among industry, universities, and research centers; and policies to promote productive linkages between large and small firms. Another series of meetings focused on labor relations, highlighting the continuing importance of this issue for the state’s elites. Here again, managers of major firms such as Kimberly Clark, Tremec, Vidriera de Querétaro, and Mabe participated alongside labor leaders and members of the political class. Guillermo del Hoyo, who would become Labor Secretary under Burgos, underscored the imperative of enhancing productivity and quality in order to be “prepared to compete beyond our borders,” sounding like the business leaders in the audience (Partido Revolucionario Institucional 1991).

387 This list of firms includes four of the state’s top ten exporters during the year 1989.
388 We can thus see a clear identification in the discourse of these business leaders of the importance that educational institutions would have in the state’s economic prospects during the coming critical years of economic integration. This insistence on the part of the private sector would have an impact on the policy orientation of the Burgos government, which oversaw a major acceleration and upgrading of the state’s educational infrastructure and research institutions.
389 Mario Rodríguez Hernández, another former president of Canacintra, called on the state government to actively support the adoption of a “total quality” mindset, and called for greater university-industry linkages as well as more industrial spaces. Carlos de Mucha Icazbalceta, the director of Canacintra in Querétaro, underscored the need for a holistic approach to quality that begins with the educational system and aims to instill the mentality of quality at all levels and areas of society. He calls for a revision of the education system to meet the demands of productivity.
Business people also tended to support Burgos because they saw him as likely to provide continuity with the industrial policies of the outgoing administration of Mariano Palacios. Former Canacintra president Gustavo Lomelí Pozo endorsed Burgos as “capable of bringing together various sectors to continue the current policy of industrialization: that not just any industry comes to the state.” Support from the business elite went beyond words, as a group of prominent business people reportedly took the lead in creating a financing committee to support the Burgos campaign. In sum, their preferences for political stability and policy continuity as well as close personal ties to the candidate made the business sector a natural and enthusiastic ally for Burgos.

Once in office, Burgos would deepen the alliance between the public and private sectors. To a greater extent than in previous governments, Burgos chose a cabinet with strong representation of the professional managerial class that had risen to leadership positions in the state’s business associations and worked closely with prior state governments in the context of the Tripartite Commission and other spaces for government-business interaction (see Table 6.1). The appointment of individuals such as Jaime López Trincado, Abel Baca, and José Rivera Frausto to high-level government posts represented the culmination of a process through which representatives of major national and transnational firms gained increasing influence in the state’s public life. In the Burgos administration, these individuals would be directly shaping policy from the top of the state’s economic bureaucracy.

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390 *El Nuevo Amanecer* 25 February, 1991 “Panistas, la mitad de los empresarios de Querétaro”. This sentiment, which also dates from the Palacios administration, reflects a preference both for industries that would bring state-of-the-art technology and export capacity to the state as well as avoiding those factories that would put further stress on the state’s already-limited water resources. Burgos himself directly spoke to this issue after being unveiled as the PRI’s candidate in early 1991, affirming that “we have to be selective in our industrial growth.” (*El Nuevo Amanecer* 4-10 March 1991, “Enrique Burgos: Más escrupulo en la conducción de Querétaro”.

391 This group included Roberto Ruiz Rubio, Jaime López Trincado, and Emilio Maccise. (*El Nuevo Amanecer* 8 September 1993, “Panorama Político”. Díaz Aldret (2011) reports that Ruiz Rubio had long wielded enormous behind-the-scenes power in queretano politics; gubernatorial candidates would consult the local business icon before seeking the office, and the candidacy of the state’s first panista governor, Ignacio Loyola Vera (1997-2003) was reportedly vetted with Ruiz Rubio as well.

392 As noted above, the personal closeness of Burgos to key business leaders also stemmed from his participation in the informal working group on labor relations that consisted of business people such as Abel Abaca (Massey Ferguson), Juan Alberto Quezada (Black and Decker), and Alejandro Espinosa (Massey Ferguson).

393 As discussed in chapter 7, business leaders also participated in the cabinet of Manuel Bartlett in Puebla, but there are several important differences in business incorporation in the two state governments. Most notably, Burgos opened more spaces at higher levels of government to the private sector than did Bartlett. In addition, the business leaders that
Table 6.1: Private Sector Participation in the Burgos Administration and Campaign

<table>
<thead>
<tr>
<th>Name</th>
<th>Firm</th>
<th>Business Leadership</th>
<th>Role in Burgos Administration or Campaign</th>
</tr>
</thead>
<tbody>
<tr>
<td>De Mucha, Carlos Vidriera</td>
<td>Canacintra (President, 1984-5; 1991-3);</td>
<td>Director de Consejos de Consultación (1991)</td>
<td></td>
</tr>
<tr>
<td>Ebestadt, Ramón Singer*</td>
<td>Coparmex (President, 1982-1983 and 1992-1993); Club de Industriales (founding member)</td>
<td>Participant in Campaign “Encounter on Industrial Modernization”</td>
<td></td>
</tr>
<tr>
<td>Quezada, Juan Alberto</td>
<td>Member of informal working group on New Labor Culture</td>
<td>Director of Integral Family Development (DIF)</td>
<td></td>
</tr>
<tr>
<td>Rivera Fausto, José</td>
<td>Canacintra (president, 1991)</td>
<td>Director of Industry, Secretariat of Economic Development (1993-97)</td>
<td></td>
</tr>
<tr>
<td>Rodríguez Hernández, Mario</td>
<td>Canacintra (President 1989-1990), Institute of Quality</td>
<td>Participant in Campaign “Encounter on Industrial Modernization”</td>
<td></td>
</tr>
</tbody>
</table>

Sources: *Diario de Querétaro, PRI (1991), and interview with Alejandro Espinoza (August 8, 2016)
*Indicates a multinational firm
^Indicates an affiliate of a major domestic business group

The new government would confront a changing economic environment, as the Salinas administration accelerated Mexico’s strategy of trade integration. By the middle of 1991, negotiations between President Salinas and the leaders of the United States and Canada on a trilateral free trade agreement had been underway for several months, and the commitment of the Mexican government to the deal was clear. The pending North American integration project was front and center in the minds of the incoming state government. In his first informe de gobierno, delivered in July 1992, Burgos stressed that the current scenario “demands a modernization of

participated in the Burgos administration were more representative of the local private sector, having served previously as peak business association leaders and managers of the state’s most emblematic firms. Finally, the presence of business leaders in the Burgos cabinet came after a decade of growing cooperation between state governments and the local private sector, whereas Bartlett tended to bring members of the private sector into his government to defuse tensions and pursue short-term political objectives (see chapter 7).

Burgos had won in a seat in the Senate during the 1988 elections that brought Salinas to power. According to Roberto Loyola, who served as personal secretary to Burgos during his gubernatorial term, Burgos had a very clear vision from the beginning of Salinas’ project for economic integration and modernization, and what Querétaro as a state would have to do to prepare itself.
industry that allows [the economy] to achieve levels of international competitiveness in the short term” (Government of Querétaro 1992). In response to this imperative, the Burgos administration would implement a policy agenda to support economic integration and competitiveness, whose core pillars were enhancing educational and research infrastructure, improving the state’s human and physical capital, and maintaining peaceful labor relations. In each of these areas, the government privileged collaboration with business leaders and organized labor.

First, the Burgos government took important steps to boost the state’s educational and research institutions and to encourage collaboration between this sector and industry. The ITESM, through its Center for Technological Development, developed programs in manufacturing systems, mechanical engineering, and computational science, which generated specific technological solutions for industry through a series of agreements with firms and business associations. The university also helped design and implement government programs to promote exports and improve worker training.395 Business associations also worked more closely with educational institutions during this period, taking advantage of the personal connections among government, business, and educational institutions. The Association of Querétaro Industrialists (AIQ) participated in the creation of new degree programs at the ITESM and sponsored a survey of firms to better understand their needs for worker training and skills.396 In addition, the Burgos administration established a Fideicomiso with state funds to support a business incubator run jointly by two local universities and CONACYT, Mexico’s National Science and Technology Commission (Government of Querétaro 1994). With these and other initiatives, the state moved towards “a new stage of university-industry linkages” in the words of a university director, one that emphasized joint research projects and institutionalized cooperation instead of ad hoc exchanges.397

395 The government and the ITESM collaborated on a training course in exporting for business executives, and several training programs aimed at SMEs, including on the use of computers in industrial design; these reached around 10,000 workers and managers a year by 1994 (Government of Querétaro 1995).
396 These efforts led to the creation of Consejos de Empresarios with educational intuitions to help ensure that universities’ programs were suited to the demand of industry (Noticias de la Manana, 28, February, 1991, “Serán creados los consejos de empresarios”).
397 Noticias de la Mañana, 25 August, 1991, “Las prácticas en la industria serán pauta de una nueva etapa en la educación”
In addition to creating new projects with existing educational institutions, Burgos greatly expanded the state’s educational and research infrastructure. These efforts included the establishment of the Technological University of Querétaro (UTEQ), which began operations in the Fall of 1994, making Querétaro only the fourth state at the time with a public higher educational institution to train technicians for industry. At its inauguration ceremony, state Education Secretary Arturo Proal called the UTEQ “the university of the industrialists” and affirmed that the UTEQ represented the fulfillment of a campaign promise to the private sector. Burgos himself added that the university’s curriculum would be “tailor made” for industry, allowing for “a closer link between the educational and productive sectors.” The UTEQ forged a strong relationship with the state’s private sector, with local business representatives participating on the university’s Board of Administration since its initiation. In subsequent years, the government offered worker training programs at the UTEQ, generally subsidized by the state, as an incentive for firms to invest in Querétaro. Another important example of the government’s efforts to develop the state’s educational infrastructure was the installation of a campus of the National Autonomous University (UNAM) in the municipality of Juriquilla, which began operations in January 1995. The governor enthusiastically promoted Querétaro as a potential site for this expansion of the UNAM as part of the institution’s strategy to increase its presence outside of Mexico City.401

The state government also promoted research centers as a pillar of its economic strategy, encouraging these institutions to work directly with firms to develop technological solutions for specific challenges facing industry. Querétaro had a precedent for research institutions with strong

398 Noticias de la Mañana, 15 August, 1994, “La U. Tecnológica, respuesta de EBG a los industriales”
399 El Nuevo Amanecer, 1 November 1993, “En septiembre '94 entrará en operación la Universidad Tecnológica de Querétaro”
400 El Nuevo Almanecer 6 February 1995, “Panorama Político”. Cooperation between the UTEQ and industry has included training programs and research projects that embed students in industries, while these schemes are a common feature of technical universities, their usefulness in the case of the UTEQ has been enhanced by the consistent participation of private sector leaders on the university’s administration.
401 The governor’s efforts to secure the UNAM campus in Querétaro also benefitted from close cooperation with the UAQ, which agreed to relocate and redesign several of its science programs in order to create joint degree programs with the new UNAM campus. The UNAM-Juriquilla initially housed the National Center for Neurobiology, as well as research centers in physics and cognitive science, and later attracted additional research centers.
linkages to industry. The Center for Engineering and Industrial Development (CIDESI) had operated in the state since 1984, specializing in technological processes in the metal-mechanic sector,\footnote{The CIDESI was created as part of the CONACYT network and provided services to firms throughout the country, but its presence in Querétaro has helped propel the state’s industrial growth over the course of several decades. For example, the CIDESI has worked closely with the state’s aerospace sector since its formation in the middle of the 2000s helping launch a burgeoning cluster in this area (see chapter 8).} and the Center for Research and Technical Assistance of the State of Querétaro (CIATEQ) was created by the state government in the confines of the Bernardo Quintana industrial park to provide technological services and products to firms located there. The Burgos administration established another research center with close links to industry, the Center for Electrochemical Research and Development (CIDETEQ), in 1991 with the mandate to help Querétaro firms attain international levels of competition through the development of innovative industrial processes. This center also set up facilities in an industrial park, the Technological Park of Querétaro, and by 1996 carried out projects for 128 firms. As with the state’s universities, linkages between industry and the research sector were consolidated through participation of many business leaders on the Boards and oversight committees of research institutions.

In addition, the Burgos administration secured the establishment in Querétaro of the National Metrology Center (CENAM), an institute of the federal government charged with ensuring adherence to international technical standards of Mexican products, and therefore critical in preparing the country for global economic integration. The decision of the CENAM to come to Querétaro, made in 1992, reflected the state’s status as an emerging industrial pole, as exporting sectors, especially in manufacturing, needed to work closely with the center as Mexico prepared for the implementation of NAFTA.\footnote{The Center also worked closely with the state’s research centers and facilitated their development of new technologies for industrial applications (see Casas 2000).} Burgos lobbied federal officials to establish the center in Querétaro, with the support of private sector leaders. In addition to these public institutions, the firm Mabe, a leading Mexican manufacturer of domestic appliances, set up a research and development center in Querétaro in partnership with the Center for Research and Advanced Studies...
(Cinvestav) at the UAQ. 404 By the late 1990s, Mabe’s Center for Technology and Projects was working on product development for the global line of General Electric, with whom Mabe formed a joint venture in 1987. 405 This critical mass of research capacity in the state, which provided cross-cutting services to manufacturing firms and often were integrated in the state’s industrial parks, would become an important factor attracting new firms and skilled human capital to the state in the years to come. 406

An additional plank of the policy agenda implemented by public and private sector leaders in this period was enhancing the state’s industrial infrastructure. The government increasingly recruited private investors to participate in its plans to expand the state’s industrial zones to meet growing demand from firms. In May 1993, for example, the state government sold 100 hectares of land adjacent to the Bernardo Quintana industrial park to a private firm, Grupo Argüelles, for the expansion of this industrial area, the state’s largest at the time. Later in the sexenio, the private developer DRT, in a joint venture with an American firm, would begin construction of the Parque Industrial Querétaro, which would become the state’s leading industrial zone in the early 21st century. In the words of the governor, the state “turned itself into a facilitator of industrial parks,” constantly communicating with developers and other firms involved in setting up the parks to respond to their needs for supporting services such as roads, electricity, sanitation, and security. 407 The Burgos government also established a Fideicomiso dedicated to the maintenance and

404 In setting up research facilities in Querétaro, Mabe joined Tremec and Condumex as major manufacturers carrying out research and development in the state.
405 The firm had been founded in 1946 in Mexico City, and its executives had long participated in the social and political life of Querétaro, illustrating how these links with transnational capital produced lasting benefits for the state. The establishment of its research center in Querétaro also represented a key moment in the firm’s evolution, allowing it to transition from being simply a producer to a designer of products and setting the stage for a rapid internationalization in the late 1990s (Armenta and Fuentes 2014). Mabe continues to carry out research and development activities in Querétaro, recently announcing a US$ 100 million investment in its Querétaro research center to develop new products aimed for export markets, even as the firm announced the transfer of production lines to neighboring Guanajuato (11 April, 2016, ADN Informativo, “Fortalecerá Mabe centro de investigación en Querétaro”).
406 These research centers, the CIDESI, CIATEQ, and CIDETEQ, also offered graduate degree programs in various science and engineering disciplines, which helped attract human capital to the state.
407 As Burgos explains, putting in place all the necessary services and surrounding infrastructure for industrial parks often involved considerable negotiations and interventions with federal authorities such as the Federal Electricity Commission (CFE) and Secretary of Communications and Transportation (SCT) (interview, March 30, 2016).
urbanization of industrial parks, an effort to ensure these spaces remained adequate for the needs of investors in the future (Secretary of Economic Development 1995).

Even as Querétaro increasingly leaned on the private sector for the construction and administration of industrial parks, the state’s strategy continued to privilege the creation of industrial spaces as a “public good,” where a cross-section of small and large firms from different sectors could access productivity-enhancing services. This approach differed from that of Puebla, whose industrial infrastructure increasingly revolved around the dominant auto sector during this period (see chapter 7). The private sector clearly took a favorable view of the actions during the first half of the Burgos administration. As Mexico prepared to implement NAFTA in 1994, business leaders regularly expressed confidence in the state’s ability to thrive in this new economic environment. As Canacintra president Carlos de Mucha affirmed, “Querétaro is prepared to confront NAFTA” since the state has been modernizing and upgrading its technology for years.408

Another source of confidence among Querétaro’s elites was the preservation of labor tranquility in the state, which the governor emphasized as “an essential condition” for progress (Government of Querétaro 1992).409 The Burgos administration continued the practice of holding regular meetings with leaders of the state’s peak business and labor organizations through the Tripartite Commission, which helped avoid major labor conflicts.410 These meetings, according to

408 *Diario de Querétaro* 15 November 1993, “De aprobarse generará flujo de capitales.” De Mucha would expand on these sentiments in comments several days later, affirming that this transformation of the state’s industry began with GATT and the upcoming FTA “forced the sector to accelerate its time frames” in achieving its transformation, calling this pressure “beneficial” (*Diario de Querétaro* 17 November, 1993, “México está ya preparado para ‘las grandes ligas’”). Similarly, Coparmex president Ramón Eberstadt affirmed that after years of working to enhance productivity, “now, in conditions of international competition, we can take on domestic and foreign markets” (*ibid*). However, such optimism was not equally felt throughout segments of the private sector. Leaders of micro and small business associations were regularly complaining by late 1993 of high interest rates and the lack of sufficient government support for these sectors to make productivity-enhancing investments (*Diario de Querétaro*, 3 November 1993, “Las expectativas para la industria, difíciles: CMA”).

409 Burgos consistently stressed the importance of peaceful labor relations to the state’s industrial progress, dedicating a long section in each year’s *informe de gobierno* to expounding this characteristic of Querétaro’s social relations (something absent in the *informes* of Puebla governors during this period). In 1993, for example, Burgos called labor stability the basis of the state’s status as one of Mexico’s most important industrial centers and the result of “a serious and consistent relationship between factors of production” (Government of Querétaro 1993).

410 According to Burgos, the system of tripartite meetings had, by the time of his administration, become ingrained in the state and won acceptance among all actors due its track record of success: “labor peace has been preserved in Querétaro, in spite of everything, because we converted it into a practice… the rest of the actors want[ed] this style to continue,” (emphasis added). These practices, moreover, would survive changes of government and even of political party: “political
Burgos, “allowed us to have direct information from the interested parties themselves, and we looked for solutions right there.” Even for labor issues that fell under federal jurisdiction, the state government could still lean on its close relations with labor and business leaders to intervene to avoid strikes. In the words of the governor, “you can still manage, call, convolve, and gather” people…the governor “can sit [the parties] down and fix things.” In addition to the governor, the presence of former private sector leaders in top cabinet positions was instrumental in shaping the government’s hands-on approach to labor relations. Abel Baca, who served as Coordinator of Development Planning and later Secretary of Economic Development, had decades of management experience at Massey Ferguson, a firm that had been at the cutting edge of new labor practices starting in the 1970s. The Tripartite system, according to Baca, “allowed for the models that we had developed in the firm to be applied at the state level.”

The state government also sought to deepen communication with firms on labor relations, building on the close relationships developed in the Tripartite forum. Secretary of Labor officials visited 90 firms during the first year of the administration to better understand their production processes and the “problems arising in the daily relations” between management and labor. The aim was to avoid the accumulation of grievances that would lead to conflict over annual contract revisions (Government of Querétaro 1992). One result of this closeness between labor officials and firms was the government’s success promoting productivity agreements (convenios de productividad) between management and firm-level unions, which linked wage gains and other benefits to increases in worker productivity. By the end of 1993, more than 100 firms in Querétaro

alternations have not damaged [or] deformed this situation. The same line has been conserved, more or less consistently, even with different political parties” (Interview, March 30, 2016).

411 Interview with Enrique Burgos García, March 30, 2016
412 As the top executive for Massey Ferguson in Querétaro in the 1970s, Baca oversaw various innovations in labor relations, including making contract revisions open to all employees and workers in order to dispel suspicions of corrupt dealmaking between management and union leaders. At Massey Ferguson, Baca worked with Alejandro Espinoza Medina, who played a key role disseminating new labor practices among Querétaro’s firms and unions in the 1970s and 1980s (see chapter 4) and also served in two cabinet positions in the Burgos government (see Table 6.1). Once in government, Baca and other officials with private sector experience worked to promote more open and cooperative labor relations at the state level, especially through the Tripartite meetings.

413 Interview with Abel Baca, February 9, 2017.
had signed such agreements, which were promoted and overseen by the state’s labor secretary. These agreements covered nearly 15,000 workers in a range of sectors including metal-mechanic, auto parts, electronics, textiles, and plastics (ibid).

These efforts to install “a new culture of labor relations based on dialogue and concertation” (Government of Querétaro 1992) put Querétaro in the vanguard of efforts to transform labor relations in Mexico. The idea of firm-level productivity agreements originated in negotiations between the federal government and the CTM in the early 1990s and would be included in an October 1993 agreement between the CTM and the federal labor secretariat as well as a subsequent Worker-Industry Pact between the CTM and Canacintra. However, these agreements failed to produce tangible results. In Querétaro, by contrast, they gained widespread acceptance among leaders in government, business, and unions and were credited with helping the state prepare itself for the challenge of global competition. On the other hand, not everyone took such a rosy view of the state’s mechanisms for managing labor relations. Reporting in El Nuevo Amanecer, an independent newspaper, reveals the rejection of official labor leaders by rank-and-file union members at several firms that experienced labor unrest during the beginning of the Burgos period. During a drawn-out labor dispute at Uniroyal, a major transnational cosmetics firm, workers accused management of spying on labor leaders and “trying to destroy the union.” Clearly, the celebration of the state’s “peaceful” labor relations represented elite opinion that was not as widely shared as its proponents tended to suggest.

414 A national agreement on “New Labor Culture,” which overlapped with many of the ideas being promoted in Querétaro during and even before the Burgos administration, would be signed in 1996 between national leaders of Coparmex and the CTM.
415 Gustavo Lomelí, ex-president and advisor to Canacintra, praised the agreements as the best way “to obtain benefits both for capital and labor” and said they have the potential to “revolutionize labor relations” (Diario de Querétaro, 18 November 1993, “Recuperación salarial, con productividad”) Diario de Querétaro 16 November, 1993, “Cambió la actitud de empresarios: GGM”
416 See El Nuevo Amanecer 28 January, 1991 “Así se ejerce el derecho de huelga en Querétaro”
417 El Nuevo Amanecer 12 July, 1993, “Los patrones han extraído documentos de la planta Uniroyal; 40 días de huelgas” Interestingly, in wake of finally resolving this long and bitter conflict, the Labor Secretary, Guillermo del Hoyo, publicly reiterated the general atmosphere of labor peace in Querétaro, affirming that “there are practically no strikes, thanks to the maturity of the business owners and workers in revising collective contracts.” (El Nuevo Amanecer 8 September 1993, “Uniroyal: fin a 78 días en huelga; sin mutilaciones, el contrato-ley”).
In carrying out the various pillars of its economic development agenda, the Burgos government prioritized coordination with stakeholders in the private sector and other segments of civil society. In addition to the Tripartite Commission, the government converted the “Citizen Councils” created during his campaign into formal working groups that provided input on policy issues and consulted regularly with the government throughout the administration. At the governor’s insistence, cabinet ministers would attend the committees’ meetings and report back to Burgos on their progress.418 These committees thus gave representatives of business and professional groups an additional forum to influence policy implementation. The Council for Cooperation on Industrial Promotion, with a strong presence of business leaders, was composed of twelve working groups in areas including industrial infrastructure, labor relations, and quality and productivity. Business associations such as Canacintra played a leading role in organizing the efforts of this group. Burgos also met regularly with around a dozen private sector leaders from the state’s most important firms and business associations.419 According to government officials present during these sessions, they occurred behind closed doors and allowed business leaders to devise plans in conjunction with public authorities and make suggestions for the development of the state.420 This communication helped consolidate a sense of shared responsibility and spirit of partnership between business leaders and the government.

Managing electoral conflict and economic crisis

The spirit of collaboration between government, business, and labor would be put to the test in the second half of the Burgos sexenio, which overlapped with a period of considerable political and economic turbulence in Mexico. The 1994 election season sparked tension across the country, as the assassinations of the PRI’s presidential candidate, Luis Donaldo Colosio, and party

418 The government even provided each committee with office space and telephone services. Interview with Roberto Loyola Vera, August 8, 2016.
419 The list of attendees included managers of major transnational and national firms such as Kimberely Clark, Tremec, Gerber, Kelloggs, Massey Ferguson, and prominent representatives of the local business community such as Roberto Ruiz and Victor Mena, whose developer, DRT, carried out a number of major infrastructure projects in the state, including the Parque Industrial Queretaro.
420 Interview with high-ranking state official during the Burgos administration, August 8, 2016.
president, José Ruiz Massieu, within the span of several months provoked widespread mistrust and fear of further political violence. Querétaro would not be entirely immune from this upheaval. Municipal elections in Querétaro and San Juan del Río, both highly competitive by 1994, brought accusations of electoral manipulation by the PRI, post-election legal challenges, and even episodes of violence. However, organized business was not a major protagonist in these political tensions, and in any event they did not cause a lasting social rupture. The state’s peak business organizations did not throw their weight behind local PAN mayoral candidates. Instead, the attitudes of business leaders during this chaotic electoral season again reflected a preference for preserving the state’s prized “social peace”—even if that meant sacrificing the electoral ambitions or partisan preferences of some business people. The conciliatory and non-partisan instincts of the queretano business elite are captured well in the comments of Coparmex president Rafael Rodríguez Tolentino, that it would be “healthy and positive” to see a coalition government at the national level to enhance the credibility of the government and avoid violence. These positions

421 These incidents came only months after the outbreak of a guerrilla uprising by the Zapatista Army of National Liberation (EZLN) in Chiapas on January 1, 1994 had set the tone for a dramatic and highly uncertain year in Mexico.

422 The mayoral race in San Juan del Río was especially contentious. The PAN’s candidate, Francisco Layseca Coeller, reported receiving death threats and having bullets fired into his house the month before the vote (El Nuevo Amanecer, 20 June, 1994, “No me van a doblar, aunque insistan”). In the post-election period, participants in the electoral institute documented a long list of abuses, including voter intimidation, kidnapping of opposition leaders, the improper appointment of PRI members as citizen participants on the electoral institute, and the sponsorship of false polls by the PRI (El Nuevo Amanecer, 22 August 1994, “El proceso electoral, plagado de pasajes turbios durante todo el año”).

423 In general, most private sector leaders were at pains to display their neutrality and diplomacy. Canacintra president Carlos Monroy, for example, assured reporters that he saw good points in the proposals of all three parties (PRI, PAN, and PRD) and indeed areas of common agreement among them (El Nuevo Amanecer, 20 June 1994, “Debe detenerse la violencia, sostiene el dirigente patronal Carlos Monroy Arteaga”).

424 Canacintra president Carlos Monroy also stressed the importance of maintaining social peace in the state in the run up to the 1994 vote: “we are privileged to have peace and the incidents occurring in other parts of the country should serve as an example for us, to make sure we do not permit them to happen here.” (El Nuevo Amanecer, 20 June 1994, “Debe detenerse la violencia, sostiene el dirigente patronal Carlos Monroy Arteaga”). In a similar vein, Roberto Ruiz Obregón affirmed that regardless of which party wins, confidence and social stability will return after the elections (El Nuevo Amanecer, 22 August 1994, “Con las elecciones retornarán confianza, paz y estabilidad: Roberto Ruiz Obregón”).

425 El Nuevo Amanecer, 4 July 1994, “Sería sana y positiva la conformación de un gobierno de coalición dice la Coparmex”. These comments, from the local president of Coparmex, reflect a clear moderation of the position of the national body, which tended to support the PAN more openly. Querétaro business also took a more supportive view of the PRI’s national-level governance, expressing a clear preference for continuation and stability in the country’s economic trajectory, given their positive evaluation of the deepening of market reforms that Salinas had put in place, although these election-season comments came before the bottom fell out of the economy in late December 1994 (Diario de Querétaro, 1 August, 1994 “Se prevé un muy buen crecimiento económico para 95”).
stand in sharp contrast to Puebla, where the following year organized business would again mobilize in support of the PAN, finally defeating the PRI in the city of Puebla (see chapter 7).

In this way, the politics of the 1994 local and national elections did not undo the government-business alliance in Querétaro. The end of 1994, however, had another upheaval in store. After taking office in December of that year amid rising short-term debt, steady capital outflows, and dwindling international reserves, the administration of President Ernesto Zedillo attempted a controlled devaluation of the peso to ease pressure on the country’s reserves. The policy backfired. Investors fled the country and the peso plummeted, putting Mexico once again on the verge of default by early 1995. As a result, the economy experienced a sharp decline, contracting by 6 percent over the course of the year. Firm closures, unemployment, and rising indebtedness led to social conflagration across Mexico.

Naturally, the Burgos administration had to deal with the economic and social consequences of the so-called Error of December. The first three months of 1995 witnessed a strike at the state university; the formation of a local affiliate of the Barzón movement for debtors’ rights; and demonstrations by taxi drivers, peasant groups, democracy advocates, and residents of low-income “popular” neighborhoods. The governor managed to negotiate successfully with most of these groups and maintain social order.

The Tripartite Commission, which operated throughout the Burgos sexenio, continued to provide a space for government, business, and labor to navigate the challenges that arose in the context of the escalating crisis of 1995. In March of that year, federal Finance Secretary Guillermo Ortiz announced an austerity package that included an increase in the value-added tax (VAT) from 10 to 15 percent, rate hikes for utilities and other key prices such as gasoline, and a 10 percent cut in public spending. One strategy employed in the Tripartite Commission was to contain inflation in the local economy through an informal agreement that businesses would not raise prices in response to the federally-mandated increases in utility tariffs and other controlled prices, especially that of gasoline, where an increase of 35 percent threatened to set off cascading price increases.
throughout the economy. Officials also used the Tripartite forum to help resolve a variety of social problems facing workers in the wake of the economic crash. Representatives of public agencies such as the Mexican Social Security Institute (IMSS), INFONAVIT (a federal housing program for workers), and transportation service providers were often invited to Tripartite meetings during this period to address worker concerns over the provision of these services.

The Tripartite’s salutary effects were also evident in the ability to avoid major work disruptions due to strikes, which increased at the national level by 22 percent during the 1995 recession. Despite 590 strike summons (emplazamientos a huelga), the state only experienced one work stoppage in 1995, a testament to the effectiveness of authorities’ interventions in the sector and their credibility with both business and labor. At the height of the crisis, the government took a more hands-on approach, sending representatives of the Labor Secretary to visit firms to understand how they were dealing with the crisis and promote communication. Officials visited 650 firms between January and August of 1995 alone (Government of Querétaro 1995). In addition, the use of firm-level productivity agreements increased, as 270 firms had implemented this scheme by the middle of 1995 (compared with 108 at the end of 1993). By the end of the Burgos administration, 380 firms had entered into such contracts.

The state government also encouraged informal, voluntary measures on the part of industry to mitigate the impacts of the crisis, such as temporary work reductions and shorter working days to limit job losses. The government worked through the Citizen Council on Industrial Promotion and local business associations to set up a fund to provide credit for small and medium firms to maintain permanent employment. Burgos praised these efforts and the spirit of cooperation between capital and labor, asserting that “both the industrialist and the worker in Querétaro...have made an

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426 Interview with Ignacio Loyola Vera, president of Coparmex (1995-6) and Governor of Querétaro (1997-2003), April 22, 2016.
427 These examples illustrate well the flexibility of the Tripartite Commission and its ability to adapt to address immediate concerns, even when they fell outside the body’s original area of focus.
428 As discussed above, public officials beginning with the governor himself enjoyed longstanding working relations with key business and labor leaders and, in the case of Economic Development Secretary Abel Baca, direct experience implementing innovative labor relations practices as the manager of a major multinational, Massey Ferguson.
effort to overcome the difficulties; some avoiding massive layoffs and others accepting reductions in work days, with the shared objective of maintaining sources of employment.”429 The norms of coordination among government, business, and labor that had been nurtured over a decade once again paid dividends as the state navigated yet another national economic downturn.

Still, the severity of the economic shock—Mexico’s economy shrank by 6 percent in 1995 while the peso depreciated nearly 100 percent—naturally sparked tensions over the costs of adjustment. After federal authorities announced the VAT increase in March, a clash erupted between the state government and local business leaders. Representatives of ten business associations declared their opposition to the austerity package and proposed an alternative that would reduce the VAT to 7 percent and cut public spending and the size of government.430 Later, Coparmex president (and future governor) Ignacio Loyola Vera refused to support this measure when it was discussed in the tripartite meeting.431 According to those involved, however, the ability to express dissenting views in this forum also helped defuse tension and avoid prolonged and public recriminations between the various sectors.432

The government also drew on its close relations with private investors and other social groups to ensure the crisis did not completely derail its economic project.433 The development of industrial parks moved forward, albeit with greater reliance on private investment. In the mid-1990s, the state government expropriated ejidal land north of Querétaro city with the aim of

429 In these comments, the governor also emphasized the importance of the Councils for Citizen Concertation in helping deal with the economic challenges facing the state (El Nuevo Almanecer 20 March 1995, “Los mexicanos no pueden tener como destino la frustración, dice Burgos”).
430 El Nuevo Almanecer 27 March, 1995, “Impugnana airadamente al diputado José Manuel García García por su voto en favor del IVA”. The groups signing this proposal included Canacintra, Coparmex, Canaco, the Association of Microindustrialists, the Club de Industriales, and associations of firms in several of the state’s industrial parks.
431 Loyola told the governor that Coparmex opposed the initiative and walked out of the room where business and union leaders had gathered with ministers in the state government.
432 In the words of Loyola, “the greatest virtue of those meetings was listening to each other, and taking each other into account. On all sides… I think that is what helped most, I think sometimes it was more a catharsis” (interview, April 22, 2015).
433 Enrique Burgos describes this strategy as one of leaning on various stakeholders in the private sector and the state’s municipalities to support the government’s plans in a context of economic privation, including through in-kind contributions to public projects. In the words of Burgos: “we had very difficult economic times, but society helped me a lot… when people see how things are being managed, they help, they are supportive” (interview March 30, 2016).
establishing an industrial park along the highway to Mexico’s northern industrial centers. After the 1995 crisis, this land was transferred to the municipality of Querétaro and auctioned off to private developers to build the Querétaro Industrial Park.\footnote{The strategy to sell the land to private developers to carry out the project arose out of discussions between state officials and investors, when it became clear that there would be private sector interest in a similar project to what the state government envisioned. The winning bid was a joint venture between local developer DRT and an American firm.} The project, which attracted US$ 40 million of investment through a joint venture with a U.S. firm, would become the state’s premier industrial zone during the next sexenio.\footnote{The Querétaro Industrial Park began operations in 1998 and in 2015 was named the best industrial park in Latin America by International Property Awards. According to developers of the park, a key to its success has been coordination with the state government in promoting the site to firms (interview, April 20, 2016).}

In 1995, the state inaugurated two additional industrial parks undertaken with private investment, La Noria and Parque Finsa, adding a total of nearly 2 million square meters of industrial park land. By 1996, more than half of the lots in both parks had been occupied (Government of Querétaro 1996). At the same time, state-owned industrial parks such as Benito Juárez saw consistent flows of investment throughout the crisis, as firms, especially in the metal-mechanic sector, took advantage of their links to export markets to weather the domestic downturn. The state’s fideicomiso for industrial parks had put 174,000 square meters of new land in state-owned industrial parks into operation, even in the context of economic crisis. In the final two years of the Burgos administration, five new parks were initiated, and by 1997 the state had thirteen industrial parks in operation and three more under development. This expansion of industrial infrastructure entailed a growing emphasis on private investment and management, which was present in nine of the state’s industrial parks by the end of the Burgos sexenio.\footnote{By contrast, only half of the state’s eight industrial parks at the beginning of the Burgos administration involved private investment.}

The expansion of industrial park infrastructure in Querétaro during this period has several distinctive features that are relevant to the state’s overall development trajectory. First, as mentioned above, the industrial areas were for mixed industry use, rather than tailored to the needs of a specific industry. As a result, the universe of firms in the state’s industrial parks displayed
considerable diversity across sectors. By 1998, the five largest industries accounted for only half of total employment in the state’s industrial parks.\footnote{Industries are defined here at the four-digit level. The top industries in Querétaro’s industrial parks, by employment, were electrical equipment (12.2 percent), domestic goods (12.2 percent), automotive (12.2 percent), electronic equipment (9.0 percent), and other machinery (5.7 percent) (INEGI 1999).} In Puebla, by contrast, the auto sector alone made up 55 percent of the total, reflecting fundamental differences in the two states’ industrial park strategies (see Table 6.2). A second, related feature is the greater presence of small and medium-sized firms, which accounted for 52 percent of total employment in 1998 (compared with 30 percent in Puebla) (INEGI 1999).

A final noteworthy characteristic of industrial park development in Querétaro during this period is its integration with the state’s burgeoning research institutions. The number of research institutions in the state increased even more rapidly than its industrial parks, growing from 10 when Burgos took office to 31 by the end of the \textit{sexenio}, employing over a thousand researchers in total. These institutions spanned centers housed at the state’s universities (UAQ, ITESM, ITQ, UNAM), those affiliated with the national CONACYT network, state-level institutions, and the research facilities of private firms.\footnote{By 1996, three major national industrial groups had set up research and development facilities in Querétaro (Condumex, Tremec, and Mabe).} Of particular importance for the state’s industrial development were institutions such as CIDESI, CIDETEQ, and CIATEQ that worked directly with manufacturing firms to design specific technological solutions or services for industry. The latter two had facilities in the Technological and Bernardo Quintana industrial zones, contributing to the attractiveness of these locations for firms. The creation of research capacity thus added to the array of services and amenities the state made available to a diverse range of industrial sectors and were especially valuable for small and medium firms that could not undertake such investments alone. In addition, Querétaro’s main public research centers had particular expertise in industrial materials, an application relevant to a wide range of manufacturing sectors (De Gotari and Santos 2006). The cross-cutting nature of these institutions (again in contrast with Puebla) helped foster the
establishment of new sectors in the state, such as the aerospace cluster that would take hold in the mid-2000s. The linkages between research centers and industry were reinforced by the participation of private sector leaders in the management and oversight of the former institutions. The growing concentration of technical research institutions with close ties to local industry also helped attract more researchers to the state.

**Table 6.2: Production of Key Development Policy Outputs in Puebla and Querétaro**

<table>
<thead>
<tr>
<th>Policy domain</th>
<th>PUEBLA</th>
<th>QUERÉTARO</th>
</tr>
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<tbody>
<tr>
<td><strong>Industrial parks</strong></td>
<td>◦ Prioritization of industry-specific infrastructure to support VW auto cluster</td>
<td>◦ Combination of public and private investments in parks for mixed-industry use</td>
</tr>
<tr>
<td></td>
<td>◦ Limited investment in mixed-industry parks for SMEs</td>
<td>◦ Strong collaboration with private sector in promotion to outside investors</td>
</tr>
<tr>
<td></td>
<td>◦ Reinforcing advantages of large firms</td>
<td>◦ Integration with research and technical education institutions</td>
</tr>
<tr>
<td><strong>Technical education / research</strong></td>
<td>◦ Limited public policy efforts to establish education and research capacity</td>
<td>◦ Strong efforts to establish education and research institutions, through lobbying federal government and state-level initiative</td>
</tr>
<tr>
<td></td>
<td>◦ University initiatives oriented towards the auto sector</td>
<td>◦ Cross-cutting focus applicable to various industries (e.g. industrial materials)</td>
</tr>
<tr>
<td></td>
<td>◦ Integration with private sector organizations via overlapping administrative roles</td>
<td></td>
</tr>
<tr>
<td><strong>Productivity / worker training</strong></td>
<td>◦ Enforced productivity gains via hierarchical control in auto sector</td>
<td>◦ Firm-level productivity agreements, based on coordination among government, business, and unions</td>
</tr>
<tr>
<td></td>
<td>◦ Firm- and sector-specific worker training led by VW and FINSA cluster</td>
<td>◦ Greater participation of business associations in worker training programs</td>
</tr>
</tbody>
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439 For example, former Canacintra president Sergio Villaseñor Pelayo served as members of CIDESI’s external evaluation committee in the 2000s, alongside Claude Gobenceaux, an executive at Bombardier who also became president of Querétaro’s Aerospace cluster.

440 In the early 2000s, researchers from the UNAM established the Querétaro Technological Development Unit (UDETEQ) at the Juriquilla campus. Their links with existing technical education and research centers in the states such as CIATEQ, CENAM, CICATA, as well as firms such as Tremec and Massey Ferguson made Querétaro an attractive option. The UDETEQ, now called the Center of High Technology (CAT), offers masters and doctoral programs for students in several areas of industrial engineering and design that are central to Querétaro’s industrial plant, including automotive, plastics, and aerospace engineering.
Results of the Burgos administration

Despite governing during a severe national economic crisis, the Burgos administration oversaw another period of strong growth in which Querétaro easily outperformed the Mexican economy as a whole. The state economy averaged 6.28 percent annual growth between 1990 and 1997, compared with 3.39 percent for the national economy.\textsuperscript{441} As Table 6.3 shows, the economy proved especially robust to the 1995 downturn and enjoyed an impressive recovery. This recovery was driven by investment in the manufacturing sector, which more than doubled from 1995 to 1996, and would increase by another 140 percent in 1997, led by the metal-mechanics, paper products, and chemicals sectors.

Table 6.3: Comparison of Growth in Querétaro and Mexico, 1994-1997

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<tr>
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<tbody>
<tr>
<td>Mexico</td>
<td>4.7%</td>
<td>-5.8%</td>
<td>5.9%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Querétaro</td>
<td>8.1%</td>
<td>-3.0%</td>
<td>8.6%</td>
<td>12.2%</td>
</tr>
</tbody>
</table>

Sources: INEGI and World Bank World Development Indicators

Indeed, a diversified industrial structure was a hallmark of the state’s economy in this period, especially in comparison to Puebla. By 1998 (the year after Burgos left office), the auto sector was the largest industry in both states; however, in Querétaro its share of total manufacturing output stood at 14.7 percent compared to 47.0 in Puebla.\textsuperscript{442} In Querétaro, the five largest industries combined accounted for only 41.3 percent of the state’s total.

International linkages continued to be a key source of growth. Exports more than tripled during the Burgos administration from 538 million in 1991 to 1.51 billion in 1997. Importantly (and again in contrast to Puebla), the universe of exporting firms reflected considerable diversity across industries, as the largest exporting sector, metal-mechanics (including auto parts) made up

\textsuperscript{441} Because annual state GDP figures are not available each year between for 1991 or 1992, the first years of the Burgos administration, 1990 is used as the reference point for annual growth. These calculations are based on INEGI’s Sistema de Cuentas Nacionales de México.

\textsuperscript{442} INEGI Censo Económico, 1998. The sector classifications do not distinguish between auto assembly and auto parts production.
34 percent of all exporters and textiles, the second largest sector, accounted for another 19 percent. Foreign direct investment continued to fuel Querétaro’s industrial development, with FDI inflows totaling US$ 458 million during the Burgos administration. The structure of FDI also reflected the economy’s relative diversification. In 1994, for example, the leading sector for FDI, metallic products (including auto parts), accounted for 34 percent of the total, followed by chemicals and plastics (18 percent), electric products and electronics (15 percent), and foods and beverages (11 percent). By comparison, in Puebla the auto industry alone (including both assembly and auto parts) accounted for over 90 percent of foreign investment during the mid-1990s (Juárez 2005).

Another notable feature of Querétaro’s economic record during this period is the growing importance of small and mid-sized firms in the state’s economy. By 1996, small and medium enterprises made up 18.5 percent of the universe of firms in Querétaro, compared with 7.5 percent at the national level. Micro-enterprises, defined as those firms with 15 or fewer employees, made up only 75 percent of queretano firms compared with 92 percent at the national level. These features of the state’s industrial base provide additional indicators of strength of the local economy and its robustness to the 1995 economic downturn. The international competitiveness that Querétaro achieved during the Burgos administration was reflected in state rankings produced by the Tec de Monterrey in 1996, which placed Querétaro as the third most attractive destination for investment, highlighting its human capital, technological development, and government promotion of investment in particular.

The growth of textile exporters is largely due to expanding role of the maquila sector in Querétaro in the mid-1990s, as government officials saw an opportunity to generate industrial production in the state’s less developed municipalities and offered credits for their establishment in such areas. The majority of maquilas were in the textile sector, which accounted for 76 percent of the 26 maquilas in the state by 1995. The creation of microenterprises via informal, individual entrepreneurship often served as a refuge for the unemployed during 1995 downturn and other periods of economic stagnation. In general, the literature suggests that a greater share of small and medium sized enterprises is indicative of an economic environment in which firms have incentives to undertake growth-enhancing investments, in contrast to the typical structure in developing economies (and of the Mexican economy as a whole) characterized by a large number of unproductive, often informal microenterprises on one hand and a small handful of very large firms that account for the vast majority of output on the other (see Tybout 2000). In Querétaro, a full 89 percent of employment was in medium and large industry sector in 1996, which is the reverse of the national pattern where microenterprises were the dominant employers.
Finally, the Burgos administration witnessed the emergence of Querétaro as site for productivity-driven growth. While the labor productivity of the median industry in Querétaro was comparable to that of Puebla in 1993 (31.9 in Querétaro versus 27.1 in Puebla), but 1998 the median sector in Querétaro had seen its labor productivity jump to 68.8, an increase of 116 percent.\textsuperscript{445} In contrast, median industry productivity in Puebla only grew by 75 percent to 47.3 over the same period.

Due to his success in steering the economy through economic crisis, Burgos enjoyed widespread esteem by the end of his term. His popularity did not, however, transfer to the PRI’s candidate to succeed him, Fernando Ortiz Arana. Ortiz Arana had been president of the party, but despite (or perhaps because of) his national standing, as a candidate he failed to capture the imagination of voters.\textsuperscript{446} Ortiz faced an energetic challenger from the PAN, former Coparmex president Ignacio Loyola. Loyola, who billed himself as a “citizen candidate,” had only joined the party the previous year, motivated to enter politics by the economic debacle of 1995. At the beginning of the campaign, few believed Querétaro would become the fifth state in Mexico to witness an opposition victory. However, Loyola tapped into a widespread rejection of the PRI, in particular at the national level, among large swaths of middle-class voters who had flocked to the state since the 1980s (Morales Garza 2001). He won the election by 5 percentage points, without claims of irregularity in the voting (Cuenca 2008). While the Loyola administration would bring about the first alternation of power in the state’s modern history, it would not change the key pillars of economic governance developed by PRI governments since the early 1980s, as chapter 8 demonstrates.

\textsuperscript{445} These figures are reported as thousands of pesos of output per worker. For the purpose of these calculations, four-digit industry classifications are used.

\textsuperscript{446} Ortiz Arana was perceived as removed from the issues facing the state and having a distant and domineering attitude during his campaign (González Arias 2008).
VII. Chapter 7: Authoritarian Political Economy and Global Integration in Puebla, 1993-1999

The 1993 state elections in Puebla were again shaped by federal politics. After the disastrous Piña Olaya sexenio, the PRI leadership understood the need for a strong candidate to reassert the party's dominance in the state. Manuel Bartlett Díaz, Secretary of Government during the de la Madrid presidency and the current Secretary of Education, met that criteria. Tapping Bartlett also helped resolve internal rivalries in the Salinas cabinet ahead of presidential elections in 1994, clearing the way for the president to promote his preferred candidate, Luis Donaldo Colosio (Ward and Rodríguez 1999). For Bartlett himself, however, a state governorship represented a demotion after a full decade in the federal cabinet and postponed his presidential ambitions for another six years.

As a result, Bartlett viewed his governorship as an opportunity to demonstrate to the country what he could accomplish as president (Snyder 2001). Promising to “recover the grandeur of Puebla,” he embarked on a major public works program that transformed the landscape of the city of Puebla and its surroundings. Bartlett also understood that keeping his presidential prospects alive would require careful management of relations with the state’s organized business sector, the PRI’s longtime nemesis in Puebla. Given his long service at the heights of national power, Bartlett knew the intricacies of the electoral map as well as any Mexican politician and was well aware of the strength of the PAN and its business sector allies in Puebla. The political strength of the local business sector, which had united to oppose corruption under Piña Olaya, was at a high point as

447 As Secretary of Government under De la Madrid, Bartlett was in charge of the PRI’s electoral operations during the fraudulent 1988 presidential elections. The authorities halted the counting of votes, citing a computer failure, allegedly when results from Mexico City showed large margins in favor of the opposition candidate Cuauhtémoc Cárdenas. It was Bartlett who went on television the night of the election to infamously announce “a breakdown of the system.” In reward for his dutiful service, Salinas named Bartlett, who had competed with him for the PRI’s nomination in 1988, to another cabinet post.

448 As Secretary of Government between 1982 and 1988, Bartlett had been at the front lines of the PRI’s battle against burgeoning opposition power at the local and national level. He had overseen the post-electoral conflict and subsequent conciertación in Puebla in 1983, when the textile industrialist Ricardo Villa Escalera, by most accounts, had victory stolen from him by electoral fraud. Villa Escalera would again be the PAN’s gubernatorial candidate in 1992, and the businessman Jorge Ocejo Moreno, a former president of Coparmex and outspoken critic of the PRI, ran for the municipal presidency on the PAN’s ticket.
Bartlett prepared to take office. In addition, the increasing willingness of national leaders to accept opposition victories in local elections, a trend that would accelerate under President Ernesto Zedillo (1994-2000), put added pressure on governors concerned with maintaining the PRI’s political dominance.

Faced with this political calculus, Bartlett unleashed a cooptation strategy that attempted to convert rivals into allies by funneling favors and special benefits to traditional private sector leaders while at the same time nurturing a loyal cadre of business people, dubbed the “men of change,” among other sectors of the business community. The strategy resulted in close personal relations between Bartlett and Puebla’s peak business associations during the first two years of the sexenio. However, this accommodation between the state government and the private sector broke down as both sides mobilized for the mid-term elections of 1995. The second half of the Bartlett administration would be characterized by frosty and at times hostile relations between the governor and local business.

This pattern of cooptation and conflict in state-business relations impeded productive collaboration on the economic challenges facing the state during this period, including the implementation of NAFTA and the severe economic crisis of 1995. Instead, the state’s development strategy continued to revolve around its dominant firm, Volkswagen, and its growing ecosystem of suppliers. The policy efforts of the state government were increasingly oriented towards providing firm-specific infrastructure and services that deepened the divide between a globally-competitive and technologically pioneering auto industry and a provincial, inward-oriented, and politically partisan local business sector.

Hierarchical development and political cooptation in the first half of the Bartlett administration

Bartlett won a convincing victory in the 1993 state elections, despite the disrepute of his predecessor. Still, he faced the “imposition dilemma” common to governors of the era, having

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449 This result again reflected the PRI’s enduring electoral strength in Puebla’s vast hinterlands.
arrived in Puebla without strong local political ties (Snyder 2001). In this case, the challenge was multiplied by the partisan nature and political force of Puebla’s leading business associations. In anticipation of these difficulties, Bartlett had courted a cadre of PRI-sympathizing businessmen during his campaign to counterbalance the peak private sector associations’ support for the PAN. These so-called “men of change,” drawn mostly from the textile and construction sectors, became reliable allies for the governor and a valuable source of leverage in his interactions with the traditional, conservative segments of the private sector. Several of these individuals would later move into public office themselves. At the same time, Bartlett’s own political goals and sense of self-importance motivated him to carry out an ambitious modernization project in Puebla. In response to these incentives and restraints, the new governor implemented a strategy to placate the local business sector, while also establishing a clear vision for the state’s economy after the disorganization and cronism of the Piña Olaya years.

The pillar of Bartlett’s development plan was the Angelópolis Regional Development program, which consisted of seventeen separate projects spanning transportation infrastructure, waste management, water treatment facilities, urban renewal, and industrial zones. The flagship project was the construction of a major ring-road, called the “periférico,” connecting the city of Puebla to surrounding municipalities and the Puebla-Mexico City highway. The periférico naturally entailed considerable construction work, and Bartlett was intent on giving these contracts to local firms. However, Puebla’s construction sector consisted primarily of small firms that lacked the scale and expertise to manage such a large and complex project. The government’s solution was to

450 Nexos, 21 November 1992, “También en Puebla, resistencia civil”
451 As discussed in chapter 3, the local business sector in Puebla has been characterized by divisions between a very conservative, predominantly Spanish-descended, and religious group that has controlled the peak business associations (Coparmex and CCE) and a more moderate and PRI-friendly group, including the important Lebanese business community, that has been especially influential in the textile and construction chambers. Of course, these divisions do not map perfectly onto sector lines.
452 Examples include Alejandro Cuottolenc Villar, a former textile chamber president who served on the Puebla city council, and Roberto Herrerías Morales, who was put in charge of a program to ensure business compliance with sanitation standards in the city of Puebla (Sol de Puebla, 2 March, 1993, “Agenda empresarial”). Unlike Enrique Burgos in Querétaro, however, Bartlett did not include local business representatives in his cabinet to a considerable extent. His Secretary of Economic Development, Mario Riestra, was a businessman from Puebla but had not been close to the leadership of the state’s business associations.
encourage the creation of a consortium made up of several dozen local construction firms that would collectively carry out the periférico project.453 In practice, various stretches and phases of the project were divided among the consortium’s firms. With this approach, the government sought to consolidate the support of local construction bosses sympathetic to the PRI and win the gratitude of the state’s peak business associations, while also boosting the local economy.454

The periférico and other Angelópolis projects addressed another concern of the local business community leftover from the Piña Olaya administration. Bartlett promptly reversed his predecessor’s highly questioned land sales in the south of the city and included plans for a major commercial development in this zone as part of the Angelópolis plan.455 This step won the new administration considerable goodwill among the state’s peak business associations, which had strenuously objected to the illegal expropriation and subsequent sale of these strategically located lands (see chapter 5).

Another strategy employed by Bartlett to gain the support of local business was the inclusion of the CCE president on a committee overseeing government procurement. The Bartlett government promoted a new state procurement law at the beginning of the sexenio in an effort to improve oversight of the state’s finances. In an echo of the strategy of Governor Jiménez Morales in the 1980s, Bartlett personally ensured that the president of the CCE had an opportunity to review the draft legislation. The result of this intervention was that the final version of the law gave the CCE president a seat on the committee that reviewed all upcoming government purchases, which

453 One upshot of this strategy was that the government essentially pre-determined who would receive the contract for the periférico. In the words of a former state government official, “we looked for a legal way to give [the consortium] the construction of the periférico” (interview, March 3, 2016).

454 These benefits for the government and local businesses arguably came at the expense of the project’s efficiency, however. According to a senior official involved in the administration of the project, the scheme was “disastrous” in practice, as the small firms responsible for various parts of the project frequently encountered financial or operational obstacles that held up progress. These problems obligated other members of the consortium to step in and help with the delayed sections of the project. The director of the consortium had to be “a magician” to get anything done. After the periférico, the consortium attempted to stay together and bid on additional projects but dissolved several years later, having never consolidated a coherent corporate structure (Interview with state government official, March 3, 2016).

455 As described in chapter 4, Bartlett summoned the business people who had come into possession of the plots of land and duly informed them that the state government intended to repurchase them at the official value (in other words, far below what most had actually paid).
ensured local business associations gained access to valuable details of contracts and tenders before they became public. The government also used the Junta de Mejoras, the private entity controlled by traditional business leaders that carried out municipal works, as a lever to appease the private sector. A month after taking office, the governor addressed the Junta’s annual assembly and expressed support for assigning more state government projects to the Junta. Bartlett would give more contracts to the Junta during the first half of his term than any previous governor. Finally, the governor swiftly relocated the informal vendors that had retaken the streets of Puebla’s city center to designated markets, addressing a chief grievance of the commercial sector at the beginning of his term.

As a result of these overtures from the governor, the relationship between the Bartlett administration and the local private sector experienced an initial period of “bonanza,” in the words of a CCE official at the time. Bartlett and CCE president Jorge Espina enjoyed very close relations over the first two years of the sexenio, holding regular one-on-one meetings. The main business chambers participated in studies sponsored by the state government to devise development strategies for the state including an effort to establish a long-term, “Grand Vision” for the next twenty-five years. To put these ideas into practice, the government and the CCE signed a handful of agreements laying out common objectives on industrial parks, business promotion, infrastructure, education, and federalism. In response to concerns of business, the Secretary of Economic Development promised a “lot by lot, firm by firm” review of the problems at the Texmelucan park, where 90 percent of the lots stood idle, and the creation of a Multisector Council

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456 This perk, which arose out of meeting between the governor and leaders of the CCE, was viewed by members of the local business sector as giving an important boost to local business’ ability to compete for government contracts. Interview with official in the state Secretary of Finance (1993-1999) (3 March, 2016) and Pepe Yitani, CCE Vice-president during the Bartlett sexenio.
457 Sol de Puebla 3 March, 1993, “Anexarán a la Junta de Mejoras actividades de Gobierno: MBD” At this event, the Junta’s president, Herberto Concha Rodríguez, had called for a more significant role and more resources for the organization.
458 Interview with Socorro López Espinosa, June 24, 2016.
459 Interview with CCE official (February 29, 2016).
460 A CCE official at the time recalls that Espina regularly travelled with Bartlett on the governor’s helicopter (interview, February 29, 2016).
461 Interview with CCE official during the Bartlett administration (February 29, 2016).
on Industrial Parks with private sector participation. The Bartlett government also established worker training centers focused on the auto and textile sectors during its first year in office and signed an agreement to establish a new technological university to complement the over-stretched Technical Institute of Puebla (ITP). Local business leaders hailed the “strong collaboration” between the state government and the private sector. Business leaders recall that Bartlett and his top officials responded to their concerns with great efficiency during this period. The atmosphere thus appeared propitious for collaborative efforts to boost the global competitiveness of Puebla as Mexico entered into NAFTA.

As emphasized in previous chapters, Puebla’s dominant firm, Volkswagen, did not participate actively in the state’s business associations. Instead, the firm advanced its policy objectives via direct engagement with the highest representatives of the state (and federal) government, who generally made every effort to accommodate the firm. This privileged access continued under Bartlett, who clearly grasped the auto sector’s importance to Puebla’s competitiveness under Mexico’s new export-led development model. Bartlett had hired the consulting firm McKinsey to identify Puebla’s competitive advantages under NAFTA, and the recommendation of this study and other similar ones was to establish Puebla as a hub for North American auto production. This conclusion is hardly surprising given that the automotive sector accounted for 39 percent of the state’s industrial output in 1993.

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462 Bartlett made developing industrial parks a major goal of his administration, viewing them as a strategy to promote a more geographically-balanced development in the state. The government even entered into an agreement with the U.S. Commercial Service to finance feasibility studies for different industrial park projects. The Sol de Puebla reported that the lack of adequate industrial park infrastructure had forced many small firms to invest in their own water treatment facilities (Sol de Puebla, 5 March 1993, “Deplorable panorama presenta el Parque Industrial Texmelucan”).

463 The director of the ITP said in 1994 the institution was rejecting 60 percent of applicants due to lack of human and physical resources (Sol de Puebla, 17, August 1994 “Rechazados más del 60% de aspirantes al ITP”).


465 Interviews with CCE leaders at the time (November 20, 2015 and March 8, 2016).

466 In interviews, company officials were very clear that the firm did not need local business chambers to advance its agenda: “we are the largest firm here, by far, and we do not need the chamber in order to be heard by the state government” (interview, January 26, 2016).

467 Although he would become a critic of NAFTA and other trade deals as a Senator for the Labor Party (PT), Bartlett supported the PRI’s embrace of economic integration in the 1990s.

468 INEGI 1994 Censo Económico.
The Bartlett government put these recommendations into practice through a series of actions catered to the requirements of Volkswagen. First, the needs of the firm were front and center in the infrastructure components of the Angelópolis project. Important works such as ramps on and off the periférico and access roads to the Volkswagen plant helped integrate the firm’s production facilities into the surrounding road network, including the Puebla-Mexico highway. Bartlett acknowledged the link between these public works and the firm’s strategy in his penultimate annual address to the state Congress, stating the access roads “will allow [the firm] to comply with the auto sector’s just-in-time program” (Government of Puebla 1998). The governor also intervened more assertively and effectively with leaders of the Volkswagen union to avoid disruptive work stoppages during this period.

The state government provided further support to VW through the creation of new industrial zones for its suppliers. After the firm’s restructuring and adoption of just-in-time production (see chapter 5), it became increasingly critical for Tier 1 suppliers to be located in close proximity to the VW plant to facilitate coordination across the value chain. One of the early major projects of the Bartlett government was to develop an industrial park for VW suppliers adjacent to the firm’s production facility. The FINSA park, constructed on 30 hectares of land owned by Volkswagen and restricted to auto suppliers, began operations in 1994 (Schreiber 1998). By the end of the sexenio, the park contained 22 VW suppliers, all of which were MNCs (Montiel 2007). The FINSA park was, at the time of its construction, a state-of-the-art facility unparalleled in Latin America, and local and national officials considered it a crown jewel of Mexico’s burgeoning industrial plant (Juárez 2005).

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469 As a high-level official in the Bartlett government describes it, the state government maintained “a very close relationship with the management of Volkswagen, to understand their needs” in planning these projects. The firm’s needs were “completely taken into account” in Angelópolis (interview, February 12, 2016). Juárez (2005) reports that two bridges across the Mexico-Puebla highway were built by the government at the explicit request of the president of VW.

470 Interview with former Vice-president of the CCE-Puebla, November 20, 2015.

471 Volkswagen representatives participated actively in the studies done in conjunction with McKinsey, and their desire for better industrial infrastructure to house suppliers was made clear throughout the process according to a local business leader involved in the discussions (interview with Puebla business leader March 8, 2016).

472 Construction of the park had begun in 1992 but had barely advanced before Bartlett took office in February 1993.
The establishment of a cluster of suppliers adjacent to its production facility allowed VW to deepen the dual shifts towards outsourcing production and just-in-time coordination with suppliers that began in 1992. The firm required several of its suppliers to transfer their facilities to the FINSA park, including some that moved from other industrial parks in the area (García and Lara 2010). This proximity allowed the firm to reinforce vertical control over its supplier network. It also facilitated further outsourcing to the firm’s suppliers; nearly a thousand additional workers were transferred to the firm’s suppliers in the first half of the Bartlett administration, at the demand of Volkswagen’s purchasing manager (Schreiber 1998). The large majority were relocated to firms in the FINSA plant. The emergence of a highly-coordinated auto cluster around its plant reduced risks for VW, the sector’s dominant firm (and only assembler): the presence of multiple suppliers for each part protected VW from any one firm’s failure to fulfill its contract.

This flip side of Bartlett’s responsiveness to the auto sector was a lack of interest in the traditional textile industry, which the governor appeared to have written off as a lost cause. By the time NAFTA came into force, the transformation of Puebla’s textile sector towards large scale, low-wage maquila production was well underway. Traditional textile producers, who manufactured fabrics, cloth, and in some cases clothing for the domestic market, had been largely displaced by foreign competition since Mexico initiated its trade liberalization in 1985 (see chapter 5). Even before the so-called Error of December sent the economy into a tailspin in the final days

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473 Mechanisms of control included exclusive contracts with strict performance requirements, on-site monitoring by VW technicians, requirements that suppliers gain international quality certifications, and even discretion over the inputs used by suppliers (see chapter 5 and García and Lara 2005). By 1995, 11 of 20 major suppliers identified by Schreiber (1998) sold 100 percent of their output to VW, compared with the 1983-1990 period, when no supplier depended entirely on the firm.

474 This conclusion was another result of the diagnostics of Puebla’s economy carried out at the outset of the administration. In addition to McKinsey, the governor contracted another consulting firm, Booz Allen, for a study of the textile sector, which determined the sector’s prospects were dim. According to a leader of the textile chamber at the time, the firm failed to consult with the chamber in carrying out the study (interview, December 2, 2015).

475 *Maquila* textile production in Puebla increased more than seven-fold in real terms between 1991 and 1995 (INEGI 1997). In some cases, incumbent firms converted into *maquilas* to take advantage of the availability of cheap imported inputs and access to export markets. Another driver of this transformation was the arrival of foreign-capital firms, from the United States initially and later from Asia, which set up *maquila* operations from scratch. In general, these new arrivals did not associate with local producers of inputs, instead importing their inputs from abroad.
of 1994, union officials reported that it was common practice for textile facilities to work only three
days a week and pay workers around half their salaries. The same year, the president of the textile
chamber warned members that the sector was in a “highly precarious” condition and “on the verge
of extermination.” In public comments, textile leaders acknowledged the underlying cause of their
struggles: the sector was “backwards” in technology, equipment, and administrative processes. Faced with this scenario, the textile chamber continued to lobby federal authorities for measures
that would stem the flow of imports, which increased by 287 percent on aggregate between 1991
and 1996 and, according to the textile sector had abetted unfair competition, dumping, and the
incursion of contraband in the domestic market. Chamber leaders asserted that “while the
political will to stop unfair practices does not exist, the activity of the sector will not return to its
normal pace.” These efforts, as had been the case since the late 1980s, failed to have a major
impact on national policy makers intent on deepening Mexico’s trade integration; textile leaders
deemed policymakers’ response to their concerns “inadequate and consisting of “isolated
steps.” At the same time, challenging labor relations continued to hamper the sector.

The state government encouraged this transformation by supporting the expansion of
maquila operations, especially in the industrial cities of Tehuacán and Teziutlán, which were given
“all the facilities possible” in the words of a state government official. By contrast, the

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476 Sol de Puebla 12 August, 1994, “Disminuyen en las fábricas textiles que trabajan solo 3 días semanales”.
477 Sol de Puebla 31 August 1994, “Necesarios corredores acordes a las necesidades de la industria textil”
478 The pessimism with which the sector viewed the NAFTA agreement is reflected in comments by CITPT president
Jorge González Cobian that the survival and potential recovery of the sector will not be achieved in the context of NAFTA
but rather through domestic support for the industry and other markets such as Central America and the Southern Cone
(Sol de Puebla, 2 November 1993, “Países del cono sur pueden ser la opción para el repunte de la industria textile de
Puebla y Tlaxcala: J. González C.”).
479 Actas, Asociación de Empresarios Textiles de Puebla y Tlaxcala, January 24, 1994.
480 Ibid
481 Textiles were one of a handful of sectors in Mexico whose labor relations were governed by Contract Laws that
covered the entire industry. This system created complications in the industry’s salary negotiations, especially with the
fragmentation of the state’s textile unions across several confederations (see chapter 5). As Bartlett took office in early
1993, labor leaders in the state were accusing business owners of failing to meet their various obligations under the
Contract Law (Sol de Puebla, 3 March 1993, “Textileras no cumplen con la mutualidad”). They also blamed the struggles of
the industry on the refusal of business owners to modernize their operations. (Sol de Puebla 22 March, 1993,
“Languidece la industria textil en Puebla, ante la negativa de empresarios para modernizarse” and 3 November 1993,
“Textileros adquieren tecnología de punta para no acabar su industria”).
482 Interview, March 3, 2016
government did little to address the concerns of the traditional sector. The situation of the textile sector reflected the broader challenges facing local business in Puebla, including plastics, food production, and retail firms. As a CCE leader recalls, “in general, industry and commerce, which had lived off the internal market over the course of many years… did not have international competitiveness. It was a period of mortality for firms that were not prepared to compete.”

The first half of the Bartlett sexenio thus saw the emergence of what can be characterized as hierarchical development. Its hierarchical nature is evident both in the administration’s approach to economic governance as well as the content of its development strategy. On the first point, the governor had a clear preference for one-on-one interactions with the state’s top business leader, CCE president Jorge Espina. Regular roundtables and dialogues with multiple representatives of the private sector did not feature in Bartlett’s management style. In the words of a top official in the government, “[Bartlett] provided guarantees, but he did not ask [business leaders] questions or spoil them.” This top-down mode of relations with the business sector stands in contrast to the more horizontal system of negotiations among diverse representatives of the private sector that had become a staple of business-government relations in Querétaro. In another marked contrast with the experience of Querétaro, Bartlett did not include local business leaders in top economic posts in his government, with the exception of Secretary of Economic Development, Mario Riestra. At the same time, Bartlett nurtured allies among the more PRI-friendly contingent of the private sector—his “men of change”—as a counterweight to the conservative tendencies of the traditional

483 According to a prominent local business leader at the time, “the truth is, with respect to the textile industry, there was little interest and little support on the part of the state government. It was seen as an industry that was no longer going to be internationally competitive and so they paid little attention. It was precisely for that reason that they did all these studies, to look for other paths, other outlets” (interview with CCE leader, March 8, 2016).

484 Interview with state government official, August 26, 2016.

485 Espina owns a construction business and is associated with the traditional group of very conservative and PAN-sympathizing business leaders in Puebla. He describes his motivation for joining organized business associations as a young entrepreneur in the 1970s as stemming from a rejection of the statist policies put in place by Echeverría.

486 Interview with state government official, August 26, 2016.

487 While Riestra had been the commercial director of Puebla-based Mabesa, an important local exporter of sanitary products, he did not have close ties with the state’s peak business associations. Bartlett would bring additional business people into his government later in the term, but these appointments, as discussed below, were more oriented towards serving the governor’s short-term political objectives than improving cooperation with the private sector.
leaders. In this way, the governor endeavored to shape the array of forces in the local business sector to advance his political ends, exploiting longstanding divisions within the local business community.

This preference for hierarchical arrangements was also evident in the Angelópolis plan, Bartlett’s flagship development project. The governor created two bodies—the Angelópolis Executive Committee and the Angelópolis Consultative Committee—to encourage participation of various stakeholders in the project. However, the Angelópolis plan was, from the beginning, directed by the governor, who had conceived of the project even before the 1992 campaign began. The business sector, for example, believing the program was too ambitious and sprawling, encouraged the governor to narrow its scope to several priority projects that had a better chance of being completed. Bartlett refused to modify the plans. In addition, the creation of the construction consortium to build the periférico represented a government-orchestrated attempt to enforce collective action on a traditionally divided local business sector, with predictably perverse results.

Another sense in which Puebla’s development model under Bartlett can be described as hierarchical is the prioritization of the state’s dominant automotive sector, which accounted for nearly 40 percent of manufacturing output in 1993. The construction of an industrial park for Volkswagen suppliers and transportation infrastructure to facilitate the firm’s access to national

488 The Executive committee included various state government officials, the presidents of the 14 municipalities whose territories were included in the Angelópolis portfolio, the president of the CCE, and the leaders of two union confederations. The Consultative Committee included a wider array of political and civil society leaders, including six business association presidents (Government of Puebla 1999b).

489 Bartlett was able to do so because the Salinas administration created a new position, the Commissioner for the Evaluation and Promotion of Development Projects in the Central Zone, which Bartlett occupied soon after leaving the Secretariat of Public Education (SEP) in January 1992. This post allowed Bartlett to unofficially begin campaigning in Puebla before any candidacies were announced (Nexos, 1 September, 1992, “Final en Puebla”).

490 The concerns of the business sector would be borne out by the fact that several of the seventeen Angelópolis projects, such as the restoration of the San Francisco river, never saw the light of day, while the periférico project also remained unfinished at the end of Bartlett’s term and only received minimal attention from Puebla’s two subsequent PRI governors, as discussed in chapter 9.

491 Carlos Ortiz, the manager of CCE during the Bartlett administration, acknowledged the problems in trying to prevail upon dozens of local construction firms to cooperate on a project, pointing to the absence of such associations in the local business sector over the course of many decades (interview February 29, 2016).
and international markets accelerated the transformation of the sector into a globally-integrated cluster controlled by one dominant firm. The relationships between VW and other actors in Puebla’s political economy provide an apt illustration of Schneider’s (2014) concept of “hierarchical capitalism” in which important decisions regarding production, training, and capital allocation tend to be taken unilaterally by dominant firms. The actions of the Bartlett administration in the first half of the sexenio reinforced this mode of capitalist relations in Puebla and contributed to the consolidation of its mono-industrial structure.492

Breakdown of state-business relations and renewal of partisan political conflict

In a repeat of the pattern seen in previous sexenios, the “strong collaboration” between government and business would not last. Even before the electoral season heated up, Bartlett had already begun to lose luster in the view of many local business people, who criticized the government’s efforts to promote investment and improve the state’s industrial parks.493 As local elections in November 1995 approached, however, the rapprochement between the state government and organized business would dissolve into open partisan conflict. Local business leaders mobilized behind the PAN’s candidate, the electronics business person Gabriel Hinojosa.494 Private sector associations, led by the CCE, sponsored campaigns to encourage voting and promoted a debate between the PRI and PAN candidates for the municipal presidency. The CCE also supported polling in the lead-up to the vote, including one just over a week before election day that showed the PAN leading by 12 points. The business leaders brought these results to the governor whom they urged to respect what they saw as a highly likely PAN victory. The local

492 Some local business leaders, such as the head of the local branch of the National Foreign Trade Council (Conacex, a business association for exporters) expressed disapproval with this strategy and called for greater efforts to diversifying the state’s exports (Sol de Puebla, 13 August, 1994, “Oportunidades para que todas las ramas industriales exporten, demanda Conacex”).

493 A year and a half into the sexenio, for example, Canacintra president Jorge Zárate claimed the state was experiencing “an employment crisis” and said the state government needed to do a better job promoting national and foreign investment (Sol de Puebla 12 August, “Industriales demandan labor conjunta con gobierno para la creación de más empleo”). Meanwhile, in the area of industrial parks, business leaders declared that if progress is not evident soon, the state “will not move forward and become competitive.” (Sol de Puebla 31 August, 1994, “Necesarios corredores acordes a las necesidades de la industria textil”).

494 Hinojosa is the cousin of former president Felipe Calderón Hinojosa, who at the time was national leader of the PAN.
business sector also presented their polling numbers to the federal Secretary of Government, Emilio Chuayffet. These actions did not sit well with Bartlett. In addition to these activities, local business leaders provided in-kind support to Hinojosa by making available transportation, printing, and other services to his campaign.495

Not to be outdone, Bartlett campaigned aggressively on behalf of the PRI’s mayoral candidates across the state. The governor on various occasions expressed his opposition to the “cohabitation” of political parties and even suggested that continuation of the Angelópolis project depended on voting for the PRI (Reynoso 1995).496 Business leaders reacted against these electoral interventions by the governor, calling on Bartlett to “differentiate partisan acts and those of government, to avoid confusion among the citizenry”497 and claiming that the conditions did not exist for transparent and democratic elections in the state.498 The PAN and the PRD formally accused the governor of diverting public resources to support the PRI campaign. Bartlett responded by reading out a 24-page defense in front of the media, denouncing attempts to “make the authorities political hostages and impose illegal concertaciones.”499

At the same time, the PRI-sympathizing sector of the business community, including those that had benefitted from abundant public works contracts in the first half of the sexenio, worked to counter the traditional business sector’s support for the PAN. The Consortium of Puebla Construction Firms thanked Bartlett for entrusting the construction of the periférico project to local firms in a full-page advertisement in the local newspaper. José Brito Zaragoza, a former president of CITPT, criticized the political pronouncements of Coparmex during the election season, calling

495 Interview with Socorro López Espinosa, February 13, 2017.
496 Voters’ rejection of this open proselytism by the governor on behalf of PRI candidates is cited by journalist Rodolfo Ruiz as one of the reasons for the PAN’s victory in the municipality of Puebla. See: http://anuario.e-consulta.com/index.php/1995/item/manuel-bartlett-diazvoto-de-castigo?category_id=105
497 In response, Bartlett rejected the criticism of those who believed “the governor should not talk about his party” (Sol de Puebla 1 September, 1995, “Recalca Bartlett Díaz su compromiso con las clases populares y con su partido”).
498 Sol de Puebla, 12 September, 1995, “Todos son culpables de que no se garanticen unas elecciones transparentes y democráticas”
499 Bartlett affirmed that “I have never conditioned the provision of any public service, the completion of any program, or the realization of any public work on the emission of a vote in favor of a political party or candidate. The generic declarations, without support or proof, that are being imputed against me, are false” Sol 8 September 1995, “No soy un gobernador silencioso, vergonzante, ni clandestino: MBD”.

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it a *panista* organization.\textsuperscript{500} Similarly, the Canaco president reported that many affiliates were hesitant to participate in election monitoring activities sponsored by Coparmex due to political differences.\textsuperscript{501}

On the day of the election, the CCE contracted the Center of Public Opinion Studies at the University of Guadalajara to do exit polling. The results of this rapid vote count, which showed a 13.6 point margin of victory for the PAN, were made public the evening of the election.\textsuperscript{502} The official tally would confirm that the Puebla private sector had finally achieved its goal of retaking power in the city. The result represented an apex in the political influence of the traditional business associations. Local journalist Rodolfo Ruiz, reporting on the transfer of the CCE presidency in early 1996, called the state’s peak business association, “an increasingly politically and socially influential sector, with a great capacity for both local and national intervention.”\textsuperscript{503} In the remainder of the *sexenio*, Bartlett would work to undermine this political and social influence. Hinojosa’s victory thus ensured that the second half of the Bartlett administration would be characterized by tense relations, punctuated by outright conflict between the state government and organized business leaders.\textsuperscript{504}

In sum, elections once again led to a rift between the government and the organized private sector. This deterioration of relations largely foreclosed the possibility for continued collaboration on the policy goals identified at the outset of the *sexenio* and impeded coordination to buffer the effects of the brutal economic recession that hit Mexico in 1995. Leaders of the main business

\textsuperscript{500} Brito would become the state’s tourism secretary in the second half of the *sexenio* (*Sol de Puebla*, 4 November 1995, “Generando más Empresas, se Acabará con el ocio que está minando a la juventud: Brito.”)

\textsuperscript{501} *Sol de Puebla*, 8 November 1993 “Mostraron apatía los empresarios, para participar como observadores en las elecciones: M. Urquiaga”


\textsuperscript{504} The governor also clashed fiercely with the *panista* mayor, who accused the governor of depriving the municipality of financing. These claims escalated after the PRI-controlled state congress passed the so-called “Ley Bartlett” in 1997, which changed the distribution of state revenue transfers to favor Puebla’s rural municipalities, which also happened to be controlled almost entirely by the PRI. The PAN responded by lodging a Constitutional complaint against Bartlett, but Mexico’s Supreme Court quickly ruled in the governor’s favor (Ward and Rodríguez 1999).
chambers recall the relationship with Bartlett “became very cold” as a result of the election spat, leading to a truncation and termination of various actions and programs that the government and private sector had been working on and a general “failure to resolve issues.”

A working group set up to deal with government-private sector relations ceased to function in mid-1995 after Bartlett deemed it a conflict of interest for business leaders to participate in this forum while simultaneously supporting the opposition.

The dysfunctional nature of the relationship was evident in comments by business leaders that they could interact with the governor as long as “they did not discuss issues of local politics.”

In such an atmosphere, efforts to enhance the state’s industrial infrastructure and the quality of its technical education floundered. The majority of Puebla’s industrial parks remained in a woeful state. In the second half of the sexenio, the CCE carried out a report on the conditions of the state’s Industrial Park 2000 and discovered the park lacked basic amenities such as paved roads, water, and electricity. The proposal to create a Multi-Sector Council for Industrial Parks remained just that. The state government did promote two small industrial parks, San Miguel and El Carmen, near the airport, but their combined capacity totaled fewer than 20 firms by the end of the term (INEGI 1999). Overall, the industrial park infrastructure undertaken in the Bartlett administration weighed heavily towards the auto sector, which accounted for 55 percent of the workforce in the state’s industrial parks by 1998; the second largest sector, soft fibers (textiles) made up only 9 percent. This orientation towards the auto sector, populated by large MNCs, also meant that the state’s industrial parks were dominated by large firms, which accounted for 68

505 Interview with former CCE officials (February 29, 2016 and March 8, 2016)
506 Sol de Puebla 16 November 1995, “Agenda empresarial”.
507 Sol de Puebla 5 October 1996, “Tranquilas relaciones de la IP y gobierno estatal: empresarios”.
508 The clear exception, as discussed above, was the industrial infrastructure created for VW suppliers. In addition to the FINSA park, the government facilitated the construction of the Breamex industrial park, also for the auto sector.
509 Interview with former CCE official (February 29, 2016).
510 This concentration presents a stark contrast with the case of Querétaro, where the top three industries by employment in the state’s industrial parks each accounted for 12 percent of the total (INEGI 1999).
percent of total industrial park employment by 1998 (compared with 46 in Querétaro). In the area of training and technical education, the Bartlett government did create 15 worker training centers, four technological institutions, and a research center affiliated with the National Polytechnic Institute. In addition, the Technological University of Puebla, opened in 1994, had expanded to five campuses throughout the state by the end of the sexenio.

However, a lack of coordination with the local private sector would limit the effectiveness of these initiatives. Studies of university-industry linkages in Puebla found that the state’s higher education institutions had failed to orient themselves to produce research outputs with practical applications for industry and the government had not made sufficient efforts to encourage such university-industry linkages (Vera Smith 2010). This assessment is supported by the views of local officials that the state lacked the adequate educational infrastructure to produce even mid-level technicians for industry. In addition, the state’s main business chambers, which would be a potentially valuable source of information on the needs of industry, were not active participants in these efforts. Another factor that limited the capacity for robust industry-university linkages was that Volkswagen, in a pattern that mirrored other policy areas, operated its own in-house training center and therefore had little interest in supporting worker training initiatives as a public policy goal.

Rather than cooperating on policy issues, Bartlett focused on dismantling the power bases of the local business sector in the aftermath of the 1995 elections. The governor first took aim at

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511 The distinct features of the two states’ industrial parks are thus indicative of broader differences in development strategies summarized in Table 6.2.
512 The worker training centers, part of a federally-sponsored program to establish training centers in the states, provided training to over 14,000 workers by 1997, compared with 144 in 1994. The state government also provided over 62,000 scholarships for worker training over the course of the sexenio (Government of Puebla 1999a).
513 As a result, it had been common during the 1990s and first part of the 2000s for firms to bring such employees from Europe or South America, especially in the auto parts sector. Interview with Antonio Zarain, former Secretary of Economic Development of Puebla (1999-2005), October 20, 2015.
514 By contrast, in the case of Querétaro former business association presidents have become active members of the administration of the state’s technical institutions, fostering connections between industry and the university sector (see chapter 6).
515 Interview with Volkswagen executive (January 26, 2016). In addition, the Tier 1 suppliers located in the FINSA park also cooperate to develop human capital resources in the sector, meeting twice a year to discuss common issues (Pries 1999). In this way, the FINSA firms carry out certain activities that would otherwise be the realm of business associations.
the Junta de Mejoras, which had existed as a sort of parallel government since the late 1950s, receiving state funds to carry out public works projects despite its official status as a private organization.\footnote{This anomaly made the Junta technically unconstitutional in the eyes of many, although this detail had simply been ignored by successive local governments (interview with Socorro López Espinosa, May 3 2016).} Bartlett defunded the Junta, putting an end to an important source of social influence and economic power for the traditional elite. Bartlett also undertook an audit of public funds assigned to the Feria de Puebla, an annual exposition to promote the state’s products overseen by top business leaders.\footnote{Control of the Feria was another longstanding privilege accorded to the conservative business elite in the state.} In the months after the election, the state prosecutor launched an investigation that found evidence of numerous irregularities and misuse of resources by the Feria’s executive committee.\footnote{These abuses included withholding employees’ tax contributions to the social security fund and awarding numerous contracts to the businesses of the president of the Fair and his associates. See: http://anuario.e-consulta.com/index.php/1999/item/la-doble-moral-de-la-ip-rodoreda-amnesia-politica?category_id=101} These investigations produced charges against the head of the Feria’s steering committee, Alfredo Miranda, leading to his dismissal and the subsequent resignation of his private sector allies on the Board. While the criminal charges were never pursued, Bartlett used them as leverage against the traditional business leadership.\footnote{Miranda, a former president of the Social Union of Businesspeople, was a tried and true member of the conservative local business establishment and became the rector of the UPAEP in the 2000s.}

Another consequence of this rupture was increased meddling by the government in Puebla’s business chambers. During the second half of the sexenio, Bartlett brought former Canacintra president Jorge Zárate, a business person close to the PRI, into his cabinet as Tourism Secretary. Zárate subsequently spearheaded the creation of the Puebla Council of Businessmen, meant as an alternative to the PAN-sympathizing CCE.\footnote{While this alternative association failed to consolidate, it foreshadowed the split of the CCE into two rival associations in 2005 (see chapter 9).} According to business leaders, the Bartlett administration later attempted to coopt Canacintra by funneling public money to a fund for SMEs operated by the chamber, after which Canacintra reliably backed the governor.\footnote{Interviews with former Puebla chamber presidents December 1, 2015 and January 22, 2016} In the last two years of the Bartlett sexenio, Canacintra received government support for various programs for SME development, such as the Entrepreneurial Center for Business and the Center for the
Development of Competitiveness. Canacintra also operated the regional branch of CRECE, a federal initiative to provide consulting services to small businesses in the wake of the 1995 crisis. A Bartlett ally from his gubernatorial campaign and top official in the Puebla construction consortium, Amado Henaine, became Vice-President of the construction chamber in this period. In intervening in the chambers, Bartlett took advantage of pre-existing divisions within the private sector, playing off rivalrous factions to advance his political goals.

These tactics on the part of the governor added to the challenges already facing Puebla’s business associations in this period. In addition to a brutal recession that forced many local firms to close, the federal government reformed the longstanding Chambers Law that had governed Mexico’s business chambers since 1941. In 1996, a court decision struck down mandatory affiliation, a key feature of the 1941 legislation, dealing a severe blow to the chambers, which struggled to retain members by offering new services.\(^{522}\) In Puebla, Canacintra in particular fell into dire financial straits during this period, due to the mismanagement of president Maximino Bear (1996-1998).\(^{523}\) As a result, the chamber found itself an easy target for a government intent on exercising greater control over business organizations.\(^{524}\) After the presidency of Bear, a panista who later served in the municipal government under Luis Paredes (2002-2005), the chamber leadership passed into the hands of business people with close ties to the PRI.

At the same time as state-business relations devolved into conflict and cooptation, relations between the private sector and organized labor remained tense and full of recriminations. Union leaders in Puebla regularly blamed business for the failure of economic pacts and other attempts to ease economic adjustment.\(^{525}\) A CCE leader at the time, describing the state’s labor relations, recalls

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\(^{522}\) However, developing and providing new services entailed additional financial obligations for cash-strapped chambers. The national Canacintra almost lost its Mexico City headquarters to creditors during this period (Shadlen 2002).

\(^{523}\) Interview with Socorro López Espinosa, May 3, 2016

\(^{524}\) The combination of declining revenues and increased government meddling precipitated a deterioration in the services provided by the chambers and their prestige among the broader business sector. A younger generation of business leaders would attempt to renovate the main chambers starting in the early 2000s, efforts that would lead to a clash with the established leadership (see chapter 9).

\(^{525}\) For example, during a forum organized by Coparmex to discuss the new labor culture, FROC-CROC President Constantino Sánchez called the business leaders who organized the forum incongruent for placing the blame for low
that “not having an ally in the unions, but rather someone that still thinks he has to be fighting against the firm” exacerbated a “very difficult period.” These sentiments are substantiated in the number of strikes in the state, which more than doubled to 26 in 1995. In late 1995 the Sol de Puebla wrote that the state would never embrace the New Labor Culture being promoted at the national level (which firms and unions in Querétaro had adopted precociously at the beginning of the decade) without internal renewal of its union confederations. In addition, state government officials made ambivalent statements regarding the New Labor Culture, warning that it should not be used as a pretext to weaken the worker protections enshrined in Mexico’s Constitution.

Despite the complicated relations between the Bartlett government, organized business, and labor, Puebla’s economy did not suffer, in aggregate terms, in the second half of the sexenio. GDP recovered quickly in 1996, and averaged growth of 8 percent over the final three years of the administration. This expansion, however, was concentrated in the auto sector, which consolidated its dominant role in the economy due to a conjunction of factors. In response to a contracting domestic market and plummeting peso, Volkswagen-Mexico ramped up exports, an option unavailable to the large majority of firms in the state. As Table 7.1 shows, the firm’s exports increased by 57 percent (measured in units) in 1995, as production for the domestic market tanked. By the end of 1995, Volkswagen accounted by a full 80 percent of the state’s exports. This trend

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526 Interview with former CCE leader, March 8, 2016.
527 INEGI Anuario Estadística por Entidad Federaliva
528 Sol de Puebla, “Agenda empresarial”, 25 November, 1995. The following year, the same column reported that the CTM and Coparmex had been meeting in secret to discuss the New Labor Culture but expressed pessimism that these talks would bear fruit in Puebla given the “retrograde” attitude of unions and the difficulty in negotiating with a labor sector fractured among various federations (Sol de Puebla, 23 October 1996, “Agenda empresarial”).
529 These comments were made by the technical secretary of the state economic development secretariat, who echoed the position of labor leaders such as Constantino Sánchez of the FROC-CROC that the new labor culture must not “prostitute” Article 123 of the Constitution (Sol de Puebla, 7 September, 1995, “El estado tiene que velar por el pleno empleo: HMH” 9/7/1995” and Sol de Puebla 9 September, 1995, “Nueva cultura laboral, sí, pero sin ‘prostituir’ la ley laboral: Sánchez Romano”)
530 This figure is cited by an official in the state’s Economic Development Secretariat. Sol de Puebla, 28 November 1995, “Volkswagen el mayor exportador estatal, con un 80%: Contreras”.

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would continue over the rest of the sexenio, as exports grew dramatically from 43,218 units in 1992 to 341,306 by 1999 (see Table 7.1).

Volkswagen’s major expansion of exports from Puebla was facilitated by several factors. First, as discussed in chapter 5, Mexico’s 1989 auto sector decree created new fiscal incentives for exports while also encouraging the establishment of Tier 1 suppliers through local content requirements in the auto parts sector (Juárez 2006). In Puebla, the new policy framework for the sector led to initiatives such as the FINSA auto park, which after confronting a series of obstacles during 1993 and 1994, finally hit its stride in late 1995, allowing the firm to fully exploit the efficiency gains of its lean, just-in-time production model (Pries 1999). Around the same time, VW corporate managers decided to make the Puebla plant the sole production site for its New Beetle model, around 90 percent of which would be exported. In preparation for this new role in Volkswagen’s global division of labor, the firm announced a major investment program of nearly US$ 1 billion, most of which came in 1997 and 1998 (see Table 7.1) (Juárez 2005).3 The installation of a new, state-of-the-art production line, combined with the consolidation of the firm’s outsourcing strategy, greatly enhanced the productivity of the Puebla plant. In 1998, the second year of New Beetle production in Puebla, the firm produced 23 cars per worker, compared with 6.75 in 1990 (Pries 1999). These changes thus entailed a dramatic increase in the global integration of Volkswagen-Mexico. The share of its production sold abroad more than doubled over the Bartlett sexenio reaching 83 percent by 1999.

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3 The decision to make Puebla the “lead plank” with full responsibility for a new model represented the culmination of a major shift in the company’s global strategy. Prior to the early 1990s, the Puebla plant and other developing country affiliates produced older models targeted at (protected) domestic markets, and their factories employed technology and equipment that had already become obsolete in Europe. In response to the rise of fierce competition from Asian producers, however, VW shifted to a model of flexible global operations where facilities around the world essentially compete for production of new models. In this regard, Puebla’s proximity to the U.S. market and the signing of the NAFTA in 1993 helped catapult VW-Mexico into a key strategic role for the firm.
Table 7.1: Growth and Global Integration of Volkswagen-Mexico, 1992-1999

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</tr>
</thead>
<tbody>
<tr>
<td>Production for national market</td>
<td>145,270</td>
<td>141,742</td>
<td>157,445</td>
<td>36,307</td>
<td>53,105</td>
<td>69,230</td>
<td>91,360</td>
<td>69,002</td>
</tr>
<tr>
<td>Production for export</td>
<td>43,218</td>
<td>97,261</td>
<td>98,872</td>
<td>155,131</td>
<td>177,973</td>
<td>188,136</td>
<td>247,599</td>
<td>341,306</td>
</tr>
<tr>
<td>Total production</td>
<td>188,488</td>
<td>239,003</td>
<td>256,317</td>
<td>191,438</td>
<td>231,078</td>
<td>257,366</td>
<td>338,959</td>
<td>410,308</td>
</tr>
<tr>
<td>Investment (USD millions)</td>
<td>386</td>
<td>91</td>
<td>50</td>
<td>176</td>
<td>255</td>
<td>440</td>
<td>415</td>
<td>250</td>
</tr>
<tr>
<td>Unionized workers</td>
<td>12,000</td>
<td>10,700</td>
<td>10,152</td>
<td>9,123</td>
<td>9,600</td>
<td>10,148</td>
<td>12,600</td>
<td>12,634</td>
</tr>
</tbody>
</table>

Note: All production figures are in units
Source: Juárez (2005)

The expanding auto sector created, in principle, opportunities to develop local production chains. The firm’s top-level (Tier 1) suppliers, as discussed above, increasingly established operations in Puebla after the initiation of outsourcing in the early 1990s, causing the number of firms in the sector to grow from 18 in 1993 to 82 by 1998 (Government of Puebla 1998).532 These new investors created demand for a variety of inputs in the plastics, metals, glass, and even textile sectors the state’s existing industrial plant could have supplied.533 However, local firms have had only limited success forging linkages with the large MNC auto parts suppliers that flocked to Puebla in the 1990s. Very few have managed to incorporate into the VW supply chain on a sustained basis (Barragán and Usher 2009). As a result, Volkswagen’s Tier 1 suppliers largely rely on imported inputs. One study of a selection of VW suppliers in the Puebla cluster found that only 9.8 percent of these firms’ inputs were purchased domestically (Juárez 2006). This lack of integration into the VW value chain also means that technology and other spillovers to local firms in the Tier 2 and Tier 3 levels have been minimal (Barragán and Usher 2009).534 As Juárez (2006) concludes, the

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532 Martínez (2008) reports that upon initiating its early 1990s restructuring, VW performed a diagnostic of local firms’ capacity to meet the demands of the flexible just-in-time production model. The study found that local firms lacked the ability to produce at the requisite level of quality and scale, were unwilling to take on the necessary of financial risks, and hesitated to enter into long-term contracts demanded by VW.

533 In fact, Volkswagen itself expressed their intention to build out their local supply chain in order to reduce costs on imports (Sol de Puebla, 30 November 1995, “Crecer es el reto de empresas fabricantes de autopartes”).

534 For example, Volkswagen provides support for its main suppliers, helping around 200 of them obtain international quality certifications; however, only 60 of these firms are located in the Puebla cluster, and these benefits have not trickled down to local Tier 2 or Tier 3 suppliers (Barragán and Usher, 2009).
arrival en masse of Tier 1 MNC suppliers in the 1990s has not necessarily “allowed for the embedding of industrial learning in local structures” (146). Various state officials and business leaders share the view that local firms missed an opportunity to participate more in the VW value chain.535

International experience suggests that forging linkages between MNCs and local capital generally requires sufficient “absorptive capacity” on the part of domestic firms (Crespo and Fontoura 2007) and information provision to understand the specifications and demands of foreign investors (Altenburg 2000). These conditions often do not arise organically but rather require interventions by local government or business associations.536 However, in the case of Puebla, these actors have had limited success in promoting opportunities for local firms to participate in the auto sector value chain.537 One factor complicating such efforts is that large Tier 1 auto parts providers, like Volkswagen itself, did not play an active role in local business associations.538

On the other hand, the state government continued to dedicate considerable resources to supporting Volkswagen’s increasingly complex and global operations. The Bartlett administration made additional investments in industrial infrastructure for the auto sector, enhancing services and road access to the state-of-the-art FINSA park and starting construction of a new industrial space for auto suppliers, FINSA II (Government of Puebla 1998). Linkages between the state’s technical universities and industry also revolved around the firm, as VW signed agreements with the ITQ to develop plastics for the auto sector. Other efforts on behalf of the firm took place behind the scenes, such as intervening with municipal presidents or intransigent labor leaders, or turning a blind eye

535 Interview with Antonio Zarain, former state Secretary of Economic Development (1999-2005) (October 20, 2015) and Eduardo Migoya, former president of CIX and COE (December 1, 2015).
536 See Doner and Schneider (2000) on the role of business associations in overcoming market failures including imperfect information and under-investment in firm upgrading.
537 An anecdote reported in Sol de Puebla reflects the challenges that local business associations in Puebla faced in trying to forge such linkages. After learning of opportunities for local SMEs to supply the large national firm Hylsa, Canacintra organized an event to inform potential suppliers of the terms. However, only around a dozen local firms participated in the event (Sol de Puebla, 4 October 1996, “Agenda Empresarial”). The financial and organizational challenges facing local business associations likely explain part of the inability to achieve more results in this area.
538 Even by the mid-2000s, only 2 of the 41 major auto parts firms identified by García and Lara (2010) as having operations in the FINSA park had served in a leadership role or an Adviser to the leadership in the local Canacintra. There are generally around 50 such positions in the chamber.
to tax underpayment. At one point, the state finance secretariat discovered that the firm had been massively underpaying a property tax for several years. Rather than requiring full back payment, state officials devised a special rate “considering all the exemptions the law permitted.” A high-ranking finance official summed up the government’s attitude as follows: “we never wanted to damage VW; you never kill the goose that lays golden eggs, so the relationship with VW was always very good.”

By contrast, the traditional textile sector ended the sexenio in the same precarious situation it had endured for over a decade. This assessment was confirmed by Mexico’s Secretary of Commerce and Industrial Promotion (Secofi), which issued a report along with the local textile chamber and state government that concluded the sector suffered from low levels of innovation in design, out-of-date technology, lack of market orientation and focus, and weak linkages between fabrics and clothing production. The report recommended a transition to production and export of finished clothing based on innovation in design and brand promotion as the key to the sector’s renewal. (Government of Puebla 1999a). In practice, very few Puebla firms would be able to realize this strategy.

The efforts of the Bartlett administration to reinvigorate Puebla’s economy thus ended up reinforcing the dominance of the auto sector. This is not to say Bartlett did nothing to promote economic diversification. The government tried to develop new industrial niches, such as the rustic furniture sector, where it encouraged the establishment of cooperatives among small, artisan producers that helped expand the sector from 20 to 145 firms and establish a growing export base (Government of Puebla 1999a). Bartlett also boosted the state’s technical education system, as discussed above, by establishing a new technological university and a network of industry training

539 Interview with former state government official, March 3, 2016.
540 Examples of such transformations of traditional Puebla firms include Textiles Brito, which carved out a niche in towels and other bath products using bamboo. However, a more common strategy was to export clothing via maquila production under contracts from major international brands, based on the design technology of those firms.
centers, although strong university-industry linkages would prove elusive.\textsuperscript{541} Despite these initiatives, the overwhelming weight of Volkswagen and its suppliers in the state economy—and the firm’s resulting political influence—meant that efforts to boost Puebla’s global integration and competitiveness would inevitably revolve around the firm. This tendency was reinforced by the relationship between the government and organized business, which as this chapter has shown, turned on politico-partisan rivalries. The resulting pattern of cooptation and conflict undermined efforts to provide policy outputs that would have favored economic diversification.

\textit{Results of the Bartlett administration}

On the whole, the Bartlett administration oversaw a period of economic expansion in Puebla, interrupted only by the 1995 crisis. As Table 7.2 shows, the crisis was especially severe in the state, but the second half of the \textit{sexenio} experienced consistently strong growth.

\textbf{Table 7.2: Growth in Puebla and Querétaro, 1994-1998}

<table>
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</thead>
<tbody>
<tr>
<td>Puebla</td>
<td>5.0%</td>
<td>-8.2%</td>
<td>8.9%</td>
<td>8.7%</td>
<td>7.7%</td>
<td>8.4%</td>
</tr>
<tr>
<td>Queretaro</td>
<td>8.1%</td>
<td>-3.0%</td>
<td>8.6%</td>
<td>12.2%</td>
<td>9.0%</td>
<td>9.9%</td>
</tr>
</tbody>
</table>

\textit{Source: INEGI System of National Accounts}

As emphasized throughout this chapter, however, the economic growth of the Bartlett years went hand in hand with greater concentration of economic activity in the auto sector. This result can be seen in the growing share of the auto sector’s total manufacturing output, which rose to 47.0 percent (including auto parts) in 1998 from a starting point of 38.7 percent in 1993 (see Table 7.3). The growing share of the auto sector came at the expense of textiles, which continued its long decline. The overall concentration of Puebla’s manufacturing sector across all industries is evident

\textsuperscript{541} There are several explanations for this outcome. First, subsequent governments did not build on the efforts by the Bartlett administration, especially that of Mario Marín Torres (2005-2011), who had little interest in industrial development. Secondly, a lack of representativeness of the state’s peak business association, a factor explored in depth in chapter 3, meant that these organizations were less effective interlocutors with the public and university sectors. Finally, the dominant auto sector, and Volkswagen especially, operated its own in-house training program and its research and development activities remained in its German headquarters (Barragán and Usher 2009).
in the increase of the Herfindahl-Hirschman Index (HHI), a measure of industry concentration, from 0.17 in 1993 to 0.24 in 1998.

Table 7.3: Concentration of Manufacturing in Puebla, 1993 and 1998

<table>
<thead>
<tr>
<th>Industry</th>
<th>Share of total*</th>
<th>Industry</th>
<th>Share of total*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td>38.7%</td>
<td>Automotive</td>
<td>47.0%</td>
</tr>
<tr>
<td>Fabrics and threads</td>
<td>8.5%</td>
<td>Fabrics and threads</td>
<td>6.4%</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>6.5%</td>
<td>Clothing</td>
<td>4.9%</td>
</tr>
<tr>
<td>Beverages</td>
<td>6.4%</td>
<td>Beverages</td>
<td>4.2%</td>
</tr>
<tr>
<td>Chocolate and confectionary</td>
<td>3.0%</td>
<td>Iron and steel</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

*Figures reflect each sector’s share of total manufacturing product, rather than GDP

The growth of the auto sector allowed for a notable increase in Puebla’s integration with the global economy. Exports increased more than four-fold over the sexenio, from 1.1 billion in 1993 to 4.7 billion in 1998 (Government of Puebla 1999a). Foreign direct investment inflows likewise were strong, totaling US$ 572 million over the course of the Bartlett administration. In both cases, the dominance of the auto sector was stark, accounting for over 90 percent of the state’s total FDI (including auto parts) and over 80 percent of its exports by 1999.542 The upshot of the Bartlett years was thus a growing divergence between the auto sector, which increasingly operated as a globally-integrated enclave, and the rest of the economy. This trend is clearly evident in productivity figures as well. On the one hand, the auto sector saw labor productivity jump from 52.6 to 363.5 (thousand pesos/worker) between 1993 and 1998—an increase of 596 percent—thanks to Volkswagen’s restructuring, new production model, and heavy investment. By contrast, the state’s median industry increased productivity by only 75 percent over this period.543 This dual

542 However, Volkswagen’s share of the sector’s total investment was in fact likely larger due to the practice of co-investment in suppliers’ facilities (Juárez Núñez 2005).
543 By contrast, the gap in Querétaro between the auto sector (also the state’s leading industry in 1998) and the median industry in terms of productivity growth was less dramatic. The former saw an increase of 391 percent between 1993 and 1998, compared with 116 percent for the latter.
structure would have important economic and political consequences as Mexico’s economic integration with North America deepened in the 21st century.

Despite a relatively strong economic legacy, Bartlett’s clashes with the private sector (and other local groups, including some affiliated with his own party) complicated his political prospects at the end of the sexenio. For one, he failed to secure strong local support in his bid for the PRI’s presidential nomination, which was ultimately unsuccessful. His attempts to promote the candidacy of his former finance minister José Luis Flores, as Puebla’s next governor likewise proved futile. Instead, various segments of the local political elite succeeded in securing the party’s nomination for a local politician after three sexenios of federally-imposed governors. This alliance of local groups helped propel the victory of Melquiades Morales, a former cabinet secretary under Guillermo Jiménez Morales with strong local political roots, in the party’s first-ever open primary in Puebla. The triumph of a well-known and well-connected local politico as the PRI’s candidate in 1999 state elections would shape the trajectory of relations with the private sector, as the incoming governor would prioritize a congenial relationship with local business, taking advantage of the maneuvering of the Bartlett administration to install sympathetic leaders in key business chambers.
Ignacio Loyola surprised Querétaro’s political establishment by prevailing in the July 1997 gubernatorial elections. The state’s history as a PRI stronghold and the popularity of recent priista governors made Querétaro an unlikely site for the opposition’s fifth victory in gubernatorial elections. However, a series of external factors militated against the ruling party. The political fallout from the 1995 recession boosted opposition candidates in local races across the country, and a major political reform passed the following year evened the electoral playing field by reducing PRI control over local electoral processes, among other measures. In addition, Loyola’s opponent, Francisco Ortiz Arana, was the PRI’s national president and thus embodied the official party power that many voters had come to reject.

While the victory of the PAN undoubtedly marked a major political milestone, it did not bring about substantive changes in the state’s economic governance. This continuity is most notable in the area of labor relations, where the panista administration maintained the practice of regular dialogue among government, business, and labor through the Tripartite Commission. The new governor even appointed PRI politicians who had been involved in the Tripartite during past administrations to top cabinet positions. In fact, Loyola himself had direct experience of this institution, first as president of the local chamber of commerce and later as the head of Coparmex, a position he left in order to seek the governorship. The incoming governor, as had been the case with Enrique Burgos before him, was thus well acquainted with the key actors and institutions undergirding the state’s peaceful labor relations and broader norms of cooperation between government, business, and labor.

The Loyola administration also maintained or deepened existing policies in areas such as technical education, economic infrastructure, and promotion of the state beyond its borders. The government initiated a major project to build an international airport, which became the centerpiece of the state’s burgeoning aerospace sector in the 21st century, despite initial skepticism over the project. Loyola also ramped up efforts to promote Querétaro to international investors, seizing on
the new role of governors as ambassadors of their states in the global economy. This strategy would bear fruit with the increasing diversification of foreign direct investment and establishment of a nascent services hub to complement the state’s manufacturing base. As Mexico entered the 21st century, Querétaro would thus be well-integrated with the global economy in a range of dynamic sectors.

Political alternation and economic continuity under Ignacio Loyola

On the surface, the election of a panista businessman as governor of Querétaro in 1997 had the potential to disrupt the state’s tradition of stable governance and amicable social relations. In other states where the opposition unseated the PRI, the party’s entrenched allies in public bureaucracies, labor unions, and organized social groups made life difficult for new governors (Rodríguez and Ward 1995). Loyola did face challenges from social groups, some linked to the PRI, which pressured the new administration with large demonstrations in the weeks after its inauguration. The local media often took an antagonistic stance towards the new government, in contrast to its generally submissive treatment of prior priista administrations. The standoff with social groups would escalate after the imprisonment of leaders of the Independent Front of Social Organizations (FIOS) whom the governor accused of organizing an attack on a bus carrying federal cabinet members in February 1998, leading to a series of protests and complaints to Mexico’s National Human Rights Commission (Díaz Aldret 2011).

However, these incidents never threatened the state’s vaunted political stability or the alliance between government, business, and organized labor. Several factors explain the relatively smooth transition to a business-led panista administration in Querétaro. The first is the politically moderate nature of the Querétaro business sector. As emphasized in previous chapters, organized

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544 In the first months of the Loyola sexenio, an umbrella organization of diverse social groups occupied the plaza in front of the municipal government to press demands ranging from rights for informal vendors to rural land tenancy (Díaz Aldret 2011).
545 As in other states, PRI governments in Querétaro had several time-honed methods for ensuring favorable coverage from most local media outlets, including through regular financial support, which ended under the Loyola administration. The submission of local media to the PRI, whose campaign received nearly exclusive coverage in the 1997 campaign, was yet another reason why observers failed to foresee the PRI’s defeat.
business in Querétaro never adhered to the uncompromising anti-state ideology that characterized their counterparts in other parts of the country, including Puebla and Monterrey. Instead, queretano business elites had traditionally maintained close ties with PRI governments. Even as some elements of the business sector started to support the PAN in the 1980s, the state’s organized business associations did not develop strong partisan identities as in Puebla. The rise of professional managers from outside the state to chamber leadership positions reinforced their non-partisan nature. Business associations and their most prominent representatives remained open to working with all political parties and tended to avoid partisan comments around elections.546 This mentality is captured in the actions of Roberto Ruíz Obregón, the leading figure among local capitalists, who reportedly provided financial support for all the major party candidates in the 1997 election (including the PRD).547 As a result, the victory of a governor from the ranks of the private sector did not provoke major partisan tensions either within the business community or between business and other segments of society.

In addition, while Loyola’s victory may have represented partisan change, it also ensured the continuation in power of a local elite that had controlled the state for much of its recent history. The new governor had close ties to various sectors of the traditional political class, including prominent priistas. His brother, Roberto Loyola Vera, had served as the personal secretary of Enrique Burgos, and Burgos ran his 1991 gubernatorial campaign out of the Loyola family home in Querétaro’s historical center (Díaz Aldret 2011). Another brother, Rodolfo, was the director of

546 These attitudes can be seen in the comments of business leaders before and after the 1997 election. In the run-up to the vote, business leaders expressed their intention to “fully support and work with” whichever candidate wins and concern for “legitimate elections that ensure governability” above all else (Noticias de la Manana 3 July, 1997, “No inquietan a empresarios los resultados: MR” and “Canacintra y Coparmex llevarán a cabo conteo rápido en jornada electoral”). After the election, Coparmex ex-president Pablo Trofimoff asserted that business’ “obligation is to work closely with the government in turn, regardless of its partisan affiliation…what interests us is the economic development of the state.” Another Coparmex ex-president, and later participant in PRI municipal governments, Rafael Rodríguez Tolentino, expressed the inclination to work with the new administration and that he was “optimistic for the new government” (Tribuna de Querétaro 26 August, 1997, “Si la administración pública se guía solo por el marcado, se puede dañar al país: Pablo Trofimoff”), while leader of small business association Canacope, Pedro González Rivas promised to close ranks behind the new governor because “unity is paramount” (Noticias de la Manana 8 July, 1997 “Canacope, institucional: respalda ahora al vencedor”).

547 Obregón’s influence in state politics was nothing new. According to Díaz Aldret (2011) aspirants to the governor’s office had for decades first sought Obregón’s blessing.
the ITESM in Querétaro during this period and actively involved in the project of deepening university-industry linkages during the Burgos government. Of course, Loyola himself had participated in the close alliance between local government and the business sector as head of Coparmex, the state’s main encompassing business association, which made him a leading private sector voice in the Tripartite Commission.

Loyola’s closeness to the local political establishment and commitment to the state’s existing institutions of economic governance are evident in the composition of his cabinet. No fewer than four priistas or politicians close to the PRI were given top jobs in Loyola’s initial cabinet.548 Most importantly for economic policy, Loyola named long-time CTM official Gil Mendoza as Secretary of Labor, an appointment that demonstrates the new governor’s commitment to maintaining the style of labor relations inherited from PRI governments.549 Loyola later cited Mendoza as a central influence in ensuring the continuity of the Tripartite.550 In addition to Mendoza and the governor himself, the two heads of the Secretary of Economic Development during the Loyola government, Armando Rivera and Leopoldo Mondragón, both had direct prior experience of the Tripartite Commission.551 The longevity of the system and continuity of actors had engendered mutual trust and created strong incentives to maintain this space for dialogue. In the words of a state economic official, “unions and business leaders develop a relationship, and this gives continuity across governments."552

548 In addition to the labor and education ministries, PRI politicians were put at the helm of the state attorney’s office and the all-important Secretary of Government. The nominee for the latter post would only last six months in office, however (Díaz Aldret 2011).
549 Mendoza began his career as a leader in the Tremec union and later served as a PRI federal deputy from Querétaro. Any inconformity on the part of PAN-leaning business leaders at the appointment of a priista to this cabinet post was trumped by their preference for continuity in the state’s labor relations (Díaz Aldret 2011). Having worked in labor relations in Querétaro in various capacities for over 20 years, including participating in the Tripartite Commission under Enrique Burgos, Mendoza had close personal ties and good working relationships with the peak business leaders in the state.
550 According to Loyola, “I put a member of the PRI as Labor Secretary. So there was an understanding with the unions...it was a strategy that I think worked quite well” (interview, April 22, 2016).
551 Rivera, a former Coca-Cola executive, had participated in the Tripartite as the president of Canaco, the local chamber of commerce; Mondragón had served as the representative of Nafinsa, Mexico’s national development bank, in Querétaro during the 1990s and thus had taken part in Tripartite meetings under Enrique Burgos.
552 Interview with lead official in the Economic Development Secretariat, April 25, 2016. According to this official, the maintenance of this system across PRI and PAN governments has been key to the continuity of economic policy in the state. Outgoing PRI officials, including Enrique Burgos, also urged the incoming team to keep the Tripartite in place.
The new Education Secretary, Gabriel Siade, had held top positions in the Querétaro delegation of CONACYT, Mexico’s science and technology commission, during the Burgos government, and had also been founding director of the Council of Science and Technology of the State of Querétaro (CONCYTEQ). Not surprisingly for a business person, Loyola also followed Burgos’ example by including several representatives of the private sector in top posts, including Armando Rivera, a former Coca-Cola executive and Canaco leader, as Secretary of Economic Development and Suhaila Núñez, as Secretary of Finance. On the other hand, active panistas had a limited presence among the governor’s key collaborators, sparking tensions between Loyola and the local party leadership, including the incoming mayor of Querétaro, Francisco Garrido.

Loyola also maintained another precedent from the Burgos administration by creating spaces for citizen participation in developing and implementing his government’s policy agenda. The governor kept the Councils for Citizen Concertation as forums for representatives of civil society and social groups to provide input into the state’s development strategy and policy implementation. As with Burgos, these bodies functioned throughout the administration and continued to be directed by Carlos de Mucha, a former business leader who had served as president of the Club de Industriales and Canacintra before being tapped by Burgos to organize the citizen councils in 1991. The continuity of economic goals is evident in the Loyola administration’s State Development Plan, a document published by all governments after six months in office, which stressed now-familiar economic themes at the core of the state’s development strategy over several sexenios: investment attraction, improving productivity and quality to boost global competitiveness, and maintaining labor relations that “privilege dialogue and concertation” (Government of Querétaro 1998b).

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553 CONCYTEQ is a state-level public agency founded in 1986 to advise the state government on science and technology issues. At the time of its founding, CONCYTEQ was the first such state-level body in Mexico. Siade had thus been a key protagonist in the development of Querétaro’s research capacity during the previous administrations.

554 The Plan went on to state that competitiveness must be achieved through taking advantage of technology, upgrading human capital, promoting innovation, and reinforcing industry-university linkages. The governor also laid out the outlines of a strategy for competitiveness based on “integrating value chains, modernizing technology, improving the human capital base…and promoting local products in different markets” (Government of Querétaro 1998b). The document also
The momentum built up over a decade and a half of cooperation thus created strong incentives for continuity both in style of economic management and the content of policy. Even in his campaign rhetoric, Loyola had emphasized broad themes such as honesty in public service, closer dialogue with citizens, and the advance of democratic liberties, rather than promising a change in direction for the state (Díaz Aldret 2011). The persistence of institutions such as the Tripartite Commission, as well as continuity of certain key personnel, helped maintain stability and avoid the upheavals that accompanied transitions in other Mexican states. In addition to these areas of continuity, the government would establish the bases for the further diversification of the economy through the construction of a new international airport.

*Continuity in action: development policy under Loyola*

Policy continuity with prior administrations is evident in various areas where Loyola maintained or deepened projects from the past two PRI governments. In the case of industrial parks, where the state had established a reputation among national and international investors for high-quality infrastructure, the transition from Burgos to Loyola did not disrupt momentum behind the development of state-of-the-art industrial spaces to facilitate the arrival of new firms. As discussed in chapter 6, the Burgos administration had set in motion the development of the Querétaro Industrial Park, undertaken by the local firm DRT and Hines, a major U.S.-based real estate developer. The new administration strongly backed this project and seized on the new industrial space, strategically located along the highway connecting Mexico City with northern industrial centers (dubbed the NAFTA highway for apparent reasons), as a key attraction for new investors. In conjunction with the park’s management, the state government worked to bring major national

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555 In the words of one of the *prijistas* who participated in Loyola’s government, the bipartisan nature of the government “helped a lot to maintain stability and governability, because our work did not respond to a partisan ideology” (interview July 22, 2016). Another example of the closeness of key personnel was the incoming Comptroller, Leopoldo Mondragón, who later served as Secretary of Economic Development, and was the official charged with leading to transition for the incoming administration. Mondragón was a longtime friend of Enrique Burgos, having lived on the same street in Querétaro’s historic center.
and transnational firms to the sprawling, modern industrial zone. They created a joint budget to promote the site and cooperated on a strategy to attract firms to the park. This joint promotion meant that both the government and private developers had incentives to keep the park in top-notch conditions. For state officials, their credibility depended on ensuring that firms, once installed, had sufficient access to services; as a result, they regularly checked on electricity, water, supplies and the state of new firms’ labor relations. The park would receive major foreign investments from Samsung and the German industrial firm Mann and Hummel during this period.

Overall, demand for industrial park space in the state increased rapidly in the early years of the administration, reflecting fast economic growth between 1997 and 1999. By mid-1999, land sales in industrial parks had increased from 55,233.39 square meters in the first full year of the administration to 190,309 square meters in the second full year (Government of Querétaro 1999). In fact, the influx of investment led to excess demand that caused the price of industrial park lots to grow rapidly. In response, the government converted new lands to industrial use and purchased a 500-hectare reserve of lands adjacent to the Bernardo Quintana industrial park. This strategy allowed the government to expand state-owned industrial parks in order to create competition for private parks and rein in prices.

The government replicated this strategy of recruiting the owners of industrial land, some of whom initially resisted the state’s plans, to jointly promote the state to potential investors (and thus ensure the rising value of their land). The five new parks that had been initiated in the final years of the Burgos administration continued to be developed under Loyola, and other key industrial areas were expanded, including the Bernardo Quintana park. By the year 2000, the state

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556 This cooperation in the promotion of the park is cited by the park’s developers as a key component of its success and served to establish a precedent of the state government’s commitment to the success of private industrial park projects (interview with investors in Querétaro Industrial Park, April 20, 2016). Officials in the Economic Development Secretary agreed that the government’s close relationships and good synergy with the park’s developers was essential for promoting the parks successfully (interview, April 25, 2016).

557 Interview with high-level Economic Development official (April 25, 2016). This competition from the state met with resistance from some private investors in industrial parks, but the government considered it important to ensure the continued availability of industrial land at prices that would not be prohibitive for small- and medium-sized firms (interview with Ignacio Loyola, March 27, 2017).
had 16 industrial parks in operation, having completed the three additional private parks still under construction when it took office. Representatives of the growing number of firms in industrial parks formed a Union of Industrial Parks to facilitate communication with authorities on behalf of the state’s industrial park population; this group pressed the government to devote more resources to maintain and upgrade industrial park services.\footnote{In the middle of the term, this group argued for a special budget line to support industrial parks and be able to upgrade services (Diario de Querétaro, 1 July, 2000, “Partida presupuestal para parques industriales: PRV”).}

The new administration also oversaw the further development of technical education and research capacity, which had received a strong push under the Burgos administration. The number of research centers in the state grew to 36 by the mid-point of the Loyola sexenio, and the number of researchers increased by 26 percent. Importantly, the state’s research centers deepened their links to industry during this period, as leading institutions such as CIDESI, CIATEQ, and CIDETEQ reoriented their business models to prioritize joint projects with firms to develop marketable technological solutions. This shift to a more market-driven model, which began after the implementation of NAFTA in 1994, helped the state’s economy adapt to a context where knowledge would be an increasingly important input in firms’ production. By the late 1990s, the CIATEQ in particular stood out among research centers in Mexico for its close links to the metal-mechanic sector (De Gotari and Santos 2006). Achieving this transformation required new internal capacities in order to take on direct engagements with the private sector, including forging personal and business contacts with potential private sector clients.

As part of its closer engagement with the private sector, CIATEQ undertook a project with GE to create designs to improve turbines, which Querétaro-based engineers sent to GE laboratories around the globe as a “high-end knowledge export” (De Gotari and Santos 2006).\footnote{At this stage, CIATEQ had a research team of around 70 specialists dedicated to exporting engineering design improvements to clients located abroad, which eventually led to the creation of original designs (De Gotari and Santos 2006).} This work led to the creation of the Center for Advanced Turbomachinery Engineering (CIAT) as a joint venture spinoff between CIATEQ and GE, which by the mid-2000s had evolved into a world-renowned
aerospace research facility employing around 450 people (ibid). The GE example shows how the state’s research capacity led to concrete investment opportunities which, in this case, helped nurture a new leading industry in the state. The CIATEQ also deepened links with educational institutions during this period. The research center collaborated with the ITESM and ITQ on mechanical engineering programs, with the goal of assuring these programs produced human capital capable of working on the current problems facing industry.\footnote{According to Casas and Luna (2001), these linkages distinguished Querétaro as an emerging center of knowledge and innovation networks in Mexico.} In developing more of a market orientation, CIATEQ more than doubled its researcher contingent in the first three years of the Loyola sexenio to 261. By the middle of 2000 the institute had around 300 projects underway in the state.\footnote{Diario de Querétaro, 15 July, 2000.}

The government’s efforts in the areas of industrial parks and research centers thus reflected continuity with policies in place over the course of two preceding priista administrations. The determination of successive governments to maintain and build upon the projects initiated by predecessors represents a deceptively important achievement in governance. In Puebla and many states across Mexico, the ability of local governments to produce public goods has been undermined by lack of continuity across administrations, even when political competition has been minimal.\footnote{This feature of sub-national governance has been identified by observers of Mexican politics as a critical weakness in the new, more decentralized political economy that has emerged in the 21\textsuperscript{st} century (see Rodríguez Hernández 2008). The case of Puebla presents a clear example of this phenomenon, as the government of Mario Marín (2005-2011), as discussed in chapter 9, abandoned a number of the major economic policy issues of the prior administration, despite both belonging to the PRI.}

In addition to following through on existing projects, the Loyola government also embarked on an ambitious new airport project that arose out of campaign-season consultations with citizens groups concerned with mobility but ended up laying the foundations for the transformation of the state’s economic structure in the mid-2000s.

Plans to build a new international airport in Querétaro got underway in 1999, although the initial steps were taken out of the public view. After considering more than a dozen potential sites, the project was set in motion with the state government’s purchase of nearly 700 hectares of ejidal...
In an effort to preempt a public conflict with local communities, the state summarily paid ten times the value of the land, and the transaction was completed in one day in 2002. Despite what the government viewed as its major potential, the project met with skepticism bordering on rejection by several groups, including the local private sector, which viewed the governor’s vision of a greatly-expanded international airport at a distance of 22 kilometers from the city center as somewhat quixotic. As a result, the state government had to push its plan forward without support (financial or political) from investors. Given the lack of interest from the private sector, the state government contributed 70 percent of the total funds for the project, with the other 30 percent coming from the federal government. The governor and his team even had to defy federal regulators, insisting on constructing a runway 50 percent longer than the permit specified.

As the construction of the project began in early 2002, objections continued to be raised from various sectors of the political class and social groups. Part of the reason for this opposition was the perception that details of the plans and preparations for the project, including the purchasing of land, had been kept secret. Other critical voices came from within the PRI, which many observers attribute to partisan rivalries and the feeling at the time that Loyola, being a political novice, failed to understand management in the public sector. However, the government persisted with its plans for an international airport it believed could rival Mexico City’s and accommodate

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563 The area chosen for the airport site had the advantage of being located near the crossing of the major east-west and north-south rail lines in Mexico.

564 According to Loyola, some opposition emanated from the suggestion that the airport could be an alternative to Mexico City’s airport, which angered holders of concessions for the lucrative merchandise businesses and services surrounding that airport. Another source of criticism came from those who kept private planes at the much smaller existing airport and did not want to be inconvenienced by its closing (interview with Ignacio Loyola Vera, April 22, 2016). Many viewed the site of the new airport as too far and inaccessible from the city center and moreover did not see any need to upgrade the state’s airport facilities. Many simply failed to appreciate the longer-term potential for the project according to one prominent local business person (interview, April 20, 2016).

565 The airport project is thus somewhat anomalous in that the government insisted unilaterally on the nature, scope, and dimensions of the project without strong initial support from the private sector or federal government. In the end, the vision laid out by the government for a major international airport would be vindicated, as the airport would become the center of the aerospace sector that has been a key driver of Querétero’s economy in the 21st century. The ability to withstand conflicts and still see the project through and, even more importantly, secure continuity in the development of the aerospace sector, is a testament to the robustness and adeptness at managing conflict of the state’s governance institutions.

566 For example, the College of Civil Engineers publicly raised questions about the design and accused the state government of withholding information about the project (Tribuna de Querétaro 7 October 2002, “Errores de origen en el nuevo aeropuerto de Querétaro denuncia el Colegio de Ingenieros Civiles”).
major international airline operations. In pursuing this vision, the government understood that a modern airport would fill in a missing piece of the puzzle by providing the state the one major amenity demanded by investors that it currently lacked. The airport project would help secure commitments from firms such as Samsung, one of the important new investors in the state in the early 2000s. In this way, the airport served a dual purpose of improving mobility for travelers and also enhancing the attractiveness of the state for investors by facilitating international and domestic cargo shipments. By the end of the *sexenio*, perceptions of the project had changed, as local actors began to see the project’s dividends in growing interest from new investors.

The Loyola administration drew on these new projects to ramp up the intensity of its investment promotion activities. While prior governments had made efforts to advertise the state’s favorable conditions in national forums organized by the federal government, the Loyola administration adopted a more proactive and direct strategy of pursuing foreign investors. Despite the consistent inflow of investors during the Burgos years, the government felt that Querétaro lacked the international name recognition of traditional industrial powerhouses such as Nuevo León and Jalisco. Soon after taking office, economic officials did a road show to North America, Europe, and Asia, to drum up interest in the auto parts, food processing, and domestic appliances sectors. Querétaro received nearly US$ 1 billion of FDI inflows between 1998 and 2003. The success of this promotional effort owed much to the continued development of the state’s

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567 The scope of the project distinguished it from other airports in mid-sized cities, as the runway was constructed to accommodate the largest jumbo jets, and the land around the airport provided ample space for the establishment of new industries.

568 Interviews with Ignacio Loyola Vera and other state officials (April 22, 2016 and April 25, 2016).

569 In the view of the governor, who met personally with Samsung’s CEO on three occasions, the materialization of the airport project was a key factor in clinching the firm’s commitment to invest in Querétaro. Samsung’s Querétaro operations are now a major source of white goods and home electronics production for export to North American and South American markets.

570 A leading member of the local private sector reflected that “at the end of the day, people are going to thank Nacho [Loyola] for what he did….because he built an infrastructure that will last for 100 years, and it will not be long before Querétaro is a global aerospace center….there were criticisms, but I don’t think there’s anyone who does not recognize that it has been a great feat to do the airport.” (interview, April 20, 2016).

571 This shift in the approach to investment attraction partly reflects the greater prominence of local officials in economic matters after years of decentralization of fiscal resources and policy responsibilities as well as the consolidation of electoral democracy during this period.

572 In addition, state officials organized 21 fairs and trade missions involving 243 firms during the first year and a half of the administration (Government of Querétaro 1999).
industrial infrastructure discussed above. The ability to offer high-quality, ready-to-use industrial space, an important legacy of the Burgos administration, provided a key advantage in bringing firms to the state, allowing them to avoid potential complications surrounding land-use restrictions. In addition, the new airport project and the emerging leadership of the state’s research and technology centers became additional factors drawing firms to Querétaro, as the examples discussed above illustrate.

Officials also leveraged their close relationships with firms operating in the state as part of their investment promotion strategy. The state’s reputation for labor tranquility and responsiveness to business continued to be a major selling point, and these factors took on greater importance as sub-national officials became the lead actors vying to win over international investors unfamiliar with Mexico’s business environment. The state government enlisted representatives of the private sector, including business chamber leaders, to attest to the state’s strong institutions of economic governance, responsiveness to the private sector, and labor tranquility. The practice of maintaining close relations with the business sector also extended to careful post-investment management, as officials sought to respond to firms’ evolving needs and integrate them into the state’s traditions of economic governance.573

As discussed above, a close relationship among the state government, peak business associations, and labor unions remained a key component of Querétaro’s economic formula. At the center of this coordination was the Tripartite Commission, whose importance continued to be stressed in interviews with top policymakers. Loyola had participated in the Tripartite Commission as president of Coparmex during the final years of the Burgos administration, and this experience convinced him of the importance of the forum.574 According to officials who oversaw the monthly

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573 In describing the attention paid to firms’ problems and concerns, a state official during the Loyola administration stated, “firms appreciate it when you know what they do, how they produce, if they have problems with electricity, with supplies, with roads… That was the personal policy that were applied during all the time we were [in government]. We talked about how they viewed the tripartite, if they agreed with that” (interview July 21, 2016).

574 In the governor’s words, “it was an important forum to speak one’s mind, and that is why I wanted to maintain it.” (interview with Ignacio Loyola Vera, April 22, 2016).
Tripartite meetings, these negotiations helped avoid labor conflicts, ensuring that strikes continued to be a rare occurrence in Querétaro (there were only seven during the entire Loyola sexenio, while Puebla experienced 28 strikes during the same period).\footnote{Explaining this record Loyola stresses that “there is dialogue, there is closeness to resolve problems before [they appear]. And I think that derives from these tripartite meetings” (interview April 22, 2016).} In the words of a Secretary of Economy official who helped run the meetings, “it was about harmonizing the factors of production…maintaining a concordance, a propitious climate for Querétaro to keep developing.”\footnote{Interview July 21, 2016}

The scope of the Tripartite also broadened in this period to include a variety of policy issues relevant to the continued progress of the state according to several officials who participated in the sessions during the Loyola sexenio.\footnote{Interviews with state officials (April 25, 2016; July 20, 2016; and July 21, 2016).} While labor relations remained the central focus, the discussions included physical infrastructure and education and training. In response to the growing importance of these inputs for the state’s industrial development, firms and unions took advantage of the Tripartite forum to discuss emerging needs in terms of skills and physical capital. In this way, the forum evolved to address new issues that were becoming increasingly central to the state’s competitiveness. Officials also used the forum to present future investment plans and opportunities for private investment. The meetings thus allowed the full set of issues facing firms and unions to be made known and debated by all sides, helping deepen a sense of common interests among the three parties. These discussions of the state’s broader development trajectory served to reinforce for all sides the importance of maintaining the peaceful labor environment that had come to be a staple of the state.\footnote{In the words of former Economic Secretary Leopoldo Mondragón: “the unions understood perfectly that the interest [of investors] in coming to Querétaro was because of the friendly climate between labor and capital that we had” (interview July 20, 2016).} In the words of a top official in the Secretary of Economic Development, the Loyola government “gave enormous importance to [the Tripartite Commission]...because we were seeing the favorable results for the state.”\footnote{Interview, July 20, 2016}
The government also took a more hands-on approach to managing labor relations by providing guidance to new MNCs on different unions. Officials in the Secretary of Economic Development gauged what type of labor relations firms were accustomed to in their home countries, in some cases recommending so-called “white unions” not affiliated with one of Mexico’s labor federations. The government drew on its close ties with the state’s labor leaders to ease this process. Even if local labor federations occasionally objected to such interventions, they generally agreed “it is in the best interest to keep firms in the state,” reflecting the convergence of attitudes between labor and business leaders and “win-win” approach to labor relations that had long been promoted in Querétaro. In exchange for CTM and FTEQ acquiescence to the arrival of white unions in Querétaro, officials continued to prevent out-of-state unions belonging to federations from other parts of Mexico, which would have represented a more direct challenge to the position of local federations, from establishing in Querétaro. This strategy can be traced back to the Camacho Guzmán sexenio, when local elites identified a common enemy in the more activist unions in neighboring states and closed ranks to exclude them from Querétaro (see chapter 4). Close relations with the CTM thus helped diminish potential conflict as the arrival of new MNCs, in some cases with independent unions, diversified the universe of economic actors in the state. In this way, the panista government maintained good relations with a still-powerful force in the local PRI. The Loyola administration also remained above the partisan fray surrounding mid-term elections, as the governor’s distance from his own party meant that he did not intervene in candidate selection or the electoral processes for municipal presidencies.

Results of the Loyola administration

Querétaro’s economy grew on average 4.1 percent a year between 1998 and 2003, the sixth-highest rate among Mexican states in this period, while the national economy managed an annual

580 A former Economic Development official estimates that around 30 percent of the new firms that invested during the Loyola government opted for white unions (interview April 25, 2016).
581 Interview with former Economic Development official (April 25, 2016).
582 Loyola stated that “no one asked for my support and I didn’t give it to anyone” (quoted in González Arias 2008).
average of only 2.3 percent. This growth was led by the auto parts sector, the most economically important during this period, whose share of total output grew from 11.3 to 16.0 percent (see Table 8.1). This level of concentration in the top industry still fell well below that of Puebla, where automobile production accounted for 24.3 percent of the total by 2003. In addition, Querétaro's economic structure remained more diversified overall, with a HHI of 0.04 compared with 0.08 in the case of Puebla.\(^{583}\) The greater diversification of Querétaro’s economy also of course holds at the firm level, as Volkswagen accounted for the entire product of the auto assembly sector in Puebla, whereas Querétaro’s auto parts sector was made up of 61 firms in 2003 (INEGI 2004).

### Table 8.1: Industry concentration in Querétaro and Puebla, 1998 and 2003

<table>
<thead>
<tr>
<th>Industry</th>
<th>1998 Share of GDP</th>
<th>2003 Share of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Querétaro</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automotive</td>
<td>11.3%</td>
<td>16.0%</td>
</tr>
<tr>
<td>Food products</td>
<td>5.3%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Electronics equipment</td>
<td>5.2%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Beverages</td>
<td>5.1%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Household appliances</td>
<td>5.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Puebla</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automotive</td>
<td>33.5%</td>
<td>24.3%</td>
</tr>
<tr>
<td>Spinning, cloth, finished fabrics</td>
<td>4.5%</td>
<td>10.0%</td>
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<tr>
<td>Confections</td>
<td>3.5%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Beverages</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Steel</td>
<td>2.6%</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

*Source: INEGI Economic Census, 1999 and 2004*

The state continued to be an important destination for foreign investment during this period, attracting a total of nearly US$ 1 billion between 1998 and 2003. Relative to the size of its economy, the state ranked 7th out of the 31 Mexican states in this period (not including the Federal District). In terms of the structure of FDI, Querétaro attracted foreign firms in an increasingly diverse range of sectors, reflecting the fruits of the promotion strategy of the Loyola government. Auto parts represented the largest sector for FDI, accounting for 20.5 percent of the total, while the next largest manufacturing sector, prepared foods, accounted for only 9.7 percent of the total,

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\(^{583}\) The HHI, or Herfindahl-Hirschman Index, is a measure of industry concentration equal to the sum of each sector’s squared share of total GDP. In this case the index is measured at the 4-digit sector level based on INEGI’s Censo Económico 2004.
reflecting the low levels of overall concentration of FDI.\textsuperscript{584} The arrival of new foreign firms in this period helped set the stage for the emergence of new industries in the second half of the decade. However, Querétaro did not distinguish itself in this period from Puebla, as the latter exceeded Querétaro in annual inflows, even relative to the size of their respective economies.\textsuperscript{585}

Where Querétaro did have a distinct advantage over Puebla, and compared to the broader universe of Mexico states, was in productivity. Based on data from INEGI’s 2004 Economic Census, the median manufacturing sector (disaggregated at the four-digit level) in Querétaro produced 100.0 (thousand pesos of value added) per worker, compared with 76.2 in the case of Puebla. Recent work by Unger (2017) provides additional support for Querétaro’s strong productivity by 2003, finding that the state ranked fourth among all Mexican federal entities in that year.\textsuperscript{586}

Another feature of the state’s economy during this period was growing trade deficits. While exports increased steadily over this period, they were outpaced by imports. The trade deficit grew from 1 percent of total trade in 1998 to a peak of 14.2 percent in 2001 before falling to 7.2 percent in 2003. One reason, cited by the state government, for the trade deficits was the requirement for newly-established foreign investors to import machinery and capital goods in order to begin production (Government of Querétaro 2001). In addition, the growth of the state’s auto part industry as a leading sector for foreign investment put consistent pressure on the state’s trade balance, as the industry’s requirements for imported inputs was high, while much of its output was consumed by growing domestic auto assembly.\textsuperscript{587} The state’s trade deficit would continue to grow

\textsuperscript{584} By comparison, in Puebla the leading sector for FDI during this period, metal smelting, accounted for 29.7 percent of the state’s total. Auto sector investment dropped off during this period, as Volkswagen encountered challenges due the 2000-2001 recession in the United States as well as a major 2001 labor dispute (see chapter 9).

\textsuperscript{585} As discussed below, Querétaro did not achieve its impressive growth record on the back of FDI, in which the state did not even rank in the top third of recipients per GDP in the first decade of the 2000s. Instead, the important development in the economy would be the emergence of productivity-driven growth.

\textsuperscript{586} Unger creates an index of productivity based on each state’s level of labor productivity (measured as value-added per worker) compared with the national average in each industry.

\textsuperscript{587} In the decade after the entry into force of NAFTA, for example, Mexico’s imports of auto parts grew at nearly double the annual average rate of auto parts exports.
during the second half of the 2000s. As a result of this structure, the state’s industrial output was more oriented towards the domestic market than exports, a fact reflected in the share of firms’ total sales in the national market, which was 77 percent in Querétaro in 2003 compared with 55 percent in the case of Puebla.\textsuperscript{588}

In terms of the composition of exports, the best available evidence suggests that Querétaro’s exports continued to be diversified among a relatively broad cross-section of sectors and firms. The number of exporters in the state rose from 267 in 1997 to over 400 by 2002 (Government of Querétaro 2003). In that year, the largest contingent of exporters were medium sized firms (38.8 percent) followed by small firms (30.1 percent). Small and medium firms continued to play a stronger role in the manufacturing base in Querétaro, where they made up 32 percent of total product in the sector by 2003, compared with 19 percent in the case of Puebla.\textsuperscript{589}

The state’s focus on quality and increasing efforts to link industry to technical education and technological research institutions were evident in the growing number of firms with international quality certifications in the state. By 2002, around 350 firms in Querétaro had certified quality processes in place according to Canacintra’s Institute of Quality, which amounted to 10 percent of the national total of such firms.\textsuperscript{590} Despite these results, the private sector criticized the state government for not responding robustly enough to the 2002 downturn, asserting that support programs aimed at small and micro enterprises exist “only on paper.”\textsuperscript{591} Similarly, evidence from surveys of small firms in the molds and dyeing sectors reported that the majority had not been able to take advantage of the services of public research centers and other state government programs (De Fuentes and Dutrénit 2006).

\textsuperscript{588} Based on data from INEGI’s Annual Survey of Manufacturing Industries.
\textsuperscript{589} Based on data from INEGI’s Economic Census 2004
\textsuperscript{590} Quality continued to feature prominently in the discourse of the state’s private sector leadership, especially in Canacintra, whose leaders asserted that “business people have to be clear that quality is a necessity that today we cannot delay and longer as the risks are too high, such as the loss of markets and even closure of firms” Diario de Querétaro 2 November, 2002, “Pérdidas anuales del 5 al 15% por mala calidad.”
\textsuperscript{591} Diario de Querétaro 4 November, 2002, “Optimista hablar de un crecimiento del 1.3%: Canacintra.”
As discussed above, many of the actions of the Loyola administration, in particular the airport project, laid the foundations for a new stage of development characterized by the state’s emergence as a leading aerospace cluster and a hub for logistics and high-end services to complement its strong manufacturing base.\textsuperscript{592} It is, therefore, important to recognize the ability of the state government to pursue a development strategy that did not necessarily respond to the interests of incumbent sectors. The leading industry in the state, auto parts, relied on ground transportation to ship its products to the network of auto assemblers in central and northern Mexico and therefore had little interest in the airport project. In this way, the absence of a dominant industry that dictated development plans, as occurred in Puebla, facilitated broad-based projects that helped further diversify the state’s economy. In addition to the aerospace sector, the early 2000s laid the groundwork for a growing electro-domestic sector with the arrival of Samsung in 2002.\textsuperscript{593}

The economic gains of the Loyola administration reaped benefits for the PAN, which had solidified its status as the leading political force in Querétaro by the 2003 state elections. In addition to holding the governorship, the party had won two consecutive elections in the capital city and controlled San Juan del Río for four consecutive terms. The continued influx of professionals, small business owners, and firm managers from Northern Mexico and Mexico City shored up the PAN’s demographic advantages during this period. All these factors worked in favor of Francisco Garrido, the PAN’s candidate to succeed Ignacio Loyola in 2003 state elections. However, partisan continuity would not ensure a smooth transition to the new administration.

\textit{Transition to a second PAN administration: intra-party conflict and policy stability}

Francisco Garrido, who served as the PAN’s first mayor of Querétaro between 1997 and 2000, prevailed over Francisco Ortiz, an old-guard \textit{priista} making his third attempt at the

\textsuperscript{592} Another important development that set the stage for the establishment of new, high-tech sectors was the advances in the state’s technological research centers, especially the CIATEQ which emerged as a leading aeronautic research institution in Mexico during this period.

\textsuperscript{593} As discussed above, Samsung’s decision to build a major production facility in Querétaro was influenced by the airport construction, although the majority of its initial investment would be made in the subsequent administration. By 2012, the electro-domestics sector accounted for between 4 and 5 percent of Querétaro’s GDP and represented the most fully-integrated value chain in the state according to economic officials (Armenta and Fuentes 2014).
governorship, by 3.4 percentage points in the 2003 gubernatorial election. While the PAN once again demonstrated its electoral strength in the state, the campaign had exposed rifts between the outgoing governor and party leaders that would complicate the transition. Tensions between Loyola and Garrido had existed since 1997, when the two clashed over electoral strategy. Garrido, who had been active in the state’s party apparatus since moving to Querétaro at the end of the 1980s, later openly criticized Loyola for failing to include dyed in the wool panistas in top posts in his government. As mayor, Garrido kept his distance from the governor’s office. As the 2003 campaign approached, the outgoing governor supported state health minister Eduardo Magaña Lusthoff against Garrido in the party’s nomination process.

As a result of this personal rivalry, the first transition between panista governments in Querétaro brought about the sort of political recriminations and personal clashes that plagued many state governments across Mexico but Querétaro had almost completely avoided. This settling of accounts led to a series of political scandals at the outset of the Garrido administration that cast momentary doubt on the continuity of key economic policies. Most germane to the state’s economic development would be the Garrido administration’s management of the airport project. At the end of the Loyola sexenio, construction had been completed, and according to the outgoing governor, the facility was only several months away from being ready to initiate operations. However, the incoming administration waited nearly a full year before inaugurating the airport in the final weeks of 2004. According to the Garrido administration, the status of the central air traffic control tower required further attention before the facility could open to regular commercial air

594 Garrido had preferred the party focus its efforts and resources on winning municipal elections, where he would contest and win the city of Querétaro.
595 The last time a gubernatorial transition had sparked political tensions in Querétaro was 1985, when Mariano Palacios, cast doubt upon the outgoing administration’s handling of state finances, initiating audits that resulted in the cancelation of several major contracts (González Arias 2008).
596 In the most dramatic reversal of a Loyola-era project, Garrido pursued an investigation into a public health center built by his predecessor, the Center for Infant Rehabilitation (CRIQ), whose construction had been questioned by local groups. The investigation eventually led to the demolition of the building and accusations of malfeasance on the part of several officials from the Loyola administration over the management of its construction.
597 In the final months of the sexenio, several federal officials had already used the airport to visit Querétaro, including President Fox, who arrived on July 2, 2003 to fulfill a promise made when construction began a year earlier.
traffic.\textsuperscript{598} In the eyes of the outgoing administration, this delay was unnecessary and politically motivated. The Loyola administration charges that the state lost potential investors such as the logistics firm Estafeta to neighboring states as a result.\textsuperscript{599}

However, the tensions between incoming and outgoing \textit{panista} governors would not seriously threaten the state’s economic progress. Despite a few high-profile imbroglios and frosty personal relations, the new administration never abandoned the airport project and in fact made the airport a pillar of its development strategy for the state, transforming the site into a major industrial and technological center for the aerospace industry and an emerging logistics hub for the Bajío region. The incoming economic team clearly grasped the potential of the project to catalyze a new phase in the state’s industrial development, diversifying from the traditional auto parts and machinery industries into new, frontier sectors.\textsuperscript{600} The imminent opening of an international airport strategically located in the center of the country had already helped attract a major investment from Samsung and sparked additional interest among foreign firms, which the incoming government could hardly ignore. In addition, the Garrido administration maintained close ties with the local private sector, which helped ensure that the airport and other key projects remained on track.\textsuperscript{601} The forces militating in favor of continuation of the airport development thus proved stronger than political rivalry.

In fact, the intention to build on the foundations laid by the Loyola administration is evident in the state development plan for the \textit{sexenio}, which promised to “consolidate airport, highway, and industrial park infrastructure that encourages the state’s competitiveness.”\textsuperscript{602} The new government

\textsuperscript{598} During this interim, the new government changed its official name from Querétaro International Airport to Querétaro Intercontinental Airport.

\textsuperscript{599} Interview with Ignacio Loyola Vera (April 22, 2016).

\textsuperscript{600} The incoming government recognized the need to develop new competitive advantages for the state’s economy and identified the aerospace sector and logistics as two of the key strategic areas to emphasize, along with information technology. The first two clearly reflect the new options opened up by the creation of the airport.

\textsuperscript{601} An ex-President of Coparmex (1999-2000), Renato López Otamendi, coordinated the Garrido campaign’s and later transition team’s relations with the private sector. López Otamendi would serve as Secretary of Sustainable Development during the Garrido administration.

\textsuperscript{602} The government hailed the airport inauguration, on December 10, 2004 as the beginning of “a new stage in the state’s development” (Government of Querétaro 2004).
began to invest in the airport soon after its inauguration, pursuing plans to double its capacity by the end of the *sexenio*. One substantive change undertaken by the Garrido administration was to alter the land use scheme to allow for industrial plants to be established within the grounds of the airport itself. The facility’s potential as an industrial cargo hub also became evident during the beginning of the Garrido administration with the announcement of investments from two major cargo airlines, Regional Cargo and BAX Global, taking advantage of the airport’s strategic location at the crossing of important freight rail lines and the north-south NAFTA highway. In the final months of the *sexenio*, a new cargo terminal opened, reflecting the airport’s increasing vocation towards freight and logistics, along with an expansion of the passenger terminal with a combined investment of more than US$ 7 million.

*The emergence of frontier sectors: a new focus of state development policy*

The airport would take on entirely new dimensions in Querétaro’s industrial development as the state government set its sights on securing an investment by Bombardier, a global aerospace leader specializing in regional and executive jets. Having established the objective of developing the aerospace sector, state officials learned Bombardier was considering Mexico for a new production facility for fuselage, stabilizers and other major plane components. The government understood Bombardier could be the anchor firm necessary to jump start the sector. After the company chose Mexico over China, the state’s economic team began to work on a proposal to bring the firm to Querétaro, taking advantage of the recent opening of an airport with the capacity to accommodate large aircraft and ample space for industry in the surrounding area. In the view of state officials leading the process, there were several key elements of Querétaro’s offer. First, the government included a proposal to construct an industrial park on lands within the airport complex, which would become the Aerospace Industrial Park. Officials enjoyed considerable flexibility in

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603 In the words of a state government official at the time, “thinking that we have great infrastructure, an airport with very particular characteristics, runway dimensions, size, and possibilities of growth…we began the process with Bombardier” (interview July 29, 2016).
making this offer due to the ownership of the airport by the state government itself rather than the federal government. State officials also offered Bombardier an attractive scheme to rent land from the state government for fifty years through a Fideicomiso in which a private investor that built the installations also participated. The other important component of the state’s offer was the construction of a specialized university to train technicians and engineers for the sector, which would also be located on the grounds of the airport. The university proposal derived from the government’s study of major international aerospace hubs such as Wichita and Toulouse.

Bombardier announced its decision to invest in Querétaro in late 2005 and began operations in May 2006. For the firm, the move allowed it to reduce costs on the production of major intermediate parts and systems such as harnesses, central fuselages, electrical systems, and flight stabilizers for several regional jet models. The firm quickly announced an expansion of its operations during the first year, transferring fuselage production from Japan and accelerating plans to export from the Querétaro facility. Given the importance of Querétaro’s new international airport in the firm’s decision, the Bombardier investment was seen by many as the final vindication of the project. President Fox, upon announcing the Bombardier deal in October 2005, praised the “great vision” of the state government that constructed the airport “despite the criticism and pessimism.”

604 The vision of an industrial park within the grounds of the airport, the first such facility in Mexico, also required changing the airport’s original plans, which did not envision industrial land within the airport complex. This alteration of the land use regime was included in the Garrido government’s Master Plan for the airport.
605 This arrangement allowed Bombardier to avoid purchasing lands or investing to build its own facilities. The rent the firm paid for use of the industrial plants allowed the developer to recoup its investment.
606 In this way, having extensive lands, already owned by the state, was a fortuitous and critical asset in putting together a proposal for Bombardier.
607 According to state officials, the educational and training aspects of the program were key in crafting a package that responded to the firm’s main concerns (interview July 29, 2016). In establishing the university, the state won the support of the federal government to invest in the institution through its technological university program. The state government also supported the training of human resources via the provision of scholarship for workers.
608 The firm was transferring production of these parts from a plant in Ireland. Initially, Bombardier produced harness and electrical systems for the Challenger 300, 605, 1850, 870, 890, Global 5000, Global Express XRS, CRJ 200, 700 and 900 models, as well as central fuselage for the Challenger 850 and flight control stabilizers for the Turbohelix Q400 (Hernández Chavarría, 2010).
609 La Jornada, 26 October, 2005, “Bombardier Aerospace fabricará aviones en Querétaro”.

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While the attraction of Bombardier represented a foray into a frontier sector of global manufacturing, it came with a dose of old-fashioned corporatist control. In negotiating the firm’s arrival, local officials and labor leaders once again sought to avoid what they perceived to be the potentially destabilizing influence of out-of-state unions. The Secretary of Sustainable Development convinced Bombardier to work with a local, CTM-affiliated union rather than bring its union from Monterrey as the firm had proposed.\footnote{This strong preference for local unions, continued to be impressed upon newly arriving firms in this area, and economic officials recall that nearly every major firm in this sexenio established with a CTM-affiliated union.} In addition, after beginning operations, Bombardier confronted what state officials describe as the infiltration of workers who sought to challenge existing union leadership. Alerted of the issue by the CTM, local officials worked with firm management to dismiss around 20 workers they had identified as radical union activists.\footnote{Interview with high-ranking Sedesu official, July 29, 2016.} This incident underscores the continuation of a strategy of coordination between government, business, and labor that harkens back to the Camacho Guzmán days.

The supporting infrastructure that helped win the Bombardier investment was put in place soon after the firm arrived. The National Aeronautical University in Querétaro (UNAQ) was established in 2007 on the grounds of the airport, as envisioned in the government’s proposal to Bombardier. The university entailed an investment of more than US$ 27 million and had graduated 1,616 students by 2010.\footnote{Even before the official inauguration of the UNAQ, the university worked with Bombardier to train the first generations of technicians the firm needed to begin operations in 2006 (Villvicencio et al 2013).} The firm participated at each stage in the development of the university, helping design curricula and courses and later providing faculty members from among its technical professionals. The UNAQ has continued to work closely with Bombardier and other major players in the sector to ensure that its educational programs adapt quickly to the sector’s skill demands. In the words of a state official, “[Bombardier] is very involved, they continue to be very involved with the university. It has been a very hands-on work…and the university has always been flexible.” Similarly, a member of the Mexican Aerospace Industry Federation, a national aerospace business association, asserts that “having [the UNAQ] oriented very efficiently and effectively towards
[companies’] requirements” has been critical to the success of the industry in Querétaro. In addition to the university, the state government developed a multi-purpose aerospace park within the airport grounds to house Bombardier and a range of suppliers and auxiliary firms as well as an Aerospace Training Center to train specialists from throughout Latin America. By 2007 about half of this industrial zone was occupied by Bombardier’s facilities with another third dedicated to aerospace sector suppliers, envisioned to host around 20 firms.

The arrival of Bombardier, combined with the construction of the aerospace park and university, set off a cascade of additional investment in the sector. Major international firms such as Aernnova, Messier Services, Snecma, and Ellison all undertook projects in Querétaro between 2006 and 2007, spanning a range of activities and segments of the aeronautic value chain. These new firms also contributed to public-private synergies surrounding training. Safran Group, the parent company of Snecma and Messier Services, has actively participated in training schemes alongside the state government, creating an institution to train aerospace technicians based on French training models, with the support of state and federal authorities as well as the French government. These new arrivals joined ITR, a firm whose antecedents in Querétaro date back to the mid-1980s and which, along with GE’s design center, served as an important precedent for the current cluster. The number of aerospace firms in Querétaro jumped from 7 in 2007 to 24 by December 2010, a year after the end of the Garrido administration, accounting for 10 percent of the

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613 Interview with national aerospace sector leader, July 5, 2016
614 In the view of a former OEM manager, the availability of critical mass of workers, technicians, and engineers to quickly fill various roles in the sector’s value chain has been a key ingredient in Querétaro’s success. The state government, in particular, has been particularly responsive to firms’ needs in this regard (Interview, February 9, 2017).
615 Creating this infrastructure, another commitment to Bombardier in the state’s negotiations to secure its investment, reflected the government’s determination to launch a broader aerospace cluster with Bombardier serving as the anchor firm.
616 ITR, a joint venture between the Spanish aerospace firm ITP and a Mexican partner Industrias Turborreactores, began operations in 1998. However, Turborreactores, originally a state-owned enterprise that repaired motors for Aero México and Mexicana de Aviación, first arrived in Querétaro in 1984, before closing after the 1994-5 economic crisis. The firm’s infrastructure, including a testing bed, as well as an existing stock of aerospace workers led to ITR’s decision to establish in Querétaro. The firm has subsequently diversified from maintenance, repair and overhaul (MRO) to production and engineering design.
national total for that year (Secretary of Economy 2012). In four years, the state had established itself as a major player in a burgeoning high-technology sector of Mexico’s economy.

However, the Querétaro aerospace cluster came to be defined not only by the quantity of investment but also by the diversity of activities carried out in the state and the institutional environment that developed around the sector. The presence of several leading global firms alongside the new UNAQ gave rise to a flurry of research and development activity as well as new linkages between firms and the state’s educational and research institutions, building on the strength of existing industry-university networks in Querétaro. By 2006, the state had 39 research centers, making Querétaro the leader among Mexican states on this metric. With the arrival of major aerospace investments, these institutions created new programs dedicated to the sector, such as the Center for the Development of the Aeronautic Industry (CEDIA), started by the ITESM in 2007. In addition to training students for aerospace engineering careers, the CEDIA became a key partner in the state government’s efforts to develop supply chains, training local firms and research institutions to attain the sector’s quality standards. 617 Through the state government’s Supplier Development program, launched in 2007, the CEDIA worked with MNCs including Aernnova, Bombardier, Snecma America, Messier Services, and ITR to analyze their supply chain needs and then identify potential local suppliers to support through diagnostics and interventions to improve their quality control and management processes (Casalet 2013). A particular focus of these efforts was facilitating the migration of auto parts suppliers to perform similar tasks in the aeronautic production chain.

The state’s main public research centers, the CIDESI, CIATEQ, and CIDETEQ also developed new capacities to support the aerospace industry. In the case of the CIATEQ, linkages with the sector dated back to the late 1990s when the center launched the CIAT, a joint venture with GE to provide turbine design and engineering services, as described above. By the second

617 These certifications, such as the AS9100B, are indispensable requirements to do business with MNCs in the sector.
decade of the 2000s, the CIAT had become one of the most technologically advanced of GE’s global network of engineering centers and the largest aviation research center outside the United States (Casalet 2013). The Center’s team produces original designs that are directly incorporated into GE manufacturing processes, an indication of the CIAT’s level of development and technical expertise (Casalet et al 2011). CIDESI, one of the state’s oldest research institutions, counts among its clients Aernnova, Bombardier, and GE. CIDESI, CIATEQ, and CIDETEQ also pooled financial and technical resources to create a testing laboratory for new aerospace technologies, the Laboratory for Aeronautic Testing and Technologies, in 2009. As discussed below, state-level institutions have in recent years have taken the lead in establishing Mexico’s first public research facility dedicated to the aerospace sector. Supported by the state’s rich institutional environment for R+D, private firms have also established important research activities in Querétaro. Three of the sixteen main aerospace facilities in the state were dedicated to research and development as of 2010, representing 21 percent of the total R+D facilities in Mexico, despite Querétaro having only eight percent of the country’s total facilities in the sector (Casalet 2013).

In order to enhance cooperation across various initiatives, firms, public research institutions and universities established the Network of Aerospace Research and Innovation of the State of Querétaro (RIIAQ), to promote the technological and scientific development of the sector. Many of the state’s research centers also offer advanced degrees in fields related to aerospace engineering,

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618 The CIAT opened new installations in Querétaro in early 2011 to accommodate its growth and changed its name to GE Infrastructure, which employed over 1,500 engineers and top-flight researchers as of 2012 (Casalet 2013). CIATEQ also signed an agreement with Bombardier in 2011.

619 Every major firm in the sector has worked with the state’s public research centers in some capacity according to a former OEM manager, and these centers have played a useful role and have been eager to collaborate with aerospace firms. However, their ability to work on some areas has been limited by firms’ reluctance to reveal certain technological processes (interview, February 9, 2017).

620 The creation of a public research center for the aerospace sector was proposed by President Enrique Peña Nieto during a campaign visit to Querétaro. After federal efforts to create such an institution stalled, the project is now being driven by the Querétaro cluster and state government (see further discussion below).

621 By “facilities” I refer to individual physical installations dedicated to a particular value chain activity, including manufacturing, maintenance, repair, and overhaul (MRO); and R+D. Because firms often carry out more than one of these activities, the number of facilities does not necessarily align with the number of firms.

622 All the major MNCs in the sector, higher education institutions and research centers, as well as state officials participate in this network (Casalet 2013).
often in partnership with educational institutions in countries with longstanding aeronautic sectors. These educational opportunities are again drawing high-skilled human capital to Querétaro from across Mexico and even Latin America.

Despite the focus on Bombardier as the flagship firm, the Querétaro aerospace sector is in fact host to a range of actors, including several multinationals occupying distinct positions in the value chain and with diversified downstream relationships to clients. This structure stands in contrast to the hierarchical nature of Puebla’s Volkswagen-dominated automobile sector. In addition, important precedents existed in the state that helped catalyze the sector’s fast growth once the Bombardier investment materialized. First, the aerospace firm ITR had a presence in the state, initially for repairing motor turbines, dating to the mid-1980s, which gave Querétaro an existing stock of human capital and physical infrastructure relevant to the industry. In the early 2000s, the firm diversified into design and production, and by 2015 ITR was producing the first motor module designed and manufactured entirely in Mexico. In addition, the state’s strong tradition of industry-university linkages and research institutes provided fertile ground for the development of a network of public, private, and university actors supporting the technological progress of the sector. In particular, the state’s status as a leader in research centers conveyed institutional knowledge and technical capacity to nurture an aerospace sector with high demands for research, design, and technology development. Due to its strict requirements for precision and quality control, the aerospace sector is characterized by constant learning processes and coordination between firms. The ability of Querétaro to rapidly establish itself as a leading hub for Mexico’s aerospace sector with a particular vocation for research and development attests to the capacity of the state’s institutions to facilitate coordination, learning and upgrading.

623 For example, among the other MNCs operating in Querétaro by 2010 were Safran Group, producing turbine components and landing trains for Airbus and Boeing; Aernnova, producing structural components for domestic and foreign OEMs, including Embraer; ITR, designing and producing motor turbine modules for Pratt and Whitney in Canada and Rolls Royce in England (among other OEMs); and GE, producing turbine designs for the firm’s own manufacturing operations, which supply Airbus and Boeing (Villavicencio et al 2013).
In general, the Garrido administration undertook more proactive, sector-specific development strategies, of which aerospace was the most prominent but not the only example. The government also promoted the software sector, creating the QSOFT program (State Program for the Development of the Software and Information Technology Industry) in 2007 with the goal of inserting the state into the knowledge economy and establishing the infrastructure needed to grow the industry. As part of this program officials supported the constitution of the InteQsoft cluster, a formal association of software firms that grew to around 150 members by 2013 from a starting point of 40 in 2007 (Coparmex 2013). The state also began construction of the Querétaro Software Center, located in an industrial park designed for technology firms and secured the installation of NIIT, a franchise of a major Indian human resources center.

In addition to designing and implementing proactive sector-specific policies to diversify Querétaro’s economy, the Garrido administration took a more hands-on approach to SME development and supporting local value chains. In this area, the state government established several mechanisms to enhance the financial and capacity-building resources available to small firms, including a fideicomiso to guarantee credits for the state’s small firms up to a million pesos and a fund to support SME’s efforts to obtain international quality certifications and gain access to specialized consulting services (Casalet et al 2011). The Productive Articulation and Development of Local Providers program similarly aimed to help local firms develop the capacities to work with major MNCs. The state also unveiled a project to support small-firm exporters in conjunction with Bancomext, Mexico’s Export Bank, which subsidized 50 percent of the cost of participation in Bancomext products and services for exporters.

One result of these sector-specific development strategies was another considerable expansion of the state’s economic infrastructure. The number of industrial parks in operation grew

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624 Support for small and medium business appeared as the first priority for industrial promotion in the Economic Development Secretariat’s first annual economic bulletin, with explicit objective of reducing reliance on imported inputs for large firms in the state (Government of Querétaro 2004).

625 Under this scheme, the state, the federal authorities, and the firm itself would each contribute 33 percent of the costs of these services (Casalet et al 2011).
from 16 in 2004 to 20 by the end of the sexenio, including one under construction for the technology and IT sector (see Table 8.2). In the final months of the administration, the governor laid the first stone for a logistics park near the airport, the first such facility dedicated to logistics firms in the region, helping consolidate Querétaro’s status as a logistics hub for the Bajío. As Table 8.2 illustrates, the Garrido administration oversaw a shift in policy towards sector-specific industrial parks in frontier areas the government sought to promote.

Table 8.2: Evolution of Industrial Parks in Querétaro

<table>
<thead>
<tr>
<th>Industrial Park</th>
<th>Sector</th>
<th>Administration Inaugurated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benito Juárez</td>
<td>Mixed</td>
<td>Camacho Guzmán (or earlier) (-1985)</td>
</tr>
<tr>
<td>Valle del Oro</td>
<td>Mixed</td>
<td></td>
</tr>
<tr>
<td>San Pedrito</td>
<td>Mixed</td>
<td></td>
</tr>
<tr>
<td>La Cruz (Agroindustry)</td>
<td>Agroindustry</td>
<td></td>
</tr>
<tr>
<td>Balvanera (Agroindustry)</td>
<td>Agroindustry</td>
<td></td>
</tr>
<tr>
<td>Parque Industrial San Juan del Río</td>
<td>Mixed</td>
<td></td>
</tr>
<tr>
<td>Parque Industrial Jurica</td>
<td>Mixed</td>
<td></td>
</tr>
<tr>
<td>Parque Industrial FINSA</td>
<td>Mixed</td>
<td></td>
</tr>
<tr>
<td>Fraccionamiento Industrial La Montaña</td>
<td>Mixed</td>
<td></td>
</tr>
<tr>
<td>Parque Industrial El Pueblito</td>
<td>Mixed</td>
<td></td>
</tr>
<tr>
<td>Parque Industrial Marqués</td>
<td>Mixed</td>
<td></td>
</tr>
<tr>
<td>Parque Aeroespacial de Querétaro</td>
<td>Aerospace</td>
<td></td>
</tr>
<tr>
<td>Parque Santa Rosa</td>
<td>Mixed</td>
<td></td>
</tr>
<tr>
<td>Agropark</td>
<td>Greenhouse agriculture</td>
<td></td>
</tr>
<tr>
<td>Parque Tecnológico Innovación Querétaro</td>
<td>Technology and IT</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Anuario Económico de Querétaro (1988-2007), media

Similarly, the number of research centers and researchers grew to a total of 42 centers employing over 1,900 researchers by the end of the administration, from a starting point of 38

---

626 The logistics sector represented the third major priority for the Garrido administration (in addition to aerospace and IT) in diversifying the state’s economy. While officials acknowledge that the progress in this sector fell short of expectations, the sector gained momentum under the subsequent administration with a major investment by DHL in the airport grounds (http://www.20minutos.com.mx/noticia/b26504/buscan-inversiones-fortalecer-a-queretaro-como-centro-estrategico/).
centers (Casalet et al 2011). A full 29 of these are dedicated to developing technology and research and development (Villavicencio et al 2013). Another indication of the state’s status as a knowledge center is that by 2009 Querétaro was home to 20 post-graduate programs that belonged to the National Register of Quality Post-graduate Programs (PNPC), making up one-third of its total (Villavicencio et al 2013).

**Emergence of new institutions and actors for economic governance**

The emergence of new industries and shift towards sector-specific development strategies under the Garrido administration gave rise to new actors in the economic realm. State officials promoted formal clusters as a new mechanism for coordination among the private, public, and university sectors. By the end of the sexenio, the state had clusters in the aerospace and software sectors, and additional associations in biotechnology and auto parts were formed in the first half of the subsequent administration. These groups, which bring together firms, research and educational institutions, and government officials have emerged as increasingly important interlocutors with the state in the design and implementation of sector policies. Clusters have become the natural site for coordination among these actors on efforts to boost the competitiveness of local firms and encourage local supply chains. The rise of clusters thus represented a migration of technocratic private sector participation in Querétaro’s development strategies to new spaces. The clusters and other new sector-specific associations and networks such as the aforementioned RIIAQ and CEDIA in aerospace also took on new roles, including participating directly in implementation of policies on supplier development and training. This new stage of private sector organization thus saw associations performing increasingly more “developmental” tasks in line with the theoretical work on business associations (Doner and Schneider 2000). The main focus of business associations

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627 Cluster development would be a central pillar of the subsequent administration’s development policies, another reflection of the continuity of key economic personnel between these two governments. In this context, “clusters” refer to formal private entities made up of firms, government agencies, and relevant research and educational institutions in a particular sector. This use of the term thus differs from conceptual discussions of a cluster as “a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and externalities” (Porter 1998).
evolved in response to the key development challenges of each era, from managing labor relations in the tumultuous 1980s to supporting sector-specific upgrading in the 2000s (see Table 8.3).

**Table 8.3: Evolution of Private Sector Organization and Participation in Querétaro**

<table>
<thead>
<tr>
<th>Period</th>
<th>Key private sector organizations</th>
<th>Major policy challenges</th>
<th>Role of private sector actors</th>
</tr>
</thead>
</table>
- coordination and communication with local officials and labor leaders to avoid conflict |
| 1991-2003       | Canacintra, Copamex              | Enhance productivity and quality to compete in global markets | -dissemination of ideas and practices on quality and labor relations  
- direct policy inputs to local government  
- promotion of state to outside investors |
| 2003-present    | Clusters, FEMIA, Innovation networks, Canacintra, Copamex | Diversification into frontier sectors  
Upgrading via R+D, knowledge inputs | -enforcement of quality norms/standards  
-participation in policy implementation |

*Source: Author*

The rise of new forms of private sector organization entailed a somewhat diminished role for the traditional loci of private sector influence. According to some observers, these institutions adopted more political postures in the mid-2000s, and lost some of their force as an independent voice, although Canacintra continued to have a strong technical vocation and close links with the state’s educational and research institutions. In addition, former Canacintra presidents and other prominent business leaders in some cases took on management or advisory roles in educational and research institutions or industrial parks, helping deepen connections among these sectors.

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628 Interview with former state government official, August 8, 2016  
629 Examples include Isidro Mata, who became the head of Cediam, a research and development center for the automotive industry housed at the ITESM; Sergio Villaseñor Pelayo, who served as a member of CIDESI’s external evaluation
Traditional business associations also continued to be active promoting the state with outside investors and advising the government on a variety of issues.630

In this context, the forms of governance that had underpinned the state’s development for more than two decades became obsolete. In particular, the Tripartite Commission ceased to function in 2006 at the mid-point of the sexenio. The reasons for the demise of this longstanding institution vary depending on the source. Officials in the Garrido administration report that the specific format of the sessions, with participation of a cross section of traditional business chambers and labor confederations was no longer efficient in an environment where the concerns and demands of new sectors were increasingly specific and, moreover, new technologies facilitated close communication without face-to-face meetings.631 Other observers and participants suggest the decision reflected the governor’s displeasure with the recriminations and criticisms that often arose in these sessions.632

Another likely factor was that labor unions had simply lost influence in Querétaro and across Mexico with the retrenchment of state corporatism in the 1990s followed by the internationalization of production, which eroded labor bargaining power vis-à-vis capital. The loss of influence among the traditional federations can be seen in a fragmentation of the labor sector in Querétaro, with the rise of actors such as the CROC and independent unions. On the private sector side, too, the increasing clout of formal clusters in emerging sectors such as aerospace and IT meant that traditional participants in the Tripartite such as the local commerce, construction, and restaurant chambers, became less important actors. While the institution of the Tripartite Commission did not survive, the spirit of collaboration and coordination it fostered among

committee; and Abel Baca, who became the Director of the Querétaro Industrial Park and later ran the Querétaro Logistics Park. While overseeing the Querétaro Industrial Park, Baca created a group of human resources executives at the park’s firms, which met to share labor relations practices, thus transmitting norms of dialogue within the private sector to new spaces.

630 Interview with former state government officials, July 29, 2016
631 In the words of a high-ranking official in the Secretary of Sustainable Development, key actors had lost interest in the forum and attendance in the meetings dropped off. “The model was, let’s say, exhausted….and we looked for different schemes to be in daily and permanent contact with the sectors (business and labor)” (interview July 29, 2016).
632 Interview with Querétaro labor confederation leader, April 27, 2016
government, business, and labor continued. Most tangibly, government-business cooperation migrated to new institutional spaces such as the clusters, which also included academic and public research institutions—reflecting the growing importance of knowledge and technology inputs in the state’s economic apparatus, to some extent at the expense of labor. In addition, collaboration between the state government and labor unions persisted, especially around the perennial concern of safeguarding labor tranquility against more radical outside influences, as the anecdote about Bombardier illustrates. Perhaps as a result of these new organizations and spaces for coordination, the cessation of regular tripartite meetings in 2006 did not provoke major objections among the parties involved. The Commission had served its intended function over the course of two-and-a-half decades, helping the state weather economic shocks, manage difficult adjustments, and ultimately prosper under a new economic model. It died a peaceful death.

Even Garrido’s more brusque political style, which led to clashes with the local Congress and a spat with the private sector over a new payroll tax, did not disrupt the state’s development. Buoyed by new institutions for coordination among key actors, this progress had acquired a momentum of its own that had become impervious to local political shocks. In addition, the state’s electoral processes continued to be relatively tranquil. The 2006 mid-term elections in Querétaro saw the PAN deepen its advantage, winning ten of the state’s 18 municipalities, compared with four for the PRI. These races did not occasion any tensions between the government and business. As the 2009 gubernatorial elections approached, the private sector praised the Garrido administration and called for policy continuity in the areas of investment promotion, employment, and security. The business sector’s attitude was made clear in a post-election meeting with governor-elect José Calzada of the PRI, where business leaders proposed a short list of candidates

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633 In 2004, the government proposed introducing a state payroll tax, which Querétaro and only two other states had not yet instituted. This move sparked opposition from the private sector but the closeness of key government officials avoided major conflict.

634 The winning candidate in the San Juan del Río mayoral race, Jorge Rivadeneyra, was a business person.

635 In the days before the July 5 vote, the state’s main business associations sponsored a ceremony to honor the work of the outgoing governor. Diario de Querétaro 2 July 2009, “Avala IP a Garrido”.
to head the economic development secretary. Their choices included Marcelo López, the official who had led efforts to establish the aerospace park and UNAQ as sub-secretary of economic development under Garrido. López later served as the department’s secretary for Calzada between 2013 and 2015.636

Results of the Garrido administration

The Garrido sexenio saw strong overall growth and the emergence of new, high-technology sectors as motors of the economy. As Table 8.4 indicates, the state averaged 4.6 percent growth between 2004 and 2009 despite being hit by the Global Financial Crisis. This performance gave Querétaro the third-strongest growth rate among states in Mexico and the fastest among industrial states.637

Table 8.4: Growth in Querétaro, Puebla, and Mexico, 2004-2009

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2004-9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Querétaro</td>
<td>6.9%</td>
<td>5.4%</td>
<td>7.7%</td>
<td>7.2%</td>
<td>3.2%</td>
<td>-2.6%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Puebla</td>
<td>1.4%</td>
<td>5.3%</td>
<td>5.0%</td>
<td>2.1%</td>
<td>2.3%</td>
<td>-5.9%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Mexico</td>
<td>4.3%</td>
<td>3.0%</td>
<td>4.9%</td>
<td>3.2%</td>
<td>1.4%</td>
<td>-4.7%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

Source: INEGI Sistemas Nacionales de Cuentas de México

This growth was accompanied by a diversification of the industrial structure. The share of auto parts, still the leading sector, in the state’s total production decreased from 16.0 to 12.7 percent between 2003 and 2008 (the penultimate year of the Garrido administration), while in Puebla the share of automobile production increased from 24.3 to 26.3 in the same period (see Table 8.5).

636 Coparmex head Luis Meir called López “a person with many good qualities, very technical, and wise, and a fundamental part of the development of the aerospace park, the Aeronautical University, and all the firms that have arrived.” Diario de Querétaro, 11 July, 2009, “Proponen patrones a Pepe candidatos a la Sedesu” The private sector thus helped ensure continuity in personnel, and consequently on key policy areas, across another alternation in power, this time between the PAN and the PRI. In interviews with business managers in the state, continuity in the top economic policy team was a key factor in the consolidation of the aerospace sector and other successful initiatives from the Garrido administration (Interviews, November 18, 2015).

637 The three fastest-growing states during this period were Baja California Sur, Tabasco, and Querétaro.
Table 8.5: Industrial Structure in Querétaro and Puebla, 2003 and 2008

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto parts</td>
<td>16.0%</td>
<td>12.7%</td>
<td>Auto assembly</td>
<td>24.3%</td>
<td>26.3%</td>
</tr>
<tr>
<td>Cellulose, paper, and cardboard</td>
<td>3.7%</td>
<td>4.0%</td>
<td>Auto parts</td>
<td>10.0%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Grains and seed processing</td>
<td>3.5%</td>
<td>4.0%</td>
<td>Clothing</td>
<td>3.0%</td>
<td>Plastic products</td>
</tr>
<tr>
<td>Cellulose and paper products</td>
<td>3.4%</td>
<td>3.8%</td>
<td>Confections</td>
<td>3.0%</td>
<td>Generation of electricity</td>
</tr>
<tr>
<td>Household appliances</td>
<td>3.0%</td>
<td>3.5%</td>
<td>Beverages</td>
<td>2.3%</td>
<td>Confections</td>
</tr>
</tbody>
</table>

Sources: INEGI Economic Census 2004 and 2009

Total FDI inflows amounted to US$ 1.6 billion during the sexenio, nearly double the amount of the previous administration. As Table 8.6 shows, the emerging aerospace sector, along with the traditional auto parts industry, were the two drivers of this growth in FDI. Another notable feature of the composition of FDI during this period is the rising importance of services, which accounted for the largest shares of total inflows after the aerospace and auto parts industries. These sectors—real estate, wholesale of industrial materials, and business services—are indicative of the transformations that would occur in the state’s economy in the second decade of the 21st century. However, in terms of total FDI, Querétaro only ranked 10th out of 31 states (not including the Federal District), even adjusting for economic size.

Table 8.6: Composition of Foreign Direct Investment in Querétaro, 1999-2009

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Production of auto parts</td>
<td>20.5</td>
<td>Aerospace equipment</td>
<td>26.8</td>
</tr>
<tr>
<td>Poultry</td>
<td>11.1</td>
<td>Production of auto parts</td>
<td>25.9</td>
</tr>
<tr>
<td>Prepared foods</td>
<td>9.7</td>
<td>Real estate</td>
<td>8.2</td>
</tr>
<tr>
<td>Printing and related industries</td>
<td>7.1</td>
<td>Wholesale of primary materials for industry</td>
<td>6.2</td>
</tr>
<tr>
<td>Animal feed</td>
<td>5.5</td>
<td>Other business support services</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Source: Secretary of Finance and Public Credit
*Disaggregated FDI data at the state level are only available from 1999 onwards
In terms of trade, Querétaro witnessed growing deficits, which had been a feature of the state’s pattern of economic integration since the late 1990s. From a starting point of 7.8 percent of total trade, the trade deficit reached 17.8 percent by 2009. In addition to the import bias in the state’s auto parts sector, discussed above, the arrival of new MNCs in the aerospace sector entailed an immediate need to import an important quantity of inputs and capital goods, contributing to the deterioration of the trade balance in this period.

As discussed above, policies to substitute imported inputs with the production of local firms were a major focus of state officials during this period. The results of these efforts can only be deemed a qualified success. Based on firm-level survey data, the share of imported inputs in total manufacturing production fell only slightly over the course of the *sexenio*, although this result proved stronger than in the case of Puebla, which experienced a steady increase in imported inputs as a share of net sales in the manufacturing sector (see Table 8.7). In the aerospace sector, in particular, efforts to develop local suppliers did not yield immediate results. Several industry leaders described the structure of the industry in Mexico as notable for its dominance by transnational OEMs and the absence of small and medium-sized local suppliers, a characteristic that applies to Querétaro as well as other states.

### Table 8.7: Imported inputs as a share of total net sales, 2003-2009

<table>
<thead>
<tr>
<th>All sectors</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Puebla</td>
<td>0.18</td>
<td>0.18</td>
<td>0.24</td>
<td>0.25</td>
<td>0.25</td>
<td>0.24</td>
<td>0.24</td>
</tr>
<tr>
<td>Querétaro</td>
<td>0.21</td>
<td>0.20</td>
<td>0.21</td>
<td>0.21</td>
<td>0.20</td>
<td>0.20</td>
<td>0.20</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Auto parts</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Puebla</td>
<td>0.22</td>
<td>0.19</td>
<td>0.22</td>
<td>0.28</td>
<td>0.27</td>
<td>0.27</td>
<td>0.29</td>
</tr>
<tr>
<td>Querétaro</td>
<td>0.07</td>
<td>0.07</td>
<td>0.07</td>
<td>0.07</td>
<td>0.06</td>
<td>0.06</td>
<td>0.05</td>
</tr>
</tbody>
</table>

*Source:* INEGI Annual Manufacturing Industry Survey (2003-9)

In some ways, the record of the state in this regard reflects an inherent tension between structural transformation based on (foreign) investment, which requires at least an initial reliance

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638 Interviews with former OEM manager (February 9, 2017) and aerospace association leader (July 5, 2016). In contrast to the pyramidal structure of the sector in most countries, with small suppliers making up the largest cohort of firms, the Mexican sector is the reverse.
on imported inputs, and the goal of upgrading via increasing local value added. As a new sector emerged driven by FDI, demands for imported inputs increased, while policies to substitute these imports with the product of local firms, a priority of the Garrido administration, require time to show results.

However, the state’s economic record in this period shows continued evidence of a transition to productivity-driven growth. As Table 8.8 shows, Querétaro improved the productivity of its median industry by 34 percent between 2003 and 2008, far outpacing Puebla. Estimates from Unger (2017) likewise show Querétaro squarely among Mexico’s high-productivity states over this period. This evidence suggests that in the context of middling FDI attraction, the state managed to sustain fast growth on the basis of productivity.

Table 8.8: Productivity in Querétaro and Puebla, 2003 and 2008

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Productivity of 5 largest industries*</td>
<td>651.4</td>
<td>992.7</td>
<td>644.7</td>
<td>863.7</td>
</tr>
<tr>
<td>Productivity of median industry</td>
<td>100.0</td>
<td>133.9</td>
<td>76.2</td>
<td>91.0</td>
</tr>
</tbody>
</table>

Source: Author calculation based on INEGI Economic Census, 2003 and 2008
*Industries defined at four-digit level

Looking to the present

The administration of José Calzada (2009-15) witnessed a deepening of the basic outlines of the sector-specific policies for upgrading that had taken hold at the end of the Garrido sexenio. As discussed above, the retention of key top-level economic officials as well as the guidance of the state’s private sector helped ensure this continuity, even as control of the state shifted back to the PRI. As a result, the state consolidated its position as a site of state-of-the-art economic infrastructure and a hub for new high-technology sectors.

In 2010, Bombardier inaugurated a second plant in Querétaro with an investment of US$ 255 million to build fuselage, wings, and stabilizers for the Learjet 85 executive jet, which represented a major step forward in the type of production activities carried out in the Mexican
aerospace sector. This decision led to a second wave of foreign investment in the sector, which has continued through recent years. The CIAT, the joint-venture research and design center between GE and CIATEQ, undertook a major expansion as well, and by 2012 employed over 1,500 engineers, technicians, and researchers. In 2015, the state attained another landmark when the firm ITR certified the first motor module designed and produced entirely in Mexico. During that year, Querétaro received 45 percent of all Mexico’s inward FDI in the sector. 639

In addition, the private sector and research institutions in Querétaro have in recent years been at the forefront of efforts to develop the first aerospace-dedicated public research center in Mexico. While various attempts to establish such a facility had been made at the national level, these suffered from poor implementation and lack of communication with industry. The state government decided to revive the idea, in conjunction with the public research institution CIDESI. Querétaro’s specialized infrastructure for the sector, and the close ties between CIDESI and FEMIA, the lead national aerospace business association in Mexico, which originated in the state, gave this local initiative momentum and ensured the project would be attuned to the needs of the industry. The National Center for Aeronautic Technologies (CENTA), housed at CIDESI, is set to begin operations in 2017 and expected to further boost the attractiveness of the state for aerospace investment. 640 In this project, too, the state has drawn on existing institutional knowledge and practices in developing research centers. The CIDESI, in its thirty-plus years of operations, has ample experience in developing centers, including the CENAM.

Beyond the aeronautic sector, the state continued to promote high-technology industries such as IT and biotechnology, through its strategy of infrastructure development and cooperation with the private sector and academia via clusters. In addition to the aerospace and IT clusters formed under Garrido, the state had additional sector-specific associations in biotechnology and

640 The creation of an aerospace-specific research center had been a demand of the industry for several years.
auto parts by the middle of the Calzada administration. By 2012, the state had 24 industrial parks and an additional seven industrial zones, including specialized facilities for biotechnology, several industrial parks for the aerospace sector in the vicinity of the airport, an IT-focused park, and a park dedicated to micro-enterprises (CONACYT 2014).

The election of Melquiades Morales as governor of Puebla in November 1998 ushered in a new phase in the state’s politics. After four sexenios led by governors who had forged their careers in the federal bureaucracy and lacked strong political roots in the state, Morales, also of the PRI, was a local politico through and through. He had held nearly every important state-level elected post and occupied a number of key positions in the local party hierarchy (Balderas 2010). Morales drew on these connections to groups across the local political spectrum to overcome two challengers for the party’s nomination—former state finance minister José Luis Flores and former Puebla mayor Germán Sierra—who enjoyed closer links to national politics and, in the case of Flores, the Bartlett administration.

As a result of his background, Morales entered office with broad local support, including among segments of the local business community, whom he courted during the campaign. The new governor also had a conciliatory political style, in contrast to his predecessor, and preferred to appease opposing political factions rather than confront them head-on. After the clashes of the Bartlett era, which left local business associations weakened in various ways (see chapter 7), the private sector too sought reconciliation with the incoming PRI governor to avoid further conflict.641 Both government and private sector, then, found it expedient to prioritize friendly relations and avoid political clashes at the outset of the Morales administration.

However, the new tenor of government-business relations did not result in great development strides for the state. Several factors account for this outcome. On the one hand, the governor’s economic strategy prioritized under-developed regions of the state by promoting maquila production and industries linked to agriculture in the state’s vast rural hinterlands—well-intentioned efforts that achieved limited results for reasons described below. In addition, the state’s

641 A good example is the election of Pepe Yitani as president of the CCE in 1999 just after Morales took office. A member of a prominent Lebanese textile family, Yitani, had good relations with the state’s PRI government and had maintained a positive relationship with Bartlett throughout the latter’s sexenio, when Yitani served as Vice-president of the CCE. He also had a longstanding personal relationship with Morales.
business chambers, as discussed throughout this dissertation, lacked a modernizing vision due to their focus on local issues, the limited participation of leading manufacturing firms (see chapter 3), and more recently, their diminished political and financial position after the blows suffered during the Bartlett administration. Even when the Morales government created openings for public-private dialogue, business associations failed to articulate a strategy for structural transformation and economic upgrading. A final and related factor was the continued dominance of Volkswagen in the state’s political economy, which undermined attempts to diversify Puebla’s economy during this period.

*Mending fences between government and business in Puebla*

The Bartlett administration, despite its developmental achievements, left Puebla divided politically—between local and national actors, between traditional and modernizing forces in the PRI, and not insignificantly, between the PRI-government and organized business. This fractured political environment proved favorable for Morales, who enjoyed good relations with various sectors within the PRI and regional power brokers thanks to his long trajectory in local politics.642 These ties allowed him to unite a diverse group of local political elites behind the goal of ensuring the party’s gubernatorial candidate be a local politician, reversing the trend of the last two decades. One key source of support came from local business, especially groups outside the traditional business elite based in the capital (Balderas 2010). These alliances proved critical for Morales, who could not count on support from the outgoing state government or key national leaders and therefore had to draw on his extensive local ties for financial and organizational backing. Once in office, Morales went about repaying the political debts incurred during his campaign, including by placing several members of the private sector in his first cabinet.643 These personnel selections reflected political expediency more than the governor’s intentions to deepen government-business

642 Morales had used his membership in the National Peasant Confederation (CNC), one of the PRI’s three corporatist sectors to nurture friendships with key business people and political actors and hold a series of positions in both the public administration and as an elected official (Balderas 2010).

643 According to Balderas (2010) the initial composition of Morales’ cabinet appeared designed to repay political debts from the campaign rather than maximize technical expertise or policy experience.
cooperation, as evidenced by the short tenure of most business cabinet members. Of the four initial cabinet members with a private sector background, three were replaced shortly into the term. As with other groups, Mequiades’ overriding concern with respect to the private sector was to placate local business and thus repair the political damage done during the second half of the Bartlett sexenio. The Morales administration did keep one business person, Antonio Zaraín García, at the helm of the Secretary of Economic Development throughout the sexenio.

Underscoring its intention to establish positive relations with business, the government created the Consultative Council in the Area of Economic Development (Consejo Consultivo en Materia de Desarrollo Económico) to be led by the Secretary of Economic Development. This body aimed to be a forum for public-private consultation and coordination among the state government, Puebla’s peak business associations, and representatives of the educational and labor sectors after similar projects fizzled amid the clashes of the Bartlett sexenio. However, the initiative failed to produce high-level dialogue. In the view of Zaraín, the lead state official presiding over the sessions, they quickly became more informative than consultative, as private sector representatives on the Council rarely participated actively. Rather than putting forth ideas for development policy or investment projects, business leaders preferred to listen to the proposals of the government. The apparent lack of interest on the part of the business sector was also evident in who participated in the quarterly meetings. In most cases, the top encompassing business associations—the CCE, Coparmex, and Canacintra—sent their managers rather than presidents.

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644 Even if the political clout of organized business had been diminished by Bartlett’s actions, Morales still faced a challenging political scenario. Taking office in 1999, the governor understood his party was in decline at the national level after the PRI has lost control of the national legislature for the first time in 1997 and faced a tough battle to retain the presidency in 2000. The governor could ill afford another business sector revolt if he wished to prolong the PRI’s power in Puebla.

645 Zaraín started a highly successful rustic furniture export business based out of the small town of Chipilo several miles outside of the capital city and also served as the president of Canacintra’s furniture section during the 1980s. Although an active participant in the chamber, Zaraín was not part of the close-knit conservative elite that long controlled the chambers’ leadership. As such, he was viewed as a mutually acceptable business representative in the Morales administration. According to Socorro López Espinosa, the choice of Zaraín had been cleared with local business leaders beforehand (interview September 7, 2016).

646 Interview with Antonio Zaraín, June 22, 2016.

647 Directors of business chambers manage the administrative and operational tasks of the chambers and tend to be relatively junior professionals who often lack their own private sector experience.
side, the Council included representatives of various secretariats in addition to Economic Development, such as Public Works, Transportation and Communications, and Finance and Planning; however, these latter agencies sent mid-level officials rather than cabinet members. The absence of top-level representation from both business and government distinguishes the Council from the Tripartite Commission in Querétaro.

Even when business chambers did utilize the Council to promote specific projects, important ones failed to come to fruition. A primary concern of the Puebla private sector in this period, as had been the case over the course of several administrations, was the condition of the state’s industrial parks. To address this issue, business leaders brought to the Council a proposal for a special industrial park for micro-enterprises. The plans called for a dedicated space in the south of the city of Puebla where small firms, currently dispersed throughout the capital’s urban area, could relocate their businesses close to where the majority of their employees lived. However, this project remained in limbo for much of the sexenio. Despite years of discussions, Canacintra, the main promoter of the project, never fully convinced key state officials of the project’s importance. The government failed to provide subsidies or facilitate the purchase of land in the proposed site. In the end, the project appeared to lack gubernatorial support. This episode suggests a failure of communication of preferences between the two sides, as a main priority for the private sector did not manage to win necessary political backing, and no alternative plans arose, as one might expect, via public-private dialogue. Other pending development issues in the state, such as industry-university linkages, were not taken up in this forum despite its explicit mandate to involve educational and technological institutions in economic policy discussions. In the view of government officials present in the meetings, the business organizations did not put a major

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648 As chapter 7 relates, the first weeks and months of the Bartlett administration also occasioned much discussion between government and business leaders about the need to improve the quality of Puebla’s industrial infrastructure.
649 The discussion of this episode is based on an interview with Antonio Zarain, June 22, 2016.
emphasis on this issue. The Governor’s priorities also pointed in a different direction. In the area of industrial development, Morales emphasized new opportunities in less developed regions of Puebla, through a major industrial park project in the Tehuacán area and incentives for maquilas operations in rural parts of the state.

The lack of initiative on the part of organized business is perplexing given that business leaders in the state had long clamored for a greater role in the policy process. Why, then, did the forum not solicit more active private sector participation? The first part of the answer has to do with the characteristics of the business chambers themselves. As discussed throughout this dissertation, and especially in chapter 3, Puebla’s peak business associations had long lacked a technical orientation and strong representativeness of the state’s industrial structure due to the weak incorporation of MNC and other large-firm managers in leading manufacturing sectors. By the beginning of the 2000s, the profile of chamber leaders had further diverged from the state’s main economic vocation. Pepe Yitani, head of the CCE between 1999 and 2002—a position that made him the lead representative of the private sector—owned a used car business and restaurant in Puebla, despite hailing from a powerful Lebanese textile family. In other cases, key leadership positions were occupied by individuals who later left the private sector. For example, Herberto Rodríguez Regordosa, president of Coparmex in the early 2000s, had managed a family business for several years but later became involved in university administration at the UPAEP. By contrast, only four of 94 major auto parts firms identified by García and Lara (2010) participated as officers or advisers in Canacintra during the early 2000s according to data provided by the

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651 As examples discussed below indicate, several attempts to forge common projects among the local government, industry, and universities failed to move beyond the planning stage.

652 This inclination in industrial promotion was evident in Morales’ first informe de gobierno in which the Governor identified high concentration of industry in the area around the city of Puebla as the principal problem in the state’s industrial development and asserted “the objective is to achieve a balanced development in the state, with integrated inter-regional markets” (Government of Puebla 1999a).

653 Rodríguez Regordosa is the son of Herberto Rodríguez Concha, a deacon of Puebla’s ultra-conservative business elite. The UPAEP, as discussed in chapters 3 and 4, was founded by this group in 1973 in the wake of the university conflict and has maintained close links with the traditional private sector leadership.
This period thus saw private sector leadership positions filled by individuals with increasingly weak links to the main productive sectors of the economy.

The traditional, inward-oriented and conservative factions of the private sector used a variety of techniques, including some controversial ones, to maintain their influence over Puebla’s lead business associations. By the early 2000s, the lack of renewal in the chambers had created tensions between the old guard and a younger, less ideological sector of the local business community that wanted to instill the associations with a more technocratic orientation. Many of the latter group viewed the traditional leadership as pursuing personal political advancement rather than development goals, a view shared by many in government. Internal struggles thus weakened the chambers and inhibited their ability to advance and contribute to a coherent developmental agenda for the state. Divisions inside the business community would burst into public view just after Morales left office in 2005, when a contested election for the CCE presidency led to a split in the organization and the formation of a new association, the Council of Business Organizations (COE). The COE, made up of business leaders disaffected with the state’s traditional private sector leadership, aimed to establish itself as a rival peak association to the CCE, and both entities continue to exist side-by-side in Puebla (see discussion below). These internal problems came on top of the damage to the chambers’ power, prestige, and resources exacted by the Bartlett administration as well as changes to federal legislation governing business associations during the same period. Facing such challenges, it is perhaps not surprising that the business leadership chose to prioritize conciliation with the government.

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654 Officers include individuals occupying leadership positions such as the president, vice-president, treasurer, and sector presidents; advisers are additional members who take part in key decisions. In total, there were about 50 such officials in the Canacintra leadership structure during the 2000s.

655 In a reflection of the discontent within the business sector, a newspaper column in late 2001 reported numerous complaints from business people that Canacintra’s services were superficial and ineffective; moreover, members charged that new ideas or suggestions tended to be ignored or even viewed with suspicion. The columnist concludes that these complaints explain why membership is low, quotas are down, and the finances of the chamber precarious (Sol de Puebla, 12 September, 2001, “Agenda Empresarial”).

656 Interviews with private sector leaders (December 1, 2015 and December 2, 2015); interview with Antonio Zarain (June 22, 2016).

657 A new Chambers Law, passed in late 1996, had ended mandatory affiliation among other changes, thus making chambers’ finances much more precarious and forcing them to retain members through better services.
Another factor undermining the developmental impact of the Council was Morales’ preference for individual, informal contacts with chamber leaders and top public officials. The governor tended to transact business with private sector leaders during trips on his helicopter to tour remote regions of the state or attend meetings in Mexico City. These opportunities to raise issues directly with the governor were often extended in response to political tensions or unrest within the ranks of business, underscoring their political function. From the perspective of business leaders, the ability to address the sector’s concerns in one-on-one discussions with the governor diminished incentives to invest in formal public-private dialogues such as the Council.658 Still, the government at times had to resort to more interventionist tactics to maintain tranquility in its relations with business. During the middle of his term, Morales maneuvered to ensure the selection of an ally as the new president of Canacintra, by making known that with his preferred candidate in office, positive relations with the government would continue.659

In this way, the state government under Melquiades Morales successfully established an amicable relationship with organized business, avoiding the partisan political clashes of the past.660 The cozy personal ties between the governor and chamber leaders led to a consistent flow of favors and special requests for funding. As records from the Secretary of Economic Development (Sedeco) show, chamber leaders regularly submitted requests for government funding for items ranging from support for business training programs to new office equipment and a variety of social

658 This outcome corresponds with the expectations of theories of business organization that individualized, network relations between private sector leaders and the state often come at the expense of robust encompassing business associations (Maxfield and Schneider, 1997).

659 Interviews with Antonio Zarain (June 22, 2016) and Socorro López (September 7, 2016). As discussed in chapter 7, such interventions by officials were not uncommon and Bartlett employed similar tactics to attempt to install sympathetic leaders in the chambers. According to Socorro López Espinosa, Morales’ mistake was to make his preferences known openly.

660 A meeting between the governor and lead representatives of the state’s business chambers in the wake of the PAN’s historic 2000 presidential election victory illustrates the atmosphere that prevailed under Morales. Business leaders made glowing comments about the governor’s openness to dialogue and savvy management of the post-electoral political environment. CCE president Pepe Yitani, who enjoyed a particularly close and amicable relationship with the government, asserted that the governor “has always been a person of consensus who always tries to be conscious, with equanimity, and look for reconciliation” (Sol de Puebla, 6 July, 2000 “Consciente, alineado, y sereno” observaron empresarios a MMF”
events, lunches, and even an end-of-year concert.\footnote{Logbook of the Secretary of Economic Development of Puebla, 1999-2003. Personal records of Antonio Zarain. Consulted August 17, 2016, Chipilo, Puebla.} The extent of government support for the chambers is evident in the proposed Sedeco budget for 2004, in which 14 percent of specified expenditures were designated for “diverse support to chambers.”\footnote{Logbook of the Secretary of Economic Development of Puebla, January 2004. Personal records of Antonio Zarain. Consulted August 17, 2016, Chipilo, Puebla. The trend of the state government providing money to the chambers increased notably under Morales and continued in the subsequent administration of Mario Marín (Interview with Socorro López, May 3, 2016).} The consistent need for public sector funds underscores the financial challenges faced by many chambers during this period. The rapprochement between state government and local business did lead to cooperation on social actions such as the creation of a foundation to support victims of massive floods in 1999 and conciliatory steps such as an agreement with the BUAP that finally ended the conflict between local business associations and the state’s main public university dating back to the 1960s. Overall, however, the atmosphere of overly cozy public-private relations and diminished business associations that prevailed during the \textit{sexenio} did not prove conducive to effective long-term development policy. While the state made various attempts to implement strategies for sector upgrading and diversification, these efforts produced modest results.

One project brought before the Consultative Council that did materialize was the creation of the Ciudad Textil Industrial Park, a specialized industrial space for textile firms intended to breathe life into the flagging sector. State governments in Puebla had for decades looked for ways to resolve problems arising from textile firms’ location within the urban area of the capital, including complaints over noise and water contamination.\footnote{In fact, the idea for a textile industrial park had arisen during the Bartlett administration but languished amid the political battles between government and private sector.} Working with the textile chamber and the CCE, the administration brokered a deal whereby textile firms would occupy lands near the airport, with close access to the Mexico City-Puebla highway and sufficient water for the industry. The government provided the land, and it would be the responsibility of the firms themselves to
invest in the infrastructure and services for the park. However, this vision for public-private cooperation did not pan out. First, textile firms failed to invest in the maintenance and upkeep of the park, forcing the government to step in and request additional financing for the site. In addition, demand from the textile industry was hardly sufficient to support such a scheme, and most of the lands acquired by the private sector ended up being used for speculation, in many cases resold to auto parts and plastics firms. Some of the owners of plots in the Textile Park chose to keep their textile firms in the city. As a result, the park is now home to only a small percentage of textile firms.

The creation of an industrial space near the airport thus failed to catalyze a recovery in the textile sector. Another factor behind this outcome was the renewed competitive shock from low-cost Chinese producers, who eroded Puebla firms’ domestic and U.S. market share starting in the early 2000s, just as the park began to operate. Faced with an influx of Chinese imports, the sector once again focused its attention on lobbying the federal government to limit the incursion of Chinese textiles in the Mexican market through anti-dumping measures and tighter enforcement against contraband and counterfeit products. Here, the limits of the sector’s political influence were revealed. The textile chamber and CCE tried to convince Morales to intervene with President Fox to take the actions sought by the chamber. Morales, who had a close relationship with Fox that he leveraged to secure considerable federal resources for Puebla, would have been well-placed to try

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664 The park had been built using a Fideicomiso of the state government, supported by a $12 million credit from Banobras; the state government would then sell lots under a Fideicomiso and use difference to reinvest in the construction of new parks. In this way, the government hoped to avoid conditions such as those of the Industrial Park 2000, which had been plagued by chronic underinvestment by cash-strapped governments and resulting poor services (interview with Antonio Zaraín, November 30, 2015).

665 In June 2003, for example, the Sedeco requested authorization from the governor’s office to award a subsidy to the Association of Textile City Industrial Park Entrepreneurs of 2.6 million pesos for the development of infrastructure at the park (Personal records of Antonio Zaraín. Consulted August 17, 2016. Chipilo, Puebla).

666 The increase in Mexico’s textile imports from China during this period was indeed striking; imports increased by an annual average rate of 72 percent during the Morales sexenio. From a starting point of just under US$ 40 million in 1999, Mexico’s imports of Chinese textiles and clothing exceeded US$ 622 million by 2005. The timing of this deluge of Chinese imports, which also affected other labor-intensive manufacturing industries in Mexico, reflects the former country’s entry into the WTO in September 2001. Reflecting the challenging economic conditions the sector faced, the government and the association representing Ciudad Textil firms agreed to extend the time period during which owners of lots were required to set up production facilities (Personal records of Antonio Zaraín. Consulted August 17, 2016. Chipilo, Puebla).
to sway the president (Rebolledo 2012; Giraudy 2015). However, the governor refused to go to bat for the textile sector.667

In addition to the textile park, the Morales administration pursued a major “dry port” project that would combine multimodal logistics facilities and industrial infrastructure to create new development poles in the state. The government studied various sites for the initiative, including Tehuacán, an industrial center that had attracted many textile and electronics maquilas in recent years, and Huejotzingo, near Puebla’s main airport. Economic development officials requested funds for feasibility studies in 2003, and signed an agreement with the private developer GMD in late 2003 to carry out the project at Huejotzingo, but construction had not begun by the end of the sexenio.668 On the other hand, the government had already expropriated lands near Tehuacán, which it converted into the Tehuacán-Miahuatlán Industrial Park. The administration never formalized the land registries in the new park, however, complicating the arrival of new firms.669 In general, the Tehuacán-Miahuatlán project lacked a coherent strategy for what type of firms should locate there, and the park currently houses a smattering of paper, basic electronics, and clothing production. As of 2014, the park had achieved only 50 percent occupancy, and complaints about services were rampant.670 The idea for a multi-modal dry port would be revived by the government of Mario Marín (2005-2011), which moved the site of the project to the remote Libres-Oriental zone in a much-criticized move and whose handling of the project provoked widespread denunciations, as discussed below. The subsequent administration of Rafael Moreno Valle (2011-2017) did not pursue the project.

667 Interview with Puebla business leaders (November 20, 2015).
669 State officials had identified this issue as early as January 2001, when it was flagged as part of the System of Information on Industrial Parks, a new initiative to track conditions in the state’s industrial parks. (Sistema de Información de Parques Industriales de Puebla. Personal records of Antonio Zarain. Consulted August 17, 2016. Chipilo, Puebla). Nevertheless, the ultimate resolution of the land rights issue in this area would have to wait for the Moreno Valle administration (2011-2016). Interview with Socorro López Espinosa, September 7, 2016).
On the whole, the government set an ambitious objective for improving industrial infrastructure, having identified the poor state of Puebla’s industrial parks as a principal challenge (Government of Puebla 2000). When Morales took office, Puebla had ten functioning industrial parks covering just over 440 hectares of land (by contrast, Querétaro, had 16 parks at that time, despite being about one-third the size of Puebla). The new government set out a program of sixteen industrial park projects, including new sites and expansions of existing ones, which would have increased the total industrial lands in the state by 180 percent (see Table 9.1). The administration initiated legal processes to expropriate lands in the Grajales-Nopalucan, Chignahuapan-Zacatlán, and Atempan-Teteles areas, although none of these projects would materialize. In 2001 construction began on the San Jerónimo industrial park (a small, private park) as well as Tehuacán-Miahuatlán. In the same year, the government launched an informational system for industrial parks and areas to facilitate the installation of new firms, but this initiative failed to survive the change of government. The state also invested over US$ 16 million in infrastructure at Ciudad Textil (despite the agreement that the firms themselves would be responsible for infrastructure) and another US$ 1 million in the Tehuaya park (Government of Puebla, 2003).

671 As discussed in chapter 7, similar promises were made during the Bartlett administration. Business associations brought the poor conditions in the state’s industrial parks to the government’s attention at the beginning of the Bartlett sexenio, but despite rhetorical support from state officials, these efforts did not produce tangible results.

672 The state also set aside an additional 5,000 square meters for worker training centers at the Esperanza, Libres-Oriental, Tehuacán, Tehuaya, and Ciudad Serdán parks. The centers were to have been part of a federal training program (Institutes for Worker Training) in the various states (Logbook of the Secretary of Economic Development of Puebla, March 2004. Personal records of Antonio Zarain. Consulted August 17, 2016. Chipilo, Puebla).
Table 9.1: Industrial Park Projects Initiated under Melquiades Morales

<table>
<thead>
<tr>
<th>Park</th>
<th>Size</th>
<th>Type</th>
<th>Ownership</th>
<th>Sector</th>
<th>Current status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parque Industrial Textil (Ciudad textil)</td>
<td>70</td>
<td>New</td>
<td>Public</td>
<td>Textiles</td>
<td>Expanded to 100 hectares; now mixed industry</td>
</tr>
<tr>
<td>Parque Industrial FINSA II</td>
<td>10</td>
<td>Extension</td>
<td>Private</td>
<td>Automotive</td>
<td>Expanded to 91 hectares</td>
</tr>
<tr>
<td>Parque Industrial Bralemex</td>
<td>40</td>
<td>Extension</td>
<td>Private</td>
<td>Automotive</td>
<td>in operation</td>
</tr>
<tr>
<td>Parque Industrial San Jerónimo</td>
<td>8.5</td>
<td>Extension</td>
<td>Private</td>
<td>Mixed</td>
<td>in operation</td>
</tr>
<tr>
<td>Parque Industrial Tehuacán-Miahuatlán</td>
<td>89.5</td>
<td>New</td>
<td>Public</td>
<td>Mixed</td>
<td>50 percent occupied w/ 12 firms (2014)</td>
</tr>
<tr>
<td>Parque Industrial Chignauapan-Zacatlán</td>
<td>70</td>
<td>New</td>
<td>Public</td>
<td>Mixed</td>
<td><em>Maquila</em> production; glass, liquors</td>
</tr>
<tr>
<td>Parque Industrial Tehuaya</td>
<td>12</td>
<td>New</td>
<td>Public</td>
<td>Mixed</td>
<td>in operation</td>
</tr>
<tr>
<td>Área Industrial Grajales-Nopalucan</td>
<td>28</td>
<td>Extension</td>
<td>Public</td>
<td>Mixed</td>
<td>Small agriculture producers</td>
</tr>
<tr>
<td>Area Industrial Libres-Oriental</td>
<td>100</td>
<td>Extension</td>
<td>Public</td>
<td>Mixed</td>
<td>Small dairy production</td>
</tr>
<tr>
<td>Reserva Logística Aeroportuaria</td>
<td>30</td>
<td>Extension</td>
<td>Public</td>
<td>Logistics / transportation</td>
<td>Runway for small aircraft</td>
</tr>
<tr>
<td>Complejo Industrial Las Lomas</td>
<td>130</td>
<td>Extension</td>
<td>Private</td>
<td>Mixed</td>
<td>Pemex / refining</td>
</tr>
<tr>
<td>Parque Industrial Esperanza</td>
<td>62.5</td>
<td>New</td>
<td>Public</td>
<td>Mixed</td>
<td>Fruit and beverage production; planned Hyundai plant canceled</td>
</tr>
</tbody>
</table>

Sources: Mexican Association of Industrial Parks, media

However, the majority of the projects initiated in this period never came to fruition, fell short of expectations, or else were abandoned by subsequent governments. As Table 9.1 shows, most of this new industrial space was to be managed by the government, reflecting Puebla’s greater difficulty in establishing synergies with private investors to carry out such projects. In addition, to the extent that the state succeeded in marshalling private sector resources, they were directed towards new industrial spaces for the automotive cluster. In the end, the mixed results of this

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673 In addition, two of the proposed industrial park projects aimed to spur the creation of new clusters and thus support a sector-specific industrial strategy by sharing services and locating firms in the same industry in close proximity. These initiatives, in plastics and agroindustry, ran into technical and logistical issues and in the end also succumbed to a lack of willingness to invest in such initiatives on the part of the private sector, despite firms’ stated support for these projects (interview with Socorro López September 7, 2016).
ambitious agenda reflected the challenges the state faced in creating the conditions to enhance productivity via mixed-industry infrastructure and diversify its economic structure. The parks tied to the dominant VW auto cluster flourished while other initiatives, especially public sector projects, suffered from scarce resources, inconsistent policy attention, and an organized private sector that failed to hold the government to account.

Finally, the governor’s desire to reward the group of local entrepreneurs that had propelled his candidacy also had consequences for the management of public works. As discussed in chapter 7, the periférico and other components of Bartlett’s Angelópolis regional development program had been left incomplete. Upon taking office, however, Melquiades sought to promote the interests of a different set of construction firms with close ties to the governor. This approach hurt continuity in these and other ongoing works, and little progress was made on the periférico, a project in which Morales showed scant interest. Ensuring that governments complete long-term projects—which inevitably span several administrations—is a fundamental role of a well-organized, developmental private sector, both in theoretical accounts and in the contrasting example of Querétaro discussed in this dissertation. However, Puebla business chambers during this period were hobbled by internal divisions and lacked the independent standing to demand continuity from the government.

In addition to infrastructure, Puebla witnessed various attempts to forge alliances among government, industry, and universities to support upgrading in key industries. However, these initiatives failed to achieve lasting cooperation. At the beginning of the Morales government, Canacintra sought to coordinate with the Puebla campus of the ITESM and the state government to establish an industry-university center for plastics, a natural area for the state to develop research

674 The lack of attention to the periférico can be explained in part by the governor’s emphasis on developing regions outside of the city of Puebla. Another factor was the shortage of resources, especially after major floods in the interior of the state during the first year of the administration required the diversion of public resources to emergency aid and reconstruction. The project would not see major progress, in fact, until the administration of Rafael Moreno Valle, who took office in 2010. However, certain components of the project, such as overpasses and distributors meant to connect the road to adjacent neighborhoods, remain unfinished to date (E-consulta: http://nfh3.e-consulta.com/nota/2015-10-25/gobierno/distribuidor-en-periferico-ecologico-lleva-inconcluso-18-anos)
capacity due to its relevance to auto parts and car production. The overarching goal was for local firms to move from basic assembly to producing original designs for plastic molds. The Technological Center for Plastics began operations in 2000 and provided support for 90 firms the following year (Government of Puebla 2002). In addition, planning began for a Puebla-based Mexican Association of the Plastics Industry (AMIPLAS) to train technicians, perform analysis, and provide other services for local firms. However, the necessary investments did not materialize to propel the project, and both government and business pushed for more contributions from the other side. After the government failed to sufficiently support the project in the view of the private sector, momentum stalled, and business leaders eventually opted to pursue a similar but smaller-scale project with the UPAEP. Participation of the state government in this new project was reduced to helping secure federal educational resources, and in any event the project would be delayed until 2010. In the interim, the sector had largely failed to advance beyond basic assembly to original design. According to an analysis presented by Canacintra in 2010, 80 percent of the firms in the sector were maquila and only a small portion participated in higher value-added activities. Moreover, the participation of the sector’s leading firms has been limited. The government-industry-university synergies seen in the case of Querétaro’s aerospace sector clearly failed to take hold.

675 The major area of focus was the development of plastic molds for the auto parts sector, a critical part of the production process.
676 Initial plans envisioned a group of 25 business people, who would serve as the Association’s founding members, to contribute 100,000 pesos each year. Business organizations would also donate equipment to the University. In early discussions, however, the private sector requested the state government fund the construction of a new building within the University to house the center (Logbook of the Secretary of Economic Development of Puebla, 2003. Personal records of Antonio Zaraín. Consulted August 17, 2016. Chipilo, Puebla).
677 Interview with Socorro López Espinosa, September 7, 2016
679 A similar situation unfolded with respect to a laboratory for asphalt testing at the Universidad de las Américas in Puebla (UDLA), which helps train engineers and also ensures adequate standards for highway construction. The laboratory was established with support of the Mexican Asphalt Association and three chemicals and materials firms, but has not generated strong links and participation with local firms in the automotive sector (interview with Socorro López Espinosa, September 7, 2016).
680 Observers believe the initiative suffered from an insufficient alignment between educational institutions’ projects and the industry’s needs (interview with Socorro López, September 7, 2016). A similar project to build Cemex installations
Missed opportunities for new investments

Major foreign investments pursued by the state government also failed to materialize or fell short of expectations for job creation and spillovers. In the first such instance, plans for Korean carmaker Hyundai to build a production facility ended up being abandoned, despite years of talks and the signing of a memorandum of understanding stipulating the provision of 60 hectares of former ejidal lands in the municipality of Esperanza for Hyundai’s operations. The state even began construction of the first plant to indicate its inclination to pursue the project. However, almost a year passed without a final commitment from the firm, and reports later emerged that Hyundai had also been negotiating with the government of Nuevo León. In the end, the carmaker would not invest in either location. Opposition from Volkswagen to the presence of another major auto producer in Puebla reportedly played a role in derailing the Hyundai deal.

A similar case in which negotiations with a major investor did not pan out was the government’s efforts to bring the telecommunications firm Motorola to Puebla. In June 2000, state officials agreed to provide preliminary facilities for Motorola’s operations in the city of Puebla, which were to include a center for software development and a semiconductor plant. The proposed research center, which would develop telecommunications applications that could be exported to firms around the world, represented a potential source of high-skilled engineering jobs for the state. Meetings were held with directors of Conacyt and the rectors of the BUAP and UDLA at the ITESM Puebla campus, with the participation of the CCE, also stalled out after several planning meetings were held.

681 The agreement signed between the state government and Hyundai stipulated the firm was to receive three plots of land, all tax-free and without payment, which totaled 60 hectares. The municipality of Esperanza, in a remote Eastern zone of the state, also agreed to pay a subsidy equal to full amount of land tax as well as for all permits required. Plans also were initiated to construct an adjacent industrial park in Esperanza, also later abandoned, but not before the government invested 80 million pesos (Government of Puebla 2003).

682 According to journalist Socorro López Espinosa, Volkswagen’s opposition to the installation of a rival carmaker was confirmed by former employees and suppliers and moreover had been a position held by the firm’s management for many years. This aversion to the presence of more auto firms in Puebla is also evident in language in the contract between the state government and Audi, a VW subsidiary that began operations in Puebla in 2016, which prohibits the arrival of any firm that would directly compete with Audi for eight years. (Interview with Socorro López Espinosa September 7, 2016).

683 The terms stipulated by the firm included a three-year cost-free installation period after which the state government would provide Motorola with permanent facilities. As part of this arrangement, the state government was to pay the firm’s rent on its headquarters and other buildings; however, officials later determined the government was prohibited from paying rent for a private entity and had to provide Motorola with a monthly subsidy instead (Personal records of Antonio Zarain. Consulted August 17, 2016. Chipilo, Puebla).
to discuss how to create linkages between the software center and the state’s higher education institutions, and company officials expressed their willingness to help develop relevant courses of study in local technical universities to support the Center’s growth.\textsuperscript{684} The Center opened in late 2000 but in early 2003 significantly cut back its operations, dismissing more than half of its technicians and researchers.\textsuperscript{685} In the end, the company decided against installing a semiconductor plant in Puebla.\textsuperscript{686} In this way, a major investment that could have helped bring about diversification into a new high-technology sector eluded the state. Without a flagship firm to serve as the anchor, aspirations to develop research institutions and university-industry linkages in software and other sectors were not realized.

Meanwhile, the governor’s plans to promote more balanced regional development through the establishment of maquilas in traditionally agricultural areas also encountered obstacles. The state focused on bringing textile assembly plants to the Mixteca, a poor and largely indigenous region in southwest Puebla with few natural resources and no industrial vocation. Incentives lured several firms, including a number of Korean investors, with the promise of low labor and start-up costs. However, problems soon arose surrounding labor and community relations, as several firms were accused of poor treatment of workers and in some cases even physical abuse.\textsuperscript{687} In addition, their practice of hiring female workers led to social conflicts in some rural villages.\textsuperscript{688} Nearly all of the Korean investors had left the region by the end of the decade.\textsuperscript{689} On the whole, maquila


\textsuperscript{686} Official statements cited vague reasons such as that conditions no longer existed for the company to make the anticipated investment. Some observers suspect that the firm pushed for additional incentives and more favorable terms from the state that officials were not willing to meet (interview with Socorro López September 7, 2016). As an example of the type of demands made by the firm, Motorola requested in 2002 more than US$ 1.5 million from the state government, which included US$ 8,000 to train each software developer hired by the Center that year as well as an additional US$ 500,000 to train 100 engineers currently working there. (Logbook of the Secretary of Economic Development of Puebla, June 2002. Personal records of Antonio Zarain. Consulted August 17, 2016. Chipilo, Puebla).

\textsuperscript{687} The reputation of several Korean-owned firms was such that the Association of Korean Businessmen in Puebla requested a meeting with the governor in July 2000 to discuss their poor public image (Logbook of the Secretary of Economic Development of Puebla, 2000. Personal records of Antonio Zarain. Consulted August 17, 2016. Chipilo, Puebla.).

\textsuperscript{688} Interview with Socorro López (May 3, 2016).

\textsuperscript{689} Interview with Antonio Zarain, November 30, 2015
production in the state increased by 63.7 percent on aggregate in the first half of the *sexenio* but declined by 28 percent in the final three years (INEGI 2006).

The administration also started work on a series of projects intended to take advantage of the city of Puebla’s role as host for negotiations of the Free Trade Area of the Americas (FTAA). Puebla beat out several competitors in the United States and Latin America to secure the budding trade bloc’s permanent headquarters, and plans to establish infrastructure for business services surrounding this new international institution were undertaken. The FTAA soon fell victim to changing political tides in Latin America, however, laying waste to these efforts through no fault of local authorities themselves.

In this way, Puebla’s development strategies tried to move in the same direction as Querétaro during this period—towards sector-specific policies for upgrading based on cooperation with industry and the educational sector—but with less success. As illustrated in this chapter, core explanations for this inability to establish effective and durable cooperation projects derive from the nature of business associations themselves, which lacked representation and participation of the state’s most dynamic firms; the absence of a tradition of productive business-government relations; and a dose of simple bad luck.

*Volkswagen confronts labor problems*

At the same time, Volkswagen’s operations in Puebla, upon which much of the state’s economic activity relied, faced challenges stemming from an intense labor dispute that erupted in 2001, as well as a simultaneous recession in the United States. The first two years of the Morales administration saw the firm make major investments associated with the production of the New Beetle model, which the plant began selling in 1998, as well as co-investments with major suppliers to consolidate the cluster of Tier 1 auto parts firms that had located in the vicinity of the Puebla

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690 The idea for an Americas-wide free trade agreement dated back a proposal by U.S. President Bill Clinton during the inaugural summit of the Americas in 1994 and received a boost from President George W. Bush in the early 2000s. By the middle of the decade, however, the project had fallen victim to changing political tides that brought to power left-leaning governments in much of South America whose view of the United States ranged from skepticism to outright hostility.
plant in the early 1990s (see chapter 7). As Table 9.2 indicates, the firm’s production continued to be highly oriented towards foreign markets. During the five years of the Morales sexenio for which data is presented (1999-2003), the firm sold on average 80 percent of its production abroad each year.

Table 9.2: Volkswagen-Mexico Key Indicators, 1998-2003

<table>
<thead>
<tr>
<th>Year</th>
<th>Production for national market</th>
<th>Production for export</th>
<th>Total production</th>
<th>Investment (USD millions)</th>
<th>Unionized workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>91,360</td>
<td>247,599</td>
<td>338,959</td>
<td>415</td>
<td>12,600</td>
</tr>
<tr>
<td>1999</td>
<td>69,002</td>
<td>341,306</td>
<td>410,308</td>
<td>250</td>
<td>12,634</td>
</tr>
<tr>
<td>2000</td>
<td>85,649</td>
<td>340,054</td>
<td>425,703</td>
<td>45</td>
<td>12,700</td>
</tr>
<tr>
<td>2001</td>
<td>85,090</td>
<td>295,600</td>
<td>380,690</td>
<td>160</td>
<td>12,100</td>
</tr>
<tr>
<td>2002</td>
<td>70,452</td>
<td>262,424</td>
<td>332,876</td>
<td>232</td>
<td>10,000</td>
</tr>
<tr>
<td>2003</td>
<td>53,704</td>
<td>233,549</td>
<td>287,253</td>
<td>n/a</td>
<td>9,842</td>
</tr>
</tbody>
</table>

Note: All production figures are in units
Source: Juárez (2005)

However, this dependence on exports would become a vulnerability when the U.S. economy entered into recession in mid-2001, leading to falling production levels through the remainder of the sexenio (see Table 9.2). These cutbacks had a direct effect on labor relations, as the firm reduced the number of full-time, unionized workers by 23 percent.\(^{691}\) After VW announced major employment cuts in 2001, union leadership consulted its base on a counter-proposal, which led to an internal rift in the union. In a reprisal of fierce intra-union battles of the 1980s and 1990s, work halted for 18 days, as the divided workers failed to agree on a position in response to the firm’s proposed restructuring. As the prolonged work stoppage inflicted ever-greater damage on the firm’s bottom line, state officials starting with the governor intervened to attempt to broker a deal. The actions of the state government in response to the Volkswagen dispute underscored once again the political capital and resources that Puebla officials were willing to expend for the firm.

\(^{691}\) The firm’s ability to reduce the workforce in response to falling production was a result of the 1992 Collective Contract which resulted in the revision, in favor of management, of numerous clauses and rules governing the firm’s labor relations (see chapter 5).
As part of the agreement reached to put an end to the dispute, the state agreed to donate a 5,000 square meter plot of land for a worker’s recreation center next to the Volkswagen plant.692

The impact of the Volkswagen work stoppage reverberated throughout the state’s economy, underscoring once again its outsized role in Puebla. Canacintra claimed that a full 50 percent of the state’s firms were affected by the situation and called on management and union leaders to reach a long-term accord that would avoid future outbreaks of labor unrest.693 In the wake of the settlement, the firm’s frustrated management threatened to relocate production of the Jetta model to China rather than Mexico and asserted that a planned investment of US$ 1.5 billion would be put on hold until the firm had a guarantee of “security in investments.”694 This statement, made by manager Francisco Bada in a press conference, set off a minor political crisis in Puebla.695 The governor hastily arranged a meeting with top firm officials to attempt to rectify the situation and the following day announced that the Volkswagen executive had been misinterpreted and the firm was simply undertaking a revision of its investment plan, which “in no way [means] the cancelation of projects in the state.” He went on to assure that “whatever investors ask of me, whatever the state can do, I will be ready to do my part.”696

This incident evoked a round of soul-searching among the state’s political and economic leaders over the need to address the economy’s longstanding dependence on a single firm. Morales himself promised he would immediately explore options to diversify private investment after Bada’s explosive comments.697 Similarly, Canacintra president José Huanan y Traslosberos lamented the state’s “overdependence” on Volkswagen and stressed the need to develop new

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692 The firm and the union also agreed on a 14.7 percent salary increase for the coming year.
693 Sol de Puebla, 5 September, 2001 “Problemas en 50% de industrias en Puebla por huelga de VW: Canacintra”.
694 Sol de Puebla 6 September, 2001 “Frena Volkswagen inversión millonaria”.
695 Bada was roundly criticized and accused of blackmail and vengeance against workers by academics at the BUAP, Puebla’s public university (Sol de Puebla, 8 September 2001, “Chantaje, la amenaza de VW”).
696 Sol de Puebla, 7 September, 2001
697 Sol de Puebla 6 September, 2001, “Frena Volkswagen inversión millonaria”
sectors. However, as discussed above, efforts to establish new drivers of growth in the manufacturing sector during this period largely failed, due to a combination of limited political will, lack of developmental vision in the private sector, and simple bad luck. Volkswagen continued to be the dominant player in the state; in fact, the firm expanded its operations in 2004 with a new truck plant despite experiencing another four-day work stoppage that year—a reflection of its continuing commitment to the state despite recurrent labor unrest.

**Results of the Morales administration**

The performance of Puebla’s economy under Melquiades Morales was by no means disastrous, but nor did the state manage to develop new competitive advantages to alter its mono-industrial structure dominated by the auto sector. As Table 9.3 shows, the state’s economy slightly outpaced Mexico’s overall unspectacular growth rate during this period, in contrast to the more dynamic performance of Querétaro. In addition, the state continued to be well-articulated with the international economy, with US$ 3.5 billion of total FDI inflows during the Morales administration, the 12th largest total among Mexico’s 31 states on a per-GDP basis. As discussed above, the state had emerged by the end of the 1990s as an export powerhouse, and throughout the Morales sexenio, Puebla continued to be among the top ten exporting states. The trade balance averaged a surplus of 23 percent (as a share of total trade), while Querétaro, as discussed in chapter 8, ran trade deficits throughout this period.

**Table 9.3: Growth Rates in Puebla and Querétaro, 1999-2004**

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Puebla</td>
<td>8.35%</td>
<td>4.31%</td>
<td>1.08%</td>
<td>-1.24%</td>
<td>3.05%</td>
<td>1.43%</td>
<td>2.83%</td>
</tr>
<tr>
<td>Querétaro</td>
<td>4.80%</td>
<td>7.19%</td>
<td>0.09%</td>
<td>2.77%</td>
<td>0.43%</td>
<td>6.94%</td>
<td>3.70%</td>
</tr>
<tr>
<td>Mexico</td>
<td>2.67%</td>
<td>5.30%</td>
<td>-0.61%</td>
<td>0.13%</td>
<td>1.42%</td>
<td>4.30%</td>
<td>2.20%</td>
</tr>
</tbody>
</table>

*Source: INEGI Sistemas Nacionales de Cuentas de México*

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698 Hannan y Traslosheros estimated that Volkswagen accounted for 85 percent of the state’s exports and also said that efforts to diversify through developing an electronics sector had failed. *Sol de Puebla* 11 September 2001, “Perdidos 8 mil empleos en industria de la transformación en Puebla”
Puebla’s strong integration with the global economy continued to depend on the auto cluster, however, which accounted for 31 percent of FDI (including assembly and auto parts) during this period. While data on state level exports by sector is not available throughout this period, comments by state officials suggest Volkswagen alone accounted for around 85 percent of Puebla’s exports during the firm’s labor dispute in late 2001. Even with the efforts at diversification undertaken by Morales, the auto sector, including assembly and auto parts, absorbed 32 percent of new investment during the sexenio, leading to a further concentration of the industrial structure over these years. The share of the auto sector in total GDP increased to 34.3 percent by 2003 (including assembly and auto parts), followed by clothing (3.0 percent), while textiles fell out of the top five industries for the first time. This shift reflects the rise of maquila assembly of final products and the continued weakening of traditional cloths and fabrics producers.

The general consensus on the Morales administration is that the state failed to build on the economic momentum achieved under Manuel Bartlett. In the economic realm, Puebla seemed to lack a strong vision for industrial development beyond the governor’s (understandable) intention to achieve a more balanced regional distribution. No major public work or flagship investment remain as a legacy of this administration, while important projects begun under Bartlett, such as the periférico ring road, floundered. Moreover, many of the policy initiatives of the Morales government fell victim to the lack of interest of his successor, Mario Marín, in continuing them. The government undertook a number of actions—the Consultative Council on Economic Development, industrial park projects, programs to help SMEs export and supply large firms, and various regulatory reforms—which, as this chapter has shown, met with roadblocks for various reasons. Nevertheless, they could have provided a basis for public-private consultation and

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699 This figure comes from Canacintra president Carlos Hannan Y Traslosheros in comments after the 18-day strike at VW in fall 2001 ground Puebla's economy to a halt. Sol de Puebla, September 11, 2001, “Perdidos 8 mil empleos en industria de la transformación en Puebla”. On the other hand, data from the Mexico Atlas of Economic Complexity project shows that by 2004, the final year of the Morales sexenio, the auto sector accounted for 59 percent of Puebla’s exports—still a sizable amount.
700 Figures based on INEGI Economic Census 2004.
effective development policy in the state moving forward. The Marín administration, for reasons discussed below, lacked both the inclination and the capacity to pursue developmentally-oriented cooperation with the private sector.

Even if it produced mixed results on the economic front, Morales’ strategy of cooptation of local business proved effective politically. The governor managed to avoid major political conflagrations with the local private sector, converting business into a political ally, in a sharp reversal of the situation under Bartlett. The governor did not intervene heavily in the 2001 mid-term elections, in which the PAN won its second term at the helm of Puebla’s municipal government but suffered losses in most of the rest of the state. The ultimate indicator of Morales’ political success would come in the 2004 elections, in which the PRI easily retained control of the governorship, extending one-party rule at the state level, and also recaptured the city of Puebla from the PAN.

Transition to Mario Marín: a turn towards authoritarianism in Puebla

The victory of Mario Marín in Puebla’s 2004 gubernatorial elections ensured the PRI would continue to rule Puebla a full decade after Mexico’s democratic transition at the national level.701 Marín, like Melquiades Morales, was a local priista well-steeped in the black arts of politics that had kept the party in power for over seven decades. Known to be a ruthless political operator, he had served as Manuel Bartlett’s secretary of government, where he was charged with shoring up the governor’s political support among local priista forces with whom Bartlett initially clashed.702 At the same time, Marín, who came from a humble background in rural Puebla, connected well with the state’s rural and poor electorate and emerged as the party’s most popular candidate ahead of the 2004 vote. He also had the good fortune of facing a divided PAN, whose

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701 Several authors have identified Puebla as a case of subnational authoritarianism, in which traditional authoritarian practices coexist in national democratic settings (see Giraudy 2009 and 2015; and Rebolledo 2012).

702 Marín reputation for ruthlessness dated back to his service in the Government Secretary of Mariano Piña Olaya, where Marín took charge, among other tasks, of dealing with peasant leaders resisting the government’s land expropriations. Several peasant activists who opposed the governor ended up killed in this period, and suspicion has fallen on Marín and his associates (Jiménez 2014).
factions clashed over the nomination process before eventually agreeing on Francisco Fraile, a weak candidate with poor name recognition in the state. The internal struggles in the PAN reflected, in part, the diminished standing of Puebla’s traditional business leaders. While in the 1990s the deacons of the local private sector successfully promoted business candidates as the party’s standard-bearer in local elections, the candidacy of Luis Paredes, a former president of the local chamber of commerce (Canaco) and the outgoing mayor of Puebla, was rejected by the local party apparatus this time around (Rebolledo 2012). With strong support from traditional PRI enclaves in the interior of the state, Marín won a convincing victory over a divided opposition, prevailing over Fraile by 14 percentage points.\textsuperscript{703} In addition, the PRI won 23 out of 26 seats in the local Congress and recaptured the municipal presidency in the city of Puebla. Buoyed by this strong showing, Marín appeared to be a rising start in a PRI looking to regain its footing after losing the presidency in 2000.

However, the Marin administration’s political capital would quickly evaporate after the governor became embroiled in a sordid scandal involving a businessman linked to pedophilia and the egregious violation of the rights of journalist Lydia Cacho. In December 2005, ten months into the sexenio, Puebla state police detained Cacho in the coastal state of Quintana Roo and transported her to Puebla over the course of 24 hours. Several months later, telephone conversations emerged indicating the governor had ordered the illegal detention as a favor to Kamel Nacif, an infamous textile businessman with extensive ties to local politicians in Puebla, whom Cacho had implicated in a pedophilia and child pornography ring.\textsuperscript{704} These revelations sent shockwaves across state and national politics, and Mexico’s federal prosecutor opened an investigation into the governor’s actions. The events also coincided with the beginning of the 2006 presidential campaign season.

\textsuperscript{703} Rebolledo (2012) argues that another factor behind Marín’s strong showing was the unwillingness of President Fox or the national PAN to throw its support behind Fraile, citing a sharp decrease in the central government’s media spending in Puebla in 2004 and the national party’s failure to intervene to settle the dispute over candidate selection. According to the author, Fox was returning the favor after Morales delivered critical legislative support for the president’s fiscal reforms.

\textsuperscript{704} One of these politicians was the disgraced former governor Mariano Piña Olaya. Nacif was a beneficiary of the corrupt land deals that occurred at the end of the Piña Olaya term (see chapter 5).
A government disgraced and a business sector divided

The Marin administration thus found itself fighting for political survival a year into its term. Business leaders in Puebla were among the many voices condemning the governor in the wake of the Cacho scandal. Faced with the prospect of a politically resurgent business sector, Marin launched a classic cooptation strategy aimed at disarming critics in the private sector. In doing so, the governor exploited long-standing divisions in Puebla’s private sector that had erupted into an open clash with the splintering of the CCE in 2005. As discussed above, the elections to renew the presidency of Puebla’s peak business association occasioned accusations of fraud from a group of younger business people who resented the continuing control of leadership positions by a small clique of conservative families, whom they viewed as responsible for malaise that had beset the chambers since the Bartlett sexenio. This reformist group, representing a combination of heirs to traditional family businesses and transplants from other parts of Mexico, wanted to take advantage of the 2005 elections to infuse new life into the CCE. The traditional families had a different idea and supported the candidacy of Juan José Rodríguez Posada, a staunch conservative and combative figure who owned a well-known chain of clothing stores in the city. Breaking with the practice of candidates of unity, Rodríguez Posada was opposed by Eduardo García Migoya, who had the backing of many younger members of the business community. In the end, Rodríguez Posada...
was declared the winner by one vote in a disputed election. Many business people withdrew from the CCE and its constituent chambers in protest and formed the COE, a rival encompassing association that exists alongside the CCE in Puebla to this date.

This rupture in Puebla’s most important business association proved to be a boon to the new governor. Even before the outbreak of the Lydia Cacho scandal, Marín took advantage of the split to further weaken the traditional conservative business organizations. The government nurtured the upstart COE by including its leadership alongside that of the CCE at official events and forums. The tacit recognition of this rival group by the governor seemed aimed at encouraging the open rift among factions of the private sector. In the view of the traditional business leaders, the involvement of Marín went much further: they assert that the formation of the COE had been “pacted” between the governor and his allies in the private sector to weaken the CCE. After the incriminating tape recordings became public, Marín accelerated his efforts to coopt business. The severity of the governor’s apparent transgressions and the surrounding national political scandal threatened to breath political life into the business sector despite its diminished position. To preempt such opposition, the government hastily put together a nearly US$ 300 million package of public works that was split evenly between the state’s traditional construction chamber, the CMIC, and the Association of Construction Businesses (AECO), its newly-established rival, thus of Puebla and Tlaxcala (CITEX) and served as a Vice-President of the CCE between 2002 and 2005. As with many Puebla textile industrialists, Migoya was seen as more conciliatory towards PRI governments than his conservative counterparts.

According to García Migoya and journalists with knowledge of the incident, the deciding vote in favor of Rodríguez Posada was cast by an individual firm, in violation of CCE bylaws, which stipulates voting is done by the CCE’s constituent chambers.

Many firms of these firms also formed sector-specific associations to rival the existing chambers in sectors such as construction and textiles where defections from the CCE were especially heavy. These sector patterns were no coincidence, as business people from these industries had tended to be more aligned with Puebla’s PRI-governments and therefore skeptical of the traditional business leadership. The “excision” of the CCE was the most significant and public rupture within the Puebla business sector, but the conflict reflected long-standing divisions among organized business in Puebla, along partisan, business, and ethnic lines.

Marín’s actions certainly succeeded in angering the CCE. At the presentation of the governor’s State Development Plan in early 2006, CCE president Rodríguez Posada refused to be seated on stage alongside COE leader Eduardo Migoya and threatened to leave the event (interview with Sozorro López, December 3, 2015)

bolstering both the finances and status of the upstart group.713 The government also used financial support as a lever to neutralize Canacintra, whose leadership criticized the performance of Marín’s first Economic Development Secretary, Gerardo Fernández Sánchez. In response, the government threatened to award management of a federal SME fund to another chamber, whose president was a friend of the Secretary.714 In other cases, the cooptation was more targeted. Rogelio Sierra, president of Coparmex at the beginning of Marín’s term, initially denounced the governor and helped organize a march against him after the Cacho scandal broke. By the end of 2006, however, he had asserted the Marín administration provided more support to business than any previous government in Puebla.715 Media later reported Sierra’s fumigation company had received large contracts from the state’s Secretary of Social Development in the interim.716

In addition to these ad hoc measures, the Marín government also sought to appease the private sector by giving business leaders discretion over the use of revenue from a controversial tax hike. The governor had pushed through a 1 percentage point increase in the state’s Impuesto Sobre la Nómina (ISN), a payroll tax, over private sector objections in November 2005. While the tax hike came before the Cacho scandal broke, the presidents of the main business chambers ramped up their antagonism to the policy after the governor became politically vulnerable. To quell this budding rebellion, Marín agreed to set up a public-private committee, with participation of the state’s main business chambers, charged with allocating ISN revenue to development projects to benefit Puebla’s economy. The business sector had proposed such a committee in late 2005 as a

713 These new projects had not figured in the government’s initial investment plans for the year according to Aristeo Reyes, a construction boss and vice-president of the COE. Ibid.
714 The Canacintra leadership had to negotiate with the government to avoid being stripped of this resource (Interview with former Canacintra leader, December 1, 2015).
715 Sierra also appeared at a luncheon with the state’s economic development secretary, Gerardo Fernández Sánchez, in a show of solidarity with the embattled official and, later, alongside the wife of Governor Marín at a televised awards show sponsored by Televisa around this time. The event was financed with money from the CDICS, which was supposed to be used for development projects in the state. As president of Coparmex and a member of the CDICS, Sierra had approved this dubious use of taxpayer money (Proceso, 13, January 2007, “Y ahora, juntos” http://www.proceso.com.mx/93936/y-ahora-juntos).
716 Sierra went so far as to assert that Marín had responded to the scandal “with much humility” and could be “one of the governors who does the most for Puebla.” Proceso 13 January 2007, “Y ahora, juntos” http://www.proceso.com.mx/93936/y-ahora-juntos
condition for agreeing to the tax increase.\textsuperscript{717} The decree establishing the committee was only announced, however, in April 2006, at the height of the Cacho scandal. With this concession in hand, the private sector dropped its resistance to the new tax. The ambitiously-named Commission for the Industrial, Commercial and Services Development of Puebla (CDICS) began work the next month, co-chaired by the state’s Finance Secretary and CCE President Juan José Rodríguez Posada.\textsuperscript{718}

However, the reconciliation between the Marin government and business leaders would prove transient, and the CDICS soon became a political battlefield. Once again, the approaching mid-term elections provided the trigger for renewed government-business conflict. Local business leaders clearly saw an opportunity, given the governor’s weakness, to retake the all-important city of Puebla from the PRI. In addition, the PAN nominated a dyed-in-the-wool member of the local business establishment, Antonio Sánchez Díaz de la Rivera, the former president of the local CCE who spearheaded opposition to the Piña Olaya administration in the early 1990s (see chapter 5).\textsuperscript{719}

As the 2007 campaign heated up, Puebla’s traditional business leaders threw their weight behind Sánchez Díaz.\textsuperscript{720} President Calderón visited Puebla to participate in a campaign event alongside local business leaders, an act that provoked denunciations from local PRI leaders and subsequent reactions from Sánchez Díaz’s business supporters.\textsuperscript{721}

\textsuperscript{717} For many observers, the creation of such a committee evoked the Junta de Mejoras, which had long been a major source of influence for the traditional business leadership until Bartlett liquidated the body during his clash with the private sector (see chapter 7).

\textsuperscript{718} Tellingly, the first project proposed by the Puebla private sector under the CDICS was an access road to facilitate transportation to and from the Volkswagen plant. In addition to the two chairs, the CDICS featured the participation of the Secretaries of Economic Development (Gerardo Fernández Sánchez), Tourism (Juan José Bretón) and Labor (Antonio López); as well as business leaders Rogelio Sierra Michelena, the president of Coparmex who later became a vocal backer of Marín (and important contractor for his government), and the presidents of Canacintra and several other main business chambers.

\textsuperscript{719} Sánchez Díaz later became president of Coparmex at the national level and was a cabinet member under Vicente Fox before running for mayor of Puebla. He is also the brother-in-law of Juan José Rodríguez Posada, the president of the CCE-Puebla during the first half of the Marín government.

\textsuperscript{720} As in past electoral cycles, business backing for the panista candidate did not manifest itself in public comments but rather in closed-door meetings to discuss strategy and the provision of in-kind support to help with campaign operations.

\textsuperscript{721} For example, Rodríguez Posada, the CCE president, called PRI and PRD leaders “paranoid” for questioning Calderón’s campaigning.
In addition, business leaders ramped up their criticism of the state government, including its management of the CDICS. Rodríguez Posada acknowledged that differences among the parties on the committee had arisen and blamed “the state bureaucracy” for the problems the group encountered in executing public works projects. The mutual recriminations resulted in a decision to suspend the CDICS temporarily during the election period, although Rodríguez Posada continued to criticize the government on nearly a daily basis and accused officials of a lack of transparency in awarding new public works contracts. The government’s management of the tender for a new Exposition Center proved to be particularly contentious, and accusations of corruption and cronyism surrounded this project for the rest of the administration, as discussed below. In a now-familiar pattern dating at least to the Jiménez Morales administration, mid-term elections thus sparked partisan conflict that disrupted attempts at government-business cooperation. In the end, Sánchez Díaz proved to be a lackluster candidate, and the priista Blanca Alcalá prevailed by over 20 percentage points.

With the eruption of a serious political scandal in the early days of the Marín sexenio, it is not surprising that the government failed to put in place a coherent development strategy. Initiatives undertaken during the previous administration, such as the Consultative Council, a center to support small firm exporters, regulatory simplification (including the creation of a state commission for regulatory improvement with private sector participation), and other policies were summarily abandoned by the new government. In terms of relations with the private sector, the prevailing concern of the Marín administration from the beginning was to undermine the political strength of business leaders, in line with his general authoritarian tendencies. This instinct only intensified when the governor found himself facing criminal allegations a year into his term and a contentious

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722 La quinta columna, April 2007, “Están como locas”
724 Interview with Antonio Zarain, November 30, 2015
725 As Rebolledo (2012) recounts, Marin also sought to weaken other potential checks on his power such as the local Congress, the courts, Puebla’s electoral institute, and the media, through a combination of old-style PRI tactics such as placing loyalists in key positions, using state funding as leverage, and when necessary blackmailing opponents.
mid-term election fight soon after. The CDICS, on the other hand, never reflected a genuine interest in cooperating with business on development priorities. In the view of a private sector participant on the CDICS, the government began to contort the Commission into a tool to push through its preferred projects with the appearance of private sector approval.726 When business representatives of the Commission resisted, the governor increasingly used levers such as contracts, regulatory enforcement, or pending permits to stifle opposition. By late 2007, outside business leaders began to denounce private sector participants on the CDICS for failing to hold the government to its original commitments.727 In this way, business’ capacity to influence development via the CDICS became nil. Reflecting this domination by the government, only eight of the nearly 70 projects approved by the Commission in its first two years had originated in private sector proposals.728 One of those eight was the construction of new access roads to the VW plant—the first proposal made by business leaders in the Commission. It is telling that the most significant project successfully promoted through government-business cooperation in the CDICS produced new infrastructure for the dominant VW cluster.

The second half of the sexenio witnessed the further deterioration of government relations with business, as the Marín government increasingly favored its allies in the local business community and marginalized the traditional, conservative leadership. With little interest in technocratic cooperation with business, mismanagement, poor planning, and allegations of corruption plagued the government’s development projects. Marín resurrected the idea to create a dry port in the interior of the state that had been floated during the previous administration, a plan which envisioned a multi-modal logistics and industrial hub connected via major highways to both coastlines. However, the project, dubbed the “Célula,” lacked solid technical and development

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726 Interview with private sector representative on the CDICS, November 21, 2015
727 In particular, COE president Eduardo Migoya questioned why a proposed fideicomiso to manage the tax revenues had not been set up after one and a half years and called on the business representatives on the Council to resign (La Jornada del Oriente, 16 November, 2007, “Pide COE la renuncia de los integrantes del Consejo del Impuesto Sobre la Nómina”, http://www.lajornadadeorientemexico.com.mx/2007/11/16/puebla/eco205.php).
logic from the beginning. First, the government changed the site of the project from an industrial zone near Puebla’s airport to a remote, dairy-producing region in the municipalities of Libres and Oriental with no preexisting industrial vocation or nearby water source. Observers pointed out the salty and soft grounds in the area were ill-suited for such a major construction project and that the region’s pervasive fog made it unattractive for industry. Still, Marín forged ahead despite the absence of interest from potential investors. Volkswagen flatly denied any consideration of the site after officials suggested the firm might move its operations there, and other major firms such as Chicklet Adams, a candy maker now owned by Mondelez, also rebuffed the government. State officials began negotiations with a Monterrey-based firm with experience managing major multi-modal infrastructure projects, but once the firm examined the site of the installations they backed out. The infrastructure ended up being completed—at a cost nearly three times the initial projection—but remained almost entirely abandoned by the end of the sexenio.

Beyond the doomed Célula project, the conditions in Puebla’s industrial parks more generally continued to be a source of private sector disgruntlement. The business association leadership again set the goal of having first-class industrial parks in the state. This meant ensuring the existing parks, which numbered 16 at the outset of the Marín sexenio, all had basic infrastructure such as paved roads, as well as establishing new parks with modern amenities. However, the government in the end did not appear to be overly interested in creating industrial zones to attract new investors, despite (or perhaps because of) the business associations’ longstanding concern. Even a former economic official agrees the state lost several potential major investments because

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729 It was later revealed the site chosen for the Célula was owned by the family of the state’s finance minister.
730 The government never consulted these firms in the development of plans for the dry port and simply assumed they could be interested (Interview with Socorro López, September 7, 2016).
731 The idea had been for the firm to partner with the government to promote the area and attract investors, similar to the model employed in Querétaro’s industrial parks (Interview with Social López, September 7, 2016).
732 Marín’s successor, Rafael Moreno Valle, declared the Célula a failure during his campaign. Moreno Valle later tried to interest auto parts suppliers for the new Audi plant in the site, but these efforts did not pan out. As of 2015, the Célula remained entirely abandoned. El Universal 30 October, 2015, “A la Célula ni la ven, ni la ocupan IP y gobierno”, http://www.eluniversal.com.mx/articulo/estados/2015/10/30/la-celula-ni-la-ven-ni-la-ocupan-ip-y-gobierno
733 Interview with business chamber leader during the Marín administration, December 1, 2015
of a lack of resources and political will to produce adequate industrial spaces to facilitate firms’ operations. No new industrial park was built during the Marín sexenio.

Another major project undertaken by the Marín government that ended up questioned was the construction of a new exposition center. The project originally enjoyed the support of the local private sector, which wanted a new site to hold annual fairs and other business events. Following the model of Manuel Bartlett’s handling of the periférico project, the government concocted a scheme to assign the work to local construction firms, even when the sector lacked the necessary capacity. In this case, the government suggested several local firms form a consortium which would carry out the work on a subcontract basis with the larger, Mexico City-based firm, Pinfra, that had received the contract. Participation in the consortium was restricted to members of the local construction chamber. As with Bartlett, this arrangement complicated the management and oversight of the work, and the project ended up questioned on various fronts. The Secretary of Public Works, Javier García Ramírez, was accused of pocketing commissions, and final expenditures were double the projected cost. The exposition center was also criticized on technical grounds by a group of architects at the UNAM. Finally, Pinfra, the firm that held the contract, claimed after Marín’s term ended that it had not been fully paid for the work, creating a spat between Marín and his successor.

However, instances of corruption and cronyism under Marín were by no means limited to these two mega-projects. The businessman Ricardo Henaine, who had formed part of the “Committee of Businessman” who supported Marín’s campaign, won a concession to manage the local airport and accumulated a real estate firm, a newspaper, and 41 percent of Puebla’s professional soccer team during the Marín sexenio (Jiménez 2014). Other examples of dubious

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734 E-mail correspondence with former state government official, April 18, 2016
735 Interview with Socorro López Espinosa, December 3, 2015
deals include a contract for a bullfighting ring awarded to the brother of a major Marin backer and another for the Eloxochitlán highway, both without competitive bidding.\textsuperscript{736}

The string of scandals and blatant collusion between the government and its business cronies sparked discontent in the ranks of Puebla’s traditional business families. These individuals expressed dissatisfaction with how the chambers had been managed and, in particular, their perceived closeness to the PRI. The case of Charles Mtanous, who left the presidency of Canacintra in 2009 and immediately took a high-level post in the Secretary of Economic Development provoked particular ire among traditional conservative business leaders who decried that the chamber had “the mark of the PRI.”\textsuperscript{737} The contest to replace Mtanous laid bare the divisions within the chamber, which had been exacerbated by governmental cooption. One contender for the presidency, Luis Espinosa Rueda, took a hard line against Mtanous, criticizing his ties to the government and questioning his management of federal funds. Rueda was challenged by Raúl Reyes, a confidant of Mtanous, who broke with chamber statutes by publicly announcing his candidacy. The contest turned ugly when Rueda denounced Reyes for breaking the chamber’s rules in front of the full assembly and later went to the media himself, claiming he had received a threat on his life and implicating his rival. Once in office, Rueda continued his public crusade against Mtanous, investigating the use of federal funding received to support SMEs, which eventually resulted in the return of this money.\textsuperscript{738} Rueda thus began his term as a contentious figure who openly opposed both his predecessor and the sitting governor.\textsuperscript{739}

\textsuperscript{736} The latter case would turn into a tragedy when a bus accident on the highway killed 30 people; investigators revealed the state government had ignored warning from federal regulators about the safety of the highway’s design (Jiménez 2014).


\textsuperscript{738} When Mtanous took office in 2006, Canacintra was still burdened by debts from poor financial management in the late 1990s. He made use of the Fondo PYME, a fund managed by the federal Secretary of Economy for training and developing PYMES, to secure resources for the chamber itself to upgrade its facilities. However, the accounting for these projects was not air-tight, so that technically, he was guilty of redirecting public funds, even if all the money had been used for legitimate chamber activities (interview with Socorro López Espinosa, May 3, 2016).

\textsuperscript{739} However, Rueda too would end up doing business with the government, after his firm received a contract to provide sanitary gel for public schools in Puebla.
The sense that a segment of the business community had been compromised by its ties to the government continued to sow divisions within the CCE as well, even after the split with the COE. Former Canacintra president Psihas Yraclis (2004-6), who by most accounts brought a modernizing and technocratic vision to the chamber, sought the presidency of the CCE, having remained in the organization after the 2005 rupture. However, his bid, despite enjoying considerable internal support, met with opposition from the traditional business families, who deemed him too close to Marín and the PRI.\textsuperscript{740} Marín’s strategy of coopting key sectors of the business community and attacking others thus succeeded in its goal of further emasculating the private sector. Despite the prevalence of corruption, cronyism and simple mismanagement that characterized the \textit{sexenio}, business failed to unite in condemnation of the government as it had done during the Piña Olaya administration.

The lack of interest on the part of the Marín government in cooperating with the private sector reached such heights that the state lost out on a new investment from Volkswagen. In the final year of the \textit{sexenio}, the firm began to explore locations within Mexico for a new motor plant. In a major blow to Puebla, the firm announced in late 2010 its selection of the north-central state of Guanajuato as the site for the new facility. Members of the business community were quick to assign blame, with some holding the contentiousness of the VW union responsible and others arguing the government had failed to make a competitive offer due to the poor quality of the state’s infrastructure.\textsuperscript{741} Company officials stated at the time that the decision was a matter of business strategy but subsequently revealed that state officials had requested a bribe from the company.\textsuperscript{742} The end of the Marín \textit{sexenio} thus saw the politicization of government-business relations affect the state’s relationship with the proverbial goose that lays golden eggs—which previous

\textsuperscript{740} Interview with Socorro López Espinosa, May 3, 2016
\textsuperscript{742} Interview with Socorro López Espinosa February 13, 2017.
governments had been exceedingly careful to protect. Marín’s successor, Rafael Moreno Valle, blasted the government on the campaign trail for losing the trust of the firm, which he vowed to regain once in office.743

Results of the Marín administration

The Marín administration witnessed a deterioration of many economic indicators in Puebla. As Table 9.4 shows, growth rates were again near the national average and fell considerably short of Querétaro in this period. In addition, the state’s inflows of FDI dropped off considerably in this period, reflecting in part the blow to investor confidence dealt by the scandal- and conflict-prone government.744 Total incoming FDI amounted to just over US$ 1.1 billion during the Marín government, compared with US$ 3.5 billion in the preceding six years. Puebla fell to 21st among Mexican states in FDI relative to GDP during this period, after ranking 12th in the previous sexenio. The trade balance decreased steadily from 25 percent of total trade in 2005 to a low of 2 percent during the crisis year of 2009 before recovering to 8 percent in 2010.

Table 9.4: Growth in Puebla, Querétaro, and Mexico 2005-2010

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2005-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Puebla</td>
<td>5.3%</td>
<td>5.0%</td>
<td>2.1%</td>
<td>2.3%</td>
<td>-5.9%</td>
<td>7.8%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Querétaro</td>
<td>5.5%</td>
<td>7.7%</td>
<td>7.2%</td>
<td>3.2%</td>
<td>-2.6%</td>
<td>6.9%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Mexico</td>
<td>3.0%</td>
<td>4.9%</td>
<td>3.2%</td>
<td>1.4%</td>
<td>-4.7%</td>
<td>5.1%</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

Source: INEGI Sistema de Cuentas Nacionales de México

On the other hand, the concentration of industrial activity in the automotive sector would continue throughout the Marín sexenio and in the ensuing years, as Table 9.5 shows. By 2013, auto assembly and auto parts combined to make up 37.5 percent of the state’s total output, an increase over previous years, while the share of the next largest industry dropped from 4.6 to 2.1 percent.

743 On this front, Moreno Valle would be successful, as Puebla secured a major investment from Audi, a VW affiliate, in the beginning of his administration.
744 While it would be difficult to prove the proposition that the Marin-era scandals were responsible for the drop-off in FDI in Puebla, this view is common among local business people and former officials.
Table 9.5: Top industries in Puebla, 2003-2013

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobile production</td>
<td>24.3%</td>
<td>Automobile production</td>
<td>26.3%</td>
<td>Automobile production</td>
<td>23.2%</td>
</tr>
<tr>
<td>Auto parts</td>
<td>10.0%</td>
<td>Auto parts</td>
<td>8.6%</td>
<td>Auto parts</td>
<td>14.3%</td>
</tr>
<tr>
<td>Clothing</td>
<td>3.0%</td>
<td>Plastic products</td>
<td>4.6%</td>
<td>Other metallic products</td>
<td>2.1%</td>
</tr>
<tr>
<td>Confections</td>
<td>3.0%</td>
<td>Generation of electricity</td>
<td>2.6%</td>
<td>Plastic products</td>
<td>2.0%</td>
</tr>
<tr>
<td>Beverages</td>
<td>2.3%</td>
<td>Confections</td>
<td>2.0%</td>
<td>Seed and grain milling, oils</td>
<td>1.8%</td>
</tr>
</tbody>
</table>


In addition to mediocre economic results, the Marín sexenio had important political implications that further eroded the state’s ability to forge development policy based on public-private consensus. The very public divisions within the state’s business associations weakened these institutions while making other segments of the local private sector subservient or dependent on the government. This environment did nothing to encourage the participation of the major MNCs that had long kept their distance from the chambers. As a result, the organized business sector lacked dynamism and technical capacity. Incoming CCE president Luis Rodríguez Fernández admitted as much in 2010, accepting that the private sector “had fallen into complacency” and that the challenge of his presidency would be to “pull the business sector towards modernization.”

Despite a large amount of public funding and supporting policies for small firms, “this has not translated in reality into employment.” Rodríguez assured his interviewer that a younger generation “with a different vision” would be taking on leadership roles in firms and business associations. However, the incoming government of Rafael Moreno Valle, who succeeded Marín in 2011, found that very little had changed. After interviewing several private sector leaders for

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745 By 2012, for example, only two of the firms operating in the FINSA park, an important center of the auto industry, participated as officers or advisers in Canacintra—down from four during the mid-2000s.

746 Rodríguez went so far as to accept the truth of the adage, widely repeated in Puebla, that the state was home to “rich business people with poor businesses,” the implication being the business owners preferred extracting personal wealth to investing in their enterprises.
inputs into their economic development strategy, the governor-elect and his soon-to-be cabinet members concluded they would need to bring in outside firms to help revive Puebla’s economy.\(^\text{747}\)

Their discussions with Puebla chamber leaders convinced them that the local business community suffered from an absence of ideas, optimism, and entrepreneurial vision.\(^\text{748}\)

Once in office, the government of Moreno Valle shunned the traditional business chambers and tried to avoid projects they promoted—in particular exhibitions and other public events, which the new team viewed as superficial and having little value added. Instead, the governor pursued development projects on an individual basis in conjunction with large firms. A major achievement during this administration was the successful courting of Audi, the luxury car brand of the Volkswagen Group, which undertook an US$ 1.3 billion investment in Puebla’s San José Chiapa municipality. The firm constructed a state-of-the-art training center, and the state government undertook major investments in infrastructure, services, and electricity that amounted to nearly US$ 900 million.\(^\text{749}\) Needless to say, local business organizations’ role in these efforts was negligible. In this way, Puebla doubled down on its bet on a single industry even as Querétaro consolidated its leadership role in the aerospace sector and established new hubs in logistics and IT. The deal with Audi contained a telling example of the political economy implications of industry concentration that have been a consistent theme in Puebla’s development. The contract Audi signed with Puebla included a stipulation that no directly competing firm be allowed to invest in Puebla for eight years—an echo of Volkswagen’s behind-the-scenes opposition to the ill-fated Hyundai investment a decade before.

\(^{747}\) Interview with member of the transition team (May 5, 2016). According to this interviewee, the Moreno Valle team asked a top business association leader which local firms had the potential to launch a major national business group, and the response they received was silence.

\(^{748}\) Ibid

X. Chapter 10: Conclusion

This dissertation has addressed the question of why some Mexican states enjoyed greater economic success than others in the period since the country undertook deep and far-reaching economic and political reforms. During the decade beginning in the mid-1980s, national policymakers set about dismantling the massive apparatus of subsidies, tariffs, and controls through which the state had managed the economy, converting the country from inward-oriented state-led industrialization into an exemplar of global integration anchored by a free trade agreement with the United States and Canada. Economic reform was accompanied by political opening as the institutions that sustained seven decades of hegemonic party rule by the PRI slowly retreated and electoral democracy took hold. These changes fundamentally altered the rules of the game for actors across Mexico’s political economy—including state governors and other sub-national elites. Whereas the federal government dominated the states under hegemonic party rule, national political and economic reforms resulted in greater political power and policy authority for state governors. At the same time, however, the reforms exposed incumbent governors to political competition and the forces of global economic competition. Confronted with these challenges, governors and other local actors developed new governance institutions, which responded to their state’s particular political dynamics and economic structure, as well as their own preferences and ideologies. It is the core proposition of this dissertation that the resulting institutional divergence helps explain sub-national economic outcomes in post-reform Mexico.

Of course, the great diversity among Mexican states—geographic, economic, ethnic, and historical—means that numerous factors undoubtedly affected their economic performance during the period under study. Advancing the institutionalist argument made in this dissertation therefore requires greater specificity in both the nature of institutions that mattered and the economic outcomes of interest. Many states have experienced periods of fast growth since Mexico’s economic reforms. In some cases, these gains have been the result of natural resource endowments, tourism development, or an influx foreign investment in basic assembly manufacturing. By
contrast, this dissertation has focused on the conditions that allowed *ex ante* industrialized states to achieve structural transformation and economic upgrading in the context of global integration.750

Just as one can study different types of economic outcomes, scholars have identified a range of institutions that can affect economic performance. As discussed in chapter 2, one strand of literature, associated with the new institutionalist economics, stresses the importance of “thin” institutions—essentially, rules that protect private property and guarantee contract enforcement—in achieving wealth. By contrast, other schools of thought take a more expansive view of institutions that encompasses both formal rules and informal practices and includes the preferences and composition of organizations as key facets of the institutional environment. This “thick” view of institutions is present in various theoretic frameworks including varieties of capitalism, the developmental state, and neo-corporatist views of business and labor organizations. This dissertation embraces the latter approach to institutional analysis.

These decisions informed the methodology and research design of this project. Understanding the nature of actors in the sub-national political economy and the rules, practices, and norms governing their interactions demands a level of descriptive detail that can be achieved only through the qualitative study of a limited number of cases. In addition, explaining how these institutions affect the particular outcomes of structural transformation and economic upgrading requires examining cases with comparable levels of socioeconomic development and geographical endowments before the onset of Mexico’s political and economic reforms. Chapter 2 lays out the rationale behind the selection of this dissertation’s two primary cases, Puebla and Querétaro. By the mid-1980s, both states had a critical mass of industry and average levels of wealth, human capital, and physical infrastructure among Mexican states. Importantly, they are both located in the central region of Mexico at a comparable distance from both the capital and the U.S. border. For

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750 As discussed in more detail in chapter 2, structural transformation refers to a process of economic diversification towards higher-technology sectors and refers primarily to the types of industries present in an economy. Upgrading captures various types of innovations—understood broadly as incremental, evolutionary improvements to firms’ products, processes, and practices—that allow for greater productivity and higher value-added in local production processes.
these reasons, both states appeared to have similar potential to prosper in the context of economic integration. However, their economic development diverged markedly after the onset of reforms. Querétaro achieved sustained, fast growth and a consistent evolution of its economic structure towards more technologically intensive sectors such as aerospace, information technology, and high-end services. This structural transformation has been accompanied by participation in increasingly complex activities incorporating greater knowledge inputs, as evidenced by the state’s emergence as a research and development hub. By contrast, Puebla experienced moderate and more volatile growth and maintained a mono-industrial structure dominated by the automotive cluster surrounding Volkswagen.

What explains this divergent outcome? I argue that political and economic actors in Querétaro, in response to changes at the national level, constructed a set of institutions that facilitated cooperation among political authorities and organized capital and labor. These cooperative institutions encompassed official forums for dialogue such as the Tripartite Commission, informal norms of consultation and coordination between government and business, and the inclusion of business leaders in key policymaking roles. As the Mexican economy underwent a series of shocks beginning in 1982, these institutions allowed Querétaro to manage conflict, in particular surrounding labor relations, and implement coherent and lasting strategies to attract investment, build economic infrastructure, and enhance the state’s human capital. By contrast, governments in Puebla reacted to economic and political reforms by attempting to alternatively coopt or confront the organized private sector. As a result, public-private cooperation in support of broad-based development policy never emerged in Puebla. Instead, successive governments worked on an individualized basis to support the expansion and resolve the problems of Volkswagen and a handful of other large firms.

The emergence of divergent sub-national institutions in Puebla and Querétaro partly reflected the leadership styles and preferences of state governors at key junctures. However, they also responded to important differences in the organization and composition of the private sector.
in each state. In chapter 3, I show how peak business associations in Querétaro successfully incorporated the managers of large foreign and national manufacturing firms that arrived in the state beginning in the mid-1960s. The inclusion of these new economic actors ensured that Querétaro’s business associations remained representative of the state’s economic structure and consequently enhanced the political clout of these organizations. As top managers in major MNCs and national business groups ascended to leadership positions, Querétaro’s business chambers acquired a modernizing, outward-oriented mindset and embraced policies such as economic integration, productivity-enhancing infrastructure investments, and human capital upgrading.

Organized business in Puebla, by contrast, continued to be dominated by small business owners in traditional sectors such as textiles and commerce with a provincial attitude towards their enterprises and conservative political values. Even though Puebla experienced similar economic changes as Querétaro during the 1970s, the state’s new class of professional firm managers did not participate actively in local politics via business associations. As a result, the state’s peak business associations such as the CCE, Coparmex, and Canacintra failed to maintain representativeness in a changing economy. The continued presence of traditional, inward-oriented, and politically conservative leaders meant that the preferences of the state’s business sector veered towards protectionism on the economic front and, importantly, support for the PAN in the political realm. Divisions within the local business community—between Spanish and Lebanese, and moderates and conservatives—also played out in the state’s business chambers.

Chapter 3 documents these differences through biographical data on business chambers’ leadership in both states and a systematic analysis of the public statements of private sector leaders over the course of more than two decades. It also suggests two likely (and complementary) causes for the different evolution of the two states’ business associations. On the one hand, the evolution of Puebla’s economy during the 1960s and 1970s was such that the automobile sector, and Volkswagen in particular, acquired enormous weight in the state’s industrial structure. By contrast, the wave of industrialization that Querétaro experienced during the same period left the state with
a far more diversified economy. By 1985, the auto sector accounted for 33.7 percent of Puebla’s total industrial output, whereas in Querétaro the leading sector, synthetic fibers, made up only 13.7 percent of the state’s total. Given Volkswagen’s unparalleled dominance of Puebla’s economy, the firm enjoyed enormous political clout that allowed it to negotiate directly with state officials. Advancing its interests via business chambers could only weaken its position. On the other hand, newly-arrived firm managers in Querétaro found it expedient to invest political capital in the state’s business chambers due to the more dispersed nature of economic power in the state.

A second explanation has to do with the “supply” of participatory space in business organizations. Puebla’s business associations in some cases dated back to the early 20th century, reflecting the state’s historic vocation as a center of textile production. As a result, a tight-knit and highly conservative local business elite developed in the state, and these individuals strove to maintain their control over peak business associations even as new firms and sectors took on greater economic importance. In Querétaro, by contrast, the incumbent local business elite was both less powerful and culturally less insular, which created greater opportunities for newcomers in the 1960s and 1970s to rise to leadership positions in these organizations.

Similar differences also existed in the labor sector. While systematic analysis is not feasible due to data limitations, qualitative evidence cited throughout the dissertation suggests that peak labor federations in Querétaro included a broader cross-section of the state’s firms than in the case of Puebla, where labor was more fragmented among various federations and, critically, the independent Volkswagen union. This characteristic facilitated coordination with labor in the case of Querétaro, especially in the early period of reforms in the 1980s when organized labor still retained considerable political clout.

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751 As detailed throughout the dissertation, the firm did indeed engage directly with the highest levels of political authority in the state, who were generally quick to respond to the firm’s preferences on issues ranging from physical infrastructure to labor relations and training. At the same time, other major MNCs and national manufacturing firms in Puebla—such as Hylsa, Grupo Bimbo, Pelican, Chiclets Adams, and host of MNC auto parts producers—likewise did not actively participate in business associations.
These differences in the composition and preferences of organized business and labor—
institutions-as-organizations—shaped the strategies of state governors and the resulting institutions of economic governance that arose out Mexico’s political and economic reforms. In the case of Querétaro, successive governors opted for a strategy of cooperation with representative, developmentally-oriented business associations and an orderly, non-confrontational labor sector. By contrast, governors in Puebla confronted a business sector often more interested in partisan politics than development policy and which, moreover, did not represent the most important firms in the state’s economy. They chose strategies of selective cooptation and confrontation with peak business leaders, while administering to development policy on a firm- or sector-level basis. As a result, actors in Puebla failed to invest in cooperative institutions to promote broad-based development policy.

The rest of the dissertation is devoted to describing how these institutions originated, functioned, and affected economic outcomes. In chapter 4, I document the emergence of cooperative institutions in Querétaro through the creation of the Tripartite Commission, an official forum for dialogue among state officials, representatives of business associations, and labor federation leaders. In the early 1980s Querétaro experienced an uncharacteristic outbreak of labor unrest that included extended work stoppages in several of the state’s largest firms. These incidents reflected the weakening of corporatist control of labor in Mexico, as declining real wages and other worker grievances gave momentum to more assertive, independent unions. In Querétaro, however, government, business, and labor elites would efficiently close ranks to stamp out this perceived threat to stability. After intervening in labor disputes at Celanese, Kellogg’s, and Tremec, Governor Rafael Camacho Guzmán convoked top business and labor leaders to participate in a monthly tripartite meeting with high-level state officials, whose goal would be to increase communication in order to preempt future labor problems. The resulting Tripartite Commission, which met regularly for the next twenty-five years, quickly evolved into a broader forum to discuss and coordinate actions on a range of issues facing workers and capital. When Mexico’s economy
entered a severe crisis after the August 1982 foreign debt default, firms and unions used the Tripartite Commission to mitigate the effects on the local economy by informally agreeing to moderate price and wage levels dictated by the federal government in the aftermath of the crisis.

Mexico’s trade liberalization, initiated in 1985 with unilateral tariff reduction, brought about a new set of shocks for local actors, who had to adjust to global competition after decades of a protectionist trade regime. During the sexenio of Mariano Palacios Alcocer (1985-1991), political and economic elites in Querétaro cooperated on a series of measures to enhance the state’s technical education system, build physical infrastructure for industry, and improve the competitiveness of local firms. In this period, the manufacturing business chamber Canacintra played a lead role. With its strong contingent of large, exporting firms, the group worked to disseminate international best practices in quality control and management in the local economy through training programs and collaboration with local authorities and universities. Canacintra enjoyed a close link to the government via its Secretary of Economic Development, Victor Manuel Amieva, a former president of the chamber. Through these efforts, Querétaro managed to recover quickly from the economic shocks of 1982 and 1986 and achieve positive aggregate growth during the 1980s, avoiding the worst of Mexico’s lost decade.

Similar attempts to adjust to the dramatic economic changes of the 1980s occurred in Puebla, but with much less success. As chapter 5 describes, efforts by Governor Guillermo Jiménez Morales to organize a regular forum for dialogue among the government, business, and labor in response to the 1982 economic debacle did not prosper. One reason for this failure was the outbreak of political conflict between the state government and organized business, which supported a panista candidate from the private sector, Ricardo Villa Escalera, in the 1983 mid-term elections. In the aftermath of the contentious election, the Jiménez Morales administration attempted to appease business leaders through the selective provision of benefits such as increased funding to the Junta de Mejoras, a private association controlled by Puebla’s business elite. However, conflict between government and private sector would escalate during the administration of Mariano Piña
Piña Olaya (1987-1993). A tactless and unscrupulous politician, Piña Olaya alienated traditional business leaders while entering into a series of suspect engagements with a group of PRI-friendly business people whom the governor courted as allies. The end of the sexenio witnessed the organized business sector denouncing a corrupt land deal arranged by the governor and demanding federal intervention to halt it. In this context of contentious government-business relations, adjustment to Mexico’s trade opening occurred within the boundaries of the state’s leading firms. Volkswagen’s global footprint allowed the Puebla plant to increase exports of intermediate goods to foreign affiliates, thus mitigating the impact of the 1980s crisis. In 1992, the firm undertook a major restructuring of its production model to take advantage of technological changes and Mexico’s deepening economic integration, while simultaneously diluting union influence. These moves yielded major productivity gains for the firm, but with limited spillovers outside the automotive cluster.

The 1990s witnessed the consolidation of Mexico’s trade opening and other market reforms, as well as the progressive weakening of the PRI’s stranglehold on political power. Under these conditions, the divergence in economic institutions between Querétaro and Puebla accelerated. Chapter 6 discusses the deepening of a developmental alliance between the state and local business under the administration of Enrique Burgos (1991-1997) in Querétaro. Burgos included in top positions in his government several members of Querétaro’s private sector with both long trajectories in the state’s leading manufacturing firms and leadership experience in local business associations. In close consultation with the private sector, the government implement a clear strategy of enhancing the provision of public goods to attract new investment and support local firms’ global competitiveness. Under Burgos, Querétaro witnessed a major expansion of educational institutions, public research centers, and modern industrial infrastructure. These policy initiatives created the conditions for economic diversification and broad-based productivity gains. In addition, the governor also continued the practice of regular consultation with business and labor through the Tripartite Commission, and officials used their close relationships with these groups to
promote productivity agreements between firms and unions—a new mechanism to govern labor relations in an economic context that demanded constant productivity gains. These institutions for coordination again paid dividends when Mexico was hit with another economic crisis in 1994-5. The Tripartite Commission provided a space for actors to moderate price increases through informal agreements and avoid labor conflict. Querétaro managed to escape with a comparatively minor economic contraction and experienced rapid growth for the remainder of the decade.

The government of Manuel Bartlett (1993-1999) in Puebla, as discussed in chapter 7, brought about the further politicization of the relationship between the state government and local business. Faced with a well-organized and politically vocal private sector, Bartlett initially attempted to preempt business opposition through concessions such as privileged access to the state’s procurement committee and increased resources for the Junta de Mejoras. The governor also stayed on friendly terms with the president of Puebla’s peak business association, Jorge Espina, and devised an intricate arrangement to ensure local construction firms received the contract for his flagship public works project, the Periférico ring road. However, the nascent reconciliation between government and business would fall victim to mid-term elections. Once again, business leaders rallied behind a panista business candidate for mayor of Puebla, Gabriel Hinojosa, while the combative Bartlett campaigned openly for PRI candidates. This time, however, the PAN prevailed, ensuring an escalation of tension between Bartlett and organized business. The second half of the sexenio saw the governor terminate the government’s long-running support for the Junta de Mejoras and curtail communication with business representatives in various ways. These actions, along with changes to the national legal framework governing business chambers, weakened the local private sector politically and economically. By contrast, the relationship between the government and Volkswagen remained beneficial for both sides. The firm’s infrastructure needs were incorporated into Bartlett’s major public works and urban renewal project, the Angelópolis Regional Development Plan, which produced new access roads for the VW plant. The government also facilitated the construction of a state-of-the-art industrial park to accommodate the growing number
of the firm’s suppliers. Volkswagen enjoyed rapid growth during the 1990s, taking advantage of the NAFTA agreement to increase vehicle exports nearly 8-fold between 1992 and 1999. This expansion, and the increased investment in the upstream auto parts sector it generated, led to a strong overall performance for Puebla’s economy under Bartlett, but it also exacerbated the state's dependence on a single firm.

The end of the 1990s brought about a historic political transition in Querétaro, as Ignacio Loyola became the state’s first non-PRI governor in nearly seven decades. However, as chapter 8 details, political change did not alter the state’s economic governance institutions, which had been steadily consolidating since the early 1980s. A business person who had participated in the Tripartite Commission as president of Coparmex, Loyola maintained the practice of regular dialogue with business and labor and even appointed several prominent priistas to top cabinet posts. This commitment to stability manifested itself in the continuation of the key pillars of prior PRI administrations’ economic policy. The Loyola administration oversaw a further expansion of the state’s industrial parks and research capacity. In both cases, these policies encouraged economic diversification by producing outputs such as infrastructure, technological solutions, and knowledge that were relevant and made available to a range of sectors. The Loyola administration also took an important step to encourage economic transformation by building a large international airport outside the city of Querétaro. The project met with criticism from various segments of queretana society, including many in the local private sector, in a rare instance of disharmony between the government and local business. The contentious nature of the airport project might have consigned it to obsolescence with the change of government, a fate that often befell mega-projects in states across Mexico, including Puebla. In the case of the Querétaro International Airport, however, Loyola’s successor Francisco Garrido (2003-2009) converted the new infrastructure into the center of a dynamic aerospace sector, which by the end of his term had become a major hub in Mexico for this technologically and institutionally demanding sector. The Querétaro aerospace sector developed a particular vocation for research and design, taking advantage of the state’s tradition of
leadership in public research centers. In addition to aerospace, the state also saw the emergence and growth of the information technology, biotechnology, and business services sectors during the first decade of the 21st century. This transformation of the state economy was accompanied by new forms of private sector organization, as industry-specific associations spanning the private, public, and academic sectors became the primary sites for coordination among these actors by the late 2000s. As a result, traditional mechanisms for coordination, most notably the Tripartite Commission, ceased to function.

Puebla, by contrast, failed to diversify from the mono-industrial structure that had characterized its economy since at least the 1980s. As chapter 9 illustrates, efforts were made during the administration of Melquiades Morales (1999-2005) to upgrade the state’s infrastructure, forge industry-university linkages, and attract foreign investment in new sectors. For various reasons, these initiatives were frustrated. A major explanation for these outcomes was that the government-business relationship continued to be unconducive to effective development policy cooperation. On the one hand, Morales attempted to coopt business associations via favors and, when necessary, intervened to ensure the selection of friendly chamber leaders. In addition, the business organizations themselves continued to lack a technical vocation and the capacity to advance strategic development goals. The traditional absence of the state’s leading firms was exacerbated in this period by simmering internal divisions in the chambers and the hard financial times that afflicted many business organizations as a result of legal changes that ended mandatory affiliation in the late 1990s. In this context, efforts to establish mechanisms for public-private coordination on development policy did not elicit the type of constructive cooperation seen in Querétaro. The Morales administration created a new Consultative Council for dialogue between government and business, but the organized private sector did not take advantage of this forum to advance a developmental vision for the state.

The beginning of the sexenio of Mario Marín (2005-2010) witnessed tensions within the business community come to a head, as a group of more moderate and modernizing business people
left the CCE, Puebla’s peak business association, to form a rival group, the Council of Business Organizations (COE). The immediate impetus for this exodus was the CCE’s 2005 elections, in which the reformist group accused members of the traditional business elite of committing fraud to retain control of the organization. Marín exploited and encouraged this open division within the private sector, tacitly giving the upstart COE equal status as the CCE and nurturing business allies through privileged access to state contracts. The governor’s efforts to coopt the business sector accelerated considerably a year into his term after the revelation that Marín had sent Puebla’s police to illegally detain journalist Lydia Cacho on behalf of a local business person with extensive links to the government. Amid the resulting outrage, Marín took a series of steps aimed at appeasing business leaders and preempting criticism from an often-antagonistic private sector. Most notably, the government created the Commission for the Industrial, Commercial and Services Development of Puebla (CDICS), which ostensibly gave business leaders a voice in the allocation of payroll tax revenue to public works projects. However, after Marín weathered the Cacho scandal, the government increasingly monopolized control of the Commission’s decision-making, turning this attempt at government-business cooperation into a source of recriminations. Political tension between the Marín administration and organized business worsened as 2007 mid-term elections approached, and the CDICS was suspended at the height of the campaign—a telling illustration of how partisan politics undermined government-business cooperation throughout Puebla’s recent history. Having successfully coopted much of the business sector, Marín administered the state’s public works with a blatant disregard for the rule of law, and Puebla’s governance environment deteriorated in the second half of the sexenio in the view of most observers. The government even neglected the relationship with Volkswagen, which decided in 2010 to build a new motor plant in the state of Guanajuato instead of Puebla. The subsequent administration of Rafael Moreno Valle (2011-2017) worked hard to regain the confidence of the state’s leading firm and secure a major investment by the Volkswagen affiliate Audi. As Puebla entered the second decade of the 21st
century, its development strategy thus continued to revolve around the dominant auto sector, while organized business would be increasingly sidelined under Moreno Valle.

a. Contribution of the research and extensions

By 2010, Querétaro had nearly double the per-capita income as Puebla, whereas in 1985 Querétaro was only 32 percent richer. This sustained growth in Querétaro was accompanied by economic diversification and upgrading to more complex activities. The state had by 2010 become a hub for high-technology sectors such as aerospace and information technology and a main center for research and development in Mexico. This dissertation argues that the states’ divergent fates are primarily the result of the different institutions for economic governance constructed by local elites in the wake of the breakdown of single-party hegemonic rule and corporatist control. How does this finding support or rebut the existing literature on the economic performance of Mexican states in the era of global integration? As discussed in chapter 2, much scholarly work has been devoted to this question. Summarizing broadly, past research has found that Mexico’s trade liberalization beginning in 1985 led to a divergence in state-level income, whereby ex ante richer states, on average, grew faster than poorer ones (Esquivel 1999; Messmacher 2000; Rodríguez Oreggia 2001; Rodriguez-Pose and Sánchez-Reaza 2002; and Chiquiar 2005). This outcome was due to the fact that after liberalization, state-level characteristics such as human capital, infrastructure, industrial agglomerations, and proximity to the U.S. border became the most important determinants of growth (Esquivel et al 2002; Jordaan and Rodríguez-Oreggia 2012). This new scenario favored the already-wealthy North, whose strong performance largely accounts for the global trend of divergence.

The results of this dissertation add nuance and a richer explanatory lens to these findings. In accordance with the econometric literature cited above, I also find that inputs such as human

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752 The exact figures, as reported in chapter 2, were US$ 10,494 for Querétaro and US$ 5,879 for Puebla in 2010 (based on current prices), and US$ 2,495 (Querétaro) and US$ 1,889 (Puebla) in 1980.

753 Studies taking FDI, rather than growth, as the outcome of interest have arrived at similar conclusions (Jordaan and Rodríguez-Oreggia 2012).
capital, physical infrastructure, and existing industrial structure were important factors in shaping the different economic trajectories of Puebla and Querétaro. However, this dissertation provides an explanation for the differences in states’ endowments of variables such as human capital and infrastructure by showing how different sub-national institutional settings influenced the quantity and quality of these public goods. I also examine a different set of economic outcomes, including structural transformation and upgrading, which have been understudied in sub-national analysis of Mexico. Because these processes play out over the course of many years and even decades, they are not easily captured by large-N quantitative studies that have predominated in the economics and political science work on Mexican states. The descriptive, historically-informed case study approach employed in this dissertation can tease out the disparate economic, political, and social factors that facilitate transformation and upgrading. It can also illustrate how variables such as industrial structure have political economy consequences that shape a state’s future development trajectory. However, critics of such small-N, qualitative work will wonder to what extent the explanations offered in this study apply to other states and, perhaps, cases beyond Mexico.

Applying the framework of this dissertation to the broader universe of Mexican states is a project for further research. However, the broad outlines of such a project and some suggestive data can be laid out here. First, a key factor differentiating the institutional environments between Puebla and Querétaro was the role played by the organized business sector in each state. Variation in the composition and preferences of business associations responded, in turn, to differences in the concentration of industry at the onset of economic and political reform, which affected the incentives of firms to invest in collective action through business organizations. This dissertation illustrated how initial differences in private sector organization subsequently reproduced industrial concentration or diversification through political economy channels. Measures of the concentration of states’ industrial structure should therefore provide a feasible way to gauge whether similar mechanisms were present in other Mexican states. Figure 10.1 presents evidence across all Mexican states that levels of industrial concentration in 1980, as measured by the HHI, are in fact positively
correlated with recent levels of industrial concentration. These data suggest that the stickiness of industry concentration or diversification is by no means specific to Puebla and Querétaro.

**Figure 10.1: States Industrial Concentration in 1980 and 2013**

A second element that distinguished the experiences of Puebla and Querétaro was the cooperative relationship that prevailed between state governments, business, and (especially in the earlier stages of reform) labor. While understanding the nature of these relationships in other states would require additional case studies, there exist strategies to gauge whether a state’s socio-political environment was conducive to such tripartite cooperation. The frequency and duration of strikes and other labor conflicts provides a plausible proxy for the ability of state, business, and labor elites to coordinate actions to avoid conflict. Similarly, the prevalence of post-electoral conflict and destitution of gubernatorial power can be employed as indicators of states’ political polarization and elite cohesion. As the history of Puebla demonstrates, social conflict can politicize local business, creating an atmosphere in which the onset of electoral competition provokes political conflict between business and PRI governments. These variables could be measured for each state during the period preceding the onset of reform, allowing for a classification of states along two axes: industry concentration and cooperative institutions.

Sources: Author’s calculations based on INEGI Economic Census 1981 and 2014
On the dependent variable side, INEGI’s various enterprise surveys, as well as data collected for the Mexico Atlas of Economic Complexity project, allow for estimations of state-level productivity, domestic value added in states’ exports, total value added in states’ industries, and the sophistication of states’ industrial structure. Each of these variables provides a good proxy for upgrading, as opposed to overall growth or industrialization via foreign investment. Taken together, these data would allow for the testing of the relevance of the explanatory factors in this dissertation to the rest of Mexico’s states, through a combination of descriptive statistics and more complex methods such as cluster analysis.\textsuperscript{754} As an initial exercise, the measures of industry concentration in 1980 allow for an exploration of the association between this component of the independent variable and the outcomes of interest.

**Figure 10.2: Industry Concentration in 1980 and Productivity**

As Figure 10.2 shows, a negative relationship exists between states’ level of industrial concentration in 1980 and the current labor productivity of their median industry.\textsuperscript{755} This trend echoes a main result of the dissertation’s case studies—that greater initial industry diversification

\textsuperscript{754} Given the limited number of cases (32), cluster analysis would be the most appropriate multi-variate technique for exploring whether the proposed explanatory variables tend to be associated with the outcome of interest across all states.

\textsuperscript{755} Labor productivity is measured, as throughout this dissertation, by dividing the total product of each industry (defined at the four-digit level) by its total employment as reported in INEGI’s economic census.
helped create incentives for the implementation of cross-sector productivity-enhancing policies at the state level. Figure 10.3 presents evidence of a similar relationship between initial industry concentration and a different proxy for upgrading, the average complexity of states’ industries. The concept of complexity employed here was developed by the Atlas of Economic Complexity project. The data for Mexico were produced by the Ministry of Finance and Public Credit and CIDE and are available here: http://complejidad.datos.gob.mx/756

States with high levels of economic complexity tend to be those with relatively diversified industrial structures as of 1980.

**Figure 10.3: Industry Concentration in 1980 and Industry Complexity**

![Industry Concentration and Complexity](image)

*Sources: Author’s calculations based on Atlas of Economic Complexity of Mexico and INEGI 1981 Economic Census*

*Note: Average industry complexity is weighted by employment.*

However, looking only at industrial concentration provides a limited view of states’ economic structure circa 1980. Some states with high levels of concentration had large extractive sectors but were otherwise underdeveloped while others were relatively industrialized. Figure 10.4 presents a more detailed view of state economies in the pre-reform period by classifying them as either concentrated or diversified on the one hand and industrial or non-industrial on the other. While most states were industrialized by 1980, they are divided between nine diversified industrial states (upper-right quadrant) and fourteen concentrated industrial states (lower-right quadrant).757

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756 The concept of complexity employed here was developed by the Atlas of Economic Complexity project. The data for Mexico were produced by the Ministry of Finance and Public Credit and CIDE and are available here: http://complejidad.datos.gob.mx/

757 States are classified as “concentrated” if they had an HHI of industry greater than 0.1 in 1980; states are classified as industrial if no primary sector (mining, agriculture, or oil) made up more than 20 percent of total output as of 1980.
Interestingly, the states characterized as industrial and diversified by 1980 tend to have higher levels of productivity and sophistication in the current period. For example, six of the eight federal entities in the top quartile of median industry productivity are in this group (Guanajuato, Jalisco, Federal District, Mexico, Nuevo León, and Querétaro). These observations are meant not as affirmations that the findings of the case studies apply to the rest of Mexican states but rather as suggestions for how the question of external validity may be broached more systematically.

**Figure 10.4: Economic Structure of Mexican States, 1980**

**Sources:** Author’s calculations based on INEGI Economic Census 1981 and 2014

**Note:** States labeled in italics are in the top quartile of states in terms of median industry productivity in 2013

### b. Lessons for policy

Understanding the factors that promote successful structural transformation and upgrading is also relevant for policymakers concerned with the pattern of Mexico’s economic integration in the post-NAFTA period. While the country’s exports have grown impressively and diversified into a range of high-tech manufacturing sectors since the implementation of NAFTA in 1994, the level of domestic value-added in its exports has tended to be lower than that of competitors in East Asia and even South America (Koopman et al 2010; Blyde 2013). Low value-added is often discussed as a contributing factor in Mexico’s tepid economic growth since the mid-1990s.
The recent political upheaval in the United States has created great uncertainty over the future of Mexico’s trade relationships and provoked soul-searching within Mexico about the results of two decades of enthusiastic economic integration through free trade agreements. As part of this discussion, questions surrounding domestic value-added, the productivity of SMEs, and local value chains will likely receive renewed attention. In a future in which Mexico may no longer enjoy the competitive advantage of unparalleled access to the U.S. market, understanding the role of local political and economic institutions in shaping patterns of economic integration becomes all the more relevant. Against this backdrop, this research firstly attempts to highlight important differences across states and economic sectors, which have a significant effect on the ability of regional economies to take advantage of the present level of economic integration.

Beyond these generalities, what lessons does the story of Puebla and Querétaro hold for development in other contexts? First, the importance of sustaining long-term projects and policies over the course of successive governments is one feature of the two cases studied here that should have broader relevance. The capacity and willingness of governors in Querétaro to continue initiatives begun by their predecessors clearly paid large dividends—not only in terms of tangible outcomes such as industrial parks and educational institutions, but also in the accumulation of trust and political capital among social groups, including business. Of course, such continuity is in many ways the result of the underlying institutional features highlighted in this dissertation, such a unified and developmentalist private sector. Can policymakers, including outside actors such as international donors or central government officials, effectively promote continuity in local governments? A useful step would be to maintain pragmatism regarding the capability of a given local institutional environment to sustain large projects or policy initiatives across political cycles. In the absence of such capacity, attempting mega-projects that may never be completed risks exacerbating political polarization and trust in the government. Attempting to involve local stakeholders not subject to transitions in government in project management represents another possible approach to the challenge of continuity.
A second lesson suggested by the case studies is that flexibility trumps formality, especially at early stages of industrial transformation. The success of Querétaro is notable for the absence, for the most part, of highly-detailed, long-range strategies for specific sectors. Instead, governments tended to pursue projects that had broad applicability and a compelling development logic, such as Enrique Burgos’ efforts to bring a satellite of the National Autonomous University (UNAM) and the National Metrology Center (CENAM) to the state or the Loyola administration’s airport project. Only after Querétaro had established an advanced and diversified industrial base by the mid-2000s did the focus of policy shift to more targeted, sector-specific plans. The Tripartite Commission exhibited a similar flexibility that allowed it to adapt and evolve to address the most pressing development issues of each period. The forum never had an official legal mandate or explicit objectives, nor were the agreements reached binding in a formal sense. Based on the accounts of participants over two decades, the substance of the monthly meetings took a meandering path as different economic challenges arose, often unexpectedly. The enforcement mechanism consisted only in the knowledge that participants would report back on progress made on agreements reached in the previous session. What sustained this institution was a common perception that dialogue and coordination in the context of the Tripartite Commission brought tangible benefits for the participants and the groups they represented.

Public-private dialogues have become increasingly popular tools in Latin America to encourage coordinated efforts to enhance productivity and upgrading in value chains (see Fernández-Arias et al. 2016). The interest in these mechanisms comes as part of a broader focus on encouraging stable alliances between the public and private sector, based on the experiences of successful cases of upgrading in East Asia and Europe (see Devlin and Moguillansky 2011). In Mexico, the current presidential administration has witnessed efforts to establish state-level productivity councils meant to be a forum for dialogue among local governments, the private sector, unions, and academia. The creation of these State Productivity Councils (CEP) was mandated by the federal government in 2013 as part of its National Development Plan for the current sexenio.
Preliminary evaluations of several CEPs suggest that challenges stemming from inconsistent high-level political support, coordination in carrying out diagnostics and setting goals, divergent views among participants on basic objectives have hampered the work of these bodies (Devlin 2016).

While one successful cases cannot provide a roadmap to resolve such issues, the experience of Querétaro’s Tripartite Commission does suggest some transferrable lessons. Tripartite dialogue in Querétaro persisted and prospered in spite of important conflicts and disagreements among participants because the main participants saw tangible, if small benefits from an early stage that convinced them to continue to invest in the institution. In designing such dialogues, therefore, prescribing ambitious objectives and concrete mandates should be balanced with the prerogative to attain early successes and a basic level of effectiveness that provides momentum for continued engagement. In addition, achieving basic effectiveness will be more likely if dialogues initially address the most pressing areas of interest to actors. In the case of Querétaro, the Tripartite first focused on the immediate threat of labor instability, which all sides had an interest in resolving. The lesson seems to be that dialogues have a better chance of consolidating if they initially focus on challenges of immediate interest to all actors. Once early successes create incentives for continued engagement, dialogues can adapt to address more medium- and long-term questions of development strategy.

Finally, a striking element of the development Querétaro’s political economy was the active participation of professional managers of leading firms in the state’s local political life and social institutions. Through the aforementioned Tripartite Commission, leadership in business associations and organizations such as the Club de Industriales, and later direct participation in state governments, many representatives of large domestic firms and even MNCs appear to have adopted a broader and more long-term set of interests with regard to their host state. In short, they became stakeholders in the state. Of course, it would be folly to suggest that this experience can be easily replicable in other contexts, and MNCs nearly always commit to actions to support the creation of local suppliers or help develop surrounding communities as part of their deals with local
governments. While efforts to coerce firms to play such a role are likely to backfire, policymakers and business leaders themselves would do well to focus more on ways to encourage such deeper engagement. As the reputation of globalization suffers from the perceived unfairness of the distribution of gains among capital and labor, doing so would be in line with firms’ enlightened self-interest.
Appendix I: Description of Coding Process

This section provides information on the nature of the dataset of business leaders’ public statements and the process of coding the raw data. The dataset consists of 634 distinct policy preferences expressed by 250 individual business leaders, including representatives of 54 organized business groups, as well as a small number of statements by managers and owners of major firms. The dataset covers the states of Puebla and Querétaro between 1985 and 2009, and is based on a review of four local newspapers: Sol de Puebla and Diario Cambio in Puebla and Diario de Querétaro and Noticias de la Mañana in Querétaro. In some cases multiple opinions were expressed (sometimes by more than one individual) in one news report; these were recorded as distinct opinions.

In order to ascertain the preferences of local business leaders on the major economic and political issues of their day, the review of local newspapers was targeted to specific date ranges that correspond to important economic and political developments. In addition, a handful of date ranges were selected randomly in order to round out the temporal coverage of the dataset. Table 3.13 presents the dates included in the dataset for each state (which differ in some cases due to the states’ different electoral cycles) as well as the justification for including each period and its classification as “economic”, “political”, or “random”.

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The critical step in constructing the dataset, as described in chapter 3, was the coding of each state preference. The coding utilized the ten categories presented in Table 3.14. These categories were constructed with a view towards the key policy orientations of local business that the empirical exercise sought to explore, based on a review of the relevant literature. They were also informed by an initial review of media sources in order to better understand the nature and content of business leaders’ public statements. In addition, each statement was recorded as being “supportive,” “critical,” or “neutral” or federal and local government. The “critical” and “supportive” classifications were only applied in cases where an explicit reference to these authorities was made.
Table A.2: Description of Categories of Preferences

<table>
<thead>
<tr>
<th>Code</th>
<th>Preference</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Support economic integration (ec)</td>
<td>Includes statements of optimism or support for international trade or FDI in general, as well as support for specific trade agreements. Includes statements in favor of more competition or price liberalization in the economy.</td>
</tr>
<tr>
<td>2</td>
<td>Support competition, liberalization (ec)</td>
<td>Includes support of political reforms, exhortations of citizens to participate in elections, and expressions of support for clean and fair electoral processes.</td>
</tr>
<tr>
<td>3</td>
<td>Support political or electoral competition or participation (pol)</td>
<td>Includes criticisms of the economic environment with specific mention of the government’s role.</td>
</tr>
<tr>
<td>4</td>
<td>Critical of economic conditions (ec)</td>
<td>Includes statements of opposition, criticism, concern, and pessimistic predictions surrounding trade or FDI in general, and specific trade agreements or the government’s implementation of these agreements.</td>
</tr>
<tr>
<td>5</td>
<td>Oppose economic integration (ec)</td>
<td>Includes statements of support or demands for fiscal, labor, or energy reforms, in line with the liberalizing bent of the Washington Consensus. Includes statements that demand government action to provide protection or benefits to a specific sector or branch of industry, including through tariffs, financing, subsidies, or regulatory enforcement against competitors.</td>
</tr>
<tr>
<td>6</td>
<td>Supportive of structural reforms (ec)</td>
<td>Includes statements supporting or demanding government action on: technical training, industrial infrastructure, and firm/value-chain linkages.</td>
</tr>
<tr>
<td>7</td>
<td>Demanding subsidy or industry support (ec)</td>
<td>Includes criticisms of the competitiveness, business mentality, or productivity of local firms. Includes statements that either explicitly or implicitly criticize the PRI, or make an otherwise partisan statement.</td>
</tr>
<tr>
<td>8</td>
<td>Supportive of active competitiveness and development policies (ec)</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Criticize competitiveness or mentality of local business (ec)</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Criticize PRI / overtly partisan statement (pol)</td>
<td></td>
</tr>
</tbody>
</table>
Inevitably, translated the reported statements of business leaders into one of the ten categories described above required a degree of interpretation. This was necessary to account for the fact that in certain cases business leaders had to be somewhat guarded in their public comments. It bears repeating that for the majority of the period analyzed in the dataset Mexico did not qualify as an electoral democracy and therefore direct criticism of the government could be risky. At the same time, as the data collected in this dataset make clear, this fact did not prevent business leaders from speaking out against local and federal authorities on many occasions. It did, however, compel them to do so in more indirect language. As in example, certain comments made in the context of elections criticized political parties that “have always wanted to keep power”; this was interpreted as a criticism of the PRI, even if the party’s name was mentioned directly. By way on an additional example, Puebla business leaders often denounced the “irresponsible,” “inappropriate,” or even “brutal” way in which the trade opening was carried out, even if they acknowledged that the policy was “necessary.” Such statements were classified as expressing opposition to economic integration, given the harsh manner in which the implementation of the policy was condemned. In order the enhance transparency over the rationale used to code business leaders’ statements, the relevant sections of text were also recorded in the dataset. A brief selection of full coded entries is provided below in order to give an example of this process.
<table>
<thead>
<tr>
<th>Date</th>
<th>Source</th>
<th>Title</th>
<th>Association</th>
<th>Sector</th>
<th>Name</th>
<th>Opinion</th>
<th>Notes</th>
<th>Federal Gov</th>
<th>State Gov</th>
<th>Code</th>
<th>Pol/Ec</th>
</tr>
</thead>
<tbody>
<tr>
<td>8/7/1994</td>
<td>Sol de Puebla</td>
<td>Pese a rumores, no hay compras de panico de viveres</td>
<td>Canaco</td>
<td>Commercial</td>
<td>Jaime Zurita Garcia</td>
<td>Confident in peaceful elections; supportive of voting</td>
<td>says vote has never been more critical since Mexican Revolution</td>
<td>Neutral</td>
<td>Neutral</td>
<td>3</td>
<td>p</td>
</tr>
<tr>
<td>2/15/1991</td>
<td>Sol de Puebla</td>
<td>Una sola central obrera se desligaria del PRI: Ortiz R</td>
<td>Coparmex</td>
<td>encompassing</td>
<td>Carlos Ortiz</td>
<td>Critical of corporatist labor unions tied to PRI</td>
<td>says that unions delinking from PRI would be good, is necessary for their modernization</td>
<td>Neutral</td>
<td>Neutral</td>
<td>10</td>
<td>p</td>
</tr>
<tr>
<td>11/12/2002</td>
<td>Diario de Queretaro</td>
<td>Necesaria legislacion laboral para los tiempos actuales</td>
<td>Canacintra</td>
<td>Industry</td>
<td>Jorge López Machuca</td>
<td>calls for more flexible labor laws and consensus between on labor reform</td>
<td>says that country needs a new labor law that responds both to crisis context and demands of opening, but that must be reached through consensus between capital and labor</td>
<td>Neutral</td>
<td>Neutral</td>
<td>6</td>
<td>e</td>
</tr>
<tr>
<td>2/23/1986</td>
<td>Diario de Queretaro</td>
<td>Coparmex: es correcto el enfoque dado a la deuda externa</td>
<td>COPARMEX</td>
<td>encompassing</td>
<td>Senén Gómez Alcocer</td>
<td>support for GATT</td>
<td>says that initiatives like GATT are necessary for modernization and appropriate focus, rather than focus on debt moratorium</td>
<td>Supportive</td>
<td>Neutral</td>
<td>1</td>
<td>e</td>
</tr>
</tbody>
</table>
### Appendix II: List of interview subjects

<table>
<thead>
<tr>
<th>Interview</th>
<th>Description of interviewee</th>
<th>Date</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Business owner and former high-ranking official in Secretary of Economic Development of Puebla</td>
<td>10/20/2015, 11/30/2015, 6/22/2016</td>
<td>Chipilo</td>
</tr>
<tr>
<td>2</td>
<td>Business owner in Puebla</td>
<td>10/29/2015</td>
<td>Puebla</td>
</tr>
<tr>
<td>3</td>
<td>Business owner in Puebla</td>
<td>11/5/2015</td>
<td>Puebla</td>
</tr>
<tr>
<td>4</td>
<td>Former owner of textile business in Puebla</td>
<td>11/13/2015</td>
<td>Puebla</td>
</tr>
<tr>
<td>5</td>
<td>Former official in construction chamber of Querétaro</td>
<td>11/16/2015</td>
<td>Querétaro</td>
</tr>
<tr>
<td>6</td>
<td>Former official in Coparmex-Querétaro</td>
<td>11/16/2015</td>
<td>Querétaro</td>
</tr>
<tr>
<td>7</td>
<td>Business consultant in Querétaro</td>
<td>11/17/2015</td>
<td>Querétaro</td>
</tr>
<tr>
<td>8</td>
<td>Executive with agro-industry MNC in Querétaro</td>
<td>11/17/2015</td>
<td>Querétaro</td>
</tr>
<tr>
<td>9</td>
<td>Former official in CCE Puebla</td>
<td>11/20/2015</td>
<td>Puebla</td>
</tr>
<tr>
<td>10</td>
<td>Former official in CCE Puebla</td>
<td>11/21/2015</td>
<td>Puebla</td>
</tr>
<tr>
<td>11</td>
<td>Former official in CCE Puebla</td>
<td>11/23/2015</td>
<td>Puebla</td>
</tr>
<tr>
<td>12</td>
<td>Official in textile chamber in Puebla</td>
<td>11/24/2015</td>
<td>Puebla</td>
</tr>
<tr>
<td>13</td>
<td>Former official in CCE Puebla</td>
<td>11/25/2015</td>
<td>Puebla</td>
</tr>
<tr>
<td>14</td>
<td>Volkswagen executive</td>
<td>11/26/2015</td>
<td>Puebla</td>
</tr>
<tr>
<td>15</td>
<td>Former official in COECE Puebla</td>
<td>12/1/2015</td>
<td>Chipilo</td>
</tr>
<tr>
<td>16</td>
<td>Former official in COE Puebla</td>
<td>12/2/2015</td>
<td>Puebla</td>
</tr>
<tr>
<td>17</td>
<td>Former high-ranking official in Secretary of Economic Development in Puebla</td>
<td>12/2/2015</td>
<td>Puebla</td>
</tr>
<tr>
<td>18</td>
<td>Business owner in Puebla</td>
<td>12/7/2015</td>
<td>Puebla</td>
</tr>
<tr>
<td>19</td>
<td>Volkswagen executive</td>
<td>1/26/2016</td>
<td>Puebla</td>
</tr>
<tr>
<td>20</td>
<td>Former high-ranking official in government of Puebla</td>
<td>2/12/2016</td>
<td>Puebla</td>
</tr>
<tr>
<td>21</td>
<td>Former official in CCE Puebla</td>
<td>2/29/2016</td>
<td>Puebla</td>
</tr>
<tr>
<td>22</td>
<td>Former high-ranking official in Secretary of Finance, Puebla</td>
<td>3/3/2016, 8/26/2016</td>
<td>Puebla</td>
</tr>
<tr>
<td>23</td>
<td>Former official in CCE Puebla</td>
<td>3/8/2016</td>
<td>Puebla</td>
</tr>
<tr>
<td>24</td>
<td>Former director of higher education institution in Querétaro</td>
<td>3/12/2016</td>
<td>Querétaro</td>
</tr>
<tr>
<td>25</td>
<td>Former high-ranking official in government of Querétaro</td>
<td>3/30/2016</td>
<td>Mexico City</td>
</tr>
<tr>
<td>26</td>
<td>Former high-ranking official in federal Secretary of Labor</td>
<td>3/31/2016</td>
<td>Mexico City</td>
</tr>
<tr>
<td>27</td>
<td>Director of research institution in Querétaro</td>
<td>4/14/2016</td>
<td>Querétaro</td>
</tr>
<tr>
<td>28</td>
<td>Business owner and real estate developer in Querétaro</td>
<td>4/20/2016</td>
<td>Querétaro</td>
</tr>
<tr>
<td>29</td>
<td>Former high-ranking official in government of Querétaro</td>
<td>4/22/2016, 7/20/2016, 3/27/2017</td>
<td>Querétaro</td>
</tr>
<tr>
<td>30</td>
<td>Former high-ranking official in Secretary of Economic Development of Querétaro</td>
<td>4/25/2016</td>
<td>Mexico City</td>
</tr>
<tr>
<td>31</td>
<td>Leader of CTM-Querétaro</td>
<td>4/27/2016</td>
<td>Querétaro</td>
</tr>
<tr>
<td>32</td>
<td>Official in Canacintra Puebla</td>
<td>5/2/2016</td>
<td>Puebla</td>
</tr>
<tr>
<td>#</td>
<td>Name and Position</td>
<td>Date</td>
<td>Location</td>
</tr>
<tr>
<td>----</td>
<td>-------------------------------------------------------</td>
<td>------------</td>
<td>--------------</td>
</tr>
<tr>
<td>33</td>
<td>Former high-ranking official in Secretary of Economic Development of Puebla</td>
<td>5/4/2016</td>
<td>Puebla</td>
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<tr>
<td>34</td>
<td>Textile business owner in Puebla</td>
<td>6/18/2016</td>
<td>Puebla</td>
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<tr>
<td>35</td>
<td>Leader of aerospace business association</td>
<td>7/7/2016</td>
<td>Mexico City</td>
</tr>
<tr>
<td>36</td>
<td>Former high-ranking official in Secretary of Economic Development in Querétaro</td>
<td>7/20/2016</td>
<td>Querétaro</td>
</tr>
<tr>
<td>37</td>
<td>Former high-ranking official in Secretary of Labor in Querétaro</td>
<td>7/21/2016</td>
<td>Querétaro</td>
</tr>
<tr>
<td>38</td>
<td>Former high-ranking official in Secretary of Economic Development of Querétaro</td>
<td>7/29/2016</td>
<td>Querétaro</td>
</tr>
<tr>
<td>39</td>
<td>Former official in Government of Querétaro</td>
<td>8/8/2016</td>
<td>Querétaro</td>
</tr>
<tr>
<td>40</td>
<td>Business executive and former high-ranking official in Secretary of Finance of Querétaro</td>
<td>8/8/2016</td>
<td>Querétaro</td>
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<tr>
<td>41</td>
<td>Former executive in auto parts MNC in Puebla</td>
<td>10/7/2016</td>
<td>Washington</td>
</tr>
<tr>
<td>42</td>
<td>Business executive and former high-ranking official in Secretary of Economic Development of Querétaro</td>
<td>2/9/2017</td>
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<tr>
<td>43</td>
<td>Former executive in aerospace sector MNC in Querétaro</td>
<td>2/9/2017</td>
<td>Querétaro</td>
</tr>
</tbody>
</table>
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**Publications**

*Articles*


*Book Chapters*


“Cooperation between Latin America and Asia: Forging Linkages beyond Trade and Investment”, in Mauricio Mesquita Moreira (ed.) Shaping the Future of the Asia-Latin America and the Caribbean Relationship. Inter-American Development Bank (2012)

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