STRUCTURAL ADJUSTMENT PROGRAMMES, STRUCTURAL REFORMS, AND NEOLIBERALISM: THE CASE OF THE LIBERALISATION OF THE MEXICAN OIL INDUSTRY

by

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ABSTRACT

This research explores the nature and scope of neoliberal structural adjustment programmes with respect to the 2013 structural reforms in Mexico's oil industry. The research draws upon the perceptions of Mexican oil industry stakeholders and their experience and understanding of the past and current nature of the sector. It discusses the influence and scope of the neoliberal school on the oil industry structural reforms and the resulting foreign direct investment.

This qualitative study used semi-structured interviews to gather data from oil industry stakeholders in both Mexico and the United States, including high-level managers, workers, potential investors, and people with expertise in the oil industry.

The findings of this research show that the structural reforms in Mexico are not following a neoliberal agenda – they are targeting development rather than privatisation and market liberalisation. These findings are more in line with the structuralist approach of Economic Commission for Latin America and the Caribbean (CEPAL) than with Mont Pèlerin/Austrian neoliberal thought. Further, perceptions of "neoliberal structural reforms" in Mexico are based more on media portrayals and political campaigns than on reality. Organisations that were considered ideological rivals in the past, such as the International Monetary Fund and CEPAL, are in fact collaborating with each other.

This research makes a significant contribution to the international business and political economy disciplines by using the case of the Mexican oil industry structural reforms to show that CEPAL's neostructuralism and its heterodox approach has prevailed over neoliberal orthodoxy in the country, and that Latin American economies are following growth models tailored to their own political, economic, social, and historical settings.

DEDICATION

In memoriam Carmen Falconi Vera, the most kind and compassionate human being I might ever know

A mi madre y guía, Elia Dorantes Falconi, artífice y cómplice de esta locura

A mi padre, José Luis Huesca Rodríguez, mi maestro en esto de la vida

To my beloved Pandas, Yanning and Mikel, with all my love

Será que la necedad parió conmigo,
La necedad de lo que hoy resulta necio:
La necedad de asumir al enemigo,
La necedad de vivir sin tener precio

—*Silvio Rodríguez, "El Necio"*

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ACRONYMS

AGPN	General Administration of the National Petroleum
ASEA	Energy for Safety, Energy and Environment
BANOBRAS	National Bank of Infrastructure and Public Services
BP	British Petroleum
CAPN	Centre for Management of National Oil
CCL	Contingent Credit Lines
CENACE	National Centre for Control of Energy
CENAGAS	National Centre for Control of Natural Gas
CEO/CEOs	Chief Executive Officer(s)
CEPAL	Economic Commission for Latin America and the Caribbean
CFE	Federal Electricity Commission
CNH	Hydrocarbons National Commission
CNOOC	China National Offshore Oil Corporation
CPI	Corruption Perception Index
CRE	Energy Regulatory Commission
CSR	Corporate Social Responsibility
EBITDA	Earnings Before Interest, Depreciation and Amortisation
EFF	External Fund Facility
EGADE	Monterrey Tech Graduate School of Management Administration
EMNEs	Emerging Market Multinational Enterprises
ESAF	Enhanced Structural Adjustment Facility
FCL	Flexible Credit Lines
FDI	Foreign Direct Investment
FEE	Foundation for Economic Education
FEMSA	Fomento Económico Mexicano (Mexican private enterprise)
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GFIs	Global Financial Institutions
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for Settlement of Investment Disputes
IDA	International Development Association
IFC	International Finance Corporation
IFDI	Inward Foreign Direct Investment
IGO/IGOs	Intergovernmental Organisation(s)
IMEX	Maquiladora Industry Programme
IMF	International Monetary Fund
IMP	Institute of Mexican Petroleum
IMSS	Mexican Institution for Social Security
ISI	Import Substitution Industrialisation
ITO	International Trade Organization
LC	Licensing Contract
LDCs	Less Developed Countries
LPG	Liquified Petroleum Gas
LSE	London School of Economics
M&A	Mergers and Acquisitions

MIGA	Multilateral Investment Guarantee Agency
MNEs	Multinational Enterprises
MORENA	National Regeneration Movement
NAFIN	National Financial
NAFTA	North America Free Trade Agreement
NGO/NGOs	Non-governmental Organisations
OECD	Organisation for Economic Co-operation and Development
OFDI	Outward Foreign Direct Investment
OPEC	Organisation of the Petroleum Exporting Countries
PAN	National Action Party
Pemex	Petróleos Mexicanos
PEP	Pemex Exploration and Production
Petromex	Petróleos de Mexico
PGPB	Pemex Gas y Petroquímica Básica
PIEs	Private Energy Producers
PIRE	Programme for Immediate Economic Reorganisation
PITEX	Temporary Import Programme for Exporting
PMI	Petróleos Mexicanos International
PQ	Pemex Petroquímica
PR	Pemex Refinación
PRD	Democratic Revolution Party
PRGF	Poverty Reduction and Growth Facility
PRI	Institutional Revolutionary Party
PROER	Programme for Recovery, Restructure and Strength of the National Financial System
R&D	Research and Development
SALs	Structural Adjustment Loans
SAP/SAPs	Structural Adjustment Programme(s)
SBAs	Stand-by Arrangements
SECALs	Second Sector Adjustment Loans
SEMARNAT	Secretary of Environment and Natural Resources
SISTRAGAS	National Integrated System of Natural Gas Transportation and Storage
SOE/SOEs	State-Owned Enterprise(s)
SPC	Share Production Contract
SPEs	State Productive Enterprises
STPRM	Oil Workers Union of the Mexican Republic
SUTERM	Exclusive Electricity Mexican Workers Union
UK	United Kingdom
UN	United Nations
UNAM	National Autonomous University of Mexico
UNCTAD	United Nations Conference on Trade and Development
USMCA	United States-Mexico-Canada Agreement
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organisation
WWII	World War II

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CHAPTER 1. INTRODUCTION

Structural adjustment programmes (SAPs) were introduced by the World Bank and the International Monetary Fund (IMF) in the final decades of the 20th century to assist economies in distress and provide financial support during post-crisis periods in order to ensure financial recovery and stability. Economies receiving SAPs are expected to implement key economic changes. For example, it is common for these economies to modify their taxation regime, reduce social expenditure, open their economies to free trade, competition, and foreign direct investment (FDI), and privatise the majority of their state-owned enterprises (SOEs).

In 2013, the Mexican government negotiated a SAP involving the implementation of 11 structural reforms to be driven by the government. There are several differences between Mexico's current and prior SAPs, the most notable being that the 2013 SAP was driven by the government in order to boost Mexico's productivity and growth through structural reforms. Mexico had been the recipient of two previous SAPs during periods of financial crises. The country's first SAP, received in 1982 during a debt crisis, was driven by Mexico's indebtedness as a result of high-interest loans obtained from private international financial institutions. Mexico was unable to service its debt when international oil prices dropped by 60% from 1981 to 1986, an extremely critical situation for a country whose economy was highly dependent (60%) on oil exports in the late 1970s and a large part of the 1980s (Gereffi & Martinez, 2005; Lustig, 1998).

In 1994, Mexico received its second SAP, this time as a result of an attempt by Mexico's government to amplify the peso currency operation margin by 15%. The aim was too ambitious, pushing Mexico to devalue the peso in order to cope with the resultant pressures (Edwards, 1995). By December 1994, the peso was freely floating within the desired margin, but in the process Mexico lost US$5 billion of international reserves in two days. Mexico's inability to maintain a stable parity triggered an enormous flight of capital, placing the country in its second, more critical, contemporary financial crisis (Edwards, 1995).

The SAP received in 2013 came in response to the implementation of six structural pro-market reforms initiated by the government. These included fiscal, financial, and energy reforms. The financial and fiscal reforms targeted macroeconomic stability and economic stimulus. On the other hand, the energy reform aimed to open the electric and oil sectors that were still highly subsidised state monopolies. Historically, the energy sector had been closed to private investment. Mexico's official position during the reforms was that by reforming the oil sector the government was strengthening the Mexican state and its oil company (Gobierno de la República, 2014). This position, by definition, contradicts the notion of free trade, an open capital account, and the competition promoted by SAPs. It is the recent Mexican oil industry reforms that are the subject of this research.

Mexico's latest SAP is clearly not a response to a financial crisis but rather seeks to be a driver of growth. This research explores whether the current SAP represents a shift in the application of SAPs in Mexico by investigating the way SAPs have moved from being an ordinary financial tool to rescue economies in distress to a more refined instrument for growth and stability promotion. This study also explores the extent of neoliberal and pro-market reforms in the Mexican oil industry, and the scope of alternative models to neoliberalism, such as the philosophical proposition offered by the Economic Commission for Latin America and the Caribbean (CEPAL).

1.1. Background and Research Questions

To date, the debate on the effectiveness of SAPs has been driven by macroeconomic empirical studies based on statistical and other data (Collier & Dollar, 2001; Dicks-Mireaux, Mecagni,

& Schadler, 2000). However, very little research has been conducted on the perception of organisations and the stakeholders affected by those programmes (Dasgupta, 1998; Neven, 1989). The evidence suggests that, in general, SAPs have proved to be ineffective, and it is suggested that there is a need for an evolution or adaptation of the traditional programmes towards a more pragmatic use of the World Bank's and the IMF's member funds (Evans & Finnemore, 2001; Hausmann, Pritchett, & Rodrik, 2005; Rodrik, 2007). In the same way, the implications of SAPs for governments and populations in general have been broadly neglected by academia, with the exception of a few studies on African countries (Adepoju, 1993; Becker, Hamer, & Morrison, 1994).

Mexico, like other countries in Latin America, has experienced a number of recessions and financial crises in modern times. As a member of the IMF, Mexico received loans to assist its recovery during periods of crisis. However, as the recipient of multiple SAPs, Mexico has been forced to conform to the conditions attached to those SAPs, conditions that has often proved liabilities in terms of growth and productivity. Indeed, Mexico has been part of the Latin American SAP laboratory that has demonstrated the poor utility of these programmes as economic and growth stimuli (Dornbusch & Edwards, 1992; Stiglitz, 2004).

The first approaches of the application of these loans, consisted in letting the governments the incentives to decide where and how to apply those funds (Abbott, Andersen, & Tarp, 2010; Dollar & Svensson, 2000). Mexico's 2013 oil industry reforms offer the opportunity to study an economy applying a SAP with better designed and targeted pro-market reforms oriented to accountable and tangible growth. After all, the demise of the Washington Consensus (see Chapter 3) and the consequences of poorly applied neoliberal policies have demonstrated that neoliberalism as an inflexible prescription only makes social disparities wider, so that the rich get richer and the poor poorer (Lustig, 1998; Rodrik, 2006; Stiglitz, 2002).

The following three research questions were formulated to achieve the aims of this study:

1. How SAPs have changed across Mexican history and what are the implications of these changes?
2. How can pro-market reforms targeting economic development be more helpful to Mexico's economy and society, and what are their implications?
3. How are SAPs evolving from being ordinary loans designed to rescue economies to a more elaborate tool aiming for growth and development?

1.2. Motivation of the Study

Neoliberal programmes implemented since the late 1970s in Latin America, under the pretext of developing and improved economic performance in a region, were forcefully executed at the expense of the welfare of the civil population. These programmes were often implemented with the full commitment of the government, as in the case of Mexico in the early 1980s. In other cases, they were implemented against the will of the people and democratically elected governments, as in the case of Chile's coup d'état in the early 1970s. Nevertheless, their implementation has been backed by the Washington Consensus and its supporters.

I grew up in this neoliberal context, and witnessed the deleterious conditions caused by neoliberalism in Latin America, and more specifically in Mexico. Thus, the main motivation of this research is personal. I do not believe in extreme economic proposals, neither left nor right. In the Mexican context, following the privatisation wave prescribed by the Washington Consensus and the IMF, Mexican presidents, their families, friends, and business partners directly benefited. The reduction of social programmes and welfare benefits hurt the less fortunate of the population. The justification given by the government and economic experts was that as the market operates more freely, the desired equilibrium and generally improved conditions would be created as a result.

The need for an alternative application of SAPs targeting economic growth and development, rather than simply one of economic liberalisation has been recognised since the early application of IMF programmes (Mahon, 2014; Meller, 1991). Nevertheless, the IMF and the World Bank have continued to follow the same recipe, despite the overwhelming evidence pointing towards the need for a change (Barro & Lee, 2005; Dreher & Vaubel, 2004; Vreeland, 2003). Mexico's 2013 structural reforms indeed represent an alternative form of SAP, this time designed with a specific target in mind. For the Mexican oil sector, it meant opening the industry to foreign investment without the need for privatising an emblematic and strategic state-owned company, Petróleos Mexicanos (Pemex).

1.3. Significance and Contribution of this Research

A review of the existing literature reveals a broad scholarly conversation about the effects of SAPs and their efficiency (Bird, 2003; Schydlowsky, 1995; Thomas, Chhibber, Dailami, & de Melo, 1991), and a focus on the ineffectiveness of the programmes (Edwards, 1995; Lustig, 1998; Meller, 1991; Stein, 2008; Stiglitz, 2002). However, the effect of SAPs on FDI in economies that have reached stabilisation tends to be overlooked by the literature. This study will contribute to existing knowledge by investigating a SAP designed to attract FDI in a stabilised economy.

The 2013 structural reforms represent a shift in the application of SAPs in Mexico. The core purposes of this SAP are growth, development, and FDI attraction; in other words, a stronger and more dynamic economy, better infrastructure, and a social commitment. The uniqueness of this case is twofold: first, Mexico in this case is the recipient of an SAP under non-critical conditions; and second, this new SAP is targeting growth for the oil sector, which has been historically closed to any private investment. This research explores a SAP driven by a Mexican government initiative to support and enhance FDI in the oil industry.

This research is an opportunity to study the use of SAPs from an innovative perspective – supporting growth – not merely financial rescue under harsh conditions. By documenting the Mexican experience of this new SAP application, it is hoped that other economies in Latin America may follow Mexico's example. This study's approach is grounded in neoliberal theoretical rationalization and CEPAL's neostructuralist approach. The perspective of institutional theory – an approach frequently adopted in qualitative international business studies – does not fit the purpose of explaining the logic behind the most recent SAP in Mexico.

This thesis also contributes with scholar conversations to at least four different audiences: SOEs and the field of economic transformation; analysis of the IMF and the World Bank in emerging markets, and their role on markets liberalisation via coercion; the viability and improved application on economies under non-critical circumstances; and finally, the potential implications for those emerging markets that are still engaged on IMF/World Bank conditionality coercion.

1.4. Thesis Structure

This thesis is divided into eight chapters. Following this Introduction, Chapter 2 introduces the theoretical framework of the thesis, which embraces Keynesianism, neoliberalism, and CEPAL's structuralist and neostructuralist thought. The chapter also explores the role of the state in promoting FDI across different economic philosophies.

Chapter 3 conducts an extensive review of the literature on SAPs, their function since foundation, and the theoretical framework supporting them. This section also reviews the concept of conditionality and the reasoning behind it. Relatedly, this chapter discusses the institutions promoting SAPs, and the scope of SAPs in terms of growth, FDI and macroeconomic policies. The literature review also scrutinises SAPs applied in Latin America, before focusing on those in Mexico.

Chapter 4 analyses the Mexican oil industry, from its foundation to its current situation, explaining the reasons why Mexico's oil industry has historically been closed to private investment and the arguments for this industry to be opened to new capital. This chapter also examines the reasons why Pemex, a company with the capacity to be a wealthy and productive SOE, is on the brink of collapse.

Chapter 5 outlines the methodological foundations of this research and the techniques by which data were collected, analysed and interpreted. This chapter also provides the justification for the adoption of the qualitative research paradigm as well as the ontological and epistemological stance on which it rests. Data sources and the interview process are described, along with demonstrations of the rigour of the research and an outline of its limitations.

Chapter 6 presents and analyses the data collected during the interviews. This chapter outlines the four major themes around which this research is structured: Mexico's energy reform; Mexico's oil industry; SAPs in Mexico; and economic growth and development. In this section, a number of subthemes emerge revealing the impact of SAPs and pro-market reforms on Mexico's economy.

Chapter 7 interprets the findings in the Mexican context. It also offers a brief explanation of the fate of structural reforms under a left-wing government after the recent elections (1 July 2018). Mexico now has a left-wing president whose main campaign platform was to review and reverse those structural reforms that were opposing Mexico's national interests.

Finally, Chapter 8 answers the research questions and addresses the way in which this research contributes to understanding development programmes, with suggestions for the direction of future research in this field.

CHAPTER 2. THEORETICAL FOUNDATION

2.1. Introduction

SAPs were designed on a neoliberal platform based on the Washington Consensus.[1] They are a set of economic policies considered by neoliberals to be the required economic formula for countries in Latin America to reach their potential for economic development. They are granted under a conditionality that requires recipient countries to introduce structural changes to open their markets to investment and take other steps towards market liberalisation. The intergovernmental organisations (IGOs) administering SAPs, the IMF and the World Bank, have followed the neoliberal agenda in their application.

This chapter considers the theoretical perspective on which SAPs are founded, placing special emphasis on their neoliberal roots. For many countries, neoliberalism is perhaps the most powerful paradigm for market liberalisation. While neoliberalism has never been introduced in its purest form in any economy, economies seeking to engage with the global economy tend to base their structural changes on combination of neoliberal policies.

This is particularly true in the case of Latin America, where the introduction of pro-market reforms has a robust neoliberal background. Yet in Mexico, where neoliberalism has been integral to SAPs, the state still owns a number of enterprises, the national oil company Pemex being the most prominent. The state also guarantees the security and healthcare of Mexican workers. Therefore, Mexico's development model is more of a hybrid of its traditional state development policies and pro-market neoliberal policies. Such an assertion can be supported by an examination of Mexico's modern economic history. A key institution here is the Latin American think-tank CEPAL and its structuralist and neostructuralist theoretical foundations.

[1] A more in-depth discussion on the Washington Consensus can be found in Chapter 3.

CEPAL has offered an alternative to neoliberalism since the early 1990s, but the attention paid to Latin America countries has not been considerable.

This chapter outlines the theoretical frameworks that shape neoliberalism, structuralism, and neostructuralism, and the role of the state in both developmental and liberalised states. The concepts that circumscribe the role of the state in economic liberalisation are also studied, including the concept of the state as a facilitator of inflows and outflows of FDI and multinational enterprises (MNEs). The chapter concludes by examining the role of neoliberalism in the privatisation of SOEs.

2.2. From Keynesianism to Neoliberalism

Neoliberalism is an economic proposition seeking to displace the 'Keynesian interventionism' of the Bretton Woods Agreement (1944) introduced by economists influenced by John Maynard Keynes. The economic model, also known as 'embedded liberalism', held sway across the world in the aftermath of the World War II (WWII). It was understood to be the most viable economic option to reconstruct the global economy and was characterised by political and regulatory constraints on corporate, entrepreneurial, and government activities (Blyth, 2002; Krasner, 1983).

The Keynesian economic model focused on full employment, economic growth, and the welfare of citizens. The state played a crucial role intervening and regulating the market, sometimes even substituting itself for market processes. The state not only intervened by means of market regulatory measures, but also often owned prominent enterprises or entire industries. One of the core state interventions was delivered through industrial policy, directing important economic efforts to support industries with policies and financial assistance (Blyth, 2002; Harvey, 2005).

With the assistance of fiscal and monetary policies, embedded liberalism controlled to a large extent the business cycle, delivering (with some exceptions) high rates of economic growth and development. Keynesian economics was perhaps the personification of moral standards in economics, with great value placed on social welfare, which was frequently sustained by a strong sense of national identity (Harvey, 2005). Hence, embedded liberalism was fertile ground for unions and working-class institutions (Harvey, 2005; Krasner, 1983).

By the late 1960s, however, embedded liberalism began to show signs of erosion. Breton Woods economies began experiencing a crisis of capital accumulation due to increasing rates of unemployment and inflation (Krasner, 1983). Many states suffered episodes of fiscal crisis, and some developed economies, including the United Kingdom, had to be bailed out by the IMF. One of the monetary characteristics of Keynesianism – the fixed exchange rates based on gold reserves – was abandoned, leaving currencies free-floating. At this point, many economies began to look for an alternative, exhausted by the erosion of embedded liberalism (Harvey, 2005; Krasner, 1983).

At the same time that the global economy was facing a crisis brought about by the collapse of the ruling economic model, parties and movements of socialist and communist orientation surged. Unions were getting stronger and demanding state intervention, particularly in the United States and the United Kingdom, to enact reforms that improved workers' rights. This new wave of events represented a clear threat to the economic elites, who pushed hard for an opportunity to regain political control by constraining the power of the working class. This opportunity came in the form of neoliberalism, an economic alternative to embedded liberalism rooted in a platform of freedom and individualism (Duménil & Lévy, 2004, 2011; Van Der Pijl, Assassi, & Wigan, 2004).

Neoliberalism as a political economy concept has its origins in the late 1940s with a group of intellectuals of the Austrian school of economic thought that included Ludwig von Mises, Karl Popper, and the American economist Milton Friedman from the University of Chicago. The group was led by Friedrich (Von) Hayek, and in 1947 they founded the Mont Pèlerin Society, named for the Swiss spa where they first met. The Mont Pèlerin Society was founded in support of ideals of personal and individual freedom and adopted the term 'neoliberal' as an endorsement of the free market principles of the neoclassical economics that emerged during the second half of the 19th century under the guidance of Alfred Marshall, William Stanley, and Leon Walras. The Mont Pèlerin Society separated themselves from classical liberals such as Adam Smith,[2] David Ricardo, and Karl Marx (Harvey, 2005; Williamson, 2003).

Neoliberalism is opposed to the market interventionist policies advocated by Keynesian economics. Neoliberals argued that state interventions are politically biased towards elites and other interest groups. Their views gained the attention of a group of wealthy individuals, particularly from the United States, who supported Mont Pèlerin scholars financially and politically (Van Horn & Mirowski, 2009). Nevertheless, neoliberalism as an economic model long remained marginal in both the political and academic worlds. By the late 1960s, however, when embedded liberalism collapsed, adherents in the United States and United Kingdom proposed neoliberalism as the only choice to replace Keynesianism.

To give a theoretical definition of neoliberalism is problematic, as the term covers a wide range of social, political and economic phenomena with diverse degrees of complexity. Conversely, it is arguably also indivisible from other notions such as imperialism and globalisation; and its historical analysis entails a multi-level approach, as its roots vary across different historical

[2] Neoliberal concepts are distinct from those put forward by Adam Smith, but do follow his ideas about the 'invisible hand' of the market.

moments (Saad-Filho & Johnston, 2005). Attempts to define neoliberalism have been criticised by those who view neoliberalism as a philosophical doctrine (Mirowski, 2009; Plehwe, 2009). However, Harvey (2005) provides a comprehensive definition that avoids broad and deep philosophical reflections:

> *Neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterised by strong private property rights, free markets, and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices. The state has to guarantee, for example, the quality and integrity of money. ... State interventions in market (once created) must be kept to a bare minimum because, according to the theory, the state cannot possibly possess enough information to second-guess market signals (prices) and because powerful interest groups will inevitably distort and bias state interventions (particularly in democracies) for their own benefit. (p. 2)*

The first major neoliberal experiment took place in Chile, with Augusto Pinochet's coup in 1973 against the incumbent president Salvador Allende. The coup, supported by the US government and US corporations, saw the end of the Chilean left-wing government that had been following the import substitution industrialisation (ISI) model of development. ISI in Chile never achieved the desired growth, and Chile's performance in comparison with other Latin American countries was poor (Duménil & Lévy, 2004). During Pinochet's dictatorship, neoliberal policies were extensively applied after 1975. Chile followed the structure proposed by the neoliberal Chicago School led by Friedman, and was closely observed by the IMF. The new economic model delivered positive results in the early stages in Chile. However, these results were primarily enjoyed by the powerful economic and political elites (Duménil & Lévy, 2004; Harvey, 2005). The history of neoliberalism more broadly in Latin America and elsewhere is not the primary concern of this thesis, and will therefore not be addressed further.

2.3. The Foundations of Neoliberalism

The term ‘neoliberalism’ was coined in 1921 by the Swiss economist Eli F. Heckscher (1921) to describe elements of modern international trade theory. A few years later, Hans Honegger (1925) used ‘neoliberalism’ to refer to doctrines of entrepreneurship, as opposed to the advancement of socialism and bolshevism. Honegger is thus the first academic known to use neoliberalism with its contemporary meaning. Extensive debate surrounds where and how the term originated and neoliberals often extend their conceptualisation of neoliberalism to a philosophical model that goes further than just the variance of political power of economic ideas (such as Keynes vs Hayek).

For neoliberals, the notion of neoliberalism is more than economic and market policies; it is a broad proposition that unifies philosophy, economics, law, political science, history, sociology and a number of other disciplines (see, e.g., Mirowski, 2009; Plehwe, 2009). As this study is not (and is not aiming to be) a philosophical discussion of the origins of neoliberalism, I have arbitrarily located the starting point of contemporary neoliberalism with the foundation of the Mont Pèlerin Society.

The Mont Pèlerin Society conference took place in April 1947 and was organised by Friedrich Hayek and Albert Hunold. The broad rationale of the conference was, first, the sense of isolation and lack of impact of neoliberalism in the world, and second, the common perception of the failure of classic liberalism (Hartwell, 1995; Nash, 2006).

Hayek, von Mises, and Popper, the core intellectuals behind neoliberalism, each wrote books that together are the essence of neoliberalism: *Road to Serfdom* (Hayek, 1944), *Bureaucracy* (von Mises, 1944), and *The Open Society and Its Enemies* (Popper, 1945). In these texts, Hayek and von Mises discuss their preoccupation with the existence of an individualism often impaired by governments. Popper, on the other hand, proposes a government with a restricted degree of action, limited to an education sector that fosters innovation and technological progress. Popper is the more moderate of the three and even stated that his ideas were in some ways aligned to most socialist intellectuals, whereas von Mises and Hayek rejected all forms of collectivism.

Two factors were determinant in the surge of neoliberalism: the historical moment and the authors' backgrounds. The historical moment corresponds to the fear and uncertainty left by Hitler's National Socialism in Europe, the establishment of the Iron Curtain, and the start of the Cold War. The background of the three authors is also important as von Mises and Popper fled Nazi Germany and Austria due to their persecution of Jews. Hayek on the other hand was a self-exiled professor in the London School of Economics (LSE). The three Austrian scholars were experiencing the consequence of totalitarianism in Europe (Stedman Jones, 2012).

2.3.1. Fundamental Intellectual Tenets of Neoliberalism

Neoliberalism rests on a series of basic principles. First, the Mont Pèlerin Society founded its neoliberal project with a constructivist stance. For them a good society must be constructed, as opposed to be 'given by nature'. Neoliberalism rejects the idea of 'laissez-faire'; it rather calls for an active vigilant intervention to construct society. As stated by Foucault (2008), *"Neoliberalism should not therefore be identified with laissez-faire, but rather with permanent vigilance, activity, and intervention"* (p. 133). Hayek's constructivism particularly supported the idea that states should guarantee a stable market society (Mirowski, 2009).

Second, neoliberals conceptualise the market as the highest-status institution there is. For them, the market is more powerful than the human brain, and humans cannot predict its behaviour. It surpasses the ability of any state to process information (Caldwell, 2004; Mirowski, 2002, 2009). Von Mises (1944), for example, maintains that the market is a purely rational subject moved by natural necessity. However, others in the Mont Pèlerin Society tradition argued that competition has to be regulated (by the state) in order to achieve a well-functioning market (Caldwell, 2004).

Third, under neoliberalism the shape and functions of the state need to be redefined. A common claim is that neoliberalism seeks the erosion of the state. This is not completely accurate. Although neoliberalism does not advocate a strong state because it could reverse programmes and policies implemented under neoliberal influence, it is inclined to explore more tech-oriented managerial governance where human interaction and group interests are limited and cannot easily influence programmes and policies. Thus, bureaucracy is not seen as a fundamental function of the government (Mirowski, 2009).

Fourth, the most purist neoliberal proponents such as von Mises and Hayek are antagonistic to democracy. The Mont Pèlerin Society aimed to reconcile democracy and the market by treating politics as if it were part of the market, but they do so for the sole purpose of giving neoliberalism a moral dimension. In those terms, neoliberalism aims to permeate the state, to operate within its institutions, and consolidate its power.

Fifth, one of the core concepts of neoliberalism is 'freedom'. However, freedom is not regarded in the usual (positive) way; that is, characterised by the degree of control that external authority has over an individual. For neoliberals the notion is more aligned to negative freedom, which is the absence of external constraints, meaning that the individual is free to the extent to which another individual or group of individuals can or cannot interfere with his/her activity (Baum & Nichols, 2013; Berlin, 1969). Mirowski (2009) notes that *"neoliberals extol freedom as trumping all virtues; but the definition of freedom is recorded and heavily edited within their framework"* (p. 437). The neoliberal concept of freedom refers to the self-regulated individual who is rational and motivated by their self-interest to engage in a market exchange to foster their personal growth.

Sixth, profoundly entrenched with this concept of freedom is the neoliberal notion of ‘individualism’. Neoliberalism affirms that the moral status of a person is superior to that of the collective (Gray, 1995). For liberals and neoliberals equally, individualism refers to a subject bestowed with freedom to choose between different options in life-defining decisions. For neoliberals, however, individual liberty exists only within the existence of an unregulated market economy and the presence of a minimal state (Cros, 1950; Thorsen, 2010).

Finally, a guarantee of property rights is essential. Property rights are seen as a counterweight to totalitarianism. For Lippmann (2005), totalitarianism is the absence of private property rather than an absence of democracy. Property rights are also seen as the most effective way to decentralise the control of the state. Indeed, under neoliberalism the only justification for regulations, in particular on international trade, is to safeguard equal levels of mercantile liberty and strong property rights as those enjoyed at the domestic level (Friedman, 2006; Norberg, 2003).

2.3.2. Neoliberalism and Its Supporting Institutions

The early neoliberal school required institutional support, and the Mont Pèlerin Society was a neoliberal institution by definition. It is perhaps not where neoliberalism as a theory was born, but is it where its application was designed and spread. The Mont Pèlerin Society still exists today, with a number of notable intellectuals including George Stigler, James H. Buchanan, and Mario Vargas Llosa (Mont Pelerin, 2018) as members. Yet, the Mont Pèlerin Society is neither the only institution backing up neoliberalism, nor the most powerful one.

After WWII, advanced economies were afraid of the spread of communism and the influence of the Union of Soviet Socialist Republics (USSR). In particular, the United States and United Kingdom were keen to embrace anything that gave them a leverage over communism, from McCarthyism to neoliberalism (Harvey, 2005). Important think-tanks arose under the influence of the Mont Pèlerin Society, such as the Institute of Economic Affairs (IEA) in London founded in 1955 by Anthony Fisher, a close follower of Hayek. The IEA has played an important role as promoter of neoliberalism via its academic publications such as the *Journal of Economic Affairs* and the student magazine *Economic Affairs*; yet the IEA describes it activities as more aligned towards lobbying than those of a think-tank (Cadwalladr, 2018; Harvey, 2005; Mirowski, 2002; Plehwe, 2009).

The Heritage Foundation is another think-tank operating on a neoliberal basis. Founded in 1973 in Washington, this institute is one of the most influential conservative research organisations in the United States. Formed by politicians and business people of Republican backgrounds, the Heritage Foundation shaped in large part the approach of the Ronald Reagan and George H. W. Bush administrations (Edwards, 1997; Heatherly, 1981). Notwithstanding its influence, it is not the oldest neoliberal think-tank in the country; that title belongs to the Foundation for Economic Education (FEE), which was founded in 1946; that is, even before the foundation of the Mont Pèlerin Society. The FEE was founded originally in Manhattan and was one of the main sponsors of Hayek and von Mises in founding the Mont Pèlerin Society. It focuses on the economic, ethical and legal principles of a free society (Backhouse, 2005, 2009).

Institutions such as the Graduate Institute of International and Development Studies in Geneva, the University of St Andrews (Scotland), the Albert Ludwig University of Freiburg (Germany), and the University of Virginia, among others, gave neoliberalism legitimacy. However, the most important universities who promoted and legitimised neoliberal thought were the LSE and the University of Chicago. Hayek, an academic in the LSE, used his position to promote neoliberalism; much as Friedman did at Chicago. Furthermore, the prestigious Nobel Prize has promoted neoliberalism by honouring a good number of economists from the Mont Pèlerin Society, including Hayek (1974), Friedman (1976), Stigler (1982), Ronald Coase (memorial prize, 1991), Gary Becker (1992), and Buchanan (memorial price, 1996) (Harvey, 2005; Stedman Jones, 2012).

The groups of interest involved in neoliberalism (liberal groups in Europe, conservative groups in the United States) accumulated such enormous power that the original idea of letting the market function through pure market discipline (flexible exchange rates, erosion of capital controls, etc.) was developed further. Neoliberals originally advocated the eradication of global financial institutions (GFIs). However, they later realised that IGOs such as the World Trade Organization (WTO), the World Bank and the IMF were perfectly situated to impose neoliberal policies at the nation-state level (Mirowski, 2009; Plehwe, 2009).

> *Initially strident neoliberal demands to abolish global financial institutions were tempered once the neoliberals used them primarily to influence staffing and policy decisions at those institutions, and thus to displace other internationalist agendas. Thus, it is substantially correct to observe an organic connection between such phenomena as the Washington Consensus and the spread of neoliberal hegemony. (Mirowski, 2009, p. 438)*

Perhaps the best example of the IGO/GFI mutation was the Mexico peso crisis in 1982. Reagan's administration considered withdrawing its support for the IMF, but eventually hit on a way to unite the power of the US Treasury and the IMF. The IMF provided Mexico with the financial support to relieve its crisis in exchange for the introduction of neoliberal policies. This process purged any remnants of Keynesian economic thinking from the IMF (Harvey, 2005; Stiglitz, 2002). Thereafter, the IMF and the World Bank became institutions of neoliberal orthodoxy. Thus, it might be argued that SAPs were invented and tested in Mexico during the 1982 crisis (Harvey, 2005; Stiglitz, 2002).

2.4. The Role of the State in Pro-Neoliberal Economies

The traditional concept of liberalism is embedded in the economic, ideological and political spheres of Western societies. Orthodox liberalism was an attempt to restructure market-state relations and only existed in theoretical form; when implemented it is usually integrated with other strategies and organisational elements (Mirowski, 2009). It has a strong presence in the economic tradition of Western economies. Its assumptions are based on the conception that economic, political and social relations work better when choices and rational actors are formally integrated, rather than by design or pure accident. The formalisation of free choice maximises the expansion of a market economy (Jessop, 2002).

In the economic sphere, liberalism supports the growth of the market economy. In the political sphere, it proposes a constitutional state committed to formalising the freedom of action of economic actors whilst holding limited power over economic and social intervention. Liberalism focuses on the domestic economy and its constitutionally valid laws and regulations (Plehwe, 2009).

Neoliberalism, on the other hand, as a renewed economic project, promotes the liberalisation and deregulation of economic transactions. In contrast with liberalism, neoliberalism calls for deregulation not only in the domestic domain but also in the international arena. Neoliberalism also promotes deregulation, such as the privatisation of SOEs and state-provided services, and holds that public welfare should depend on international production rather than domestic demand. Neoliberalism rejects most types of state intervention, in direct contrast to the Keynesian welfare system (Mirowski, 2009; Plehwe, 2009). Paradoxically, neoliberalism calls for state intervention to shape new forms of governance, which includes non-state intervention, and the support of a market-driven economy. Deregulation is therefore a re-regulation process, except that the new regulatory system aims to transfer the state's capacities and rescale its intervention down to the minimum. In Jessop's (2002) words:

> *The economic, social and political measures pursued in support of the neoliberal project generally seem to involve a paradoxical increase in intervention. However, neoliberals claim this is temporary and legitimate, for, after a brief transitional period, the state can retreat to its proper minimal role, acting only to secure the conditions for the continued expansion of the liberal market economy and a self-organizing civil society. (p. 454)*

As it is impossible to find a regime (current or past) that embraces a pure liberal model, there is also no economy that has shifted its developmental model towards a pure neoliberal regime. All economies that have attempted a neoliberal shift have ended up with adaptations and/or adjustments of their old production regimes, with different degrees of deregulation taken from neoliberal thought. At the same time, however, none of the pro-neoliberal adopters have subsequently returned to the level of state intervention that existed in the post-war Keynesian economies.

Thus, neoliberalism has no homogeneous template; it is adapted and modified in each of the cases where it is applied. We therefore find economies that pursue a more extensive and aggressive form of neoliberalism, as in the case of Pinochet's Chile, with a privatising mode extended to all areas including education (Fischer, 2009). In other countries privatisation is handled with more caution. Industrial policies and state interventions remain the norm rather than the exception, along with pro-market reforms, as in the case of a number of Asian countries. This phenomenon might be extended to the Mexican case, where industrial policy was rejected in the short run but eventually reinstated.

While pure neoliberalism exists only in theoretical form, three different types of neoliberal processes have been identified: policy adjustment, regime shift, and radical system transformation. First, policy adjustment implies the adaptation of regulations, institutions, and organisations in order to improve the performance of an accumulation regime. Second, regime shift implies a change from an accumulation and regulatory regime towards new economic and political principles aligned with a market economy. Finally, radical system transformation aims to transform regimes with a strong socialist orientation into capitalist ones.

2.4.1. The State and Its Role in the Diverse Types of Capitalism

Schmidt (2002) surveys the diverse authors studying comparative capitalism and concludes that there are three state traditions related to market economies: liberalism, corporatism, and statism. These categories exist only in theoretical forms. However, they depict the orientation of those states that identify themselves based on their approach to their organisational structure and their interactions with economic actors. Jessop (2002) finds it appropriate to contrast the processes of neoliberalism with ‘neotheoretical’ approaches.

On the same terms, these ‘neo’ categories do not exist in an orthodox way. The resurgence of more socially-oriented regimes searching for a more balanced economic development without abandoning market-oriented economies makes the definition of these forms even more complex. Table 2.1 shows the implications of these different models, their implications, and the role of the state.

Table 2.1. Types of capitalism, their implications and the role of the state

Model	Implications	Role of the state
Neoliberalism	Promote free competition; erosion of the role of law and the state; privatisation of SOEs and public sector; free flow of capital or inward and outward FDI; an increase of competition and consumer choice	The state as an agent of change. promotor of deregulatory policies and night watchman
Neostatism	Regulated competition; auditing of private and public sectors; public-private partnership under the state's guidance; protection of core economic activities	State-sponsored approach to the economy; the state as a guide of market forces in support of a national strategy
Neocorporatism	The balance of competition and cooperation; a broad range of private, public and other stakeholders; expanded the role of public-private partnerships; protection of core economic sectors; high taxation for social investment	Mediator for competition and cooperation; promotor of policies to boost the role of communities and networks as agents of an innovation-driven growth
Neocommunitarianism	Limited free competition, large support of the social economy, paying large importance to social coherence, fair trade preferred over free trade, redirected taxation towards citizens, wages, allowances.	Promotor of a social economy

Source: Derived from Jessop (2002).

A major issue for neoliberalism is the role played by the state in the economy. Traditionally, for example, the state holds enough power to define and allocate property rights, thereby modelling the market by shaping and defining an economy (Campbell & Lindberg, 1990). The impact of the state is extended to a number of economy-shaping areas such as the labour market, corporate governance, education and others (Hall & Soskice, 2001). The state historically increased its economic area of influence in a society over time, as a facilitator to establish markets and allowing them to work. Naturally, in each particular case, the institutional environment defines the scope and limits of the state (Weiss, 2010).

The concept of “state” is itself highly complex. Denying the importance of the state in the creation of a country’s institutional environment is to deny the state itself. In the same way, if modern market economies work, it is arguably because they are rooted in institutional foundations (Polanyi, 1944). In Western economies, in particular, those economic traditions derived from the Anglo-Saxon context, in which the state plays a minimal role as a ‘market facilitator’, paving the way towards a broader market relationship, enhancing competition, and intervening only with purpose of correcting market deficiencies (Weiss, 2010).

The main arguments for minimising the role of the state and maximising the role of the market under neoliberalism are related to the inherent characteristics of both the state and the market. For example, on the market side, unrestricted markets guarantee the maximum expansion of transactions in many areas of social life, whereas, on the state’s side, little or no capacity and motivation exist to benefit a society. States (and governments) are closely linked to inefficiencies and corruptive practices. Bureaucrats are perceived as self-serving revenue maximisers or susceptible to political machinations (Weiss, 2010), and regardless of solid institutionalised rules, their interpretation is subject to different values and beliefs (Ahlstrom, Bruton, & Yeh, 2008).

In neoliberal thought, the privatisation of state assets is a priority. Neoliberalism seeks free capital mobility between different sectors, regions, and countries, and pursues a maximum reduction of barriers such as tariffs, punitive taxation, planning, any potential distortion to markets and trade (Harvey, 2005). The intention to remove the state from any market intervention at meta-regional level is similarly promoted by global governance institutions, including the WTO, the World Bank, and the IMF (Biersteker, 1990). The driving logic of a minimalistic state is to promote the best macroeconomic conditions to attract investment, which is the core target of globalisation.

Policy and institutional change under neoliberalism brought into existence different structures of governance, placing new actors – such as private economic networks – in more powerful positions. These new actors have the power to determine the legislative and political agenda of pro-neoliberal economies. Neoliberalism has developed a close relationship between the public and private sectors in which business collaborates with governments to design and implement policies, formulate legal frameworks, and sometimes even writing entire legal codes (Harvey, 2005; Shaffer, 2003; Weiss, 2010).

The private sector is paramount in neoliberal regimes; the vast majority of the responsibilities once held by the state become dominated by that sector. These responsibilities include education, healthcare, and retirement funds. Neoliberalism and the trend towards economic integration have drastically reduced the role of the state; the more globalised nations become, the less important is the state. Since capital is mobile, and nation-states are not, the only role left to the state in a neoliberal regime is as a facilitator of fair competition and provider of stability in a transnational business environment (Cerny, 1995; Hirst & Thompson, 1996).

But again, as mentioned above, neoliberal states do not exist in a pure form, so the same state can implement neoliberal policies (such as privatisation) while retaining elements of a developmental state. Further, states have the power to block, adapt, mediate and even reverse neoliberal policies and drivers (Campbell & Pedersen, 2001). These different scales and denominations of neoliberalism have produced diverse theoretical stances on the role of the state within pro-neoliberal (or pro-capitalist) states. The four main stances to have emerged are the disciplined state, the regulatory state, the activist technology state, and the institution-sustaining state (Campbell & Pedersen, 2001).

The first stance, the disciplined state, argues that external market exposure will impact the way in which the state captures tax and structures its welfare expenditure. Yet decades of research based on statistical and econometric studies have found little or no significant impact of neoliberalism, globalisation, and market integration on the composition of market expenditures (Dreher, Sturm, & Ursprung, 2008; Schulze & Ursprung, 1999). Whether or not investors invest is not related to a government's spending on welfare unless it involves large budgetary deficits as a result of financial borrowing (Mosley, 2000; Rodrik, 2007).

The second stance, the regulatory state, assumes that within neoliberalism, the state will be completely removed from the market economy (privatisation) and from its regulatory position as a consequence. Indeed, neoliberalism is an economic force pushing for the removal of the state from being a producer of goods and services. However, the separation of the state from the market economy involves a substantial process of re-regulation, as noted above. Paradoxically, then, the free market implies more regulations (Vogel, 1998). Advocates of neoliberalism expect national authorities to develop new rules for the new economic game. For example, guaranteeing fair competition for telecommunications and other privatised services provides opportunities for state actors to regulate competition (Levi-Faur & Jordana, 2004).

The third stance, the activist technology state, considers that states undertaking neoliberal positions no longer follow industrial policies aimed at developing particular sectors through promotion, subsidies, and resource allocation because they can be considered a form of market intervention, which is not tolerated by, for example, the WTO. The trade liberalisation regime under the WTO is one of the main supports of neoliberalism. Developing economies subscribing to WTO policies have criticised the multilateral institution for opposing all types of tariffs, capital controls, and subsidies, among other interventions. These economic "distortions" were applied by developed economies to protect and secure their economic growth (Chang, 2003). Still, under the new market conditions created by neoliberalism, developed economies are focusing on fostering their science and technology research in order to construct knowledge-based/knowledge-intensive economies.

The last stance, the institution-sustaining state, relates to how the different types of capitalism tend to align with neoliberalism (Hall & Soskice, 2001). This notion, known as capitalism homogenisation, suggests that the different institutional strengths of each type of capitalism are based on their innovative capacities. Since these capacities are framed within institutional complementaries, changing one area (e.g. welfare) will cause changes in other areas (e.g., labour laws). Change might be unpopular, and economically adverse for some. Even though the concept of the institution-sustaining state is an appropriate critique of neoliberalism, the proposal gives too much weight to institutional systemic coherence, assuming that institutions have little or no capacity for adaptation.

2.4.2. The Prominence of the State in Neoliberalism and Market Economies

The role of the state in market economies has undeniably changed, but has continued to be a prominent actor within pro-neoliberal and pro-market economies. For example, the extraordinary pace in which East Asian countries developed from the 1970s onwards can be explained by the role played by those states in their own development agenda. Countries such as Japan, South Korea, Taiwan, and Singapore transitioned from relative poverty to economic success in about two decades. These economies represented a challenge to theorists supporting minimal intervention, since the neoliberal concept of the 'night-watchman state' did not apply in these transformations.

The economic transformation of the above East Asian countries defied market-led economic theory (Weiss, 2010). States in each of these cases adopted active roles in facilitating structural changes, including the fostering of technology upgrades (Amsden, 1992; Johnson, 1982; Wade, 2004). In theoretical terms, these four economies represent hybrid states framed by different modes of political economy because they utilized different degrees of national authority and industrial policies. They managed to combine import substitution policies with export orientation, whilst also experiencing continuous technological development (Chang, 2003; Evans, 1995).

Further, industrial policy, which is often associated by neoliberals with state failure, was central to the case of the East Asia economies. The differences between their industrial policies and those of Latin American economies were crucial to the former's success and the latter's relative failure. In the East Asian cases, their industrial policy, including subsidies, was conditioned on results (e.g., exports). Thus, state support was directed to those firms that demonstrated their ability to compete. Additionally, in the East Asian countries an active and trained bureaucracy was developed in order to support domestic producers, and identify new potential exporting markets to increase exports whilst decreasing imports (Wade, 2004).

In the case of the four East Asian countries, the state was not only proactive, their bureaucracies were, in general, institutionally competent and their objectives were clearly targeting 'catch-up' operations finely segregated from particular interests. Nevertheless, after fostering technological advances, the developmental state's power to impose decisions fell away as transformative capacities intensified. The development of a robust governance structure is therefore equally important. This is to allow close relationships with economic actors to identify further market/technology opportunities (Weiss, 1998).

When considering the experience of other hybrid developmental states such as the majority of economies in Latin America, their success or failure is not solely related to their industrial policies. However, their outcomes are more related to the willingness of their bureaucracies to engage in developmental partnership with the private sector (Evans, 1995; Kohli, 2004). The claim that the Asian financial crises of the late 1990s ended the developmental state and caused

Asian economies to follow neoliberal measures more aligned to the US economy is not accurate. Arguably, the East Asian economies reinvented the developmental state and adapted it to their changed circumstances (Amsden & Chu, 2003; Vogel, 2006; Woo-Cumings, 1999).

This section has analysed the role of the state in pro-neoliberal economies. The following section focuses on the state and its role on fostering or restricting FDI flows in and out of an economy. Not all FDI is driven by neoliberal policies, and the state can be essential in the development of a nation by allowing MNEs to invest in the economy. The relationship between states and MNEs has passed through different stages.

2.5. The State and Its Role in MNEs and FDI

FDI represents a proxy for market and financial openness (Engelen & Konings, 2010). MNEs are the main source of FDI. It allows firms to establish themselves in a foreign country and assume full control of their business activities in the host country. Full-control operations cannot be managed through speculative capital (Hymer, 1976). In this context, states develop a certain degree of involvement as drivers or inhibitors of inward (IFDI) or outward (OFDI), and, depending on the economy, the state can facilitate or constrain one or both types of FDI (Ring, Bigley, D'Aunno, & Khanna, 2005).

Boddewyn (2016) has identified three eras in the relationship between international business and states from 1945 onwards. These eras are of special interest to this study, as the oil industry in Mexico was nationalised in 1938. It is therefore possible to use Boddewyn's work to trace evolution of the Mexican state's relations with MNEs up until the 2013 energy reforms. The three eras are: 1) the era of confrontational relations (1945–1979); 2) the era of more accommodating relations (1980–2000); and 3) the present era of competing relations (2001–foreseeable future).

2.5.1. The Era of Confrontational Relations (1945–1979)

The post-WWII era is characterised by the rise of MNEs and FDI. From the influence of US MNEs over Chile's coup d'état to the active role of dairy giant Nestlé in discouraging breastfeeding of babies and advocating the use of its *"superior baby formulas"*, the influence accumulated by some MNEs is such that they have the power to impact and change the *"rules of the game"* (Moran, 2009, p. 92; see also Sagafi-Nejad & Dunning, 2008).

The Keynesian developmental model was galvanised in the aftermath of WWII. For the majority of developing economies in general, and Latin America in particular, that meant the potential for self-sufficiency through ISI; for MNEs it meant more regulations. MNEs at this time were seen by developing states as sovereign trespassers, and they faced potential asset expropriation, political instability, labour strikes, restrictions on trade, limitation on assets ownership, and intrusion by host governments (Wilkins, 1974). This era was characterised by a large number of MNE expropriations, which became critical during the 1970s (Jones, 2005).

Concerned about the fate of their assets, the United States and European countries obtained property protection through a series of regulations created by the International Labour Organization (ILO) and the Organisation for Economic Co-operation and Development (OECD) (Jones, 2005). The involvement of the United Nations Conference on Trade and Development (UNCTAD) in the development of the Multinationally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices (1980) provided confidence to developing economies as recipients of FDI. These rules were the driver of the negotiation of a number of bilateral investment treaties that made the UN's original codes no longer necessary (Sauvant, 2015).

The increasing importance of FDI in the global economy and the trend of economic liberalisation in the early 1970s accelerated the pace of privatisation. In Latin America, the majority of commodities and natural resources were affected (with exception of the oil industry due to the creation and cartelisation of oil producers through the formation of the Organization of the Petroleum Exporting Countries (OPEC) (Sauvant, 2015). This era witnessed a set of 'progressive' theories regarding MNEs and FDI. For example, the political vulnerability experienced by MNEs in host countries suggested the establishment of legitimate and sustainable FDI (Robinson, 1964), which in part gave rise to the notion of corporate social responsibility (CSR).

Political risk management was central during this period, as dealing with uncertainty is unavoidable when investing abroad. In order to handle this risk, Root (1968) identified three types of arrangements: 1) avoidance; 2) adaptation; and 3) transfer when dealing with both market opportunity and the risk involved in investing abroad. For example, risk avoidance is related to a defensive investment strategy, whereas market opportunity is more related to an aggressive investment strategy. For this sort of strategy, political risk is not an entry obstacle but a condition given by the host economy, and requires skilful adaptation to different conditions, that is, risk transfer.

An important contribution to the study of relations between host governments and MNEs is the identification of a loss of bargaining power for MNEs once they have established fixed assets in a host economy, a phenomenon known as the 'obsolescing bargain' (Vernon, 1971). Another analysis describes mitigating the effect of the obsolescing bargain through spreading the risk of expropriation among a number of stakeholders whilst increasing the cost for the potential expropriator (Moran, 1974).

2.5.2. The Era of More Accommodating Relations (1980–2000)

The more accommodating era came after a period of disagreement between developing and developed economies on the set of rules of conduct of MNEs previously proposed by the UN.

Three events impacted the pace at which MNEs move forward in their goals to internationalise: the Chinese economic reform (1978), the fall of the Berlin Wall (1991) and the collapse of the USSR (1991) (Boddewyn, 2016). During the 1990s, policies to attract FDI experienced radical change, with a new orientation towards opening and liberalising markets worldwide.

By the end of the 1990s, economies following neoliberal policies were impacted by the 1997 Asian financial crisis. The role of the IMF was once again called into question since the disciplines proposed by this organisation did not prevent many developing economies from being hit by the crisis. The operation of IGOs was replaced by bilateral investment treaties with the aim to protect foreign investors (Sauvant, 2012). Emerging economies then began implementing neoliberal policies as part of the globalising wave. MNEs were considered the main vehicle of regional and global integration (Boddewyn, 2016).

Neoliberalism, the Western economic model, was thus designed to make the world a safer place for MNEs. In that way, liberalisation – at least in terms of the market – started eroding national borders, forcing nation-states to change their policies in regard to MNEs. States are now co-operating with MNEs by changing regulations on taxation and subsidies in order to create a partnership that allows a nation to be incorporated into global value chains and/or undertake technological upgrading opportunities (Eden, 1993).

By observing the imperfections of the external market, scholars theorise the internationalisation process of MNEs based on paths of growth, industrial distribution, the nationality of the firm and their presence in foreign markets (Buckley & Casson, 1976). Conversely, as a result of the power and prominence that MNEs developed, the study of the ethics of MNEs in foreign countries has grown, addressing, for example, the long-term welfare of employees and consumers, minimisation of the impact caused by moving beyond the home country, and avoidance or violation of legal frameworks and common practices in the host country (Donaldson, 1989).

Grosse and Behrman (1992) proposed extending international business theory into the study of market barriers and obstruction actively sought by governments. Further, they paid particular attention to flows of information and people as a result of those government interventions. Similarly, the relevance of the distribution of gains for governments and MNEs as a result of international business activities is emphasised; and David Ricardo's competitive advantages theory has been brought back into international business theories (Grosse & Behrman, 1992). Contemporary with the study of governments is a renaissance in the study of institutions (also known as neoinstitutionalism), and particularly relevant to international business, is the study of transaction cost and economic institutions (North, 1990), as well as the significance of mechanisms of governance, and the impact on institutions and transaction costs (Williamson, 1996).

During this period one of the most prominent theories of internationalisation created during the 1970s became central for the study of MNE activities. 'Eclectic theory' observes the importance of ownership-specific inputs, namely, legally protected rights, patents, brand names, trademarks, raw materials access and resource ownership (Dunning, 1980, 1994). When a firm considers internationalising, the more ownership-specific advantages it possesses, the greater the incentive to proceed, and the greater the attraction of a foreign rather than a domestic country as a production base.

During this era, states and MNEs enjoyed mutual benefits after several decades of confrontational relationship triggered by the potential erosion of sovereignty and fear of the power of MNEs to largely influence the political development within a country. The rise of other organisations within the international business arena marks the beginning of the last era, which saw the involvement of non-governmental organisations (NGOs), a group of organisations working as a pressure mechanism to shape the way MNEs operated.

2.5.3. The Present Era of Competing Relations (2001–Foreseeable Future)

The third (and current) era of competing relations involves reorganised relations between MNEs, governments, and the new entities in the game, NGOs, which along with MNEs and IGOs are now a force for private political authority. At the same time, this era has experienced the rise and expansion of other competing powers in international politics – terrorist organisations such as Al-Qaeda and subsequently Isis.

A major development during this era is the competition faced by traditional MNEs[3] from the surge of new MNEs from emerging economies (EMNEs) (Boddewyn, 2016). Not necessarily a new phenomenon (Huesca-Dorantes, Michailova, & Stringer, 2018), EMNEs insertion into the global economic sphere brought a share of political discomfort the existing players since a great number of them were SOEs, partially-owned by states, or highly subsidised firms (Aharoni, 2014). The most outstanding EMNEs come from countries such as China and India, and their preferred entry mode into developed economies is through mergers and acquisitions (M&A). The old political US-USSR bipolarity has been replaced with a US-China polarity, with China's *sui generis* developmental state model challenging US hegemony (Bower, Leonard, & Paine, 2011).

Emerging economies are often characterised by their problematic economic growth. However emerging economies play an important economic role in their own regions. The economic power and sphere of influence developed by emerging economies recently has significantly

[3] Traditional MNEs are in this case those MNEs coming from developed countries. The new MNEs have been given many labels, including emerging multinationals (Bonaglia, Goldstein, & Mathews, 2007); third world multinationals (Wells, 2007); unconventional multinationals (Li, 2003); latecomer firms (Mathews, 2002); and challenger enterprises (BCG, 2007), among others.

impacted the global political economy. For example, the role played by China in African development has defied the roles of some IGOs, in particular the IMF and its structural adjustment loans subject to structural conditionality. China has obtained in return raw materials and labour from the region. While nothing obviously suggests that China is attempting to impose any type of economic or political reform, it has provided financing, infrastructure, and community development (Jackson, Louw, Zhao, Boojihawon, & Fang, 2014).

Institutional theory is still the preferred theoretical framework to explain the phenomenon of emerging markets in terms of distance (geographic, economic, administrative, cultural, institutional); constraints (regulative, normative and cognitive) (North, 1990; Scott, 2001) and exchange type (relational and contractual), and this is especially important when studying China because personal relationships between firms and officials matter (Peng, 2003; Peng, Wang, & Jiang, 2008). A set of comparative studies have been conducted using institutional theory to evaluate different emerging markets after the colossal success of China, and its contrast with the different types of capitalism (see, e.g., Whitley, 1999; Witt & Redding, 2013).

In this new era, the concept of obsolescing bargaining proposed by Vernon (1971) has evolved into the concept of the ‘political bargaining model’, in which MNEs and governments participate in a series of negotiations, this time over different public policies, restrictions, and resources (Eden, Lenway, & Schuler, 2005). Conversely, as the impact (positive and negative) of FDI on emerging economies has increased, the reverse causation (i.e., the impact of the host developing economy on EMNE behaviour) has been increasingly studied (Ramamurti, 2004).

One of the propositions derived from neoliberalism is the privatisation of SOEs. The next section discusses the role of the state in this privatisation process.

2.6. Neoliberalism, SOEs, and Privatisation

Privatisation under neoliberalism refers mainly to the privatisation of SOEs. The central idea is that enterprises are the core units of a market economy, and by participating in the economy states will undoubtedly intervene in such a way as to limit the flow of private capital in an economy (Lapavitsas, 2005). However, privatisation cannot (and should not) be analysed only through an economic perspective (Bafoil, 2004). Privatisation entails more than the transfer of ownership of a firm; it often entangles political and social issues with a significant impact on the civil society (Clifton, 2000; Hibou, 2004). A number of researchers influenced by theories either of modernisation or rent-seeking (or a combination of both) have connected economic change to political change, the former as causative of the latter (Clifton, 2000). In Mexico, however, economic reforms (i.e., privatisation) have not been widely recognised as drivers of positive political change, and that is illustrated by the privatisation of one of the largest Mexican SOEs, the telecommunications company Telmex (Clifton, 2000).

According to Hibou (2004),

> *On the one hand, apart from the incidence of corruption and appropriation by political elites, privatisation is a stake in power relations. For that very reason, business enterprises are specially privileged sites for observing social and political change in 'transitional' or 'developing' countries. On the other hand, withdrawal by the state is, of course, neither homogeneous nor total. ... It is redeployed simultaneously in the management of the social realm, in modernisation policies, or in the management of external economic relations. (p. 47)*

In terms of the firm, the general perception is that once privatised, former SOEs tend to improve their performance. Some privatised firms may experience a degree of improvement (Djankov & Murrell, 2002; Kumar, 2014; Wolf & Pollitt, 2008) but for others that advance is not so obvious (Jain, 2011; Megginson & Netter, 2001). There is also evidence that a firm's performance does not improve after privatisation (Gupta, 2005; Nagaraj, 1997; Poczter, 2016).

Nevertheless, in spite of the impact on the firm's performance, there is always an impact on the state's welfare as a result of the profit maximisation of the formerly state-owned privatised companies (Gakhar & Phukon, 2018).

The failure of Keynesianism, highlighted by the oil shock crises in the 1970s, led to its replacement by neoliberalism as the international dominant policy framework. Unemployment often came as a cost of liberalisation and its labour market flexibility,[4] and the welfare formerly managed by the state became subject to neoliberal constraints. The ownership of public utilities was also abandoned (Lapavitsas, 2005).

Public ownership is indeed a primary target of neoliberalism, which in turn involves an important democratic issue. For example, when utilities and public services are owned by the state, the distribution of utilities is aligned to fees and prices set with an eye to the population's capacity to pay. In the hands of the private sector, profit is a priority, which may conflict with social programmes (MacEwan, 2005). In Mexico, for example, free education was a victory won in the Mexican Revolution, and even a minimal attempt to privatise would result in social unrest and potential turmoil. By contrast, this is not the case in other countries in Latin America; in Chile, for example, under Pinochet's dictatorship, education was privatised (MacEwan, 2005).

Privatisation processes come under pressure from, and scrutiny of, the IMF and the World Bank. Yet public education is designed to cope with a set of social needs such as social equality, social cohesion, cultural values and language. The drawback of privatisation is that education becomes a commodity, and for the owners of that commodity, profit maximisation is the new

[4] Real wage reductions create mass unemployment, favouring the offering of casual and cheap labour.

priority. Social needs, therefore, are no longer central, and education is converted into a product (Leys, 2001).

The role of the state under the spread of policies favouring the market is experiencing a metamorphosis. Globalisation and the internationalisation of economies have changed productive structures, and public services have often been transferred to different domains and other forms of state intervention (Hibou, 2004). As a consequence of privatisation, the state faces constraints in budget revenue, administration difficulties, and reduction of public expenditure, impacting the quality of public services (Linz & Stepan, 1996). Still, economic and political actors under the new circumstances have contributed to the transformation of the state with new ways and methods of governing (Hibou, 2004).

To conclude, a political system can be seen through different ethical lenses (Weber, 1963). Privatisation of SOEs is indeed a reflection of the inadequacy of a political system; that is, a response of a reforming state, in order to become aligned with the rest of the world's economies (Feigenbaum, Henig, & Hamnett, 1998). The economic objectives of privatisation occupy a secondary place, as the real objective is the state's political insertion into a true market economy (Hibou, 2004). As this section discussed neoliberalism and the role of the state, the following section reviews CEPAL's structuralist and neostructuralist approach.

2.7. CEPAL, Structuralism, and Neostructuralism

CEPAL was created in 1948 by the UN to oversee the Latin America regional development agenda. CEPAL's original ideological approach was based on the development of specific characteristics of each of the Latin America countries and was essentially a productive, social, and institutional framework. These characteristics are, according to CEPAL, historical and structure-specific, hence its application of the term ‘structuralism’ (Bielschowsky, 2009; ECLAC, 1951a, 1951b; Prebisch, 1973).

2.7.1. Structuralism

CEPAL separates economies into two types: ‘central economies’,[5] which are economies producing industrial goods; and ‘periphery economies’ producing primary goods. The second type have a) primary goods producers with little or no productive diversity; b) an immense labour supply at survival income levels; and c) an underdeveloped productive institutional structure with negligible R&D sector investment. The consequences of peripheral production patterns are an insignificant supply of foreign exchange, highly productive sectors of products with no added value, and poor institutional environment with insufficient fiscal proficiency (Bielschowsky, 2009).

During the first three decades after its foundation, CEPAL directed its efforts to developing Latin America’s underdeveloped structures: technical capacity, poverty, income distribution, and employment, advancing the relationship with central economies, and policy and institutional development. To overcome “peripheral status” it was necessary to design theoretical foundations attuned to the region’s characteristics and underdevelopment. The nature of the demand for products produced in the central economies was having an important negative impact on the periphery economies. Within the periphery the demand for primary products was declining, whilst the demand for industrial products produced by central economies was increasing (Noyola Vázquez, 1949; Sunkel, 1993). That caused structural deficits in the balance of payments, which led to inflation and low growth rates.

[5] The terms ‘centre’ and ‘core’ have been interchangeably used by CEPAL, but more recently CEPAL has used the term ‘centre’ when referring to ‘centre-periphery’.

Under these conditions, peripheral economies were exposed to external shocks as a result of lack of foreign exchange, scarce reserves, and investment. The inflation present in Latin America was not a cause of monetary expansion, but the result of deficits in the balance of payments, and other fundamental problems of Latin America's underdeveloped structure. To solve these problems faced by Latin American economies, CEPAL turned to ISI (Noyola Vázquez, 1949; Prebisch, 1973; Sunkel, 1993). The aim of CEPAL's structuralism was not to isolate the countries, but to develop a regional market which would solve, among other things, the foreign exchange deficits (Urquidi, 1968). Additionally, CEPAL proposed a plan to regulate international commodity reserves, and impose a preferential access scheme for central economies for industrial products and commodities produced by the periphery economies (Prebisch, 1973).

Despite the fact that ISI was relatively successful, the measures were not helping to reduce urban poverty. In fact, it was argued that CEPAL's industrialisation model was resulting in new income distribution gaps, increasing disparities in productivity and incomes. After two decades of ISI, unemployment and development were still persistent. One of the reasons for this was the industrialisation process itself, as the population had become increasingly urban (Furtado, 1969.). CEPAL then advanced the concept of 'structural heterogeneity' to refer to a series of conditions historically inherited by the region, combined with the natural evolution of labour market (Pinto, 1970; Tavares & Serra, 1971).

For CEPAL, the reason for Latin America's lag was now the ample labour supply clashing with stagnant demand, caused by low levels of investment, as a result of competition from high capital-intensive sectors. The subsequent years, CEPAL's efforts sought to solve the difficulties of economic growth, industrial development, and income distribution in Latin

America. A major problem with ISI was the protectionism seen as necessary in an emerging economy (Bielschowsky, 2009).

By the late 1970s and early 1980s, internal discrepancies within CEPAL brought disagreements on how to address the question of growth. The organisation proposed renegotiations of external debts to allow adjustment with growth. The IMF and private credit institutions largely rejected this proposition as they preferred more orthodox ways to deal with debt. Latin America was starting what was called 'the lost decade', during which neoliberal policies spread further in Latin America as a result of the failing developmental model.

2.7.2. Neostructuralism

As neoliberalism gradually replaced Keynesianism around the world, it caused the demise of CEPAL's structuralism. Having started in Chile with Pinochet's dictatorship, neoliberalism has now extended across the entire region of Latin America. CEPAL, then, passed from being an organisation designing and supervising economic policies to a vigilant think-tank seeking to countervail neoliberal dogma. Fernando Fajnzylber, an economist who joined CEPAL in 1983, was a critic of the original development model applied by CEPAL, and the institutional bases on which it was founded. He was also opposed to the emerging orthodoxy of neoliberalism (Bielschowsky, 2009).

Fajnzylber is the founding father of the neostructuralist school. He took the economic challenges and opportunities identified by structuralists and adapted them to more open economies and less interventionist states. He also emphasised the importance of the Schumpeterian argument of technical progress through knowledge accumulation. Fajnzylber (1983, 1990) paid special attention to the importance of creating national innovation systems and the development of information technology. Compared with classical structuralism, neostructuralism is a more dynamic and adequate theory of economic policy for the present.

Moreover, neostructuralism was accepted and promoted by CEPAL in the early 1990s; it was not by coincidence that it emerged at the same time as the Washington Consensus.

By the time that neoliberalism became dominant naturally, the need for CEPAL to evolve became pressing. CEPAL's main concern was the sense of the irreversibility on the liberalising wave. Neostructuralism was opposed to the Washington Consensus's aggressive liberalisation policies and proposed new ways for Latin American economies to be part of the international economic arena.

CEPAL changed both its organisation and its classical structuralist ideology. With neostructuralism, CEPAL proposed to reconsider the policies of financial liberalisation and re-evaluate the macroeconomic policies in terms of financial capital volatility. Additionally, CEPAL extended its recommendations to new trade, industrial, and technological policies, meaning better-designed and more focused industrial policies. CEPAL also redesigned its approach towards social policies, in particular pension and retirement schemes, providing the labour market with more flexibility without incurring in the drastic lay-offs projected by the Washington Consensus. And, for the first time, the need for environmental sustainability was included in the Latin America development plan (Fajnzylber, 1990).

One of the most significant aspects of neostructuralism is the rejection of any rupture between CEPAL and those economies that were already on the path of liberalisation or following neoliberal measures. Many economies that surrendered to neoliberalism found in CEPAL an alternative that would allow them to adapt liberalisation policies into less aggressive forms. By the 2000s, CEPAL had become a think-tank with the technical and moral weight to acknowledge both the negative and positive results of the neoliberal reforms in the region. CEPAL (1990) nevertheless still supports the idea of a state intervening in some aspects of the economy. Figure 2.1 summarises the economic models of the Post -WWII Latin America.

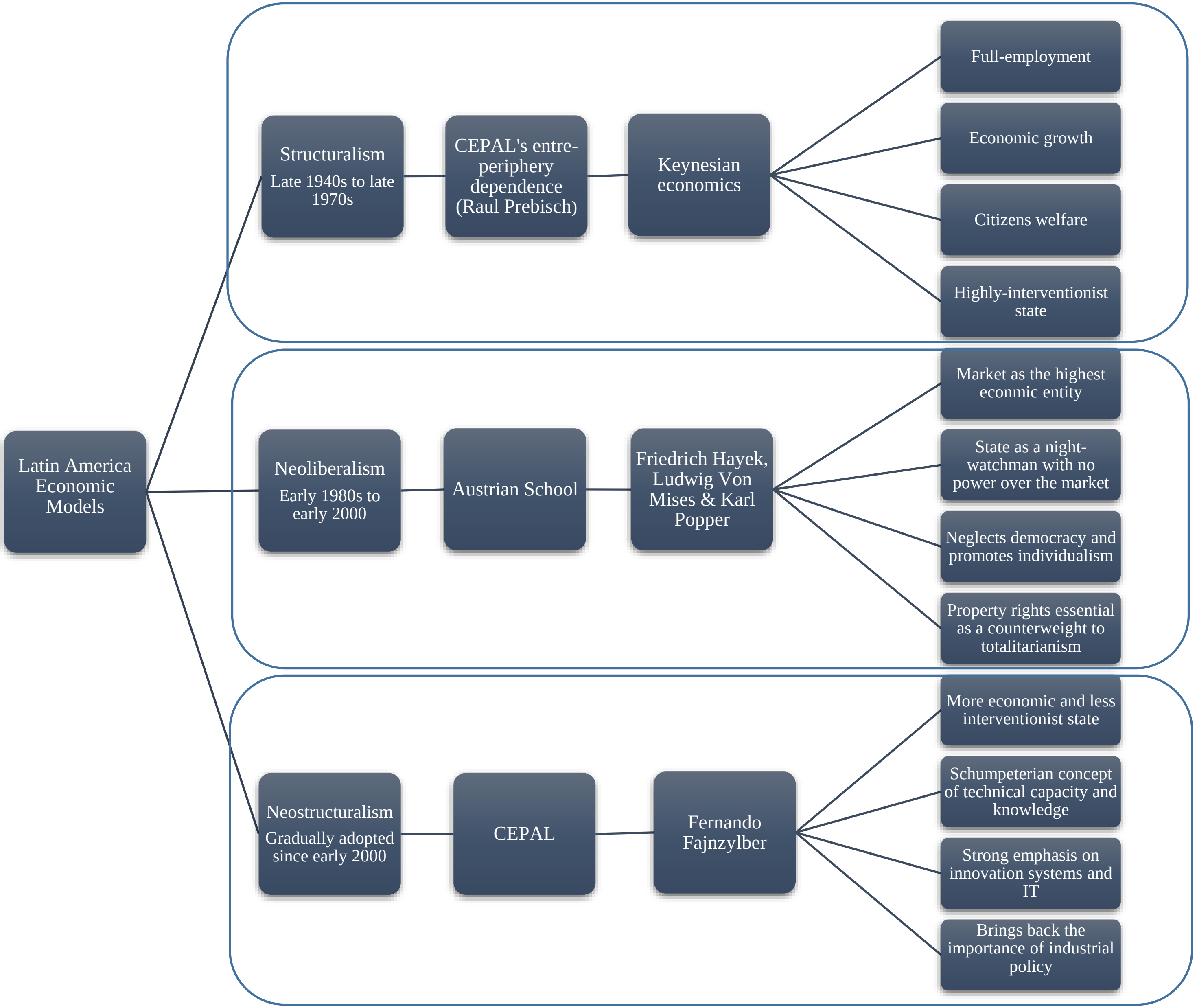

Figure 2.1. Latin America post-WWII economic models and their background

CEPAL never abandoned its standpoint of social equity. Its neostructuralist turn was its response to the age of globalisation. CEPAL neglects all types of 'shock therapy' and its proposition of market opening follows gradual and selective implementations. It similarly advocates for the strengthening real exchange rates and sees real competitiveness as founded on real productive capacity and innovation. Neostructuralism encourages economies to develop infrastructure while giving great importance to development of human resources, innovation, and technical capacity (CEPAL, 1990).

CEPAL promotes authentic competitiveness over spurious competitiveness. The former is based on fostering technologies, technological capacity, human capital, and social equity; whereas the latter is based on advantages obtained by exchange rates, low wages, and overexploitation of natural resources. Industrialisation is still very important for neostructuralism, but as a source of technical and knowledge dissemination, not as necessary to create a spillover effect within production chains. CEPAL also highlights the importance of solid institutions as requisite for progress. It thus sees democracy as crucial for a society to flourish (CEPAL, 1990; Torres, 2006).

Neostructuralism has been criticised, however, for being merely neoliberalism with a different rhetoric. One of the main critiques is based on the perceived omission of the dimension of Latin America's social reality. The virtuous cycle of systemic competitiveness and proactive labour flexibility does not correspond to the disparities present in the region. It is asserted that neostructuralism is based on a utopian understanding of contemporary Latin America, meaning a region free of conflicts and asymmetrical power relations. Furthermore, it is argued that the holistic method of neostructuralism fails to comprehend the transformation that Latin America has experienced in the last two decades (Leiva, 2008). Table 2.2 contrasts the major tenets of structuralism, neoliberalism, and neostructuralism.

Table 2.2 Differences between structuralism, neoliberalism, and neostructuralism

Paradigm	Structuralism	Neoliberalism	Neostructuralism
Proposition	Propose development through structural change	Structural adjustment	Productive transformation with social equity
Purpose	Aim for modernisation by industrialisation	Privatisation	Internationalisation
Role of the state	The state is the most powerful agent of change	Minimal state, market as agent of development	Promoter of technical development

Source: Leiva (2008).

2.8. Conclusion

This chapter had three aims. First, it set out to analyse the ideas and theoretical background of neoliberalism, including its leading scholars, foundation, and the tenets on which neoliberalism rests. Second, it discussed what preceded neoliberalism as the predominant developmental model in Latin America, that is, CEPAL's structuralism, and what CEPAL is currently offering – neostructuralism – as an alternative to neoliberalism. Lastly, this chapter examined the roles played by the state in the different economic philosophies discussed. Since this study explores the changes experienced during the 2013 structural reform of the Mexican oil industry, it is important to understand the extent to which that reform is based (or not) on neoliberal policies, as this reform in particular is supported by organisations such as the OECD and the IMF. The theoretical foundation of this chapter is the framework that function is the evaluation of the empirical findings.

This chapter also establishes an important debate about the status and scope of neoliberalism in contemporary Latin America. An important probability that emerges from a contrasting of neoliberal, structuralist, and neostructuralist positions is that the analysis of Mexico's oil industry may profit from the application of a neostructuralist lens, rather than a neoliberal approach. This possibility emerged of the analysis of research data, provided in Chapters 7 and 8.

The following chapter presents a review of the academic literature on SAPs, including their origins, evolution, main facilitators, examples of SAP recipient countries around the world, and the outcomes experience in SAP recipient countries.

CHAPTER 3. LITERATURE REVIEW

This chapter examines the theoretical and empirical research undertaken into structural adjustment programmes (SAPs) and is divided into seven sections. The first section reviews the roots and origins of SAPs; the second section discusses what SAPs are and the concept of 'conditionality' as an integral part of them; the third section offers a review of SAPs and their impact on institutions, macroeconomic policies, and growth; the fourth section analyses the effect of SAPs on FDI; the fifth section examines the first SAP experiments undertaken by the IMF and the World Bank; the sixth section focuses on the most prominent SAP cases in Latin America; and the final section summarises the chapter.

3.1. Origins of SAPs

In 1944, delegates from 45 countries met at the UN Monetary and Financial Conference held in Bretton Woods, New Hampshire, to design a global economic system after the ravages caused by the Great Depression and WWII. The outcome of this conference was the foundation of the Bretton Woods monetary system supported by the International Bank for Reconstruction and Development (IBRD) known also as the World Bank, and the IMF (Boas & McNeill, 2003).

The main objective of the Bretton Woods conference was the restoration of the international monetary system, aiming at monetary stability and full employment; hence the creation of the World Bank and the IMF. The conference also aimed for the elimination of trade barriers, trade distortions, and discriminatory trade policies. However, since trade reform was at that time not considered a priority, the establishment of the proposed International Trade Organization (ITO) was postponed. Instead, the Bretton Woods conference established the General Agreement on Tariffs and Trade (GATT) as a preliminary groundwork for an ITO that never came into being.

As a result, GATT was the international regulatory institution until the creation of the World Trade Organization (WTO) in 1995 (Irwin, 1995).

The fundamental purposes of the IMF were, and continue to be, the operation of a fixed exchange rate system established at the Bretton Woods conference and provision of access to foreign currency for countries experiencing difficulties in their international balance of payments (Stein, 2008) in order to finance their foreign debt. Additionally, the IMF also promotes trade under a stable international monetary system (Boas & McNeill, 2003). The World Bank, in contrast, was conceived as an institution owned by its members, designed to be the largest provider of development assistance. The World Bank's capital is financed by governments as opposed to private sources (Boas & McNeill, 2003).

The World Bank is formed by five specialised institutions: the IBRD, the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID) (Peet, 2009). The World Bank and the IMF provide loans with different objectives. World Bank loans were designed to enhance international trade, boost FDI flows, and provide development assistance, whereas IMF loans focus on assisting countries with troubled balance of payments. A comparison of the roles of the World Bank and the IMF is made in Table 3.1.

Table 3.1. The role of the IMF and World Bank: A comparison

IMF	World Bank
Permanent institution to provide technical consultation on international monetary problems	Facilitate investment for productive purposes
Facilitate the role of international trade, and maintain high levels of employment and real income	Support the reconstruction and restoration of economies destroyed by war
Promote exchange stability among members	Stimulate international trade and maintain the stability of members' balance of payments
Create a multilateral system of payments and transactions between members	Arrange and guarantee loans through other channels for projects to provide support to those members under critical financial situations
Make funds available for those members with problems with their balance of payments	
Reduce balance disequilibrium on members international balance of payments	

Sources: Boas & McNeill (2003); Peet (2009); Stein (2008).

The respective roles of the World Bank and the IMF have been important as instruments of financial and economic stability. Since their foundation, both institutions have facilitated loans to member countries experiencing financial crises. Those countries receiving loans from any or both institutions are required to attain specific targets and conduct substantial policy changes to achieve stability in their balance of payments, and thereafter enable loan repayment. In the case of the IMF, the institution works also as an advisor and provides the recipient economy with information on better ways to apply for loans in order to achieve its financial objectives faster and more effectively (Bird & Willett, 2004; IMF, 2005a).

In reality, the loans provided by each of the institutions are different. The World Bank provides low-interest credit with interest rates as low as zero for projects involving education, health, development of the private sector, infrastructure, agriculture, and natural resource management, among others. Projects can be co-financed with governments, multilateral organisations, commercial banks, the private sector, and/or investors. The World Bank similarly offers support for developing countries via technical assistance, research, analysis, and policy advice around financing for development (World Bank, 2015).

In contrast, the IMF conducts analysis and supervises the financial and economic evolution of its members and provides the necessary information to resolve crises and succeed in the global arena. The IMF offers financial support and easy access to foreign currencies as assistance across macroeconomic adjustment reforms in order to resolve the balance of payments problems and stimulate growth (IMF, 2004). Both, the IMF and the World Bank are facilitators of SAPs, which require economies to open their trade through structural reforms oriented towards the removal of market distortions and trade barriers, privatisation of SOEs, withdrawal of monopolistic and oligopolistic protection, promotion of FDI, control over balance of payments, and incentives to exporters (Schydlowsky, 1995; Thomas et al., 1991).

The sum of all these requirements is what is known as ‘conditionality’. This raises a problem for poor countries facing financial crises, whilst opening their economies. That enable rich Western countries to take full advantage of the situation. Stiglitz (2002), one of the harshest critics of IMF SAPs, stated:

> *The critics of globalization accuse Western countries of hypocrisy, and the critics are right. The Western countries have pushed poor countries to eliminate trade barriers, but kept up their own barriers, preventing developing countries from exporting their agricultural products and so depriving them of desperately needed export income. The United States was, of course, one of the prime culprits, and this was an issue about which I felt intensively. When I was chairman of the Council of Economic Advisers, I fought hard against this hypocrisy. ... The West has driven the globalization agenda, ensuring that it garners a disproportionate share of the benefits, at the expense of the developing world. (p. 67)*

The following section describes what SAPs are, the different types of SAPs, and elaborates further on the subject of conditionality.

3.2. SAPs: What Are They?

The origins of SAPs are not clearly defined. Some scholars consider the mid-1970s as the starting point, with the advent of the IMF's Trust Funds temporal assistance fund, which aimed to help poor counties to deal with problems in their balance of payments (Bird, 2003; De Long, De Long, & Robinson, 1999; McQuillan & Montgomery, 1999). For some scholars, SAPs were initiated in the 1980s through World Bank loans designed to reduce trade distortions and obstacles for foreign investment implemented during the ISI period (Schydlowsky, 1995; Stein, 2008; Weaver, 1995). Since SAPs were formally institutionalised in the 1980s, this research adopts the 1980s as a starting point.

In the 1980s, SAPs were established to reduce distortions and obstacles to free trade and foreign investment inflows to less developed countries (LDCs) through macroeconomic reforms. Financial support provided via loans can help mitigate the falls in commodity prices, oil price shocks, high-interest rates, and other abrupt changes in the global economy.

The World Bank's SAPs are grounded essentially in two different loans, outlined in Table 3.2. First, structural adjustment loans (SALs) were introduced in 1980 to assist with macroeconomic reforms (Weaver, 1995) before sectoral adjustment loans (SECALs) were introduced in 1982 to support reforms in the microeconomic sector, which include changes of financial and taxation policies in key areas of domestic economies (Stein, 2008; Weaver, 1995). Accountability and enforcement of the World Bank's conditionality has been documented as quite lenient and permissive, in particular for those countries with close ties with the United States (Kilby, 2009).

Table 3.2. SAP loans provided by the World Bank

World Bank loans	**SALS**	Assistance for macroeconomic reforms	Permissive accountability and lenient enforcement of conditionality
	SECALS	Assistance for microeconomic reforms	Permissive accountability and lenient enforcement of conditionality

Sources: Kilby (2009); Stein (2008); Weaver (1995).

The IMF's SAPs are structured differently. In contrast to the World Bank, the IMF has two, broader types of loan: concessional and non-concessional (see Table 3.3). Concessional loans can have interest rates as low as zero but are only available for low-income countries. There are three classes of concessional loans: the Structural Adjustment Facility (SAF), Enhanced Structural Adjustment Facility (ESAF), and Poverty Reduction and Growth Facility (PRGF), which replaced the ESAF in 1999 (Oberdabernig, 2013). All concessional loans are subjected to conditionality; however, in the case of PRGF (and formerly ESAF) conditionality is more strict than it is for SAFs, because for PRGFs the structural adjustment targets microeconomic and market openness, and not only traditional macroeconomic fiscal and monetary elements (Bird, 2003).

In contrast, non-concessional loans are subjected to the IMF's market-related interests. There are three types of non-concessional loans. First, Stand-By Arrangements (SBAs) are designed to aid countries with profound disequilibria with the critical necessity of funds; second, there is the External Fund Facility (EFF), intended for countries with profound disequilibria that need to address the medium-term balance of payments. An EFF is conditional on fundamental economic reforms. Third, there are the Contingent Credit Lines/Flexible Credit Lines (CCL/FCL), designed to provide safeguards to countries with solid economic policies and to offset collateral effects such as problems in their balance of payments caused by external financial crises (Bird, 2003; De Long et al., 1999; Peet, 2009). CCLs/FCLs were introduced in the aftermath of the 1994 Mexican peso crisis and the East Asia financial crisis of 1997–1998.

Table 3.3. SAP loans provided by the IMF

<table>
<tr><td rowspan="6">IMF</td><td rowspan="3">Concessional</td><td rowspan="3">Loans for low-income countries with interest rates as low as zero</td><td>Structural Adjustment Facility (SAF)</td><td>Subject to conditionality</td></tr>
<tr><td>Enhanced Structural Adjustment Facility (ESAF)</td><td>Subject to conditionality</td></tr>
<tr><td>Poverty Reduction and Growth Facility (PRGF)</td><td>Subject to conditionality</td></tr>
<tr><td rowspan="3">Non-concessional</td><td rowspan="3">Loans subject to IMF's market interests</td><td>Stand-by Arrangement (SBA)</td><td>For countries with profound disequilibria</td></tr>
<tr><td>External Fund Facility (EFF)</td><td>For countries with profound disequilibria and medium-term balance of payments problems</td></tr>
<tr><td>Contingent Credit Lines/Flexible Credit Lines (CCL/FCL)</td><td>Provides safeguards to countries with strong economic policies to offset collateral effects of external financial crises</td></tr>
</table>

Sources: Bird (2003); De Long et al. (1999); Oberdabernig (2013); Peet (2009); Weaver (1995).

3.2.1. Conditionality: What Is It and Who Are Its Main Critics?

Structural conditionality has been linked to SAPs since their creation as a key tool to solve balance of payments imbalances and monetary weaknesses. Likewise, conditionality is an attempt to develop strategies related to growth policies (Abbott et al., 2010). Since the introduction of SAPs, it has been held that external balance and macroeconomic stability could not be achieved without key policy changes in strategic sectors. For those economies applying for SAPs, these policy changes are compulsory. It is unavoidable obligation what is known as SAP conditionality (Abbott et al., 2010).

According to the IMF (2005a), conditionality is not merely a whim conceived by the World Bank and the IMF but a mechanism to ensure that countries pursuing external balance can develop policies to achieve a sustained balance and eventually obtain funds to repay the loans (Bird & Willett, 2004). Similarly, conditionality provides recipient countries with technical information on how the funds should be applied. Structural conditionality is based on quantitative goals based on macroeconomic variables; however, it requires shifts in political processes, legislation, and administrative, financial and economic institutions (Abbott et al., 2010).

Distinctive examples of structural conditionality include trade and price liberalisation, privatisation of SOEs and state monopolies, reforms of the financial and banking systems, transparency, and anti-corruption laws. These reforms, it is maintained, increase dynamic and static efficiencies, thereby stimulating growth. They also aim to strengthen the independence of central banks and the financial regulatory framework to minimise the impact of external financial shocks (Abbott et al., 2010).

Since the institutionalisation of SAPs in the early 1980s, conditionality has been criticised for different reasons by critics across a wide political spectrum. The left sees conditionality as hard, intrusive, upsetting and inefficient, as in the case of the IMF. The right, on the other hand criticised the lax or non-tangible enforcement of SAP conditionality, as in the case of the World Bank. In the 1990s, the number of SAP recipient countries rose considerably, and so did criticism of the structural conditionality bonded to the programmes. The majority of critics regarded conditionality as intrusive and destructive of national ownership, which undermined the programmes' stated objectives. The IMF's programmes were particularly seen as utterly mechanical and ideological in their use of structural conditions (Abbott et al., 2010; IMF-IEO, 2008).

Researchers have proposed the idea of ‘government ownership’ in opposition to IMF’s compulsory conditionality (Collier, Guillaumont, Guillaumont, & Gunning, 1997). Under government ownership, national governments take control and responsibility for the SAP loans based on attainments that highlight the importance of governance. In this way, conditionality does not undermine the process and agenda of government policies (Collier et al., 1997). Ownership is a concept with which the IMF is familiar, but its understanding of the term is rather different. In 1959, Per Jacobsen, then the IMF’s Managing Director, stressed:

> *I must emphasize that such programs can only succeed if there is the will to succeed in the countries themselves. The Fund has always found people in these countries who know very well what needs to be done. The Fund does not impose conditions on countries; they themselves had to come to the conclusion that the measures they arrange to take – even when they are sometimes harsh – are in the best interests of their own countries. (as cited in Boughton, 2003, p. 5)*

More recently, in 2001, the IMF defined ownership as *“a willing assumption of responsibility for an agreed program of policies, by officials in a borrowing country who have the responsibility to formulate and carry out those policies, based on an understanding that the program is achievable and is in the country’s own interests”* (IMF, 2001, p. 6). In 2002, in response to criticism, the IMF reviewed its Guidelines on Conditionality, which had not been amended since its creation in 1979. The revised Guidelines were published in 2005 and underline ‘parsimony’ and ‘criticality’ as core competencies of IMF programmes.

These two concepts target critical areas directly related to the IMF’s goals. The review acknowledged the importance of ownership, but also recognised that, despite its significance, substituting ‘ownership’ for ‘conditionality’ was not an option (IMF, 2005b). In 2006, the IMF published a statement titled ‘Principles Underlying the Guidelines on Conditionality’ in which the IMF cautiously gave larger significance to the idea of national ownership, positioning structural conditionality as a complement of national ownership. The IMF (2006) moderated its position on conditionality by framing ‘structural conditionality’ and ‘national ownership’ as an iterative, collaborative process.

Scholarly criticism has played a crucial role in the evolution of the IMF’s position. Numerous empirical studies have demonstrated the negative or limited positive impact of conditionality on growth (Barro & Lee, 2005; Dreher, 2006; Dreher & Vaubel, 2004; Przeworski & Vreeland, 2000; Stiglitz, 2004; Vreeland, 2003). By maintaining its conditionality orthodoxy, the IMF has achieved only moderate improvements in recipient countries with its SAP programmes, which have not been sustained after completion (Evrensel, 2002). In response to the sustained critique, the IMF should assume a different position. Instead of pursuing an ideological stance, it should identify governments with the will to reform, rather than try to create – through conditionality – such a government. In other words, to disburse loans in a more efficient way, it is central for the IMF to detect the factors influencing ownership and the will to reform. The IMF could then prioritise the agendas of the identified countries; only then will IMF loans make a real difference (Dollar & Svensson, 2000).

Przeworski and Vreeland (2000), in their seminal work looking at 79 countries using data from 1951 to 1990, extensively demonstrated that those countries under SAPs grew an average 2.04% whereas non-recipient countries grew 4.39% across the study period. In fact, a 1.53% negative growth differential between recipient and non-recipient countries was directly related to IMF programmes; in other words, those countries not receiving SAPs support grew faster than SAP recipient countries. The IMF’s reluctance to change its position on conditionality is partly based on the argument that SAPs are instruments to rescue distressed economies and to support countries under crisis – not to support growth. Nevertheless, the IMF has recognised that conditionality and political reforms have gone too far, and shown some intention to start promoting long-term growth (IMF-IEO, 2008). Due to the IMF’s persistence in applying SAPs under strict orthodox conditionality, there is not much hope for growth being an outcome of SAPs (Abbott et al., 2010).

Barro and Lee (2005) affirm that the IMF's system for approving loans was developed using bureaucratically and politically biased mechanisms. Those mechanisms are simplified for those countries closer to the sphere of influence of the IMF, Western Europe and the United States. Further, this bias is extended to the origins of the IMF's professional staff. Countries with larger numbers of staff within the IMF are likely to receive a higher proportion of IMF loans. Barro and Lee's (2005) study also demonstrates that countries that have had the most SAPs also have the lowest growth rates.

3.3. SAPs, Institutions, Macroeconomic Policies, and Growth

As already mentioned, academics have extensively studied the impact of IMF programmes on growth in terms of GDP. The vast majority of these studies identified a negative impact of SAPs on growth (Abbott et al., 2010; Dreher, 2006; Dreher & Vaubel, 2004). One exception is the study conducted by Dicks-Mireaux, Mecagni, and Schadler (2000), who researched the outcomes in countries that received ESAFs from 1986 to 1991. Their statistical investigation revealed positive impacts on growth for the recipient countries. However, those impacts are so limited that the findings are not able to contradict those of earlier studies. Since SAP conditionality directly affects government institutions, it is important to study the effect of macroeconomic policies and institutions and their effect on growth.

The scholarly debate on policy reforms and growth continues, and so does the argument as to whether SAP reforms can accelerate growth and stimulate poverty reduction. For example, Collier and Dollar (2001) and the IMF (2000) claim that, depending on the region, the design of sound macroeconomic policies can drastically reduce poverty. Whereas Easterly (2005a;

2005b) conclude that, despite the various types and orientations of reforms, growth and poverty reduction is still non-significant. Acemoglu, Johnson, Robinson, and Thaicharoen (2003) argue that poor macroeconomic policies are the effect of weak institutions pursuing distortionary policies. Those institutions are the main cause of economic volatility, and poor institutional reforms are linked to low economic growth. Moreover, decisions to invest are based on current stability and the perception of future macroeconomic stability (Montiel & Servén, 2006).

To date, the IMF's ideological foundation has been based on the Washington Consensus, which is considered as the 'neoliberal manifesto'. The Washington Consensus is a set of economic policy reforms which Williamson (1990) believes were required to achieve growth and development in Latin America. What Williamson conceptualised as policy reforms prepared the ground for IMF and World Bank conditionality and were utilised as the scholarly justification that Washington needed to incorporate the IMF, the World Bank, the US Federal Reserve, and US Congress into an amalgamation of political, administrative, and technocratic power that allowed it to expand its area of influence over Latin America (Marangos, 2009).

Rodrik (2006), a fierce critic of the Washington Consensus, the IMF and its orthodox SAP application, notes that while having the 'right prices' was the goal of the Washington Consensus in the 1980s, to get the 'right institutions' is the current concern of what he calls the 'Augmented Washington Consensus'. Moreover, he argues that the 'new version' is the original Washington Consensus with added ingredients: corporate governance, anti-corruption efforts, flexible labour markets, WTO agreements, financial codes and standards, prudent capital account opening, non-intermediate exchange rate regimes, independent central banks and efforts targeting inflationary pressures, social safety nets, and poverty reduction policies. In summary, the Augmented Washington Consensus is an incremental evolution towards institutional reforms.

Heterodox voices like Rodrik's have increasingly challenged the orthodox Washington Consensus perspective, and are shaping a new development paradigm (Abbott et al., 2010; Zagha & Nankani, 2005).[6] One of the central problems with the current IMF perspective is the constant emphasis that a successful SAP depends on 'doing the same thing, but doing it well'; in other words, SAP efficiency is measured in terms of the implementation, continuity, and long-term sustainability of SAPs, rather than a measure of their success in creating economic growth (Rodrik, 2006).

Likewise, the type of institutional reforms pursued by the IMF follow a model of best practice (Bromley & Yao, 2006; Easterly, 2008; Evans, 2004; Rodrik, 2006, 2008), and the pitfall of the best-practice model is that it does not fit well within the conception of a number of the so-called growth miracles, which are characterised by heterodox institutional arrangements (Rodrik, 2005). A clear example can be seen in the agricultural reform that took place in China. If China had followed the orthodox approach of liberalisation, particularly by eradicating the state's price controls and allowing land privatisation, the result would have been a disaster, judging by the experience of those places where those policies have been applied (Qian, 2003; Rodrik, 2007).

Furthermore, empirical evidence presented by Hausmann, Pritchett, and Rodrik (2005) has demonstrated the trivial impact of standard macroeconomic policies (i.e., best-practice), on economies that held a sustained growth acceleration (GDP per capita) of a minimum 3.5% per year during a minimum period of eight years. Hausmann and colleagues identified 80 occurrences in which only 14% were economies under macroeconomic reforms. Additionally, the reasons behind growth in the economies under SAPs were caused by idiosyncratic changes

[6] An analysis of orthodox and heterodox views can be found in Chapter 2.

rather than macroeconomic reforms, and changes were, in most of the cases, low-scale, which aligns with the idea that growth rate is indeed country-specific.

A framework known as 'policy trialling' is used to assess critical elements of an economy to foster a broad development strategy (Stiglitz, 2004). Policy trialling is designed to be implemented by national governments and by their own entities. It takes a different perspective from standard macroeconomic policies, bringing it into opposition with the IMF perspective. There are at least two reasons for this: firstly, the IMF lacks an intellectual diversity, and follows a path of an excessively rigid set of policies (Evans & Finnemore, 2001; Momani, 2005, 2007; Stiglitz, 2004; Taylor, 1997); and secondly, the IMF staff work under incentives that discourage risk-taking (Woods, 2006).

3.4. FDI and SAPs

The rationale for FDI inflows as part of SAPs in distressed economies is not easy to define, but the introduction of stabilisation measures such as the elimination of market distortions follows the principles of neoliberalism, and is hence crucial in creating the freedom to invest (Schydlowsky, 1995; Thomas et al., 1991). Behind the freedom to invest lies the concept of conditionality. Theoretically, conditionality reduces uncertainty about future policy and performance. Based on this, conditionality catalyses capital inflows and works as a positive effect on foreign capital. A SAP recipient economy thus appears as a more attractive investment destination than it would have been otherwise (Bird, 2003).

Institutions are fundamental to attracting FDI during SAPs implementation. A substantial focus of SAPs is on the strength, quality and reliability of host economies institutions. As central determinants of FDI, MNEs base their decisions to invest on institutional quality (Kuncic & Jaklic, 2014). Formal institutions are often called 'good institutions' because they promote and support investment to foster development (Bénassy-Quéré, Coupet, & Mayer, 2007). In the same way, formal institutions are essential in SAPs, hence the intention of both the IMF and the World Bank to reduce the magnitude of informal sectors. SAPs are advocates of incremental taxation, and also of FDI as the most stable form of capitalisation and effective path for development (Kuncic & Jaklic, 2014). IMF and the World Bank scrutiny over SAP recipient economies acts as a vector of certainty and formality.

MNEs are undeniably the main sources of FDI activities, and host governments attract FDI by designing policies oriented towards that end. In fact, governments are designing policies that are increasingly more selective, aiming to attract FDI less for resources and capabilities, and more for global market integration. Upgrading the quality of indigenous human and physical capital has emerged as a new priority (Dunning & Lundan, 2008).

Governments have adopted four different types of FDI policies: 1) policies of non-intervention, to encourage both inward and outward investment, underpinning performance requirements and institutional controls imposed on investors; 2) selective investment policies, where investment is reduced to specific sectors and performance standards with the purpose of enhancing investment's positive economic and social effects; 3) controlled investment policies which set strict controls over inward and outward investment; and 4) structural adjustment and upgrading policies aiming to encourage or limit FDI as an integral part of the micro-organisational government's strategy (Dunning & Lundan, 2008). The decision to include one or more of these policies is country-specific and depends on the sector where the FDI is directed or inhibited.

The following section discusses the first economies to experience the application of SAPs.

3.5. SAPs: The Initial Experiments

The first recipients of SAPs in the 1980s were sub-Saharan African countries, specifically Côte d'Ivoire, Ghana, and Zambia. From 1980 to 1983 the IMF disbursed US$4 billion, and the World Bank US$2.83 billion, as support. Since 1984, the World Bank has been the largest provider of SAPs loans, mainly because of its flexible repayment conditions (Kapur, Lewis, & Webb, 1997; Stein, 2008). In the sub-Saharan countries, the World Bank created a quasi-SAP laboratory, introducing the first set of policies with disappointing results. Some blame the inefficiency of programmes on the World Bank's inappropriate policy design, as Côte d'Ivoire and Ghana followed the World Bank's prescription accurately (Kapur et al., 1997; Stein, 2008). Others argue that SAP failures can be attributed to governance crises, low commitment to reform, and the endemic corruption that characterises the region (Boas & McNeill, 2003; Santiso, 2001; World Bank, 1981, 1982, 1983).

A few other countries received SAPs during the 1980s, but only two countries are considered to have obtained satisfactory results: Indonesia and South Korea. In the case of Indonesia, its crisis was caused by an external currency market shock that hit an already weak national economy (Soedradjad Djiwandono, 2005). Unlike most oil-exporting countries, Indonesia made adequate use of its oil resources whilst the government sought to protect the agricultural and manufacturing sectors to avoid them lagging in comparison with other sectors. In the mid-1980s and oil price drop hit Indonesia during the implementation of trade and industrial liberalisation reforms. The quick response of the Indonesian government in developing an effective policy reform agenda was key to its SAP being successful and a prompt recovery (Ahmed, 1991).

South Korea is another example of a successful SAP implementation. During the global crisis in the early 1980s, South Korea was experiencing high inflation, overvalued exchange rates, weak external competitiveness, low business profitability, and high corporate indebtedness. The country applied for SAPs from both the IMF and the World Bank. The adjustment reforms were implemented in two phases: the first phase (1981–1985) focused on fostering industrial reforms and reducing the nation's high dependence on fuel imports. The reforms reduced import barriers and increased efficiency in the public sector. The second phase began in 1983 and targeted the financial sector under a cautious strategy of interest rate deregulation, stimulating monetary policy, market liberalisation, and market-determined interest rates (Dailami, 1991).

The IMF's and the World Bank's SAPs in the 1980s applied rigorous neoliberal measures designed to solve structural problems whilst leaving aside political governance. Traditional neoliberalism follows a technocratic functionalistic logic, assuming neoliberal solutions can address political problems. During the 1990s, based on previous experience, and harsh criticism of the IMF and the World Bank, the element of political governance was restored to SAPs (Boas & McNeill, 2003). As well as criticism of their dubious effectiveness in enhancing economic development and growth (Meller, 1991; Ominami, 1991; Stiglitz, 2002; J. Williamson, 2000), SAP programmes have been attacked for their social costs, which include a wider disparity between rich and poor (Lustig, 1998; Stein, 2008). The dominant influence of the United States over the IMF and the World Bank has also been criticised (Leiva, 2008; Lustig, 1998).

Due to the insignificant success of SAP programmes and the neoliberal orthodox measures they apply, an alternative to neoliberalism has recently emerged: a new type of structuralism called neostructuralism.[7] Embraced and sponsored by CEPAL, it aims to replace the 'market fundamentalism' and 'savage capitalism' dispensed by the IMF and the World Bank. The

[7] A broader explanation of neoliberalism and neostructuralism is provided in Chapter 2.

neostructuralist school of thought is already influencing policy planners and international developing agencies, with some countries in Latin America even electing neostructuralist leaders, as seen recently in Chile, Brazil and Uruguay (Leiva, 2008).

3.6. SAPs in Latin America since the 1980s

While the first SAP recipient countries were in sub-Saharan Africa, it is Latin American countries who have adopted the broadest economic reforms since the 1980s. In fact, in the beginning of the 1970s, Chile and Peru began self-initiated reforms, opening up some of their domestic sectors to FDI. Chile was the first country to be involved in a SOE privatisation process;[8] however, its privatisation process was not followed by most of the countries in the region. Other Latin American countries were taking the opposite path to development, expanding their number of SOEs and increasing restrictions and regulatory protective measures for their firms and industries (Edwards, 1995; Moran, 1991). During that time, Latin America was experiencing an annual average growth of 6%. Highly distorted tax systems and weak public financial structures were forcing the region to rely on inflationary financing. In addition, existing short-sighted domestic strategies along with low export rates contributed to poor development (Edwards, 1995; Lora, 2001).

As noted above, it was in the mid-1970s, with Chile's self-driven reforms, that the first neoliberal experiment occurred in Latin America and the first informal SAP was tested. In the early 1980s, other nations joined the reform wave, although this time with formal institutionalised SAPs supervised by the IMF and the World Bank.

[8] Privatisation is one of the main SAP priorities. This neoliberal measure is supposed to make governments more flexible and create a less distorted and less state-controlled economy.

Edwards (1995) summarises three different waves of reformers in Latin America between 1975 and the 1990s: the first wave of early reformers, from 1975 to 1986, comprised Chile, Bolivia, and Mexico; the second wave, during 1987 and 1988, comprised Costa Rica, Jamaica, Trinidad and Tobago, and Uruguay; and the third wave of reformers, from 1989 to 1995, were Argentina, Brazil, Colombia, El Salvador, Guatemala, Guyana, Honduras, Nicaragua, Panama, Paraguay, Peru, and Venezuela. Likewise, Stallings and Peres (2000) identify two types of implemented reforms: the first type of reforms aim to reduce the role of public sector in the economy and liberalise market forces; the second type of reforms target stabilisation of macroeconomic policies.

According to Stallings and Peres (2000), there are two types of reformers: cautious and aggressive. Cautious reformers are those countries applying for a single reform, whereas aggressive reformers are those countries applying for both reform types. Cautious reformers include Brazil, Costa Rica, Colombia, Jamaica, and Mexico. On the other hand, Argentina, Bolivia, Chile, and Peru are classified as aggressive reformers (Ocampo, 2003). Argentina, Brazil, Chile, and Mexico are the most prominent cases of SAP application in Latin America, for two reasons: 1) they are the four strongest economies in Latin America; and 2) despite the similarities in their SAPs, each used different approaches, with different results. The following section outlines each of the cases and elaborates on the Mexican case.

3.6.1. Argentina

The 1970s and 1980s were difficult times for Argentina. In the 1970s, Argentina’s manufacturing industry grew only 14%, with around 18,000 firms closing and 250,000 workers losing their jobs. In 1983 and 1984 the Argentinian economy briefly recovered, only to fall again the following year (Ominami, 1991). The reasons for the relapse was the presence of obsolete industrial oligopolies, strong dependency on traditional industries, and exports being mostly based on low-added-value manufacturing (Meller, 1991; Ominami, 1991). Argentina's crisis worsened by lack of competition and low interest in diversified exports.

In 1990, a harsh crisis led the Argentinian government to apply for a SAP, assisted by the IMF and the World Bank. Divided into two loans, Argentina's SAP was disbursed as follows: the first loan was for US$2 billion to provide banks with enough capital to undertake a privatisation process. The second loan, for US$2.5 billion, was to support private banks to finance mergers between banks and overcome liquidity problems. An incentive system to protect mergers and institutions during the privatisation process and create stability was the main initiative of this SAP (Fernández, 1996). The outcome for this SAP was adverse, and Argentina has not yet fully recovered. Scholars agree on the negative consequences of the government's slow application for a SAP (Fernández, 1996; Santiso, 2001, 2006; Schydlowsky, 1995).

On top of these severe circumstances, in 1991 Argentina abandoned its monetary independence and pegged its peso to the US dollar at a one-to-one conversion rate. This move was designed to prevent hyperinflationary effects, but the result was the opposite, impeding the government's ability to finance its deficit and causing macroeconomic instability (Dornbusch & Edwards, 1992). Hit by the Mexican crisis in 1994, Argentina's debt levels escalated exponentially. Its low taxation limited Argentina's capitalisation capacity and the government was forced to issue debt bonds (Santiso, 2006), increasing its debt levels and placing Argentina in a very vulnerable position.

During 2001, Argentina restructured its debt because of its persisting inability to service its loans. In 2003, President Nestor Kirchner reversed Argentina's macroeconomic policies and introduced his own populist measures. The measures established during his administration were extended and maintained during the administration of his wife, President Cristina Kirchner, which ended in a debt payment suspension (Santiso, 2006). In 2010, the country experienced a brief recovery. Analysts believed that Argentina was on the path to economic re-stabilisation, but the recovery lasted less than a year. Argentina was the first country in the history of the IMF to be censured for its inability to service its debts and keep finances to international standards (Corbett, 2013). Argentina is still struggling to keep its inflation rate under control, and has one of the world's highest (Marsh & Winter, 2014).

3.6.2. Brazil

Brazil has successfully combined SAPs with unilateral self-driven reforms to resolve debt problems as a result of lack of taxation and global crises. Continuity of adjustment programmes and non-reversal policy reforms have been its formula for success. Brazil has received two SAPs supported by the IMF. The first programme in 1998 targeted unsustainable levels of public expenditure, whereas the second programme, from 1999 to 2001, supported the first one to reform Brazil's financial and taxation system.

In 1991, Brazil undertook a unilateral adjustment policy towards privatisation of its state-owned telecommunications and oil monopolies. At this time, privatisation in Brazil did not reach the levels experienced by other Latin American countries such as Mexico and Chile (Edwards, 1995; Santiso, 2006). This strategic privatisation policy boosted FDI inflows, significantly reduced government expenditure, and bestowed Brazil with a fiscal stability that lasted until 1994 (Giambiagi & Ronci, 2006).

In 1994, as for most of the Latin American economies, Brazil was hit by the Mexican debt crisis, a liquidity problem in Mexico that impacted the global economy and especially Latin American economies. During this crisis, the Brazilian president Fernando Henrique Cardoso introduced the Programme for Recovery, Restructure and Strength of the National Financial System (PROER), a programme designed to restructure and strengthen Brazil's financial system by facilitating the process of privatisation of state-owned banks. However, the government's inability to constrain its public debt meant it reached unsustainable levels. In terms of GDP, in 1994 Brazil's expenditure reached 7%, with an increase of 3% per year until 1998 (Giambiagi & Ronci, 2006).

As previously mentioned, in 1998 Brazil engaged in its first SAP supported by the IMF. Through a stand-by arrangement, Brazil tackled its fiscal deficit, which returned positive results immediately. By the end of 1998 Brazil's debt-to-GDP ratio was virtually zero (Giambiagi & Ronci, 2006; Santiso, 2006). In 1999, Brazil received its second SAP supporting its continued recovery, and this time its debt-to-GDP ratio resulted in a surplus, which exceeded the IMF's expectations (EON, 2015).

3.6.3. Chile

Chile's economy in the 1970s was bounded by restrictive trade quotas and protectionist barriers directed to specific industries and firms. It also experienced short periods of large growth, followed by periods of industrial recession (Meller, 1996). From 1975 to 1980, Chile instigated self-driven reforms towards trade liberalisation, elimination of import substitution measures that had run since the 1950s, and the erosion of state intervention and the size of the public sector (Moran, 1991). From 1975 to 1978, Chile experienced highly inflationary pressures. The solutions proposed by the government, including the fixing of Chile's exchange rate and indexation of nominal wages, initiated its privatisation process, which created highly capitalised financial clusters. Chile also allowed financial liberalisation under extremely permissive legislation (Corbo & De Melo, 1987; Galvez & Tybout, 1985).

The wage indexation and exchange rate policies provided Chile with some degree of economic inflexibility, and financial liberalisation policies caused an important increase of FDI, contributing to a dramatic rise in the peso from 1979 to 1981, with consequent internal and external imbalances. The conditions experienced in Chile made a real depreciation of the peso necessary, but the Chilean technocratic elite believed in non-economic intervention and the automatic adjustment of the market, and there was a hesitation to intervene as a consequence (Moran, 1991).

In 1982, the Chilean government withdrew the wage indexation measure. Unfortunately, during the second half of that year, the Mexican debt crisis – caused by a combination of low oil prices, inflationary disequilibrium, and exceptionally high-interest rates – affected the global economy (Ominami, 1991). In January 1983, Chile's central government intervened in the five largest private banks to avoid a complete financial breakdown as well as provide financial support. By 1984, Chile had negotiated a debt-rescheduling agreement with commercial creditors and launched an aggressive public investment programme, which stabilised its debt-to-GDP ratio and unemployment levels. In 1985, Chile applied for a three-year SAP sponsored by both the IMF and the World Bank. The World Bank provided a US$750 million SAL whilst the IMF allocated a US$ 546 million ESAF. With these SAPs, Chile created a more efficient and flexible public sector, stronger budgetary and institutional control, and revitalised its financial sector by encouraging an export-oriented economy. Likewise, Chile's SAPs helped to restructure the corporate and financial sectors and led to trade, fiscal, and financial reforms (Meller, 1991, 1996; Moran, 1991; Santiso, 2006).

Chile's adjustment programmes facilitated growth, provided crucial improvements to its external debt situation, and increased exports and key resource mobilisation. Further, Chile's taxation system is considered the Latin American benchmark, its design allowing continuous improvement as it supports employment and poverty reduction. SAPs in Chile have been extended to social programmes such as Chile Solidario, which was implemented in 2012 to reduce extreme poverty and improve female employment conditions and access to education

(IMF, 2014b). Table 3.4 summarises the SAPs received by each of the three countries discussed above.

Table 3.4. SAPs implemented in Latin America

Country	**Year**	**Provider**	**Loan amount (US$)**	**Condition**
Argentina	1990 Q 1 and 2 1990 Q 3 and 4	IMF IMF	2 billion 2.5 billion	Privatisation process Liquidity and bank mergers
Brazil	1998 1999–2001	IMF IMF	21.5 billion 20 billion	Debt problems Debt problems
Chile	1985 Q 1 and 2 1985 Q3 and 4	World Bank IMF	750 million 540 million	Budget The revitalisation of the financial sector

Sources: EON (2015); Fernández (1996); Giambiagi & Ronci (2006); IMF (2014); Meller (1991, 1996); Moran (1991); Santiso (2001, 2006); Schydlowsky (1995).

3.6.4. Mexico

3.6.4.1. Mexican Debt Crisis Adjustment Programme

Since the early 1980s, Mexico has been the recipient of two SAPs: during the 1982 debt crisis and again during the 1994 peso crisis. More recently, in 2013, the IMF offered Mexico a third SAP as support for a large set of structural reforms initiated by the government. The first time Mexico applied for an SAP was as a consequence of the 1982 debt crisis, which was caused by several internal and external factors. As had happened in most Latin American countries, Mexico had borrowed massive amounts at high-interest rates from private international financial institutions, mostly international banks. Unlike institutions such as the IMF and the World Bank, private institutions lend money for profit with no intention of supporting economies in distress (Edwards, 1991).

By the early 1980s, 60% of Mexican exports depended on the oil industry. From 1981 to 1986, however, oil prices dropped by 60%; at the same time, Mexico experienced high inflationary pressures and disequilibrium in its balance of payments as a result of its large fiscal deficit and overvalued currency (Lustig, 1998). At the time the crisis hit, Mexico had a highly interventionist government, with more than 1,000 SOEs in operation. Despite the extent of existing subsidies to stimulate investment, production and consumption, Mexico's fiscal coverage was extremely low (Urquidi, 1994). Further, Mexico's overvalued currency reached inflationary levels well above comparable international standards (Urquidi, 1994).

The logical result of owning a large number of SOEs is an extensive number of subsidies granted to those SOEs. Mexico, at that time, was still under the post-WWII development model of ISI and suffering its consequences: supply rigidness and inefficient resource allocation. Such an interventionist state made business and financial leaders doubt Mexico's business environmental stability, which resulted in massive capital flight (Lustig, 1998; Urquidi, 1994). By December 1982, President Miguel de la Madrid announced an emergency stabilisation package, the Programme from Immediate Economic Reorganisation (PIRE), which would have two stages: 'shock treatment' applied in 1983; and 'gradualist policies' from 1984 to 1985 (Lustig, 1998). To support PIRE, Mexico received a SAP from the IMF of up to US$3.7 billion (IMF, 1983).

The 'shock treatment' stage saw a dramatic devaluation of the controlled exchange rate (95%), increases on tax and non-tax revenues, and drastic cuts in public expenditure. By the end of 1983, fiscal borrowing decreased by half (8.6% of GDP) compared to 1982 (16.9% of GDP) (BDM, 1996). In 1983, the Mexican government forecast reductions of US$2 billion on public sector external debt and the debt-to-GDP ratio; nevertheless, public external debt increased from US$59.7 billion in 1982 to US$66.6 billion by 1983, and the debt-to-GDP ratio rose from 54.2% in 1982 to 63% in 1983 (Gurría, 1993).

Regarding the 'gradualist policies' stage, this aimed to provide Mexico with mid-term price and financial stability through drastic reduction of government deficit and substantial devaluation of the peso. In this case, fiscal austerity aspired to reduce inflation; which in theory would produce a surplus in the trade account. PIRE was designed to reach its break-even point (zero growth rate) in 1983, followed by a period of gradual recovery that was projected to reach 6% growth by 1985. But the 1983 downturn lasted longer than expected, and the anticipated break-even point became a 4.2% contraction (Lustig, 1998).

In 1984, after a moderate recovery, Mexico relaxed its fiscal position, But a new appreciation of the peso left Mexico facing a new balance of payments crisis. Once again, the government drove another devaluation and made cuts to the fiscal deficit and domestic credits. This period of relaxation on the fiscal deficit deteriorated the external balance, and undermined Mexico's credibility. By mid-1985, after failing to achieve its targets, the IMF suspended Mexico's financing. This disastrous SAP caused by the inability of the Mexican government to follow strict fiscal policies brought the Mexican economy to the brink of collapse (Gurría, 1993, 1998; Lustig, 1998).

3.6.4.2. Mexican Peso Crisis Adjustment Programme

At the end of 1994, Mexico intended to expand its exchange rate band by 15% to provide the peso with a larger operating margin. The desired percentage was quite ambitious, and the Mexican government subsequently sought to devalue the peso to cope with the pressure. The goal was attained, and by December the Mexican peso was freely floating – at the cost of US$5 billion of international reserves in two days in order to sustain the peso's strength. Mexico's inability to sustain parity caused panic, which of course led to capital flight (Edwards, 1995).

The panic spread rapidly into other Latin American countries, the phenomenon being known in economic jargon as ‘tequila effect’ (De Long et al., 1999). A region considered just days before as an investment paradise became a ‘high risk investment destination’. This crisis hit Mexico not even a year after the implementation of the North America Free Trade Agreement (NAFTA), which was seen as Mexico joining the most advanced nations in the region (Banuri, 1991; Fishlow, 1991).

The vision of Mexico as a strong nation was based on reforms undertaken under President Carlos Salinas’ administration (1988–1984), such as elimination of fiscal imbalances, a privatisation process, and important steps for an open economy. Nevertheless, economists failed to notice Mexico’s modest annual growth (2.9% average) and an accumulated current account deficit of a debt-to-GDP ratio of over 7% (Edwards, 1995).

The 1994 Mexican crisis was not caused by an insolvency problem, as was the case in 1982, but by a problem of liquidity. In order to see its way through this crisis Mexico received US$40 billion assistance from the IMF, the US government, and other donors. The adjustment programme had an immediate positive impact, and by 1995 Mexico had registered a US$7.4 billion trade surplus, a 30% increase in exports (compared to 1994), and an 8% decrease in imports (De Long et al., 1999).

Without a doubt, the tequila crisis and its adjustment provided great lessons for Mexico, in particular regarding key indices. The debt-to-GDP ratio, it was clear, needed to be less than 3% (Edwards, 1995); long-term FDI was to be preferred over the short- and medium-term equivalents because of the latter’s sensitivity to short-term changes in interest rates; export growth was a vital factor in maintaining the current account balance; and the use of fixed exchange rates as a stabilisation tool was discontinued (Edwards, 1995).

3.7. Summary

This chapter has reviewed the evolution of SAPs since their creation and examined the conditions under which they were introduced, with a focus on Latin America and especially Mexico. The chapter also outlined the IMF and the World Bank, the two institutions in charge of facilitating SAPs to their member countries, and the role that Washington, DC, plays in the performance of both institutions.

The next chapter examines the Mexican oil and gas industry, a core part of Mexico’s energy sector. It is the recent reforms of this industry that are the primary focus of this research. The liberalisation of the oil industry occurred after a period of exploitation by US MNEs. Such behaviour has shaped Pemex’s operations since its nationalisation in 1938. Chapter 4 therefore recounts the history and evolution of the oil and gas sector in Mexico from its foundation to the present day.

CHAPTER 4. THE MEXICAN OIL AND GAS INDUSTRY

4.1. Introduction

The development of Mexico’s oil and gas industry in the 20th century can be divided into three periods. The first period, from 1901 to 1937, saw the development of an industry exploited exclusively by foreign companies. In the second period, from 1938 to 1976, the industry was exploited exclusively by the Mexican state to support the country’s social and economic development. During the third period, from 1977 onwards, the industry has continued to be state-controlled, but oil exports have been boosted as a source of external financing during periods of global crisis (Benítez Manaut, 1990). This chapter describes the evolution of the Mexican oil industry from its foundation to its nationalisation and beyond.

4.2. Development of the Oil and Gas Industry

The development of Mexico’s domestic oil and gas industry prior to the 20th century began in the aftermath of Mexican Independence, which was gained in 1821. The newly created Mexican Congress suspended all entitlements to mineral exploitation by Spain in October 1823. A year later, the Colonisation Law of 1824 prohibited foreigners from acquiring property within 100 kilometres of Mexico’s borders. The acquisition of land and property by foreigners in Mexico was forbidden by the Colonisation Law Amendment of 1828, with some exceptions. In 1837, the Colonisation Law 2nd Amendment allowed a foreigner who married a Mexican citizen, for example, to become naturalised citizen and thus subject to Mexican property law (Rippy, 1972).

Table 4.1 broadly summarises the laws and regulations pertaining to the oil industry in Mexico from Mexican Independence up until the 2013 structural reforms.

Table 4.1. Summary of laws and regulations pertaining the oil industry

Year(s)	Law/Regulation	Content
1821	Mexican Independence	Mexico obtains independence from Spain.
1823	Foreign exploitation ban	All entitlements to foreign mineral exploitation are suspended.
1824	Colonisation Law	Ban on foreign acquisition of Mexico's land and property imposed.
1828	Colonisation Law Amendment	This law takes a stronger approach on prohibiting land and property acquisition by foreign nationals.
1836	Treaty of Peace and Amity	Promoted by Mexico and signed by Mexico and Spain, whereby the Spanish government officially resigned from the 'Ordenanza de Minas', the rule of law favouring Spain for mine exploitation that applied even after Mexican Independence.
1837	Colonisation Law 2nd Amendment	Citizens from other nationalities are permitted to acquire land and properties if they are married to Mexican nationals and became Mexicans under naturalisation.
1884	First Mexican Federal Mining Code	The first law on mineral exploitation, based on 'Ordenanza de Minas', granting full mineral exploitation to the Mexican state, instead of Spain.
1892	Mineral law	Mineral exploitation rights granted to private individuals. This law incorporates the 'dominio directo' clause, in which the Mexican state can claim land, soil and subsoil ownership any time if in the interest of greater public good.
1901	First Petroleum Act	Allowed the Mexican president to grant concessions of land foreign exploitation.
1909	Amendment to Petroleum Act	Granted landowners (including foreigners) exploitation rights to land with oil production potential. Full foreign oil exploitation is based on this law until 1938.
1923	Bucareli Treaty	Concession of soil and sub-soil exploitation to foreign oil companies providing limited concessions under licensing.
1938	Nationalisation of Mexico's oil industry	By decree, the oil and gas industry is nationalised, and all foreign assets seized.
1938-1946	Pemex Law	Legal framework for the regulation of oil activities in the recently nationalised Mexican oil industry.
Early 1970s	Nationalisation of core Mexican industries	Nationalisation of several industries/sectors considered vital for Mexico's economic development.
2013	Amendment of Article 27 of the Mexican Constitution	Article 27 is amended, allowing foreign investors to invest in the energy sector.

Source: Alvarez de la Borda (2006); Playfoot et al. (2015); Rippy (1972).

With the 1836 Treaty of Peace and Amity, Spain recognised Mexico as a sovereign state, bestowing all Spanish rights to the Mexican government, including the Spanish legal title to subsoil sovereignty, known as the 'Ordenanzas de Minas' (Mines Law). However, despite changes in sovereignty as a result of Mexican Independence, the Ordenanzas continued to be the rule of law for mine exploitation, with the only difference being that the resources now belonged to the Mexican state instead of the Spanish Crown. Only minor changes were made to the Ordenanzas up until 1883, when the Mexican government undertook a constitutional amendment that allowed it to enact the first federal Mineral Code for the Mexican Republic in 1884 (Rippy, 1972; Standard Oil of New Jersey, 1940).

The Mineral Code of 1884 granted owners of land with oil and mineral potential exploitation rights, providing that land owner allowed state observations to ensure worker safety (Manterola, 1938). Nevertheless, the extent of that law in terms of subsoil deposits on private property versus the scope of state power has been widely debated (Gómez Robledo, 1938). The 1884 Mineral Code was replaced in 1892 by a new Mineral Law. The new law ended the debate on 'exclusive property', substituting exclusivity with simply rights of exploitation, and bestowed the state with *dominio directo*.[9] However, the law also stipulated that owners could freely exploit their property, including combustible minerals, oil and mineral waters, without any type of special concession (Manterola, 1938). Still, mineral oil and petroleum regulations remained under the Mineral Law until 1901, when the first Petroleum Act was enacted.

4.2.1. First Period: 1901–1937

Due to Mexico's economic situation at the beginning of the 20th century, neither national enterprises nor the Mexican government possessed the necessary resources to support a domestic oil industry. In that context, the Mexican government enacted the first Petroleum Act on 24 December 1901, giving the president the right to grant concessions to foreign oil companies seeking to operate in Mexico. The law allowed foreign oil companies to explore

[9] A legal term that provides the state with total control of land and assumes that public interest in the use of soil and subsoil outweighs individual interest.

any land with oil production potential and claim ownership if oil exploitation was feasible. The law also stipulated full duty exemptions for oil-equipment imports and full tax exemptions for foreign investment engaged in oil exploitation (Alemán, 1977; Cárdenas Gracia, 2009). In 1909, an amendment to the existing Petroleum Act granted land owners with oil exploitation potential ownership of the subsoil deposits of mineral fuel. Despite the rapid growth of the industry, only minor financial benefits were returned to the Mexican economy. The 1909 amendment to the Petroleum Act served foreign private interests until it was voided in 1938 (González Roa, 1927; Meyer, 1981).

Despite the law favouring foreign investors, there were tensions between the governments of the United States and Mexico. In 1912, President Francisco Madero created a tax of MX$0.03 per oil barrel produced. Oil companies from the United States refused to pay, arguing that the tax was higher than production costs in the United States. Madero also required all oil enterprises to be registered and declare their assets. The US government retaliated on behalf of US companies by threatening the Mexican government with a military invasion, whilst at the same time aligning with Victoriano Huerta, a Mexican general opposed to the rule of Madero. The Mexican government proceeded with the policy of compulsory registration and tax. That same year, President Madero was murdered in a plot hatched by Huerta, who was supported by the US ambassador, US oil companies, and other interest groups (Cárdenas Gracia, 2009; Meyer, 1981).

US oil companies continued to exploit the Mexican oil industry until 1923 when the Bucareli Treaty came into effect. This treaty conceded land ownership to foreign oil companies under certain circumstances. In cases where ownership could not be established, the constitution granted exploitation licensing over oil and mineral subsoil deposits, but not absolute exploitation rights over those deposits (Meyer & Morales, 1990). Threats of US military action were a standard response to any attempt by the Mexican government to change the status quo.

4.2.2. Second Period: 1938–1976

From 1934 to 1936, oil company workers organised a series of strikes in an attempt to improve working conditions. The strict position taken by US corporations caused an escalation in strikes, paralysing oil activity. A massive national workers mobilisation saw the unions join together to form the Oil Workers Union of the Mexican Republic (STPRM) in April 1935. Its formation was supported by the Mexican president and it subsequently aided in the expansion of the industry (Brown, 1998). Ongoing strikes were common in the industry over the next few years. One outcome of these was that an Arbitrage Committee was established to audit the industry. The Committee found that wages in the oil industry were lower than in all other industries and that companies had profit reserves of MX$79 million. Profits earned by oil companies between 1934 to 1936 were perceived to be extraordinarily large (Rivera Castro, 2007; Silva Herzog, 1948, 1973). In 1938 the Arbitrage Committee cancelled all contracts with international oil enterprises and on 18 March the president published a decree nationalising the oil industry, including the assets of foreign oil companies (Rivera Castro, 2007). In retaliation, United States' oil enterprises stopped the supply of spare parts and raw materials to Mexico. The foreign enterprises appealed to their home governments for support. They perceived conflicts in the oil industry as being a labour issue, but instead it was a matter of national identity and the consolidation of the Mexican state as a political institution (Philip, 1982). US oil enterprises also underestimated the new US regional integration policy towards Latin America, with a focus on alliances rather than divisions within the region (Eisenhower, 1962; Philip, 1982; Sánchez, 1998).

During the 1960s, the state made several amendments to Article 27 of the Mexican Constitution, making the state the only entity allowed to exploit hydrocarbons, minerals, and electric energy. In the late 1960s and early 1970s, Mexico's energy sector enforced its harshest restrictions on foreign investment when the state took full control of a number of industries crucial for Mexico's development (Cárdenas Gracia, 2009; Reyes Heroles, 1970). In 1973, however, the oil crisis hit, which was made worse by the embargo imposed by the United States on the OPEC. The global crisis fractured Mexico's ISI development model, thus opening the door to neoliberal restructuring. Mexico experienced one of its largest periods of investment of speculative capital in the oil industry, which raised oil exports and transformed Mexico into one of the world's largest oil exporters. Based on its massive exports, the Mexican government contracted substantial loans with US financial institutions, which exponentially increased Mexico's foreign debt (Cárdenas Gracia, 2009).

4.2.3. Third Period: 1977–2013

In 1976, after extensive exploration in shallow waters, Pemex discovered one of Mexico's most important oil reserves in its southern territory. The same year a new president was elected and part of the new government's economic plan was exploiting the oil surplus by increasing oil exports based on advantageous prices and loosened fiscal pressures (Everhart & Duval-Hernandez, 2001). A series of fiscal policy errors, and disparities in the balance of payments during the period 1973–1981, and extensive external loan financing exposed the Mexican economy to external shocks. A depreciation of the Mexican peso occurred, affecting competitiveness in exporting sectors. A still overvalued peso caused massive capital flight that the Mexican government tried to halt with extra foreign short-term borrowing. These events, along with a sudden decline in oil prices, led to the 1982 Mexican debt crisis (Edwards, 1991; Lustig, 1998). Despite increases in oil prices from 1987 onwards, Mexico experienced a second financial crash, this time due to a large current account deficit. During the late 1990s, public investment in Mexico's oil industry stagnated, substituted by private capital through a new co-investment platform between private enterprises and Pemex. It became evident that Pemex was relying heavily on international service providers to muddle through critical projects of exploration and production (Playfoot et al., 2015). Further, Pemex neglected the development of technical domestic expertise related to oil production by excessive subcontracting. Its employees were merely managing contracts whilst the technical work was being done by the external companies (Playfoot et al., 2015).

The next section discusses Pemex, its history including events prior to its foundation, and the way in which it has evolved from being a local regional player to the MNE it is to date.

4.3. Petróleos Mexicanos (Pemex)

4.3.1. History and Evolution of Pemex

In the 1920s, the Mexican government founded the Centre for Management of National Oil (CAPN) as the first attempt to create a national oil enterprise. CAPN undertook oil production and refining operations on federal land; however, its production was quite modest. CAPN produced just over 7,000 barrels of oil between 1926 and 1929; an insignificant production compared to the 250 million barrels produced in Mexico by foreign companies during the same period (Alvarez de la Borda, 2006). In 1933, the plan to create a national oil enterprise began to take shape. The government founded Petróleos de Mexico, S.A. (Petromex), financed with public and private investment. Petromex attempted to regulate the domestic market of oil and oil refinement; guaranteed the internal procurement of fuel, particularly for railroads and government; and trained Mexican oil workers (Alvarez de la Borda, 2006).

Petromex owned oil wells and pipelines in the Faja de Oro,[10] as well as a refining plant and several oil stations in Tampico. Further, Petromex was a distributor of petrol, fuels, kerosene, and lubricants in seven Mexican states and Mexico City. These are all characteristics of a vertically integrated enterprise. Petromex was planned to be financed by 50% of the capital provided by the Mexican government, with the government controlling 40% of the company. The remaining 60% was offered exclusively to Mexican investors and entrepreneurs (Alvarez de la Borda, 2006). The company issued two different stock types: series 'A' stock relating to the government and series 'B' stock for private investors. By 1936, Petromex's total capital was 10.4 million pesos: 6.3 million in 'A' series stock and 4.1 million in 'B' series stock. Nonetheless, the vast majority of 'B' series stocks, originally offered to private investors, were owned by three other SOEs: Ferrocarriles Nacionales, Nacional Financiera, and Azúcar, S.A. Indeed, private investment in Petromex accounted for only 6.29%. The low investment and modest production represented a heavy burden for Petromex's consolidation and expansion (Alvarez de la Borda, 2006; Celis Salgado, 1988).

Seeking more effective control of the oil and gas industry, in 1937 the government created the General Administration of National Petroleum (AGPN), which took over the assets and responsibilities of Petromex. AGPN became the institution in charge of all assets seized from the international oil companies during the expropriation of the oil and gas industry in 1938 (Celis Salgado, 1988). To organise and coordinate the infrastructure and assets of the expropriated companies, the government created two institutions: one in charge of oil exploration, production, and refining called Pemex; and another in charge of domestic and

[10] Literally, 'Gold Strip': an extension of important oil wells and oil developments across the northern part of the state of Veracruz and southern part of the state of Tamaulipas.

international marketing, sales, and distribution for both Pemex and AGPN, called Distribuidora de Petróleos Mexicanos (Lavín Revilla, 1979).

Pemex and Distribuidora had separate boards of directors made up of representatives from diverse government ministries, AGPN representatives, and the oil workers' union. To avoid cross-information and excessive bureaucracy, the government subsequently merged Distribuidora and Pemex into a single business unit. By August 1940, Pemex oversaw the entire administration of the oil and gas industry (Alvarez de la Borda, 2006; Lavín Revilla, 1979). This part of the evolution of Mexico's oil and gas industry, from being formed by different organisations to being led solely by Pemex took place from 1938 to 1946, a period in which the Pemex Law was designed and shaped (Alvarez de la Borda, 2006).

Pemex experienced a challenging start. The incremental demand for oil and derivatives due to ISI during the 1940s exceeded Pemex's production capacities, leaving the state no choice but to import oil derivatives to cope with national demand. Further, as part of Pemex's mission of being a non-profit socially oriented organisation, the enterprise followed a 'low-price policy' that caused consumption to rocket. This affected Pemex's income negatively, a situation made worse by Pemex lacking oil to export. Thus, it was vital to seek investment to finance exploration projects and broaden Pemex's refining capacity. The Mexican government acquired a US$10 million credit from Eximbank to support, among other things, Azcapotzalco's oil refinery in Mexico City (Meyer & Morales, 1990). In 1941, Pemex created the Department of Exploration as a response to the necessity for additional exploitation projects. However, a lack of capital neglected its proper development. It was not until 1946 that Pemex effectively advanced towards full vertical integration under a more flexible administrative scheme (Powell, 1956).

Pemex's social orientation had as its main mission to preserve and take advantage of oil reserves, procure the domestic market supply, and export production surplus, thereby contributing to public expenditure through duties and taxes. The company also aimed to contribute to oil workers' education and collective wellness within exploitation zones (Alvarez de la Borda, 2006). In the early 1940s, Pemex started intensifying its exploration activities, which followed the expected learning curve process. In five years, from 1941 to 1946, the company drilled 159 wells with a success rate of 16%; the 11-year period from 1947 to 1958, by contrast, saw 621 wells drilled with a 30% success rate. In 1948, Pemex conducted more aggressive exploration activity, discovering important oil and gas reserves and developing new regions such as the one in the northeast of the country. By 1949, Pemex had discovered one of the most prominent regions at that time, identified as Nueva Faja de Oro (New Gold Strip), which became the most productive of all its reserves, providing 50% of the production of all new fields (Meyer & Morales, 1990).

Nueva Faja de Oro, along with other recent discoveries, increased oil production and reserves exponentially. In 1945, the annual production of oil fields was 43.5 million oil barrels, and proven reserves, including oil and gas, stood at 1,276 million barrels. In 1946, production and proven reserves were 49.2 million oil barrels. By 1958, production was 93.5 million oil barrels and proven reserves were calculated at 4,000 million barrels. Due to these rapid advances, Pemex strategically redistributed its plants, paying greater attention to those zones with the largest consumption in Mexico. Similarly, Pemex expanded capacities in the oil refineries to increase production and cope with demand. In 1938, the oil and gas industry had six refining plants, five of which were on the Gulf Coast and one in Mexico City. In 1946, Mexico City's refinery closed as it became obsolete, and was replaced by a refinery with a larger capacity; the new plant had a process capacity of 50,000 oil barrels per day. By 1955, its capacity had increased to 100,000 oil barrels per day. In 1950, two more refineries were built: one in Reynosa (northeast region) and one in Salamanca (Bajio region) (Alvarez de la Borda, 2006).

From 1946 to 1958, Pemex conducted an aggressive process of expansion to achieve the necessary infrastructure to meet domestic demand (Alvarez de la Borda, 2006; Meyer & Morales, 1990; Ruíz Naufal, 1988); however, its socially oriented platform on which the enterprise was established represented a burden. For example, Pemex's 'low price policy' greatly damaged its finances. Its fiscal load hindered Pemex from conducting strategic reinvestment for expansion, exploration, refining, and transportation. In the early 1950s, the taxes paid by Pemex were about half of the funds assigned to reinvestment projects (Morales, Lezama Escalante, & Vargas, 1988).

Between 1959 and 1973, Pemex's plans for expansion slowed down, ending in a production crisis. The main cause of this crisis was the change in policies targeting exploration activities, which prioritised production from current and proven wells over exploration. That increased oil and gas production, whilst postponing the search for new deposits. From 1964 to 1970, Pemex reversed its approach and placed emphasis on a more aggressive exploration. During this period new oil reserves were located but not exploited. Exploration projects conducted by Pemex, often over 3,000 metres underground, resulted in the location of new reserves. Yet discoveries are not the same as production. The cost of deep-sea water exploration only contributed to the already deep fiscal burden that Pemex had been shouldering since the day of its foundation (Morales et al., 1988).

In 1966 Pemex stopped oil exports due to difficulties dealing with domestic demand. In 1971, for the first time Mexico began importing oil and derivatives as a result of the diminished capacity of Pemex to meet demand. In 1973, Pemex increased its prices to raise its revenue – a first. From the mid-1960s to mid-1970s, Pemex moved towards its own research and development (R&D), hence the creation of the Institute for Mexican Petroleum (IMP). This organisation was designed to develop scientific and technological research in order to reduce the high costs of imported technology and to formulate a more comprehensively vertically integrated industry.

From 1970 to 1976, Pemex began production in Reforma[11] on fields discovered several years earlier. At the same time, it started developing oil rigs off the state of Campeche. The Reforma fields became the most important oil fields in Mexico, and thanks to them annual production reached 209.8 million oil barrels in 1972, a new national record, overtaking the record set in 1921 of 193.3 million oil barrels. By 1976, Pemex initiated production on the first Campeche shallow waters development, named Chac. In 1979, an extension of the Chac reserve was located in shallow waters off Campeche. The extension was an enormous field that was named Akal. Akal and Chac became known as the Cantarell fields. Jointly, Cantarell and Reforma were providing 93% of the total production in Mexico. In 1982, Mexico produced 1,002 million oil barrels, a volume that placed Mexico as the fourth-largest world oil producer (Alvarez de la Borda, 2006; Meyer & Morales, 1990).

In 1982, the external debt crisis struck Mexico, pushing the government to implement SAPs. For Pemex, this meant the modernisation of its production structure and a reduction in investment projects in order to increase productivity, revenue, and efficiency (Morales et al., 1988). By 1989, Pemex had created an independent enterprise designed to deal with foreign commercial affairs: Petróleos Mexicanos Internacional (PMI) (Comercio Internacional, S.A. de C.V.). PMI's main task was to coordinate exports of oil and derivatives. Ten years later, in 1992, Pemex modified its organisational structure to end up with four autonomous

[11] Oil field region in the state of Chiapas, bordering the state of Tabasco.

departments: Pemex Exploración y Producción (PEP), Pemex Refinación (PR), Pemex Gas y Petroquímica Básica (PGPB), and Pemex Petroquímica (PP) (Alvarez de la Borda, 2006).

PEP is the department in charge of exploration and production of oil and natural gas reserves and of transportation and storage. Its operations are concentrated in four main zones: northeast, southeast, Campeche maritime operations, and the Gulf of Mexico. PR is responsible for the production of fuel and other derivatives such as petrol, diesel, aviation fuels, asphalts, and lubricants. PR also stores, transports, distributes and commercialises all its products, including petrol and fuel distribution to all gas and petrol stations across the country. PGPB processes, transports, distributes, and sells natural and liquefied gas along with other primary products. PP processes complex industrial petrochemicals in four petrochemical centres, and four petrochemical groups (Shields, 2003).

Since its foundation, Pemex has been a core driver of Mexican economy as the largest fiscal provider of public expenditures (López-Morales & Nava-Aguirre, 2018). Recently Pemex has faced multiple challenges to improve its efficiency, increase productivity, and maintain its corporate social responsibility. It is also facing fierce competition and fiscal inequality. Pemex has to compete against large corporations whilst dealing with an enormous fiscal burden, with little or no leverage for reinvestment in technology and new projects. The following subsection discusses Pemex and the oil and gas industry's vertical integration before the 2013 energy reforms.

4.3.2. Pemex Vertical Integration Prior to Reforms

National oil companies in oil-producing economies base their revenue in the upstream part of the value chain. However, the standard path is to achieve vertical integration across all streams. Integration allows them to capture revenue from all the value-added activities related to oil and derivatives (Pirog, 2007). It also helps, in theory, to manage inventories, improve refinery designs, and save across a broad range of transaction costs. Integration also supports capital investment planning in different phases with total coordination. Integrated enterprises grasp advantages in logistics, essentially on fluid flow management. In practice, however, national oil company monopolies only worked effectively until their growth peak in the early 1970s (Al-Moneef, 1998). Then oil companies around the world started privatising non-essential activities, and in many cases diversifying their investment portfolios – but not Pemex.

Prior to the 2013 energy reforms, the Mexican oil industry was fully integrated. Pemex's industrial structure was built on four fundamental pillars: the state-exclusive Pemex ownership; the monopoly established and protected by the Mexican Constitution; the large vertical integration of the oil industry; and the absolute and direct administrative control of the government over the industry. In general, vertically integrated oil industries involve diverse economic activities. For example, extraction represents perhaps the largest part of their profits, whereas their manufacturing activities seek to create marginal revenue streams to achieve return on investment and a reasonable profit. Logistics channels are typically natural monopolies, and revenues are necessarily regulated. In the case of Pemex, the diverse and large number of services requested and self-provided made it the most vertically integrated oil enterprise in the world (Lajous, 2015).

Pemex's social orientation forced it to intervene in the securing of goods and services supply. In cases where the private sector could have secured that procurement, Pemex sacrificed profit in order to allow access to affordable energy to Mexican consumers. Likewise, in other activities where external suppliers could have been used, Pemex once again prevented that. Pemex managing directors saw in vertical integration an opportunity to grow, reduce supply risks, and control the process of goods and services acquisition. The ISI industrialisation model stimulated Pemex's large vertical integration at a time when the international oil industry was moving towards privatisation of non-essential activities, and development of specialised service enterprises and external engineering and construction contractors (Lajous, 2015).

Pemex as a national oil monopoly has been the only enterprise in charge of developing fuels and oil derivatives. As a result, supply and distribution strategies were determined by Pemex. Gas production in Mexico is linked to oil extraction, and from 1940 to 1995 Pemex controlled the monopoly of production, trade, and transportation of natural gas. Prior to 1995, Pemex was the exclusive importer of natural gas, the consumption of which, compared to that of liquefied petroleum gas (LPG) consumption, was quite modest. The first step towards the fragmentation of Pemex’s vertical integration came in 1995 with an Article 27 amendment to allow private investment in transportation, distribution, storage, and commercialisation of natural gas (Rosellón & Halpern, 2001).

The biggest move to break up Pemex’s integration came in 2013 with the energy reforms. These reforms established a new system in which the state still retains ownership of oil and hydrocarbons found in Mexican subsoil, but has opened up extraction and exploitation to allow domestic and foreign private enterprises to work independently, or in ventures with Pemex, in at least four different arrangements: profit sharing, production sharing, licensing, and service contracts (Plante & Cañas, 2014). Under these reforms, Pemex is still owned by the Mexican state, but is now working in partnership and in competition.

4.3.3. Pemex Today

Pemex today finds itself in a difficult and challenging situation. It was created in 1938 as a non-profit socially oriented enterprise to exploit oil reserves to supply the domestic energy market and provide a large fiscal contribution to assist the government with public expenditure. To date, Pemex has been Mexico’s main tax contributor, providing about 30–35% of the total tax revenue the government receives. In its current fiscal situation, Pemex doesn’t have enough capital to finance its own infrastructure and project investments, or develop its own technology (Medina, 2012).

The Mexican government has historically over-relied on Pemex's tax contribution and failed to broaden its taxation regime. Further, the low wages earned by oil workers during the pre-nationalisation stage led to the government granting excessively high salaries and perks following nationalisation, compared to any other industry in Mexico. For example, Pemex has impressive medical services and a disproportionate retirement plan. Until recently, Pemex workers had the option to pass on to a family member their rights over their permanent contract or sell it to another person, while retired workers received a retirement salary and perks, plus the profit from selling their contracts. These unique conditions made Pemex, a SOE, appear to be a family business (Negrete, 2016).

Pemex faces many obstacles to growth, but the oil workers union is the biggest. Oil union leaders are famous for becoming millionaires within a few years of their administration. Carlos Antonio Romero Deschamps, a former oil worker with no business background, is the current national leader of STPRM. His fortune is the product of his role as an oil union leader as well as political corruption. Romero has been scrutinised by the Mexican media – although, never by a Mexican authority – on account of his vast fortune. In 2016, an organisation of oil workers presented a lawsuit against Romero for illicit enrichment, illegal operations, collusion with organised crime, illegal union assets sale, diversion of resources into a private bank account, acquisition of yachts and luxury apartments in Mexico and the United States, and other extravagances such as Ferrari and Lamborghini cars (Flores, 2017; Vergara, 2017). However, Romero is untouchable, as the union promises its votes to the Institutional Revolutionary Party (PRI)[12] during elections. In 2000, when the PRI lost a presidential election for the first time,

[12] The PRI ruled Mexico for 71 years from 1929 to 2000; it is also the party of the current president, Peña Nieto.

the administration of the new president, Vicente Fox, investigated the diversion of a US$53 million fund from STPRM and Pemex to PRI's presidential campaign, to favour its candidate Francisco Labastida. This episode is known in Mexico as 'Pemexgate' (Pazos, 2016).

In 2012, the year before structural reforms were launched by President Enrique Peña Nieto, Pemex reported losses of MX$91,500 million (about US$5,100 million). This was in part due to federal taxes of MX$876,000 million (about US$48,800 million). As pointed out by the Mexican journalist Enrique Campos, *"It hasn't been possible to break the symbiosis between oil and national expenditure, and there in the middle is the national oil enterprise, smashed by the consequences of this undesirable comfort zone"* (Campos Suárez, 2012, p. 1).

Apart from its inefficiencies, Pemex possesses an excess of labour provided by the corrupt STPRM. Corruption is spread across contractors and suppliers in collusion with senior managers and union leaders. Despite the enormous money leaks due to corrupt practices, in 2016 Pemex had earnings before interest, depreciation, and amortisation (EBITDA) of MX$1,000 million (around US$55 million). Thus, Pemex possesses the potential to be a healthy enterprise, if the Mexican government would relieve it of its large fiscal burden. Furthermore, Pemex is forced to constantly issue debt bonds in order to capitalise its operations. The company's bonds are appealing to investors because of their attractive interest rates and because they are endorsed by Mexican federal financial institutions. However, debt bonds are just short-term solutions. Pemex can be – and has been – upset by rating agencies due to its limited growth and proven operational efficiencies (Campos Suárez, 2012; Periódico Zócalo, 2016).

4.4. Regulatory Environment

The Mexican oil and gas industry is in a precarious position. Oil prices, new oil extraction technologies in the form fracking and deep-sea water exploration, changing market composition (including the reinsertion of Iran into the oil arena), and increasing international competition have forced the Mexican government to open up Mexico's economic 'sacred cow' to foreign investment and international competition. Pemex's situation was seen by some as unsustainable, one that could only be improved by allowing foreign interests to extract and refine oil. Pemex needed partners and competitors to reduce its fiscal duties and operate in fields where it did not have any experience (Pazos, 2016).

When Mexico undertook structural reforms in 2013, those introduced in the energy sector would have perhaps the largest impact on the economy. The energy reforms provide access to the oil, gas, and hydrocarbon markets for domestic and foreign entities, including public and private firms. The Mexican government divided the oil and gas reforms into bidding rounds, and as part of this process it created different organisations to regulate bidding, contracts, and processes segregated by industry sector. This section explains the nature and scale of the negotiating rounds, and clarifies the role and scope of regulatory institutions.

4.4.1. Negotiating Rounds

In order to open the oil and gas industry up to private investment, the Mexican state divided the process into a set of organised, consecutive negotiations known as negotiating rounds. Each round concerns different oil and gas reserves of diverse nature, such as land reserves, sea reserves, unexplored fields, mature fields, gas types, etc. At the time of writing, three rounds have been initiated, which are known as round zero, round one, and round two. Round zero concerns oil and gas reserves to be exploited exclusively for Pemex and the projects in this round are not open for bidding; however, they are open to strategic partnership, also known as farmouts, in which Pemex can work along strategic partners.

Round one has been finalised and originally involved five different projects (shallow waters exploration, shallow-water extraction, land reserves extraction, deep-water exploration and extraction, and unconventional fields). Unconventional fields, which include shale (fracking) oil and gas, have been postponed because the fracking regulatory framework in Mexico is underdeveloped. Round two, the current round, involves three projects: shallow waters exploitation and extraction, wet and dry land gas reserves exploration and extraction, and land oil reserves exploration and extraction. Contract types vary across projects, and depending on the project they can be share production projects or licensing projects. Table 4.2 summarises the content of each of the three rounds.

Table 4.2. Mexico oil negotiating rounds

Round	Characteristics	Type of contracts	Allocation date
Round 0			
Fields and oil deposits assigned exclusively to Pemex. Not open for bidding, but for strategic partnership with Pemex known as 'farmouts'	Reserves assigned to Pemex for a forecasted production of 2.5 million oil barrels per day until 2050	Farmouts	Late 2016/2017
Round 1			
1.1. Shallow waters exploitation only	14 areas open for bidding	SPC	July 2015
1.2. Shallow waters extraction	5 areas open	SPC	October 2015
1.3. Land reserves extraction	25 areas open	LC	December 2015
1.4. Deep waters exploration and extraction	10 areas open	LC	Early 2017
1.5. Prospective round: unconventional fields / shale oil and gas	Prospective shale oil fields	LC	Postponed: date to be determined
Round 2			

2.1.Shallow waters exploration and extraction	15 oil areas in shallow waters open	SPC	March 2017
2.2. Land deposits of wet and dry gas (exploration and extraction)	12 areas of hydrocarbons: 9 dry and wet gas reserves, 3 superlight and light oil	LC	April 2017
2.3. Land reserves oil and gas exploration and extraction	14 existing areas varying from light oil, dry and wet gas	LC	To be determined

Source: CNH (2017).
Note: SPC = Share Production Contract; LC = Licensing Contract.

Each of the rounds involve two types of contracts: share production contracts (SPC), and licensing contracts (LC). Under a SPC contract, the new contractor company (private investor) extracts oil, and, based on the clauses specified in its contract, the company is required to provide part of the extraction to the Mexican state. That share can be either oil and/or gas, or capital. In contrast, under a LC contract, the company (investor), provides the capital and meets all expenses related to production, taxes, and all other fiscal obligations. Once the oil is extracted, it becomes the investor’s property.

Round Zero: Under this initial round, reserves of oil and gas were assigned exclusively to Pemex, in order to safeguard Pemex’s production target of 2.5 million barrels per day until 2050. However, some of the projects are open to companies engaging in partnership with Pemex and private contractors. To date, round zero comprises four projects: the Trion, Ayin-Batsil, Cardenas-Mora, and Ogarrio reserves. Trion reserve is the only farmout that has been assigned. That project is a LC contract, obtained by the Australian group BHP Billiton; Trion is a large reserve of light oil and gas. The three remaining projects are still open for bidding. With exception of Ayin-Batsil, round zero’s projects are all LC contracts.

Round One: This originally involved five projects: 1.1) shallow waters exploration and extraction; 1.2) shallow waters extraction; 1.3) land reserves extraction; 1.4) deep waters exploration and extraction; and, 1.5) unconventional fields. However, the unconventional fields, that of fracking/shale oil reserves has been postponed. Shale oil is obtained through new technologies, involving large amounts of water and chemicals; it is thus, a highly pollutant process. The lack of regulations to exploit fields of this nature led to the Mexican government suspending temporarily the bidding process. For Project 1.1 the government opened 14 areas for bidding, all under SPC contracts, for which only two areas were assigned. The remaining 12 areas were either deserted or the bids offered were below the minimum bid required. Both areas were assigned to two strategic partners working together: Sierra Oil and Gas, a Mexican group; and Talos Energy, a company headquartered in Texas.

Five areas containing nine fields in total were offered for bidding under the SPC contract scheme for Project 1.2. Four of the areas are reserves of light oil and gas, whilst the remaining area is a reserve of heavy oil and gas. Three out of the five areas were assigned. The largest, estimated at around 107 million cubic feet of light oil and 69 million cubic feet of gas, was assigned to ENI International B.V., a company partially owned by the Italian government. The remaining two projects were awarded to PanAmerican Energy LLC, a cluster formed by US and Argentine companies; and by Fleldwood Energy LLC and Petrobal S.A.P.I. de C.V., a cluster of US and Mexican groups. The two unassigned areas are those with the lowest reserve capacity. The smallest project is a reserve of heavy oil and gas. For the first time in the rounds, one of the oil 'globals'[13] (ENI International) was present. For Project 1.3, 25 fields were offered for bidding under the LC scheme and all fields were assigned. Twenty of these fields were awarded to Mexican companies, and the remaining five were awarded to Canadian, US, and Dutch companies.

For Project 1.4 the Mexican government offered 10 oil and gas deep-sea water reserves for exploration and extraction, under the LC contracts scheme. Bids came from large number of

[13] In the oil and gas industry, according to their role, oil companies are known as *service contractor* companies providing services for major consortiums; *big loads*, large vertically integrated companies, as is the case of most of SOEs; and *globals*, global oil enterprises specialising in oil and gas exploration and extraction.

the ‘globals’. Deep-sea waters oil reserves are typically the most difficult to explore and develop, and consequently are seen as long-term projects that require several years to start producing. These are reserves of light and super light oil, the most valuable oil types in the industry, and the investment required is colossal. Project 1.4 held the highest expectations because of the magnitude of the projects and players. Eight out of 10 reserves open for bidding were awarded. Among them, the two largest reserves of super light oil, which combined total 3,500 square kilometres, were awarded to China Offshore Oil Corporation, the only corporation bidding as an individual firm. All other bidders presented their proposals in clusters. For example, Total Oil (France) obtained one project in partnership with ExxonMobil (US) and two more projects in partnership with Statoil (Norway) and British Petroleum (BP) (UK). The other clusters were formed by Chevron (US)-Pemex (Mexico)-Inpex (Japan), PC Carigali (Malaysia, part of the Petronas Group)-Sierra Oil and Gas (Mexico), and Murphy Oil (USA)-Ophir Energy (UK)-PC Carigali-Sierra Oil and Gas.

Round Two: This round is currently in process and includes to date three projects: 2.1) shallow waters exploration and extraction; 2.2) wet and dry gas land deposits; and 2.3) land reserves oil and gas exploration and extraction. Project 2.1 has been awarded but Projects 2.2 and 2.3 have not yet been opened for bidding, with a date still to be determined.

4.4.2. Regulatory Institutions

Following the opening up of Mexico’s energy sector, it was necessary to have better mechanisms to observe and regulate the energy market. Five institutions are now in charge of regulatory coordination: the Energy Regulatory Commission (CRE), the Hydrocarbons National Commission (CNH), the Agency for Safety, Energy and Environment (ASEA), the National Centre for Energy Control (CENACE), and the National Centre for Control of Natural

Gas (CENAGAS). The two core regulatory institutions within the oil sector are CRE and CNH, however the other regulatory institutions all play important roles in the industry.

CRE was established in 1995 to promote efficiency and the reliable supply of hydrocarbons and electricity. Originally managed by the Secretary of Energy, in 2008 the Renewable Energy Development Act granted CRE autonomy (with some limitations) within the electricity sector, under the supervision of the Federal Electricity Commission (CFE). Prior to the 2013 reforms, the Secretary of Energy developed the policies to regulate all activities in the oil and gas industry. The 2013 reforms strengthened CRE’s functions as the industry midstream and downstream regulator and expanded its scope to the electricity sector. The reform also created CENACE and CENAGAS, two decentralised organisations reporting to CRE, both important controllers of Mexico’s oil and gas value chain (OECD, 2017).

CRE’s mission is to grant certainty to productive investment, foster competition under equal conditions, and guarantee energy coverage, quality, and adequate supply of energy for the Mexican society. CRE regulates, among other things, natural gas transportation, storage, distribution, compression, liquefaction and regasification; as well as public sale of natural gas, LPG, petroleum derivatives, and petrochemicals; and transportation of fuels, petrol, diesel, and biodiesel. CRE also controls power generation, transmission, and electric distribution through networks that are not part of the public service and electricity commercialisation (CRE, 2017).

CNH was created in 2008 as the regulatory organisation for oil exploration and extraction activities in order to maximise oil revenues. CNH is thus the industry’s upstream regulator. The 2013 reforms provide CNH with autonomy and authority to organise, regulate, and supervise the oil and gas negotiating rounds. CNH’s role is framed as supervision of hydrocarbons exploration and extraction, collection, integration into transport systems, and storage. This institution is also in charge of issuing all exploration and extraction contracts, and technical support for both contractors and the Secretary of Energy (Congreso de la Unión, 2014; OECD, 2017).

ASEA is an institution created by the 2013 reforms that guarantees and regulates safety and environmental protection within the hydrocarbon value chain. It is an administrative organisation, decentralised of the Secretary of Environment and Natural Resources (SEMARNAT). ASEA (2017) is designed to supervise the industrial, operational, and environmental safety of hydrocarbon activities.

Created by the 2013 reforms, CENACE is an autonomous institution decentralised from the Secretary of Energy. CENACE objectives are to increase competitiveness and sustainability of the national electric system, administer the bulk electric market, as well as planning, improvement, and modernisation of the existing nets for general distribution (CENACE, 2017).

CENAGAS was created in 2014 as result of the 2013 energy reforms. CENAGAS is an institution decentralised from the Secretary of Energy. It is responsible for the National Integrated System of Natural Gas Transportation and Storage (SISTRANGAS). CENAGAS also operates and maintains natural gas pipelines. Its main tasks are to guarantee a reliable procurement of natural gas in order to increase productivity in numerous economic sectors, increase competition and competitiveness in the natural gas transportation sector, increase efficiency through better planning, and reduce transportation costs, which will translate into better consumer electricity tariffs (CENAGAS, 2017).

4.5. Conclusion

The Mexican oil industry economic landscape has radically changed over the last century. Oil corporations have seen a diminishing of their power due to a changing market and developments in technology. To adapt into these new conditions, the state has opened the industry on which the Mexican economy largely depended up to private investment. Mexico's 2013 energy reforms allow private investment in the Mexican oil sector without sacrificing the ownership of Mexico's iconic oil enterprise, Pemex. Mexico has made series of changes from a regulatory perspective to institutional foundations. This chapter described the evolution of the Mexican oil industry from its foundation, which provides crucial context for the empirical study of the recent oil industry reforms reported in the following chapters.

CHAPTER 5. METHODOLOGY AND RESEARCH DESIGN

5.1. Introduction

In the previous chapter, I discussed the evolution of the Mexican oil industry, including the energy structural reform undertaken by the government, a reform with neoliberal foundations. The liberalisation of Mexico's oil industry presents an opportunity to explore the role and extent of neoliberal procedures in the recent reforms. This points towards a qualitative research approach aimed at exploring the neoliberal scope within an industry central to Mexico's development. This chapter describes the methodology of this study. It presents the philosophical position on which this study is rationalised; the research strategy adopted; the research design and data collection techniques; a description of how data were analysed; and, finally, the quality of the research and its limitations, before providing a summary of the chapter.

5.2. Philosophical Position

The philosophical paradigm of this research rests on the assumption that reality is produced by individuals and their interaction in their social worlds (Merriam, 1988). The views of social actors can change, and so their understanding of social reality; thus the existence of multiple constructions and interpretations of reality (Blaikie, 2007; Merriam, 2002). These philosophical assumptions are linked to qualitative and interpretive paradigms (Collins & Hussey, 2003; Creswell, 1994, 2012).

With regard to what is possible to know about the world (ontological) and how it is possible to know of it (epistemological), this research follows an interpretivist and constructionist paradigm. It aims to understand the SAP phenomenon from the perspective of human experience rather than establish mere cause and effect, which is characteristic of the post-positivist perspective (Cohen & Manion, 1994; Creswell, 2003). Under the interpretivist approach, there is subjective bias as researchers bring their own set of beliefs and sense about the world, and the way in which any given phenomenon should be studied (Denzin & Lincoln, 2005). Knowledge depends, thus, on particular circumstances such as cultural and historical contexts. Thus knowledge comes in diverse forms and interpretations of reality (Levers, 2013).

Constructionism is built on elements of interpretivism, essentially within epistemological subjectivism. Through constructionist lenses, reality is created with the interaction of the interpreted and interpreter (Crotty, 1998). The researcher's observations are shaped by the phenomenon and other external influences. In that instance, the researcher is aware that her/his interpretations are influenced and subjective, avoiding claiming to be discovering an absolute "truth" (Levers, 2013).

This research therefore contrasts with most analyses on SAPs, which are based on quantitative methods. This study sought to obtain interpretations of the world – in this case, the phenomenon of the Mexican oil industry – by individuals affected by that phenomenon. The participants' own interpretations are vital, and can be a path for further understanding of the subject (Hammersley, 1992). It is important for this research that the data collection process minimises researcher bias in relation to the respondents (Snape & Spencer, 2003). From my position as researcher, I highlight the importance of reflexivity, as my own background and interests in this topic may influence interviewees' and my own interpretations. The reflective notes I produced during the interviews were used to increase my consciousness of potential bias in my interpretation of interviewees' opinions.

The reasoning for choosing interpretivist and constructionist paradigms are grounded in the perception that the researcher is not completely external to the process, as the researcher is actively and consciously constructing theory. Hence, when the researchers are external to the data, they are internal to the theorizing emergence process; in that sense, the data influences the way in which the researcher constructs the emerging theory (constructionism) (Crotty, 1998). Therefore, it is alleged that there is no a reality waiting to be discovered. The meaning, or at least, part of a reality, comes entirely from the subject, its foundations are clearly subjective, and has to be interpreted under the researcher's own terms (interpretivism) (Corbin & Strauss, 2008).

My reasoning for preferring a qualitative study over a quantitative approach is that the post-positivist approach to the impact of Mexico's oil industry stakeholders is no longer relevant. That impact has been widely studied in the literature. This study was designed to give those involved and affected by the oil reform the opportunity to explore the issue themselves. SAPs and pro-market reforms are complex and technical phenomena that are only understood by a small percentage of the population. As the interviewer in this research, I simplified the concepts for those participants with little or no knowledge on the subject. Those participants who specialised in economics or pro-market reforms were given the opportunity to fully explore their positions and reveal their idiosyncratic opinions (Ritchie, 2003).

5.3. Research Strategy

This study applied a qualitative research strategy designed to elicit and understand interviewees' opinions related to the research topic. In this research all interviews took place at a time and place chosen by the participants to maximise their comfort and facilitate responses. Qualitative research often follows an inductive style, which is important when interpreting complex situations (Creswell, 1988).

A qualitative case study can provide a detailed examination of a single case (Abercrombie, Hill, & Turner, 1994). A single case can produce the context-dependent knowledge and expertise as one of the most efficient methods of learning about the phenomenon (Flyvbjerg, 2006). One of the most valuable features of a qualitative case study is the opportunity of exploring a phenomenon within its context using a number of data sources (Baxter & Jack, 2008). Furthermore, to deal with human and social perceptions, is almost impossible to produce predictive and context-independent theory, therefore the usefulness of a qualitative case-study for this study (Campbell, 1975; Flyvbjerg, 2006).

Some scholars observe that better findings can be produced from deeper observations, rather than large statistical samples (Beveridge, 1953; Kuper & Kuper, 1985), and case studies are likely to produce better theory than studies produced by large samples (Walton, 1992). In regards to the different classification of case studies, the Mexican oil industry is a “critical” (Flyvbjerg, 2006) and “exploratory” case (Baxter & Jack, 2008), as the industry holds strategic importance in relation to SAPs and firm’s access to market. The industry thus represents rich case data to generalise the experiences of other SOEs affected by SAPs.

The limited theoretical knowledge existing on SAPs and industry privatisation requires an inductive research strategy that allows theory to emerge. This study provides a framework for similar cases in different contexts in order to extend theory and generalisations about other SOEs in Latin America and potentially in other regions (Siggelkow, 2007). Qualitative case studies usually get closer to theoretical constructs providing often much more persuasive arguments than broader empirical studies (Siggelkow, 2007).

In qualitative research, the total number of participants is not the result of a planned sample strategy but is determined by different factors. ‘Sampling’ in this study could not be adopted since respondents were not drawn from a ‘target population’ (Flick, 2012). Additionally, the literature lacks robust guidance about the ideal number of interviews to be conducted for both organisations and individuals (Stavros & Westberg, 2009). Among the factors determining the number of interviewees is the accessibility of participants and potential interviewees (Flick, 2008, 2012).

The number of interviews needed for qualitative exploratory research varies. Several authors recommend interviewing sufficient participants until their answers are not providing new insights, or when the researcher is not learning anything new, a phenomenon known as data saturation (Bryman, 2012; Glaser, Strauss, & Strutzel, 1968; Ragin, 2012). Also, resources and time are major factors when doing research through interviews and conducting exploratory qualitative research. This again contrasts with quantitative research, which follows analytical and logical procedures (Becker, 2012; Wolcott, 2012).

This study explores the evolution of SAPs within a specific context: the recent liberalisation of Mexico's oil industry. Because of SAPs' economic foundation, the debate is largely dominated by statistical methods, and these have failed to reach a consensus on SAP evolution. This thesis therefore explores the evolution of SAPs in Mexico using a qualitative approach. The emic perspective, from which qualitative research examines groups and societies, allows approaching those groups 'on their own terms', rather than privileging the researcher's own cultural concepts influenced by his/her own theories (Boyacigiller & Adler, 1991; Morey & Luthans, 1984). Further, qualitative methods take a more comprehensive, holistic approach to a phenomenon in its context.

In addition, developing countries like Mexico are ideal locations to conduct qualitative studies. Respondents are often unfamiliar with questionnaires, and face-to-face interviews are a matter of social relations and trust (Marschan-Piekkari & Welch, 2004). Qualitative research fits perfectly with Mexico's culture in the relation to trust and personal interactions. Furthermore, qualitative research aims to understand the real meanings behind beliefs, not merely measure observable behaviours (Buckley & Chapman, 1996). It aims to collect rich data which often translates into more meaningful results *"about 'soft' interrelationships between core factors"* (Marschan-Piekkari & Welch, 2004, p. 14).

This research was conducted through interviews with state secretaries, law makers, multilateral organisations, and CEOs and regional managers of MNEs, among others. These participants are considered elite for research purposes because of the difficulty in accessing them due to their positions and the geographical area where they operate (Adler & Adler, 2012), their positions places them in the category of "key informants". In such cases it is suggested than fewer than a dozen interviews can be considered to suffice, when the aim is to share common views and experiences (Adler & Adler, 2012; Charmaz, 2012). The importance of elite participants lies in the inclusion of subjects representing key positions, rather than the number of participants (Brannen, 2012), and it is the researcher, based on the given scenario, who must decide *"how many interviews they can feasibly undertake"* (Daniels & Cannice, 2004, p. 187).

5.4. Research Design and Data Collection

5.4.1. Accessing the Field

The participants in this research were contacted in different ways. Contact with interviewees from the United States was facilitated by some personal acquaintances in the Houston (Texas) oil industry. Most of those interviews took part in Houston, with the exception of one interview in San Antonio (Texas). Interviews in Mexico were conducted in Mexico City, Monterrey (Nuevo Leon), and Ciudad del Carmen (Campeche). Mexico City is important for being a depository of IGOs, investors, universities and Secretariats. Monterrey is significant for this research because of its private education sector. Finally, Ciudad del Carmen is the most important location for Mexico's oil operations.

Secretariats, SOEs/state productive enterprises (SPEs), IGOs, and the majority of oil industry investors were contacted via email. I introduced myself as a PhD candidate of the University of Auckland who was conducting research for my doctoral thesis. The response was very positive, and not all interested respondents were able to participate in the interviews, mostly because of time and scheduling issues. I believe the response were so positive largely because the research was being carried out by a student from a foreign university. The result might have been different had I been a PhD student from a local university.

A total of 20 participants were interviewed, the majority individually, with one interview involving multiple participants. With the exception of one interview, all the interviews were recorded. The latter participants were subcontractors of Pemex from different domestic and multinational firms. While I did not know in advance that there would be five people participating, the interview proved very valuable, generating opposing opinions and creating an interesting and insightful dynamic.

In the field, a few adjustments had to be made; for example, some interviews had to be postponed because of the interviewee's changing schedule, or because of the location. In some other cases, interviews were cancelled, after an international corruption scandal involving a number of oil SOEs from Latin America, including Pemex. The scandal involved the Brazilian construction company Odebrecht, which was charged with paying CEOs millions of dollars in bribes in exchange for multimillion dollar contracts. Emilio Lozoya Austin, former CEO of Pemex was indicted as a person of interest. As a consequence my scheduled interviews with Pemex managers were not allowed to proceed.

Following the scandal, Pemex top management gave directions to all employees not to share any company information with anyone. Two out of the three senior managers who had previously agreed to participate apologised and cancelled their interviews. The third agreed to participate under five conditions: 1) the interview would not be recorded; 2) no document would be signed; 3) no notes would be taken; 4) the study would not in any way identify this particular individual; and 5) all information provided would be treated as anecdotal and circumstantial. I proceeded with the interview under these conditions. These types of late adjustments are not rare, since the situation of the oil industry changes every day, nevertheless, the impact on research quality was not affected.

5.4.2. Data Sources

This study utilised two primary data sources: in-depth semi-structured interviews and on-site observations. The secondary data gathered included books, websites, legal documents, newsletters, journal articles, newspapers, specialised magazines, IGO publications, historical and legal documents, and laws, in particular historical constitutional changes in Mexico. The use of multiple sources aims to provide a broader and more profound understanding of, and stronger conclusions about, the phenomenon under study (Eisenhardt, 1989; Yin, 2009).

The theoretical framework for the study (see Chapter 2) was developed from academic sources, including but not limited to journals, books, and academic reviews. Multiple sources were used to reduce the inherent biases of a single method (Creswell, 2003). Similarly, the use of multiple methods, materials, and perspectives in a study provides the research with the rigor, complexity, and depth required by any research inquiry (Flick, 1998).

5.4.2.1. Semi-structured Interviews and Ethical Considerations

The main source of data for this study was in-depth semi-structured interviews. The goal of these interviews was to unveil the scope of SAPs and the neoliberal policies behind the liberalisation of Mexico's oil industry. Semi-structured interviews play a central role when exploring an organisation or industry. They allow researchers to be guided by key concepts and questions on one hand, whilst granting participants a more fluid and broader degree of freedom for their responses on the other hand (Rubin & Rubin, 1995; Yin, 2009). This degree of tolerance within the interview permits the emergence of other themes not considered a priori. Interviews are not just simple tools of data gathering; they also offer the opportunity of interaction between two or more people (Fontana & Frey, 2000).

The guidelines used to conduct semi-structured interviews with diverse stakeholders of the Mexican oil industry were approved by the University of Auckland Human Participant Ethics Committee under reference number 014334. Interviews were conducted in two stages. During the first stage, I interviewed academics, private oil sector CEOs and regional managers, and government and multilateral organisations officials. It was during this stage that I interviewed participants in both Mexico and the United States. During the second stage I interviewed SOE/SPE CEOs and/or managers and senior managers in order to obtain their perceptions.

5.4.2.2. On-site Observations

Observations are naturally occurring data. The nature of semi-structured interviews allows a sound degree of interaction with participants (Ritchie, 2003). From that interaction is possible to interpret some behaviours in relation to the topic in discussion. It was indeed quite clear when interviewees were part of the government apparatus, as they were cautious about how they spoke, and the terms they used were often carefully stated. This is because it is natural for interviewees to see the researcher as an intruder; they might even suspect the interviewer to be a spy who will report back to their superiors. The attitude of a participant towards a researcher is context-specific, and this is even more pronounced when the participant is not a person contacted by the researcher, but a person assigned to be interviewed by the one contacted.

For top managers and scholars, their position influences their interview behaviour differently. CEOs in particular expressing strong opinions. They are also more prone to jokes and use informal language, as their position gives them a wider conversational licence. Those scholars I interviewed showed similar characteristics but tended to be far more pragmatic, as their knowledge is based on known cases supported by a theoretical background.

Members of IGOs were perhaps the most diplomatic of all the interviewees. They constantly reminded me that the opinions expressed were their own and may or may not be in line with those of their organisation. Expressions such as "from my very personal point of view…" were very common in their interviews. This interaction is understandable, and is a common practice in those offices they represented. These interviewees were also able to support their statements very well, often citing documents produced by their own organisations.

5.4.2.3. Triangulation

A key technique within qualitative research is triangulation, which refers to the use of multiple methods to provide a broader understanding of a phenomenon (Patton, 1999). Triangulation is a technique that requires combining multiple methods in order to study the same phenomenon (Denzin, 1978; Jonsen & Jehn, 2009). Triangulation is also considered a strategy for validity, due to its use of multiple sources (Denzin, 1978; Patton, 1999). The triangulation of different data sources can reduce bias and increase the study's validity and reliability; it allows for a broader and more comprehensive study through complementarity of the diverse methods (Jonsen & Jehn, 2009). There is also a complementary technique known as analysis triangulation. It is defined by Hatch (2002) as "a systematic search for meaning" (p. 148), but certainly this search needs structure which is provided by the constant comparison analysis provided by the coding process (Leech & Onwuegbuzie, 2007). This study applies both multiple methods triangulation, and analysis triangulation.

Carter, Bryant-Lukosius, DiCenso, Blythe, and Neville (2014) discuss four types of triangulation in qualitative research : 1) methods; 2) investigator; 3) theory; and 4) data source triangulation. In this research two of these four types were used: 1) method triangulation, which is the use of different sources of data collection focusing on the same phenomenon; and 2) data source triangulation, a method that collects data from different types of people, including individuals, people with different backgrounds and roles, communities, etc.

As part of the triangulation, fieldwork reflections were made after the interviews. The reflections were based on interviewees' attitudes, positions, and behaviours; point of view; and sometimes even the environment in which the interview was conducted. Along with reflective notes, specialised magazines, websites, legal documents, and other sources were used in order to produce a more robust triangulation technique.

5.4.3. The Interview Process

The interview process was divided into three stages. The first stage, in line with cultural expectations in Mexico, was the introductory stage where I first spent considerable time talking about myself, prior to showing interest in the participant's background. This is important in Mexican culture, since talking about the subject shortly after the introduction is considered rude. In the initial stage, it is crucial to centre the conversation on personal issues not related to the core topic, and this cultural courtesy is intended to build trust and develop a relationship (Stringer, 1997). Interviews taking place in the United States sometimes skipped this part as the cultural approach is quite different. However, relationship building is always essential when undertaking cross-cultural research (Stringer, 1997).

After the introductory stage, I formally introduced the purpose of my visit and began the interview process. I first asked permission to record the interview; I also guaranteed confidentiality. The initial questions I asked pertained to the interviewee's experience in the oil sector; however, from then on I engaged in a process consistent with semi-structured interview techniques, allowing the participant to freely talk about the topic but with care to ensure the key topics were discussed. This places the interviewer as a facilitator rather than as a questioner, conducting interviews as an active listener (Silverman, 2006, 2011).

To be consistent across all interviews undertaken, an interview guide was followed. Yet, consistency does not means rigidity, as the order in which the guide was covered rarely followed the same sequence. In some cases, some of the questions did not relate to the particular interviewee. The second stage usually ended with me asking the participants if there was something else they would like to add or to provide any further comment regarding the topic. Then I proceeded to turn the recorder off, and thanked participants for their time and their valuable insights.

The third stage began immediately after the interview formally ended. This involved an informal brief chat about the topic, including some further comments related or unrelated to the interview. These extra comments could be equally important to those stated during the formal interview session, and simple things such as turning off the recorder or closing the notebook often elicited further interesting responses and reflections (Stringer, 1997). The informality provided by the fact that comments were off the record often provided very valuable insights (either from tangible information or behaviour observation). The majority of interviews took place at the interviewee's workplace, with very few exceptions.

Interview participants were all stakeholders in Mexico's oil industry and/or its liberalisation, and included participants of Mexican nationality as well as foreigners. Interviews took place in both Mexico and the United States, as noted above.

Participants came from five different sectors. The first sector was academia, since it is important to know the opinion of scholars with expertise in energy, economics, policy, and business. Two universities were chosen as exemplars of opposing educational visions: the National Autonomous University of Mexico (UNAM) and the Instituto Tecnológico y de Estudios Superiores de Monterrey (hereafter Monterrey Tech). UNAM is a public university and one of the oldest in the Americas. Its academic standards are very high, and admissions are limited. UNAM receives significant government financial support, and its vision as a university has historically been left-wing and socialist in orientation.

In contrast, Monterrey Tech is a private university founded in Mexico's third largest city, with campuses in different states. 'The Tech', as it is known in Mexico, is one of the best universities for engineering studies. Further, its graduate school of management and administration, EGADE, is the top ranked business school in Latin America. Monterrey Tech was founded by a group of business gurus led by Eugenio Garza Sada, former CEO of Grupo Femsa, one of the most important industrial groups in Mexico. Monterrey Tech's vision is broadly oriented towards openness and free markets, innovation, entrepreneurship, and R&D; a vision that contrasts clearly with UNAM's.

The second participant sector was the private oil sector, which included CEOs and regional managers of international oil companies and foreign oil sector investors that work for a company with either an actual or potential interest in the Mexican oil sector. This sector also included top managers of Mexican and foreign companies who were currently working as contractors for Pemex (Mexico's oil SOE), and Mexican engineers involved in the energy sector. Most of the managers who participated were part of MNEs with substantial backgrounds in international business, and their opinions of the oil industry in relation to Mexico were crucial.

The third sector was government officials, including representatives of the Energy Commission of the Chamber of Deputies, as well as the Secretary of Energy. The role of government in liberalising Mexico's oil industry is highly significant: the government planned the opening up of oil industry, negotiated between the different political parties and factions, designed the structural reforms supporting the liberalisation, and opened the energy industry up to FDI. This had been attempted by two previous administrations. Taking more than 12 years, it wasn't until 2013, under President Enrique Peña Nieto's administration,[14] that liberalisation was finally achieved.

The fourth sector comprised SOEs/SPEs, including Pemex, the former state-owned oil monopoly, and enterprises that arose from the 2013 oil industry reform. These enterprises are in charge of the upstream, midstream, and downstream components of the industry. Their role varied from moderators of the negotiating rounds (see Chapter 4) to the purchase, storage, sale, transportation, and distribution of oil and gas. Some of these enterprises existed prior to 2013 whilst others were founded following the energy reform. For those enterprises founded during the oil reform, it is important to know the roles they play; for those already in existence, it is important to understand how their roles have changed under liberalisation. In both cases, the perceptions of interviewees working in these enterprises were vital.

The last participating sector was representatives from multilateral organisations, including CEPAL and the IMF. These two organisations stand on opposite sides of the developmental

[14] President Enrique Peña Nieto's administration (2012–2018).

economic spectrum. The IMF is a neoliberal organisation which facilitates SAPs. In contrast, CEPAL is an organisation derived from the UN. ISI, the predominant economic model in Latin America from the early 1940s until the late 1970s, was designed by CEPAL. Neoliberal ideas replaced the ISI development agenda in Mexico in the early 1980s. The perception of both organisations is essential to understanding the scope of structural reforms within neoliberal thought and its influence in Mexico.

5.5. Data Analysis

The data collected in this study were analysed inductively, building from general to particular themes. The inductive approach is to let findings emerge from the most dominant themes that are integral to the raw data. A general inductive analysis allow researchers to condense and summarise extensive and diverse types of data; authenticate links between research objectives and findings; and develop models/theories based on the raw data (Thomas, 2006). The main mode of analysis under an inductive approach is the development of different categories from the raw data into a framework; findings can contain multiple interpretations derived from the data coding; and different researchers can construct findings that might not have overlapping components among them (Thomas, 2006).

In this research, the researcher was the only person in charge of interpreting, and obtaining meaning from, the data. A number of themes (or nodes) were obtained, but not all themes were relevant for this research. A deeper analysis resulted in the segregation of some themes. During the process a number of new concepts emerged, creating additional nodes which were as important as the core nodes. Systematic coding is essential for content analysis, and is a procedure based on labelling parts of data to classify them into categories with defined names (Eriksson & Kovalainen, 2016). The most important findings were reduced to four major themes: Mexico’s energy reform; the Mexican oil industry; SAPs; and economic growth and development. These main themes contain a considerable number of subthemes, all of which are presented in Chapter 6.

The data acquired through the interviews were segregated and analysed using the computer assisted qualitative data analysis software (CAQDAS) NVivo 11. The data were coded for the purpose of sorting and ordering systematically following key concepts. NVivo is used as support to compile, access, manage and analyse data *"without losing their richness and immediacy, which is essential for the qualitative researcher"* (Khattak, 2013, p. 53). CAQDAS had proved to provide better transparency in the process of research and analysing data, helping to organise large volumes of data, overcoming limitations and weaknesses associated to qualitative research (Sinkovics, Penz, & Ghauri, 2008). In other words, CAQDAS formalises the researcher's use of text data, reinforcing the methodological rigour. The main contribution of CAQDAS is perhaps the use of standards, searching procedures, and coding (King, Keohane, & Verba, 1994; Sinkovics et al, 2008).

In the data analysis for this research, key concepts were predetermined from the literature review and the interview guide, and those concepts formed the core nodes. The additional concepts that emerged during the interview process helped to develop an understanding of how participants from their own perspective and background perceived the opening of Mexico's oil industry in relation to neoliberalism. The emerging concepts were labelled for categorisation purposes. These categories, known as codes (Gibbs, 2007), are the main supporting technique for data reduction (Jonsen & Jehn, 2009). The main purpose of coding is to simplify the concepts in order to present the data in a more understandable way (Ghauri, 2004). The a priori emergent codes are theory-driven, whilst the resulting emergent codes are data-driven. During the coding process, the impact of the liberalisation of the oil industry could be understood through factors not considered a priori, such as competitiveness, labour force, and others.

The interviews were transcribed into the language of the interviewees, either Spanish or English. Similarly, the transcriptions were coded in the original language. The reason for not translating the Spanish interviews into English was that some words and expressions can have different meanings in Spanish, depending on the intonation and stress. Also, some terms are unique to Mexican Spanish and translating them literally into English may lose their real meaning. Further, I made annotations about the context of the interviewees' expression, and why they expressed themselves in those terms. Also, keeping the interview and codes in their original language, either Spanish or English, allowed me to create links and integrate the secondary data used to triangulate the data obtained through interviews.

The patterns obtained during coding were used to condense the data. This process is part of the analysis and depends on the researcher's judgement to decide what pieces should be segregated, and what pieces stay as part of his/her data, to evolve and shape the story to be told. This process is referred to by Miles and Huberman (1994) as 'data reduction'. They describe it as *"a form of analysis that sharpens, sorts, focuses, discards, and organises data in such a way that 'final' conclusions can be drawn and verified"* (p. 11). Miles and Huberman also stress the important role played by the context in which data were obtained, and taking context into account when interpreting data.

Marshall and Rossman (2011) highlight seven phases of data analysis: data organisation, data immersion, categories and themes generation, data coding, data interpretation through analytic memos, exploration of alternative interpretation, and presentation of the study in a written report or in an alternative format. Each of the phases requires data cleansing and selection through data reduction so that the researcher can have manageable chunks of data set and data interpretation. As emphasised by Patton (2002), books, articles, and other sources are valuable guides when transforming data into findings in qualitative research, but no formula exists on how to do it. That task lies in the researcher's hands and is unique for each inquirer.

The process followed for the data analysis involved transcribing the recorded interviews into a text document. Once all transcriptions were obtained, the text document was processed using NVivo 11, which enabled the separation of the data into different themes – the core content of primary data. The next step involved the identification of the themes that are exclusively relevant for this research. The organisation of those themes resulted in the structure of Chapter 6, which presents the findings of this research.

5.6. Quality of the Research and Limitations

When conducting qualitative research, is necessary to recognise the subjectivity nature of the research, as reality is socially constructed, and therefore, subjective (Denzin & Lincoln, 2008). Qualitative researchers have, in order to strengthen reliability and validity, to pursue objectivity. The term 'objectivity' itself is problematic, but in qualitative research it refers to *"taking an intellectual risk – the risk of being demonstrably wrong"* (Kirk & Miller, 1986, p. 3).

Objectivity in qualitative research denotes a *commitment* to objectivity, and by no means implies the transformation of subjective matters into objective ones by measuring or quantifying them – that is the positivist philosophical stance. It rather assumes that an empirical reality exists, and the way it is to be perceived depends largely upon us, every understanding differing for each individual, and the best way to ensure objectivity is by ensuring validity and reliability (Kirk & Miller, 1986). Some authors underline four tests as the base of quality for empirical social research: construct validity, internal validity, external validity, and reliability (Kidder & Judd, 1986; Yin, 2009).

Furthermore, three types of validity are outlined by Johnson (1997): 1) descriptive validity, which is conceptualised as the accuracy reported by the researcher; 2) interpretive validity, which is the extent to which participants' experiences, opinions, viewpoints, thoughts, intentions, etc., are accurately understood and conveyed by the researcher; and 3) theoretical validity, which is the extent to which the theoretical framework fits the data, to make it credible and defensible. Johnson (1997) also recommends a number of strategies to strengthen validity when conducting qualitative research. He recommends qualitative researchers perform extended fieldwork for longer periods of time when possible; triangulation to cross-check information with multiple sources to corroborate data; negative case sampling (i.e., finding cases that challenge the researcher's expectations); and reflexivity, to develop self-awareness and critical self-reflection to unveil potential bias and predispositions that might affect the study's conclusions.

Fiedler (2011) underlines the importance of developing an awareness of the researcher's potential bias, which can be eroded by repeatedly challenging the researcher's self-interpretation. She emphasises the importance of constantly looking to find counterarguments for all those taken-for-granted assumptions that can clearly affect the objectivity of a research study. Equally, when conducting research in a different language from that in which the findings will be reported, accurate translation of the instrument and/or transcripts must be ensured, rather than direct translation from one language to another. This argument is supported by Green and White (1976), who state that a stronger validation can be obtained by back translation: a translation is made by the researcher from the original language to the reported language, which is followed by a second translation from the reported language to the original language to ensure equivalence in both versions.

One limitation of this study is that the exploratory research is bounded within the Mexican oil industry. However, ground-breaking qualitative studies are often those led by single cases, which allows visualisation of new theoretical relationships (Dyer & Wilkins, 1991). Another limitation comes in the use of data obtained through interviews, as interviewees are often absorbed by retrospective sense-making. This means that the *"sequence in which people concerned by identity in the social context of other authors engage ongoing circumstances from where they extract cues and make plausible sense retrospectively, while enacting more or less order into those ongoing circumstances"* (Weick, Sutcliffe, & Obstfeld, 2005, p. 409). In order to reduce this concern for identity in the social context, Eisenhardt and Graebner (2007) suggest getting interview data from different perspectives, since the possibility that different participants are part of the same sense-making is quite small.

5.7. Chapter Summary and Conclusion

This chapter has outlined the methodological design of the study and the nature of the data analysis conducted. This research takes an interpretivist and constructionist philosophical position to understand how participants, as individuals or as a group, understand reality. Its hermeneutic tradition requires certain methods for data collection and analysis, such as semi-structured interviews, which were the primary source of data in this research. For the data analysis, an abductive logic was applied because of its iterative nature of analysing people's descriptions and meanings in order to create and understand plausible explanations of the phenomenon studied. The following chapter presents the empirical findings of the data analysis conducted for this research.

CHAPTER 6. EMPIRICAL FINDINGS ON MEXICO'S ENERGY REFORM AND SAPs

This chapter analyses the data collected from the interviews undertaken with key stakeholders in the Mexican oil industry. The findings derive from the responses of the informants, ordered and presented around the central theme of the evolution of SAPs. The chapter is structured in four main themes or sections.

The first section explores the 2013 Mexican energy reforms, including electricity reform, oil reform, and the evolution of SOEs into a new set of entities known as SPEs. The second section focuses on Mexico's oil industry, the negotiating rounds for new private business players, and the current Pemex situation. The third section investigates SAPs in Mexico, and how structural reforms in Mexico, neoliberalism, and neostructuralism were perceived by the interviewees. The last section explores the manner in which economic growth and development in Mexico is affected by issues such as political culture, corruption, and transparency.

6.1. Mexico's Energy Reform

This section addresses the necessity of opening up of the Mexican energy industry to private investment, both domestic and international. It examines the concept of SPEs, a new form of institution originated by the reforms, and analyses the potential role of private investment in the former state-owned industry as a result of the pro-market and neoliberal reforms.

In 2013, the Mexican government undertook 11 core structural reforms including labour, economic competence, energy, telecommunication, tax, education, and financial reforms. Of all the reforms undertaken, energy is perhaps the most controversial due to the possibility of the privatisation of Pemex. Pemex (oil sector) and CFE (electricity sector) were monopolies in the energy sector, and both enterprises are icons of labour and social achievements. A constitutional decree established in 1938 that Mexico's oil is an asset of the state, and by extension belongs to all Mexicans. The average Mexican perceives opening the industry to foreign capital as opening the country to obscure and potentially dangerous private interests that will harm the interests of the nation. This perception is understandable as previous experience has shown privatisation processes supported by neoliberalism involved and benefited top ranked politicians and powerful businessmen (Harvey, 2005; Huesca-Dorantes et al., 2018) through less than transparent processes. Privatisation processes are also associated with a reduction in work benefits and labour redundancies (Schulten & Brandt, 2012).

Energy sector reform was perceived as necessary by the majority of the interviewees, although the scope of the reform thought necessary varied. For many, international competition is such that the implementation of pro-market reforms could no longer be delayed. Interviewee 1 remarked that Mexico has lagged behind other countries in reforming its energy sector and pro-market reforms had to occur in 2013:

> *Mexico is the only country along with North Korea that hasn't reformed its energy sector. It started making constitutional changes in 2013, and finally after many years of postponement, a proposal of deep transformation reached the energy sector, which in Mexico is divided in oil, gas, and electric power. Energy reform aims for a broader competition, additional players within the market, more capital, and more technology. Yet, the Mexican state still holds the assets (property) of all the essential resources. (Interviewee 1)*

Another interviewee was concerned about the lack of infrastructure and the technology lag in the Mexican energy sector:

> *I believe that in general, energy reform is the right answer. In Mexico, for example, we are still lagging infrastructure and technical expertise on one hand, and financial strength of state-owned enterprises, on the other. State-owned enterprises were technically and financially hand-tied to drive the energy sector that Mexico needs, thus, in these terms, I believe that energy structural reform is a wise decision. (Interviewee 17)*

In contrast, interviewees' opinions about electricity reform were quite different, since electricity is a renewable commodity and the investment required for sustainable infrastructure is evident. Electricity is not extracted; it can be generated with renewable and non-renewable resources; this is not the case with oil.

Scepticism existed about the way Pemex competes with other international players. This is due to three main implications of Pemex's role of social orientation: a) Pemex was officially a non-commercial social liability and keeping this orientation would be difficult if the company had to function as a normal enterprise and therefore make a profit; b) the attempt to restructure its social orientation role has major implications for the Mexican state, since a massive part of social expenditure is obtained from Pemex; and c) the removal of this role will have major implications for the oil industry union, STPRM. These implications were brought up by Interviewees 9 and 19:

> *I'd say that electric reform is necessary, but about oil reform, I'm quite sceptical on the matter. They say it rises Pemex to a level where it can compete with other players, but compete how? Would other players provide 40% of Mexico's fiscal income? How can you compete with that? (Interviewee 9)*

> *Electric reform is absolutely necessary, but in terms of oil reform, I'm a nationalist, and I believe Pemex and petroleum should keep being controlled by the Mexican state. Pemex's existence is completely justified to have access to cheap energy; and the industrialisation of this country simply can't be explained without cheap energy access. (Interviewee 19)*

Integrated energy reforms were for many crucial because despite being perceived as two different sectors, oil and electricity are highly interconnected. Oil reform is about oil exploration and extraction (upstream), and has huge implications for the storage, transportation and transformation of oil and gas derivatives (mid- and downstream). A particular issue is gas production, sale and transportation, which in turn has implications for electricity generation, as a large part of electricity production is generated by natural gas.

When talking about energy reform, we normally think of upstream, the sexy part of the oil industry, but there is a lot happening in mid and downstream on investment and infrastructure. The impact of the reform in lower-cost gas moving into Mexico, to be transformed in electric generation is huge, and the impact on the manufacturing will be very significant. Energy is crucial for any economy, it is a driver of economic activity and growth. That is why the energy reform is so important to Mexico. (Interviewee 4)

Pre-reform Pemex was viewed as the 'judge, jury and executioner' of the energy industry, a situation that led to inefficiencies in the industry:

The Mexican State understood the importance of having technical managers for electricity and gas. It understood the convenience of removing Pemex of gas management, transportation, and being in control of gas supply and demand. The energy reform brought oil industry vertical integration to an end, something common in the energy sector around the world, but not in Mexico. You don't want a single entity to produce, and transport energy, because it generates inefficiencies. Moreover, as a private enterprise if you require access to energy, and a single entity is at the same time energy producer and consumer, your access can be denied, and that is discriminative energy access; that is precisely what the reform does, it provides indiscriminative energy access. (Interviewee 6)

6.1.1. Electricity Reform

Electricity's benefits are better understood and supported by to the Mexican people than the oil industry. However, the term 'reform' is immediately perceived as negative since reform usually involves some type of privatisation. The reformists' view is that inefficiencies in the industry have resulted in expensive electricity costs. Electricity sector reform was thus an attempt to bring Mexico's electricity industry up to international standards, including introducing competition that could impact positively on consumers with lower prices (KPMG, 2016). Interviewees 1, 13 & 17 felt there was a clear difference between public perception of electricity reform and oil reform, with the latter widely perceived as being negative (Muciño, 2015; Ruiz Rincón, 2015).

Electricity reform targets the creation of a more efficient market. As an outcome of the reform, greenfield investment projects are expected, along with the introduction of a large number of competitors as a consequence of new opportunities within the Mexican market. Competition will at the same time create a more efficient wholesale market (Heinsohn, 2018). The new players are expected to create an important competitive environment and lead significant industry expansion, as described one interviewee:

> *Oil reform is making strong emphasis on oil extraction and the way to finance it, whereas electricity reform is creating a new efficient wholesale market, with new players on the electricity production industry, which will be translated into competition and lower prices for the consumer. The reform is expanding the industry from practically zero, and the benefits will be immediately transferred to consumers. In these terms, the electricity reform is by far, deeper, comprehensive, integral, and revolutionary than oil reform. (Interviewee 1)*

In developed economies, energy consumption has stabilised despite a continuous growing populations (Hu & Kao, 2007). Stabilisation does not mean less consumption, but rather more efficient technologies. The energy market is transitioning into more efficient energies. There is a strong view that this transition in Mexico is not possible if a highly inefficient state-owned monopoly is in charge of the entire energy sector; a sector in urgent need of significant investment to be able to upgrade with new technologies. The Mexican government is seen to have been habitually over-exploiting its SOEs in terms of revenue sources while failing to invest in their infrastructure. One interviewee summarised this as follows:

> *With the electricity reform, Mexico is targeting energy efficiencies, and alternative energy sources. Developed countries, for example, Germany continue growing but energy consumption becomes stagnant. Mexico is quite far from the German experience but is definitely targeting efficiency. This is a long-term perspective, but during the next decades, we are going to see a continuum of lower energy consumption due to incremental efficiencies. (Interviewee 13)*

One of the drawbacks for Mexican energy SOEs is the lack of guarantees that they will be able to compete at the same level as new private enterprises investing in Mexico. For Pemex, there are limited opportunities to compete head-to-head with groups such as British Petroleum (BP) or China National Offshore Oil Corporation (CNOOC), since the state has now created policies that guarantee, for example, favourable conditions for new investors, including low taxation and a flexible labour market. Yet these conditions are not extended to Pemex and CFE. Arguably, for both Pemex and CFE, the state and their own unions are colossal financial liabilities. This was a constant preoccupation of Mexico's oil stakeholders.

> *My only observation is in regard to the new state-productive enterprises. I wonder if for them, including Pemex and CFE, the conditions will be exactly the same as those for the new players. The reform makes necessary to create and define mechanisms of efficiency, competitiveness, and productivity, in order to operate within this new context. (Interviewee 17)*

Interestingly, some participants did not perceive tangible benefits emerging from the energy reforms. The reason for this is the lack of confidence Mexicans have in the government and its institutions. For critics of the government, the aim of the energy reform is the privatisation of both enterprises, which in the end will benefit foreign corporations and obscure private interests. This attitude towards government and institutions is perhaps the result of the first privatisation wave under President Carlos Salinas' administration in the mid-1980s, when the national telephone company and state-owned television channels were privatised, benefiting Salinas' family and his business partners, among others (Huesca-Dorantes et al., 2018; Vilas, 2004). One interviewee firmly believed that the energy reform would result in the fragmentation of the SOEs, which would be acquired by domestic and international groups:

> *They (government) did the same as they did with Pemex: they are applying the principle of divide et impera (divide and conquer) by breaking the enterprise into pieces, so they can get rid of the enterprise. I'm afraid that those small parts will be absorbed or acquired by major groups. (Interviewee 10)*

6.1.2. The Oil Reform

The reforms in general are controversial; but oil reform in particular is widely perceived as negative. As a result, President Enrique Peña Nieto and his staff are sometimes seen as traitors.

In the lead-up to the 2018 presidential election, the then left-wing candidate Andres Manuel López Obrador promised the reversal of the oil reform as part of his campaign platform. López Obrador, a former oil worker, considered opening the oil industry to private investment as an act of treason. This section discusses the various opinions interviewees had on the 2013 oil reform.

For Mexicans, oil is central part of their national identity. The industry has not long been open to domestic or foreign direct investment, and for many Mexicans the permitting of private investment inflows represents a major step towards modernisation. Oil reform is often viewed as affecting upstream end of the industry (oil rigs, exploration, and extraction). In contrast, the 2013 reform affected the entire value chain – from the upstream nodes to midstream and downstream (storage transportation, manufacturing, processing, and natural gas). The structural reforms aimed to make the industry more efficient through state-driven reforms which were opposed – at least in theory – to pro-market reforms based on 'shock' privatisation. Some participants saw this as a weakness, especially proponents of a free market. The Mexican structural reforms, despite being based on neoliberal orthodoxy, are subject to persistent market interventions by the Mexican state. Such distortions were not allowed by the original propositions of the Mont Pèlerin Society.

> *Oil has always been a great part of our [Mexican] national conscience and identity, nevertheless, by trying it to make it competitive, many of its segments such as upstream (exploration and production), midstream (transportation, storage and wholesale market), and downstream (refining, processing, and natural gas purification), signifies a huge step towards modernisation (...) I believe it is necessary to visualise the energy reform across the entire value chain, and to analyse the entire context. Pemex is a highly inefficient enterprise, with the entire oil sector subject to regulations, very few things would not be regulated. One of the points that the government needs to learn is to take a laisse-faire approach, to let the market work, rather than do what the government always does: intervene. (Interviewee 1)*

In general, during the last two decades Mexico has enjoyed a favourable business environment. As the only country bordering the United States to the south, Mexico serves as a bridge for the rest of Latin America with the United States and Canada. Its geographical position is responsible for large part of Mexico's economic success. Mexico is often seen by investors as a country with vast economic potential. The legal and institutional environment is perceived as being very reliable compared to other open oil-based emerging economies. Moreover, Mexico is part of NAFTA, and the prospect of broader market integration is feasible. NAFTA may, however, be replaced by the proposed United States-Mexico-Canada Agreement (USMCA), and thus, those conditions may change.

> *When investors look at Mexico, they see a country that is moving very quickly towards democracy, and it have a political environment that has made a big bet on open it up to investment (...) this reform will serve the country very well, and also political investors look at Mexico, and what they see, you know, energy investors are used to difficult environments in emerging markets. I've talked to friends of mine in Texas, and they said: 'You know, I've been doing business in Colombia, Peru, the Middle-East, and Africa; Mexico is better developed in terms of market, and its institutions are more reliable.' And the fact that it forms part of North America is very positive, since there is a large movement towards a North American energy market integration. (Interviewee 4)*

However, the reform also has a downside: Pemex could be placed in a position where it is unable to compete with oil MNEs. Pemex's accumulated labour liabilities, debts, and technology lag need to be addressed. To improve its situation Pemex needs to work differently, by ending corruptive practices, inefficiencies, etc. Two interviewees addressed this topic.

> *It is necessary to highlight the efforts made by President Calderon's administration with the first oil reform attempt in 2008. The government partially opened the sector, but it is not until later with President Peña Nieto's administration when a real opening happened, with a number of opportunities to modernise the sector (...) There is no need for Pemex to disappear, but it definitely needs to be refocused; and for all those working in the SPE, they need to be aligned to capture revenue. Without any doubt, we recognise that we are still hauling sins from the past, such as all the accumulated labour liabilities, and those vices need to be corrected, but you cannot make any other enterprise responsible for someone else's sins. We*

need to see this as an opportunity to make greater and better things, and in those terms, the energy reform is a very valuable tool. (Interviewee 6)

I think that energy reform is the most important structural reform made by the government. Unfortunately, is done during a complicated moment, slowing down the industry, and underpinning negative points of this deep and comprehensive reform. Yet, this represents a great opportunity in spite of the moment, and their surrounding complications. If this reform was not made, the future of energy and its technology in Mexico would continue stalled in the long-term, particularly in the way in which Pemex has been historically operating. Those contractors that have been working for Pemex for long time know it very well. (Interviewee 11)

There also exists the perception that the oil reform is not protecting workers from a business model that is very different from the one Pemex has historically followed. This was a recurrent discussion amongst participants involved in unions and amongst Pemex workers in general. They perceive the government is not considering the fate of Pemex oil workers, who typically are poorly trained and not used to nor prepared for competition. Many oil workers have been laid off since 2013, and the future for the older and poorly trained Pemex workers is uncertain.

I think [oil reform] was necessary but seems like it was designed to serve short-term purposes. Just in the case of Pemex, we are talking about 100,000 workers under the same labour scheme that the company has worked since its foundation in 1938, and that is a strong labour culture: poor administration that lies in the oil state monopoly. With that in mind, I think they [the government] should have planned and implemented the reform in a better way, meaning step-by-step. I think the implementation was by far, too fast, they said in November 2014 that they were making the reform; by 2015 all of a sudden, they shut the monopoly down. Again, is not desirable to keep a monopoly, but is just the way they did it was too fast. (Interviewee 15)

Definitely you need to allow adjustments on the implementation process, I mean, after the approval, you need to allow modifications and adaptations. (Interviewee 16)

The positive outcomes of the oil reform include the possibility of 'free associations', a term used by the government to describe joint ventures and strategic partnerships between Pemex and other enterprises. These involve large inflows of capital, which contrast to Pemex's former structure of fixed costs, including its state fiscal grant and the oil workers union. This suggests a replication of the model followed by Houston, Texas, meaning competitors, private oil producers, refiners, and distributors will all be players in a free market across the Mexican oil industry (Feagin, 1985). But Mexico's reform also replicates some models applied in other countries during the 1990s, which allowed foreign investors to participate in the oil industry without compromising state ownership. Investment may not be directed to the upper, middle and low streams, but to other services related to the industry such as lawyers, financial institutions, and a wide variety of services. This can, however, represents an adverse situation for Pemex, because once foreign groups have access to such services, there are very few benefits left for them when associating with Pemex. In this light, one interviewee commented:

> *The dynamics of the oil sector [upstream] contains two dimensions: a traditional dimension, and a new dimension. The traditional dimension has to be with the annual negotiation of a budgetary adjustment that Pemex has last week, and have historically had, is not new at all. The new dimension is related to associations, the freedom that Pemex has now to associate with other enterprises, which are very different from the old contracts derived from the 2008 reform, although, as an external viewer I haven't seen any progress on this matter. What I can tell you, is that the new incoming players, are companies with lots of experience, that actually don't need to associate with Pemex to know about the market, as it was the case of China back in the 1990s. There is also in Mexico, vast experience and internationalised human resources that can easily play the role of link for the new enterprises, without the need to use Pemex in any sense. Let me give you a concrete example: you have a group like PROTEGO, owned by Pedro Aspe [former secretary of finance during Carlos Salinas' administration], which is part of EVERCORE, a large international financial group; examples like that you find it in lawyers, finance, and all sort of services, hence, why a private firm entering Mexico for the first time would find attractive to associate with Pemex? (Interviewee 13)*

The same interviewee continued:

> *Mexico is expecting new investors with a different and leaner cost structure, and fresh capital, which contrasts with Pemex and all its fix costs, which includes its union and other liabilities. In other words, is like moving a Houston business model, to Mexico City, which costs 30% less, and those savings will be reflected in Mexico's consumers' pockets (...) Mexico has adopted a particular sui-generis model, which includes that Pemex will not be privatised, but it still allow investment inflows, based on other countries' experience. If this reform had happened in the 1990s, nobody would believe*

> *it, it might be seen as a fake reform; but after experiences such as Malaysia, China, and Russia, is when Mexico realised of the possibility to allow foreign investors, to invest in oil, without compromising Pemex's ownership. (Interviewee 13)*

Pemex was founded as a social enterprise. Its main purpose was to provide energy for all Mexicans and revenue for the government. Profit was not a primary part of the plan. Thereafter, the excessive power bestowed on the oil workers union and its scarce accountability has restrained Pemex from acting as an efficient enterprise. However, although it is the case that the oil reform's implementation has occurred under a clear and transparent process, years of corrupt practices at the top levels of government have undermined the trust that Mexicans have in the government. More recently, perhaps as a result of a freer press and the rise of social media, President Peña Nieto's administration (2012–2018) has been exposed as one of the most corrupt administrations in Mexico's history. One interviewee explained why they felt opening up the sector was a positive move:

> *I believe it is positive to allow other companies to compete in Mexico, because unfortunately Pemex created bad practices. The people I know from Pemex is very capable and hardworking, but the union protection created bad practices and inefficiencies. [Pemex] has been handled more as a political organisation, rather than as an enterprise: it is used more to obtain votes, rather than creating an efficient enterprise. That burden hit Pemex since the very beginning. Thus, to have less politicised enterprises, more focused on operative goals is very positive. The negative point here – and we have to say it – is that employment in Pemex is going to drop, because it will become less productive, and, let's face it, Pemex is employing many workers, most of which are not needed, but socially, it give them employment and keeps them busy, and we will lose that. In Pemex, there is a lot of knowledgeable and talented people, but having a union that is virtually untouchable is so detrimental. How is possible the lack of accountability on the union's activities. That creates inefficiencies; therefore, letting other highly efficient companies to enter is beneficial for Mexico. That being said, it is also important to see who will benefit from this, and hopefully it won't be the same names, groups and persons that always benefit from this type of processes. (Interviewee 18)*

For another participant, the oil reform represents the end of the line for Pemex. He saw the reform negatively as a means to terminate Pemex in a relatively short term, a view to be taken seriously because the demise of Pemex would also signify the end (perhaps in over a longer term) of its union liabilities.

> *I don't like this reform; I don't believe in this reform. If I place myself in a very rational way, pointing into a strictly macroeconomic thought, then the most convenient action to do is to close Pemex. Why? Because if in each oil barrel produced, it generates losses, then following this premise, the most convenient action to do is take Pemex to an end. The most tragic is if that – and I don't think so – the fiscal treatment received by Pemex; will be likewise afforded by BP, and CNOOC, and all other MNEs. It is like competing with these ultra-trained runners, with international experience, wearing state-of-the-art shoes, against a sick, fat, old guy wearing sandals? This is clearly a joke. It is a death foretold to Pemex, the enterprise in one, two, 10, or 15 years – I'm not sure about when – will be technically and operationally unviable. (Interviewee 9)*

Similarly, the reform has raised suspicions in Mexico, particularly since it was promoted by the Peña Nieto's administration. More than one of his secretaries has been exposed over corrupt practices involving contractors working for the federal government. Emilio Lozoya, a former Pemex CEO appointed by Peña Nieto, was involved in assigning contracts to the Brazilian group Odebrecht in exchange for millions of dollars in bribes. One interviewee expressed their ambivalence about the reform thus:

> *The reform is a good attempt to modernise Mexico. I think it came a little late, in times of really bad oil prices, and taking Pemex in a very bad position. I also believe – and is necessary to be slightly suspicious to get closer to the truth – that the reform is surrounded by a not so clear process. (Interviewee 10)*

6.1.3. SOEs and SPEs

SOEs contribute significantly to Mexico's GDP. Historically, their role was not to produce revenue but to fill gaps in social needs. This has been the case of Pemex and CFE since their foundation. The 2013 energy reform has changed the orientation of Pemex, CFE, and all new enterprises created by energy reform, moving them from being SOEs to SPEs. One of the goals of an SPE is to create and capture value whilst providing income to the Mexican state, with corporate social and environmental responsibility – in other words, to function like private and competitive enterprises. SPEs have been granted budgetary, technical and administrative autonomy, and SOEs' role as a central contributor to GDP growth has been removed (Castaingts, 2014). This section describes the opinion of interviewees about SOEs and SPEs.

CENAGAS is one of the SPEs which emerged as an outcome of the 2013 energy reform. CENAGAS is an autonomous and decentralised enterprise under the auspices of the Secretary of Energy. It is also an example of how the government has sought to de-regulate the market. With CENAGAS, the government established an enterprise that competes with Pemex as a gas provider and will compete with other private corporations. While CENAGAS is owned by the state, it works as an autonomous enterprise. Interviewee 6 commented:

> *We inherited Pemex gas pipelines, therefore we own that infrastructure, and we are compelled to provide a capital return to our stockholder, the Mexican State. In fact, since this year [2017] we are fully self-sufficient, working with our own capital, not representing a fiscal burden for the government (...) we are planning investments of around US$180 million per year. We aim to keep this level of investment for at least four years, on implementation of systems of supervision and control, to improve our costs efficiency, modernisation of measurement systems, telecommunications, hence, improvement of CENAGAS mechanic integrity, reliability, and guarantee a more reliable operation. (Interviewee 6)*

CENAGAS is an adaptable and more flexible organisation which contrasts with the traditional way in which Pemex has operated. For CENAGAS, gas procurement is a priority as most of the electricity in Mexico is produced from natural gas. Pemex is, by definition, CENAGAS' main supplier, and in the case of a gas shortage, CENAGAS sources gas from other domestic or international suppliers. Furthermore, if the gas price charged by Pemex is not competitive CENAGAS can obtain gas from secondary sources. Mexico is a member of the International Energy Agency (IEA), the key international organisation focused on the development of the most advanced policies and energy standards. CENAGAS is an active participant in the IEA and was viewed by some of the interviewees as being a modern and flexible company.

CENAGAS, as an autonomous SPE, functions as a private enterprise, seeking to capture value and providing capital return to the state whilst using part of its revenues for re-investment. According to one interviewee, who was part of CENAGAS:

> *In our case, as the entity in charge of gas administration and transportation, I need gas procurement, and if Pemex is not able to provide it, I'll bring it from somewhere else, in spite of Pemex. That is what we are doing, procuring the supply of Mexico's gas demand. (Interviewee 6)*

CENAGAS is taking advantage of the international arena to be more energy efficient. It is also taking advantage of the market; it does not depend on decisions taken by top politicians. This organisation is a product of pro-market reforms aiming for efficiency, and not simply another bureaucratic entity.

> *I believe [Mexico is] lagging, well actually I'm fully convinced it is lagging, but that doesn't mean that Mexico lacks the opportunity to catch up with development, and we'll see that as the sector will continue its opening process, to guaranteed access to reliable and affordable fuels, allowing the private sector to grow and be more productive. One of the things we do, and is related to OECD activities, is the fact that Mexico joined the International Energy Agency, a 'club' whose aim is to design and develop the most advance and intelligent policies in energy, to boost development. (Interviewee 6)*

This section has identified the complex political and institutional framework in which an opening up of Mexican energy sector as a whole to market forces has emerged. The data obtained from the interviewees on this subject suggest that the reforms contained neoliberal traces, but hardly represented a return to the 1980s, when neoliberalism featured far more strongly in Mexican structural reforms.

6.2. The Mexican Oil Industry

This section explores the complex implications of the reforms in the Mexican oil industry. The traditional oil industry in Mexico – prior to the reforms – was represented solely by Pemex and the government. However, the political economy repercussions of this industry are vast, and involve the president, secretariats, the PRI, and the Pemex workers' union, STPRM, which holds an extraordinary political power. This section aims to unveil the complex political and economic environment in which an SOE like Pemex has to navigate. It also describes a more modern recent development in the oil industry; that is, the negotiating rounds where the industry invites the participation of private investors and other stakeholders.

During the implementation of the reforms, many in Mexico were deliberately misinformed about what was being undertaken (Negrete, 2017). For example, information provided by official sources affirmed that neither Pemex nor the Mexican oil industry would be privatised. Further, the information released about the different types of contracts and projects set in place was not clear. An example of the vague information released by the Mexican Presidential Office can be found in a document called 'Energy Reform: Executive Summary' (Gobierno de la República, 2014).

This document explains the reasons for the reform, emphasising the need for private investors to support Pemex in its oil extraction. It does not, however, specify the different types of the proposed new contracts and their scope. This limited information may be due to several reasons. For example, if it is targeting the Mexican public as its audience, this might explain the lack of technicalities; and the fact that the information is a summary and not intended to be comprehensive. Overall, the lack of comprehensive and convincing information impacted on potential foreign investors as well as domestic readers. For example, Interviewee 3 understood that any new players would be working only as extracting contractors, transferring the extracted oil to Pemex to be paid only for that service – but that is not completely accurate.

This perception was supported by the fact that at the time of the interviews only minor players were involved in the bidding process. Those bidding included domestic business groups and minor foreign corporations. This view is not completely accurate; it is accurate in relation to the existence of extracting contracts as part of the reform of the upstream sectors, but it is missing the important details concerning the licensing contracts, which confer on the private enterprise a right of extraction and exploitation of the oil reserve. At the time of the interviews, only minor oil fields were part of the bidding process, although some of the fields were mature, whilst the fields that primarily interested large corporations were deep-water oil reserves.

> *As you can see, none of the largest oil companies is so far bidding in any round. The case would be different if the privatisation process would be broader, and more comprehensive, than the one on the energy reform. I'm talking about a privatisation, where the entire state-owned enterprise and industry is privatised, then for sure you'd see Chevron, Shell, and so on. In those terms, these companies would be producing their own oil, and commercialise it, instead of being managed by Pemex. Although they would be properly taxed by the Secretary of Finance. I think, under a more aggressive privatisation, regardless of oil prices, these large companies would be here bidding for Pemex. We're talking about as it used to be, before the oil industry nationalisation, and Lazaro Cardenas Presidency back in 1938, when you had Shell, and Standard Oil Company. In the meantime, where you still seeing Pemex being part of the equation, not many companies are encouraged to bring their capital to invest in Mexico. What many companies say is: 'Look, Mexico might look very interesting as an FDI destination, but I'm not interested in developing a partnership with Pemex. (Interviewee 3)*

Nevertheless, the reform came at a time when the market was characterised by low oil prices driven by the shale oil exploitation, and the re-insertion of Iran in the global oil industry. The global economic situation of the oil industry in recent years has been less than favourable in terms of market prices, and that has had a significant negative impact on Pemex's revenue.

> *I believe this sudden change is related to the global economic situation, the oil industry in particular. Because of the volatility in exchange rates, which directly affects the Mexican peso, I believe the Mexican government is looking for anti-inflationary measures, such as boosting competition into the fuels market, to offer the consumer better prices. Likewise, because of the global oil industry situation, Pemex's revenue has also decreased; by allowing third parties to import fuels, which also represents additional fiscal revenue for the government, in terms of imports and fuel sales. (Interviewee 14)*

The recent crisis hit the global oil industry after a number of years of enjoying high prices of around US$100 per barrel and is the main reason for the industry stopping the vast majority of new projects. Even large oil producers have pulled back on investments and are only operating developed projects. Furthermore, there is evidence of the impact of the decline of oil consumption in global terms (Bullard, 2018; IEA, 2018).

Across Mexico and other Latin American countries, oil producers have depended on oil as the main source of GDP. Mexico has proven oil reserves of about 175,000 million oil barrels, and can produce up to 3 million barrels per day – but that target can be only reached by allowing other players to engage in extraction.

> *Five years ago, the industry was going strong, going so fast, disregarding lots of things, because in oil industry, economics dictate the view on how they go, and how they perform operations differently. So, if you had a US$100 barrel of oil, five years ago, you can do whatever you want, and make everything work, since you don't pay attention to small stuff, because you are doing so well, and you are so excited about the big things. Today, what changed, is not only oil prices comes down, but if forces all operators, and even the largest service companies, to look in how they do business, since they don't have the luxury of oil high prices. Low prices are forcing companies to pull back on investments, and they are focusing only in operating what they have, and reduce their operation costs. It is, thou, good time to explore, because the price of rigs is way down, forcing service prices way down; but is also forces companies to get smaller (...) which will result in smarter companies, who'll operate different, and who now focuses in low-costs operations, without compromising safety or quality. (Interviewee 7)*

In the case of Mexico, for example, it is not only the global market conditions that matter, but also the continuing shrinking of reserves and the lack of new ones being developed. The most important reserve in Mexico, Cantarell, is reducing output, and what started as a source of light crude oil is now becoming a heavy oil reserve. Not only the quantity but the quality is affected, with deep-water exploitation the only way to recover quantity and quality. There is no doubt of the need for investment to increase production.

Mexico has consumed during all its productive history, something around a third of Mexico's whole oil reserves, which are about 52,000 million of oil barrels. However, it is forecasted that the entire reserves, including those in deep waters yet to be explored, are around 120,000 more million oil barrels. The scheme in which Mexico can keep producing three million of oil barrels per day, rests under the assumption of having those reserves. (Interviewee 13)

6.2.1. Pemex

Pemex is currently facing political, financial, and labour challenges. The negative response of Mexicans to the privatisation of Pemex is centred primarily on a lack of confidence in the government rather than the lack of information about the reforms. One interviewee was of the view that the oil reforms are a continuation of the privatisation wave that began under the neoliberal trends of the 1980s. For this particular interviewee, the reforms will destroy Pemex, because the financial support that Pemex provides to Mexican society will disappear with its fragmentation:

… well yes, privatisation is the world trend, isn't it? Private enterprises are better that state-owned. Pemex was Mexico's developmental leverage, but in the way, it lost its role and now the government is paving its way to privatise it; to destroy the company. But I also believe, that if they're planning to privatise it, sooner or later we'll be troubled, because once Pemex's financial support is gone, we'll be having problems everywhere. (Interviewee 19)

The main problems facing Pemex are the large amount of fiscal revenue that the government takes (70–75%) and its colossal labour liability (Interviewee 10). Before the reform, Pemex was not allowed to invest or re-invest in projects but was still required to honour its massive debts.

We can ask ourselves, what is cause and what is effect? As government, I prefer not to extend my taxation, because I obtain everything I need from Pemex. Or, if Pemex pays taxes, why the others doesn't? Then you have there a dynamic cause-effect relation that is relevant. So, for example, if I name you the new Pemex CEO, and then you will come with an innovative, new administrative structure, and I as Secretary of Finance, might be quite pleased, but regardless of your innovations in management, you will *continue paying me the 70% of your revenue, and the remaining 30% will be for you to pay debts. And by the way, please don't touch my friends from the oil union, because you don't want us to have political issues. (Interviewee 9)*

Pemex felt into a vicious cycle, and what do I mean by that? Well, the Secretary of Finance in Mexico, used to get three-quarters of Pemex revenue, as counterweight its lack of taxation in many other sectors. Pemex, basically operated with about 10% of its revenue, which is not enough to run its own operations, which take it to get loans to cope with its operations cost. The Secretary of Finance is not providing any loans to Pemex, or any other leverage, neither any other government institution. On contrary, the government takes most of the capital produced by Pemex, and when Pemex needs capital to operate, it is alone. Because of lack of capital, Pemex stops investing in reserves maintenance, compensations, etc. (Interviewee 10)

The reality is that Pemex is potentially a highly productive enterprise and could be a very successful company despite its excessive labour force (Campos Suárez, 2012). Another problem Pemex has is the level of taxation imposed on the SOE by the government:

… so, you have declining prices, and a debt getting out of its hands. It has been known for a long time, that Pemex is what keeps government expenditure running, but by looking at its numbers, you still have a very attractive 50% gross margin. The problem is that once you get into taxation, and pension liabilities, that is just massive. The government, and mainly the Secretary of Finance, need to realise that is not possible for Pemex, to keep dragging that financial burden. It is necessary to have not only an energy reform, but to broaden its taxation across the entire Mexican society. These are times for austerity, and is necessary to reduce public service expenditure, to cut that chronic dependence on Pemex. (Interviewee 15)

Pemex needs to define the type of company it aims to be after the fragmentation of its vertical integration. It is often perceived that Pemex has lost its compass – it was established to be an energy enterprise yet it diversified into unrelated sectors, for example by acquiring sea oil vessels, an area outside its expertise. Interviewee 15 outlined some of the major issues Pemex faces and how it should better define itself:

Pemex is saying to the media that they're now an energy enterprise, meaning that they compete with oil, gas, and power sectors, and even in some parts of its integration they reach economies of scale and scope, investing is different types of business is not a clever idea. I believe Pemex needs to start by clearly defining itself, and then follow those companies that perform best

> *practices worldwide. In a conference, the Secretary of Energy commented that Pemex should follow best practices of three main oil and gas enterprises: Statoil form Norway, Petrobras from Brazil, and the Colombian Ecopetrol. From Statoil, Pemex should learn how to use its net profits to create reserves; from Petrobras, its large investment in R&D, in particular that research pertaining deep waters; and from Ecopetrol, the way this company dealt with its union. (Interviewee 1)*

In November 2017, President Peña Nieto named Carlos Treviño Medina as the new CEO of Pemex. Treviño Medina was the third CEO appointed during Peña Nieto's administration. The first, Emilio Lozoya Austin, was involved in a corruption scandal involving the Brazilian conglomerate Odebrecht, as noted above. It has been alleged that Lozoya himself obtained more than US$10 million in bribes from Odebrecht (Montes, 2017).

The second CEO, José Antonio Gonzalez Anaya, played an important role in the transition of the Pemex and its changing relationship with oil workers union. Gonzalez Anaya has been the subject of constant criticism, however, mainly about his family ties with former president Carlos Salinas de Gortari. Many are convinced that he gained his position as a result of those ties. For others, Gonzalez Anaya was a very effective leader (Forbes Staff, 2017). He is a mechanical engineer who graduated from Massachusetts Institute of Technology (MIT) and who holds a master's and PhD in economics from Harvard University. He is also a former senior researcher at Stanford University. Both CEOs were replaced for different reasons: Lozoya for his involvement in the international corruption scandal and Gonzalez Anaya to become the Secretary of Finance. Both Interviewees 1 and 13 commented on Gonzalez Anaya.

> *I think Gonzalez Anaya is a great and experienced professional. I hope that politicians allow him to operate and work. Unfortunately, we have what is known as 'path dependence', in which the Mexican government comes with this revolutionary energy reform, whilst at the same time, government doesn't allow companies to freely and fully operate. Evidence of this is that both, the finance and energy ministers are part of Pemex council, and they should be out of it, in order to allow Pemex to work as an enterprise, and stop taking funds and undermining its CEO authority. (Interviewee 1)*

Certainly, there are circles of politicians that are related, either for being university colleagues, or marriage among families, business groups, etc. I don't believe he is in Pemex because of his contacts or ties; Gonzalez Anaya is a financial guru, with a proved leadership on solving labour union's issues. I believe, one of the intentions with that change, is the idea of setting the oil union under control. The new CEO [Gonzalez Anaya] comes from the IMSS [Mexican Institution for Social Security], to work under a very problematic scheme, with huge financial issues, and a union under deep problems. He knows very well, how to deal with this scheme, and that is Gonzalez Anaya's comparative advantage over any other possible candidate. (Interviewee 13)

What Gonzalez Anaya achieved as the head of the IMSS union led to his appointment as CEO of Pemex. However, his leadership abilities were weakened because he did not have full autonomy in his job. That autonomy had to be granted by the Secretary of Finance and the federal government.

I've read about how Gonzalez Anaya largely improved some activities within IMSS. I think he made a really good job making the IMSS a more efficient institution by removing some distortions, and some corporative vices; he made also an important financial restructuring into a very complex organisation. Because of his experience on dealing with IMSS, is what makes the president to move him to Pemex: how to make an organisation more efficient, improving operations, and the activities of each one of the Pemex business units; I believe that is what the president saw in Gonzalez Anaya. (Interviewee 17)

I believe, as an economist, that any enterprise, including private enterprises, when you find discrepancies between the stockholder and the manager, this creates incentives for the manager, to come with an agreement with a third party, to benefit him/herself instead of benefitting the stockholder. Now, in oil SOEs, the distance between stockholders and managers is even larger, which provides broader opportunities for the manager, to benefitting themselves. There are also ethical issues in Latin America. One of the main problems is that people doesn't seem wrong of taking advantage of some things, and that type of problems in a large public enterprise is very difficult to control it. Although, it is not very different from large American corporations, where CEOs receive a number of millions as salary, why are those salaries so high? At the end, those millions that ends into the CEO's pocket is revenue that stakeholders are failing to receive. (Interviewee 6)

The third CEO, Treviño Medina, was also appointed by the president and has little experience in the oil industry. He has a master's in food industry engineering and an executive MBA. He comes with prior experience in the Secretariats of Finances, Energy, and IMSS. Before being appointed CEO of Pemex he worked in the area of finances in Pemex but it can be assumed that he is following a political career rather than an administrative one.

6.2.2. Pemex Workers' Union

A problematic issue in the oil industry in general and for Pemex in particular is the Pemex labour union. The union is not necessarily the biggest obstacle preventing Pemex from being competitive, but it is certainly one of its main headaches. With the oil reform, it is expected that its relationship with the union will change, linked in part to the declining number of union members. A big part of Pemex's labour force is arguably surplus to requirements (García, 2013), yet Pemex helps the government to solve the lay-off problem in Mexico. The union possesses enormous political weight, and its leaders are, without exception, members of the PRI, the party that governed Mexico without interruption for more than 70 years. President Peña Nieto, once in power, was supported by the union.

The union is structured in such a way that allows its leaders to accumulate power to the extent they are practically untouchable. Its current leader, Carlos Romero, is also a senator, a political position in Mexico that grants full political immunity. Political positions are normally granted by PRI presidents to oil union leaders in return for their support. In spite of the alleged corruption union leaders are involved in, they will be protected by the president as partners in crime (Jáquez, 2002). Many leaders of the union have accrued massive personal fortunes.

> *The union has made a terrible damage to Pemex. How is possible that its union leader is also a senator, and under this political position enjoying full immunity. He have a fortune to same level as Carlos Slim, and this fortune comes from non-productive capital, zero investment, but political favours, and filthy political business. Now, about Mexico opening energy to investment, what type of guarantees is Mexico offering? Just to start, Mexico's oil sector is passing through a period of crisis. Likewise, all these investments are coming from economies that are in crisis as well, such as the case of Spain. (Interviewee 5)*

We can see that Mr. Romero Deschamps [a union leader] is not attending Board of Directors meetings anymore. I think, Pemex in a very subtle way, will continue detecting those workers and collaborators that actually can add value to the company, far from vices and distortions – as quite often occurs within unions – can still be linked to Pemex's new stage. I believe, in terms of the new structure of both, Pemex and CFE, despite of being or not part of their unions, as long as they represent added-value for the enterprises, improvement, and competitiveness, then they will continue being considered by the company. (Interviewee 17)

It is not clear yet how the union is going to address the problem of Pemex's excessive labour force. As a result of the reform process, many things need to change. A leaner Pemex could not justify an excess of labour. Indeed, union leaders were excluded from the energy reform negotiations as a proof that the government intended to keep the union at a bay (Pérez Salazar, 2014). This is an important development for Pemex. Another, equally important one is the elimination of permanent contract transferability to family members and the sale of positions as if the contracts were an asset.

The union has accumulated too much power, and is such, that it hasn't been touched so far. They announced that a number of people will be resigning voluntarily, but at the end what is doing is stop contracting people. The people who retires is not going to be replaced; it is still important, because, previously a worker was able to retire, and pass his permanent position to someone in his/her family, or even sale his/her rights to do it. Still, the union represents a big problem because his working force is highly inefficient, and as it is untouchable, there is no motivation to be become efficient, and again we go back into the socialist scheme, in which regardless on your tasks complexity of simplicity, your salary will be the same. (Interviewee 18)

The lack of market pressure prior to the reform and no motivation to improve skills meant Pemex workers were not properly trained to compete in an international arena. Still, these low-skilled workers had the power to block oil rigs, production fields and refineries, causing losses of millions of dollars per day.

When trying to align and deal with the union, since union has so much political power, one thing is sure: is going to be tough. I think the government should have worked with the union, in order to mitigate the side effects of the reform, but they didn't. You can imagine the power that union has in Pemex;

as simple as they can just block a platform, and the government can't do anything about it, it is indeed a very sensitive matter. I am French, and I'm very familiar with the subject of strikes. In France, when the national trains company lose its participation percentage, and it is a SOE monopoly opened to private investment what we are talking about, so the right thing to do is reduce its excessive labour force. At the end, is profit what a business is looking for, rather than welfare, hospitals, infrastructure, etc., then they got strikes, one after other, because the objective of a union is workers protection; but if you overprotect these workers, they'll do the impossible to keep their perks, benefits, and advantages. To make this happen, they will block the company to the point of bankruptcy, so in one way or another the government is going to erode the union's power, because is impossible to work in that way. (Interviewee 15)

The future of the union is hard to predict. Some advocate that the removal of the union is the best thing that can happen for Pemex. This is not feasible, at least in the short term. The decline of its power will happen (Pérez Salazar, 2014), but is likely to be a long-term process. In the short or medium term the union will continue to be an important influence in the sector. Conversely, with regard to the fate of the workers, it is predicted that massive lay-offs will, in due time, be inevitable.

Maybe, the logical way to think is, perhaps in the long term the union might disappear, but that is the logical way to see it. However, I don't think Mexico is willing to accept that. Although, this will bring great opportunities for Mexico. (Interviewee 11)

I believe it will eventually happen, but definitely not in a short or medium term, and for sure not with this president. Perhaps in two or three administrations, in a long and systematic process. (Interview 12)

I believe Pemex's union will still ruling the sector, although perhaps under a different parameter. Let's see our history: railroads union was terminated many years ago, its former leader is nowadays the leader of a different union, so they just changed, but unions still on and on. Another example, is the leader of Luz y Fuerza del Centro,[15] which disappeared a couple of years ago; its leader is not only a politician, but also a businessman, because energy reform also opens the electricity generation sector to investment, this person is now associated with one of the new entrants in the sector. However, that is only my personal opinion, I don't think it will disappear. I also think that with the reform, it will be massive laying off workers, however, the same

[15] A highly inefficient electricity SOE that used to provide services in Mexico City. After its union accumulated excessive political power, it was dissolved during President Felipe Calderon's administration (2006–2012).

redundant workers will be hired by the new companies, and projects, although not under the same conditions they used to enjoy in Pemex. (Interviewee 10)

Sometimes, I've heard political discourses from other countries. For example, in England during the XIX century, a massive number of workers displaced by machines. At the end, progress and technology change rules, and create incentives for training, and being updated. It is unthinkable, to have an illiterate worker, working in a machine, and earning US$40 per hour, that doesn't work anymore. Nowadays, if you don't know how to use internet, and understand that the machine is now electronic, and neither how to solve problems, you are obsolete, and you are done. This type the dramas of economic development are necessary, but without any doubt some people will be affected. Just think about it, when you are 50 years old, and someone at work tells you that you need to become technologically aware and advanced, if you have never done it before it is extremely difficult with cope with the new rules. (Interviewee 6)

The oil reform will eventually result in a leaner and possibly less powerful union. The pro-market reforms require a more flexible labour force in a more dynamic, functional and flexible enterprise. The reform envisions an extended process to deal with the workers union as the relationship between the state and the union is extremely complex.

I don't know if that really is going to be a huge displacement. What is going to happen, the way I see it, is that since you retire from Pemex relatively young, I think there is going to be a lot of people who will retire, and simple not being replaced. So, you are going to see a shrinkage in terms of employment numbers of Pemex, but is not going to be because of people will be fired from one day to other. It is going to be because there is a huge attrition towards retirement and non-replacement. There still are some resentment in Mexico over NAFTA, because of the number of people that was displaced of the agriculture sector and rural areas, but that was a blunt sectorial displacement. I don't think energy reform is going to have that type of impact on displacement; quite the contrary, as you have more invested in energy, and more growth in the manufacturing sector, by virtue of the lower cost electricity, you are going to have actually job generation and job growth, and all coming from the energy reform. I think, ultimately that Pemex numbers are going to be more modest, simply by no replacing workers, they're going to start to get what they need. (Interviewee 4)

I think the future of Pemex union, is without any doubt a thinner union. Clean it up the same way IMSS union was cleaned, which took more than seven years to do it, but at the end it was possible, by retiring those ancient unionised workers, and renewing its labour force under different benefits and perks, more appropriate to these times and the industry's situation. In *fact, the new hydrocarbon, electricity industry, and Pemex laws, are determining rules to equalise salaries to the level of all the other sectors. If I'm not wrong, is the article 80 of Pemex's law, the one stablishing the new conditions. (Interviewee 1)*

In broader terms, dealing with the oil workers union should not require major political conflicts. As time passes, Pemex will stop demanding that its workers come solely from the union, and unionised retired workers will not be replaced. One participant developed a very interesting argument for how things will unfold:

What I think, is that the main pressure for the union, won't be product of its negotiations with Pemex; I believe the pressure will come with the shrinkage of its action scope. Let me reference the logistics theme once again: no later than three years ago, every Pemex franchise [petrol stations] was compelled to use Pemex freight services, when supplying fuel to their petrol stations. A few weeks later, some associations of petrol station owners objected to that regulation though the Mexican Supreme Court, arguing that freight and supply services should be decided by franchisees, not only because of costs, but also reliability reasons, since during holidays, union workers don't work. The Supreme Court agreed with franchisees, because freight and supply services were not an activity under oil monopoly laws. That resolution was a turning point, and from here on, you see how the union's action ratio is shrinking. (Interviewee 13)

The labour force will face a gradual dissipation of power and influence as the reform progresses. By gradually reducing labour demand from the union the numbers of unionised workers will decrease. This will relieve Pemex of some of the excessive retirement pensions it has had to provide since its foundation. For example, during the oil bonanza in the 1980s, Pemex experienced its highest contracting rates due to large exploration and production projects brought by the gigantic Cantarell reserves and very high oil prices. Nevertheless, in the 1990s those hiring rates were considerably reduced, as a result of falling oil prices. This led to the first attempt to make Pemex a leaner company. The difference this time is that those workers at a retirement age will neither have permanent contracts, nor the retirement perks that former workers are still enjoying.

Some unions are not there to bargain collectively, but to act as pressure groups (González Casanova, 2004; Muñoz Armenta, 2006). These types of organisations do not care much about enterprises, and this gives rise to the difference between ‘red’ and ‘white’ unions in Mexico. Red unions, because of the power and capital bestowed on them, have the power to stop a plant, oil rig, or any productive activity of the enterprise where workers belong. White unions do not have that type of power. An example of a white oil union is the gas distribution workers’ union. The reform seems to be aiming at the erosion of the oil workers’ union power, until it becomes a white union.

Another way in which unions have their power reduced in the Mexican energy sector can be seen in the case of the union for workers of private energy producers (PIEs). Their workers should be affiliated to the Exclusive Electricity Mexican Workers Union (SUTERM), a red union. Yet the PIEs developed their own union under a white affiliation, alongside a number of small unions, which further fragmented union power and distributed it across small unions. This is a model that may be replicated in the case of the Pemex workers’ union.

6.2.3. Challenges Faced by Pemex

Pemex is clearly facing a number of challenges. One of the toughest is that of technical bankruptcy. Since the nationalisation of the oil industry in Mexico, Pemex is perhaps Mexico’s ‘sacred cow’, with states including Campeche, Veracruz, and Tabasco being fully dependent on Pemex and the oil industry. Some cities that had previously prospered (e.g., Poza Rica, Veracruz) are today close to being ghost towns because of the decline in the industry.

As stated by Interviewee 5, who was raised in a ‘Pemex town’ when the industry was successful, everyone wanted to be part of Pemex in the 1980s. However, when oil prices plunged years of poor administration followed, and systematic corrupt practices led to Pemex being utilised as a political platform, the performance of the company rapidly declined:

I grew up in a town which economy was based almost 100% on petroleum. In the 1980s I saw the oil bonanza, Pemex was a 'sacred cow', my family worked for Pemex and my father is retired from the enterprise. Many administrations from Pemex and government extensively abused the company, many politicians and Pemex managers helped themselves with a very 'big spoon'. Pemex was originally conceptualised as a social enterprise, or within a social orientation system, however, as I once read from an author whose name I can't remember: in a social/socialised system, when the cow gets sick, it doesn't belong to anyone. As has been said, Pemex belongs to the Mexican people, but now that is almost facing bankruptcy, those who put the enterprise into that position are blaming the enterprise. (Interviewee 5)

Because of the social orientation of Pemex, retired workers receive extraordinarily generous pensions and other perks that are not available in any other enterprise in Mexico. The financial obligation of the state to keep this commitment is substantial. The fate of workers made redundant as a result of the reform is another challenge that Pemex and the Mexican state are facing.

Regarding Pemex worker redundancy as result of the oil reform and those Pemex employees that will be displaced – we need to recognise two things: one of the biggest challenges for Pemex is the big pension overhead, and there are huge liabilities there. Now, quite frankly, those are commitments that they make to people, and they have to find the way to honour those commitments, that is just basic notion of fairness. (Interviewee 4)

Pemex as a socially oriented company also must continue to procure fuels across Mexico including remote areas, where other companies are not interested in investing. For example, BP, CONOCO, Texaco, and CNOOC will only be interested in establishing gas stations in large cities, close to industrial parks and highly transited roads, whereas Pemex will be the only company to serve remote areas where costs will be significantly higher because of transportation costs and risk. Pemex absorbs those costs to meet its traditional responsibilities.

… and as if this were not enough, just to worsen Pemex financial situation, remains the idea of where are the new private players place their petrol stations? Are some of the companies going to the Oaxaca hills [a very remote place]? Of course not, that will be only Pemex, because private enterprises would place their petrol stations here in University and Francisco de Quevedo avenues [central areas in Mexico City]. Then, on those places that

represented some revenue for Pemex, such as Leon and Tijuana industrial parks, now will be reserved for the private corporations, whilst Pemex will remain in the remote hills and lost territories of Mexico, where because of transportation costs, petrol should cost 50 pesos instead of 18 pesos; so [in a sarcastic tone] let's ask BP if they want to procure petrol over there in the hills. (Interviewee 9)

Another challenge is the future of Pemex under austerity measures, which involve huge cuts in capital expenditure budgets.

Now, you've seen that Gonzalez Anaya, was talking about huge cuts. He's talking about basically slashing the capital expenditure budgets, which is a tough one. Let me tell you, when you slash your capital expenditure budgets, you are basically saying: 'we are not to spend money today', but is another way of saying 'we are not going to make money tomorrow', because capital expenditure, by definition, is putting into projects that is going to become future returns; so that is going to put a lot of pressure on Pemex, because their production is been already put in a downward curve; that is going to put a lot of pressure in the next round, to attract more capital to get other producers into the marketplace. Ultimately, I don't see energy reform resolving a huge displace; quite the contrary, I see it creating jobs. (Interviewee 4)

The cost of laying-off workers in Mexico is significant. Laying off 20,000 workers as currently planned by the Pemex CEO will cost the company an enormous amount of money. As part of the oil reforms, labour laws have been changed to make the market more attractive to foreign investors. However, according to Article 14 of the Mexican Constitution, retroactive application of the new laws is forbidden, and thus Pemex has to honour its pre-existing arrangements with redundant workers.

Firing workers in Mexico is a very serious issue. Laying-off worker in Mexico represents a very strong financial weight; is not the same as in most of the countries including the United States, in which once you become redundant you are out. In Mexico, firing people represents lots of money for any enterprise, since you have to pay about three-month salary, plus many other perks granted by the Mexican labour laws. In the case of Pemex, laying-off 20,000 workers as is planned by Pemex director, is a very large amount of money, for a company that is struggling with its own finances. (Interviewee 3)

By opening the oil industry up to private investment, the government is subjecting Pemex to competition for the first time. The company to date has not faced real market pressures, and has since its establishment been required to adopt a social perspective in its strategy implementation. Further, Pemex has a significant bureaucracy, and the state takes around 60% of the company's revenue, which is capital that is not reinvested into Pemex. These and other concerns were expressed by two of the interviewees:

> *In order for Mexico to be competitive, it have to open itself to foreign investment. One of the things that you often hear, is that Pemex was increasingly becoming uncompetitive as an old company, not because it lacks talent, people that belongs there, Pemex engineers are amazingly talented engineers. It is becoming less competitive, because in a way, it hasn't having to compete with real market pressures, so you can have a much larger bureaucracy that you ever see in a major oil company. You can have the government basically taking 60% of what Pemex produced as revenue. That basically underwrites 30% of the federal budget, and that money is never reinvested back in Pemex in the way other companies invest back, so they can continue to develop projects. (Interviewee 4)*

> *The political economy of this country in relation with Pemex is absolutely ridiculous. The middle and upper classes in Mexico don't pay taxes; this issue has been addressed by CEPAL over and over. Income taxes, such as IVA, ISR, etc., are captured to the same level as Haiti and Belize. Mexico's income tax is not higher than 5% of GDP, and it hasn't changed in a significative way, whereas most OECD countries' income taxes go close to 35%. The upper and middle classes don't pay the necessary taxes for the economy to run, legally or illegally. Many industries under PITEX, IMEX, maquila, and all those export programmes, where under legal terms you don't pay taxes, plus two different accountabilities, where illegally is the same story, you see income taxes coefficient in terms of GDP. We are an international joke. What is the counterpart of this? Well, if we don't pay taxes that money needs to come from somewhere else, and that somewhere else is Pemex. This is, I'd say, a topic of deep political economic concern. (Interviewee 9)*

In Mexico, the lack of government revenue from other sources rather than Pemex and its oil industry is a huge problem. Structural reforms are attempting to attack that problem but the solution is neither easy nor short-term. As one of the participants pointed, a large percentage of *maquiladoras*[16] and other international manufacturers are allowed in Mexico for the sole purpose of solving the problem of job creation, but little or no benefit is provided in terms of revenue for the state. Another problem is the use of Pemex and oil as political currency, an issue that is discussed in the following section.

6.2.4. The Role of Politics in Pemex

The political economy of oil is crucial to the political and economic development of Latin American countries in general, and Mexico in particular. Politics is also the reason that directors (now CEOs) of Pemex, with very few exceptions, came from outside Pemex. One example is Emilio Lozoya Austin, as discussed in section 6.2.2. That is why it is so common to see *amigos* and *compadres* of the top politicians in charge of Pemex. The terms *amiguismo* and *compadrazgo*[17] in Mexico refer to those political relations that place certain politicians in their position because of friendship ties. With their lack of experience comes poor communication between top leadership and the operational side; as it is common for the top leadership to have very limited knowledge of how Pemex and the oil industry work. They are briefly passing through Pemex to further their political career:

> *Is easy to see the differences and division between Pemex operative divisions, and top leadership, however, I don't think this is an issue exclusive for this director. If you see all profiles, only few directors have worked in Pemex before becoming directors; I believe the last one was Adrian Lajous, former director of PMI, who spend about 10 years working in Pemex before his top leadership position, and I believe he is the only one. Although is also true, that the former one [Lozoya] is the only one lasting more than two years in the position, he actually lasted more than four years. (Interviewee 13)*

> *Those people in Pemex HR Department are people that have been in Pemex their entire life. I don't know how they feel, but I'm sure not good at all. They, are firing workers they know have been in Pemex their whole life; at the same time, they can see they're surrounded by rubbish leaders and top managers recently appointed. They don't have a clue about Pemex, and are there in a*

[16] *Maquiladoras* or *maquilas* are factories in Mexico run by foreign companies who export the products made in them to their country of origin.
[17] Friendship ties/godfather ties

> *temporary political position. For example, those medium size politicians who didn't get a political position, are taking a position in Pemex, and they know nothing about the company. It is incredible they're still doing that terrible practice today. (Interviewee 8)*

The problem with Pemex as an SOE is that it changes its direction as administrations change. The company may need to be protected from political intervention so it can be managed as a corporation rather than a ministry or secretariat. Letting private companies invest opens up the industry for competition, but that does not solve the governance problem in Pemex. It only solves the problem of oil extraction and income augmentation; the enterprise will still labour under a huge financial liability.

> *My concern is more towards the application of the secondary laws, and how they'll handle it. It is a fact, that oil business in Mexico, for political reasons rather than operational, they been subtracting budget to Pemex, and not letting it to reinvest. The lack of investment doesn't let Pemex to extract existing oil reserves that can be extracted, but you need investment to make that happen. Therefore, the state, or Pemex instead of investing in extraction, they prefer to let private companies to enter and do it, which I believe is good. Thus, the idea is the implementation, and what type of factors and economic players can take part, to develop mechanisms avoiding power concentration, in order to prevent that something that belongs to all Mexicans, pass to the hands of very few Mexicans. (Interviewee 18)*

6.2.5. Negotiating Rounds

As described in Chapter 4, the opening up of Mexico's oil market began in 2013 with the approval of energy reform. However, the negotiating rounds did not start until early 2015. The rounds are divided by type of field and project, among other characteristics. The initial round allowed small and medium-sized groups to develop joint bids and expand their operations. For the majority of the existing contractors, Pemex was their only client. After the reform, some mid-size companies and groups associated with larger foreign groups were able to create leverage in order to enter the Mexican oil industry. Their position in the value chain offered them the opportunity to be independent companies rather than continuing to be dependent on Pemex contracts.

We saw those opportunities [to be independent drillers, rather than contractors] very clearly. Before oil prices dropped we saw foreign enterprises getting into the market. We started then seeing the first signs of market openness, and operational freedom. Foreign companies hiring local contractors, which gave us the chance to open our processes and start thinking in other customers, rather than only Pemex. We were among the first to get contracts with other enterprises, and then we thought about expanding even further. For example, if the reform wouldn't be approved, we couldn't have the chance to bid within round 1, now thanks to the reform we are not only contract providers for other enterprises, but we expanded our strategy broadening our value chain, with our own oil land reserves from round 1.3. (Interviewee 11)

The types of contracts, designed in the reform, played a crucial role in attracting investors. The reform involves two types of contracts for the upstream: the shared production contract (SPC) and licensing contract (LC). Under a SPC, the company extracts the oil, and depending on how the contract is designed, might (or might not) be compelled to provide part of the oil obtained from the reserve to the Mexican state. The contractor has the option of providing part of the oil or its monetary value. In contrast, under a LC contract, the contractor accounts for all the investment and pays exploitation rights and other fiscal obligations to the Mexican state. Under this contract, once the oil is extracted it belongs to the contractor and there is no further obligation towards the Mexican state.

What the companies do with the oil once is been extracted depends on the type of contracts they have ... A SPC means that company extracts the oil, and depending how is specified in the contract clauses, they need to provide part of oil extracted to the country [Mexico] and the state where is was extracted from, and can be petroleum as a commodity, or money. In addition, an operator [company] under SPC contract, might recover some of the expenses under parameters stated in the law. A LC contract, in the other hand, the operator provides all the investment, pays also rights, taxes, and other obligations to the Mexican government, but then they own the oil extracted, and have the right to commercialise and exploit that oil. (Interviewee 10)

In round 1.1 and 1.2 all participants are international enterprises. As required by law, you need to set a subsidiary in Mexico, and register as a Mexican company. For round 1.3, was an open bid for mature fields not allocated to Pemex in round zero, although they were originally explored and exploited by Pemex, not all Pemex's fields were allocated to Pemex. The *company [Pemex] can choose the fields it wants to keep; however, it also need to validate and demonstrate having the capacity to operate those fields. At the end, Pemex kept 65% of its original fields, and 80% of their reserves. All other explored fields, and unassigned to Pemex (25 fields in total) were assigned under bidding round 1.3 to private companies, all of which are from Mexico. (Interviewee 10)*

It was anticipated that the first projects would be small, and that bidders would be small and medium-sized enterprises. Large investors such as BP, Exxon, CNOOC were not interested in projects of low significance, and the majority of large players were not interested in small or medium-range projects. It was the shallow and deep-sea water projects (round 1.4) that attracted the largest investors.

None of them [MNEs] are in the rounds, at least not so far. Enterprises currently investing in Mexico are mid-size enterprises, companies that don't represent large investment in Mexico; but also because large players are not interested in small projects. Pemex is facing today, a very chaotic financial situation, it need to be finance around US$12 billion by sales of assets, modifying its retirement plans, and by huge labour cuts; around 12,000 workers, is what I heard, which is around 20% of its total labour force. (Interviewee 3)

If you look at round one, phases one, two, and three, these are not the kind of thing in what the majors are necessarily looking for. They perhaps would like to get involved with, if the industry were in extraordinary good shape, so it would serve as a bet for them, but as the industry is now, the first three phases are not their sweet spot, it is not what they do. Now, at the end of this year [2016], I guess when you go into deep water, and you start looking at the Gulf, that's when you better have the majors involved. If by them, the majors take a pass and they don't participate in the deep waters stuff, then you have to say: 'there is something wrong with this reform, or something is out of shape in the market place, that not even the majors still not participating' and at the end of this year, the majors still passing, that means we can expect many years of very depressed oil prices. When you have very depressed oil prices, what you are going to have is a consolidation in a market place, meaning fewer oil and gas producers, because some people are going to go broke. (Interviewee 4)

In large projects such as deep-sea water exploration, investments are extremely large and long-term. By the time a deep-sea water reserve starts producing, market conditions will often have changed. This was explained by two participants:

I can confirm that many major players are interested into round 1.4 [deep-water projects], and not only that, their rights for bidding has been paid already. Deep sea waters projects investment is extremely large, and participating multinational are very large enterprises investing in long-term projects. They are rarely interested in short-term projects, the type of production founded in mature fields doesn't represent anything for them. Besides, deep waters exploration, drilling, and production takes about five years for a deep-sea waters reserve to start producing; during that time, the current market conditions might have change. (Interviewee 10)

Bidding rounds in general have been delayed in some way, however, bidding concerning deep waters rounds is still programmed, because for those projects current and short-term oil prices are not that important. It takes some time to locate oil reserves, and once located it takes three or more years to run production. Starting from exploration process, can take five to seven years for that reserve to start producing; that's why oil prices are not that important, because by the time you obtain oil, price will be very different from what currently is, just to rent and set-up an oil rig takes about a year. On the other hand, unconventional oil reserves take only around six months to run and bring a reserve to production, therefore, oil prices for this type of reserves are very important. (Interviewee 13)

The oil reform was designed with further adaptations in mind to cope with different conditions, and the government has performed some adjustments. The flexibility of oil reform allows the government to make negotiating rounds more attractive in order to cope with unanticipated situations. Interviewee 17 commented:

The initial conditions were not very attractive to investors (…) After the experience of round 1.1, the government modified that scheme, to make the following rounds more attractive. (Interviewee 17)

The following section discusses the 2013 oil industry reform and compares and contrasts it with the neoliberal foundations of SAPs.

6.3. SAPs

6.3.1. Structural Reforms, SAPs, and Neoliberalism

The current energy reform in Mexico raises some fundamental questions. Are these reforms neoliberal reforms, adapted to the political and institutional conditions in Mexico, or a resurrection of the traditional Latin America development model adapted to domestic conditions now found in Mexico and new constraints imposed by the global economy? To put it in another way, are the structural constraints created by political institutions in Mexico unresponsive to neoliberal reforms, or is this set of reforms *sui generis*? This section uses the data gathered from the interviews to address these questions.

6.3.1.1. Structural Reforms

For many involved in the oil industry and with a sound knowledge of economics, the Mexican structural reforms can be viewed as positive. President Peña Nieto's administration negotiated and implemented 11 structural reforms of high importance to the economy. The labour and energy reforms were especially significant. Energy reform represents the opening of the energy sector to foreign investment, whilst labour reform makes the labour market more competitive, changing the old conditions that bestowed such privileged conditions on the oil union. The design of the 11 reforms was part of a major economic process oriented towards efficiency and better government performance. However, it is in the implementation of the reforms that things become difficult.

> *I'm not an expert in labour economics, but labour reform allows the opening for temporary contracts, at the same time revokes locks and obstacles, allowing labour supply and demand to operate. I'm certain that the 11 reforms are part of a greater philosophy oriented towards a better economic efficiency, and better government performance; however, the most difficult part of all these reforms is their implementation. (Interviewee 1)*

The reforms are focusing on real problems that Mexico is facing, or that previously existed, such as abuse of power, bad practices, mediocre education, and other challenges facing Mexico. For one of the participants, it was critical that the reforms are sustained and address problems in depth, as opposed to just trying to fix part of the problem in the short term. He further queried the speed with which the energy reforms were designed, approved and implemented, particularly as this occurred in two opposed administrations.

> *I'm not really informed about labour reform in Mexico, but just by following the logic, I think these reforms are actually focusing in real problems that Mexico is currently facing, or that previously existed: Abusive power, bad administrations, bad practices, and some other cultural vices troubling Mexico. What I think is needed, is to see these topics in depth, if the reform is well sustained, or is only steam-cooked. In my opinion, energy reform is not well conducted, because, in a first instance was made in fast-track; it was also planned by two opposed administrations, as is the case of Presidents Calderon, and Peña Nieto. Designers of the reforms are different to those that finalised and approved them. By following these pattern, my guess is that all other reforms were made the same way. Nonetheless, we need to wait until their implementation time comes, and we'll see how they work. (Interviewee 3)*

The interviewee was not strictly correct here. The reform was made during two administrations that resulted in at least six years of discussion, which is hardly a 'fast track' (Gutiérrez, 2014). Market conditions were also crucial to the opening of the Mexican oil market. Under prevailing conditions of US$100 per barrel prices, as was the case prior to 2013, there was no incentive to reform the Mexican oil industry. The OECD director, Angel Gurría, who is Mexican, pushed the Mexican government to undertake major reforms as the way to improve the economy and Mexico's image as a potential direct investment destination.

The first three negotiating rounds were considered a success, as all oil fields were assigned. The bidders were Mexican and foreign in equal numbers, which was a surprise as not many foreign groups were expected to bid.

> *Negotiating round 1.3 was very interesting, because it attracted a lot of domestic activity: you saw a lot of consortiums, that were formed or were given to Mexican investors and Mexican participants, and that too tells me a couple of things. One, it means that you starting to see the growth of the Mexican energy sector, the domestic energy sector, but this time in a competitive market. But, not simply the energy sector that is run by the company Pemex, but rather that we'll see a lot of activities. If you look at the economic side, in spite of how challenging the market is, you see that in short-term, yes, it is tough, but they've put building blocks in the place, so*

> *they can attract foreign investment, and stimulate the development of the domestic market, and I think that's pretty smart.* (Interviewee 4)

> *I think you have among all, the big labour reform. If you remember, part of the reform package, labour, fiscal, energy, education, a lot of the challenges now is getting them right. There are a lot of countries that are good on writing laws, but they're not really good at implementing them. I think right now Mexico has focused on implementing the labour reform in 2014, so I don't think you'll see any more significant reform in the labour side. Now, if your question is having programmes that allow for the movement of displaced workers; if you talk about Pemex employees that would be displaced, two things you have to recognise: one of the big challenges is the big pension overhead, and there are huge liabilities there. Now, quite frankly, those are commitments that they make to people, and they have to find the way to honour those commitments; that is just a basic notion of fairness. (Interviewee 4)*

The following section adds another, crucial element to this analysis: CEPAL and neostructuralist elements in Mexico's 2013 structural reform.

6.3.1.2. SAPs, Neoliberalism, and Neostructuralism

The structural reforms can be seen from different perspectives. Perhaps the most obvious is the neoliberal bases of the reform, however, as previously mentioned, not all the elements of the reform are based on neoliberalism. Further, despite their dominant market orientation, the reforms include strong laws that will not leave workers defenceless. The reforms, in general, are pointing towards growth but its nevertheless possible to detect some CEPAL neostructuralist fundamentals, such as continued protection of workers. Prior to the reforms, it was expected that labour laws would be made less strict to facilitate inflows of private investment, but the labour reform preserves protections for workers, which has not been the experience in developed economies such as the United States. This subsection explores the scope of neoliberalism and neostructuralism in the Mexican oil and labour reforms.

One of the current concerns of the Mexican population is what is going to happen to the reforms under the new president, Andres Manuel López Obrador, as he has promised to reverse the majority of them. The implications for the economy are unknown since his position towards open markets is not clearly defined. He constantly expresses his disagreement with the structural reforms in general and reserves particular disdain for the oil reform. However, the reforms have multiple safeguards, and since they were approved by all political parties, it may quite difficult to reverse them.

For Mexicans with some knowledge of economics, a left-wing president may not represent a potential problem for the reforms. The reforms are thought to be resilient to political orientations or presidential backgrounds. They were seen by a number of interviewees to be positive for Mexico, and to be well balanced, with the aim of increasing Mexico's welfare. One of the most positive points of the reforms is that they are involving the market and private sector in activities that were exclusively managed by the Mexican state. The oil reform is grounded in constitutional change that removes the government's obligation to and responsibility for hydrocarbon exploration, production, transportation, refining, and gas processing. The reform also gives Pemex the opportunity to focus on what it is most efficient at. Yet, all Latin American regimes lack checks and balances in policymaking, and despite the initiating of reforms, there is always a possibility that new laws and regulations will be reversed by decree. As Interviewee 6 observed,

> *Structural reforms are very important. Just by seeing the energy reform we see the importance of this reform for economy. We as a country need not only to have access to a secure source of energy, but also cheap, so you can come home and be sure that you have gas, which is very different to what is happening today in Venezuela, or in some of the poorest African countries. Gas supply is crucial to generate electricity, and is central for the industry; if you have a steel mill, automotive manufacturing parts, automobile assembly company, or even the entire metal-mechanic industry, is a highly intensive in gas usage. If gas access is not reliable, you'll be stopping industrial lines, and if that happens, production is going to hell. With only two gas shortages per year, your growth rate falls drastically impacting perhaps a third of a percentage point of your GDP. (Interviewee 6)*

A pivotal issue is that the initiative came from President Peña Nieto's administration – one of the most unpopular presidents in the history of Mexico (Negrete, 2017). The oil reform is seen by some participants as a step backwards in terms of social provision and workers' conditions compared with the conditions that the oil industry had enjoyed since 1938. However, others felt that the state is not neglecting its responsibility to those workers, but rather adapting those conditions to new market settings. Oil workers in Mexico have enjoyed better conditions than workers in every other industry, which include a state-of-the-art health service; indeed if the law were strictly applied, oil workers would be using the medical service provided by the IMSS like the rest of state workers (Gutiérrez, 2014).

Some participants believed reforms had a definite social dimension to them, and that Mexico's liberalising of its oil market had proceeded in a more 'solid' fashion than was the case in other countries.

> *I think the reforms have a degree of social inclination. The intention is there, but as far as I can see, the results are not yet shown. Fiscal reform was the first one, in which –from my point of view – they hit the middle class again; that is the only class that pays taxes. They increase taxes for those who already have been taxed, but they haven't broadened the scheme for those who haven't been taxed yet. In my case, now I'm paying way more taxes than before, and I was already paying a lot. I don't think this is fair, because a large number of Mexicans don't pay taxes, and those who were already paying, now are paying more. In Mexico, we have a serious problem with confidence in our government. We see our president's wife in a corruption scandal involving a fancy white house provided by one of the government's construction contractors; then we also have one of our secretaries with another amazing house provided by the same contractor. It is so complicated that a government with so low moral values, preaches that it wants to change society, and they're squeezing the people who really produces, whilst not touching Pemex union at all. (Interviewee 18)*

> *Yes, Mexico is perhaps the last country liberalising and opening its more central industries to FDI, but in contrast to other countries, Mexico is following solid steps for liberalisation. For example, Venezuela, a large oil producer and one the first economies to open its economy reversed liberalisation and now is extremely closed. Mexico, on the other hand largely opened other sectors, including gas, but kept oil closed, for political and strategic reasons. We need to highlight the first opening attempt in 2008,*

> *with President Calderon, where many areas were liberalised; but it was not until Peña Nieto's administration that it was widely liberalised. Now, with regard to the OECD, this organisation is a club of highly developed European countries, a result of the Marshall Plan, and became this group of developed countries, and they accepted Mexico during President Salinas administration. Since then, I believe that has been an exceptional forum for Mexico, allowing us to benchmark our economic policies with those European economies. (Interviewee 6)*

The reforms had been recommended by organisations such as the OECD and the IMF, with the IMF supervising the oil reform process in conjunction with the CNH. Both the IMF and OECD are organisations broadly aligned with neoliberal thought, and both are currently undertaking a reassessment of their positions. The IMF is an organisation that has followed a neoliberal platform since the 1980s and is an important executive instrument of the Washington Consensus (Harvey, 2005; Stiglitz, 2002). Yet, for some participants the oil reform is not based on ideological neoliberalism but on sensible economic solutions whose main purpose is Mexico's development. For one participant, the IMF was not behind the Mexican structural reforms, but rather the ideas of Mexican economists:

> *I don't think the reforms are supported by them, as far as I know. The IMF makes many interesting and intelligent things, but the majority of these things are financial and macro-financial policies. The IMF's actions are all macro-financial, they take care of economies' deficits, and sometimes of their financial and monetary policies. Structural adjustment, in the case that the Washington Consensus still exists, is under the idea of liberalisation and openness. I believe it wouldn't be fair to consider that it is Washington who is directing Mexico's structural reforms. These reforms come from ideas that Mexican economists have considered for long time, but Mexico had lacked the necessary leadership to implement them. This is exactly what the current president and his administration have – strong political leadership to make these reforms to happen. (Interviewee 6)*

The real objective behind the reform in his view was economic development. Similarly, a participant with some involvement with CEPAL also felt that the reforms could not be located purely within one economic school of thought. This participant suggested that these reforms had been extensively planned and discussed, and the important matter is the context of the reforms in terms of the development of a more traditional agenda. The reforms intend to make the Mexican economy more innovative, modern, stable, and capable of capturing foreign investment. If we try to categorise the energy reform, we could conclude that it was partly neoliberal as it aimed for market development and economic efficiency. However, the reform also stimulated domestic investment and national participation, which does not align with traditional neoliberalism.

> *I don't believe these reforms can be located purely within an economic school of thought. As I mentioned before, these reforms have been under discussion since long time ago. Perhaps, it would be better focus on the important benefits for the population, and support for some other sectors. What I've seen so far, I think the ideas is to design an arrow head to boost growth, and to identify Mexican economy as innovative, modern, stable, and capable of capturing foreign investment. In this case, Mexico is better positioned than other economies such as Argentina, Brazil, or Venezuela, this benefits our economy. By linking these reforms towards certain thought scheme, is forcing them to fit. For example, by judging the energy reform, we can easily conclude that is a neoliberal reform since it aims to find economic resources, but we need to foresee, that this reform also guarantees the participation of the domestic industry. Since the reform contains a large component of national participation, any person with liberal ideas will conclude that this reform is not liberal, brushing off the neoliberal component. That is why, trying to place it under any economic school of thought, is a bit like talking about blacks and whites. It is in reality a mix of different economic thoughts, also linked to a more general social benefit, rather that few particular interests. (Interviewee 14)*

The current speed of market opening has less to do with boosting Pemex's performance and more to do with political economy issues. For example, Venezuela opened its oil industry a long time ago, but under Hugo Chavez, and subsequently Nicolas Maduro, it was re-nationalised – with very poor results. Mexico, on the other hand, has taken longer to open its economy, but is taking gradual steps in marketing opening. The initial strongly neoliberal reforms of the early 1980s have been replaced with a less harsh approach in recent years.

Mexico gained OECD membership during President Carlos Salinas' administration (1988–1994) and the OECD has been an exceptional forum for Mexico to benchmark its economic policies. That said, Mexico may not be following the neoliberal model implemented by Salinas, and instead adopting pro-market reforms within a developmental framework.

The term 'neoliberalism' has negative connotations in Latin America and political campaigns still use the term to refer to the intentions of corporations and private interests to own entire economies. For those interviewees with solid backgrounds in economics the recent Mexican reforms were intended solely for growth, and they represent tangible projects oriented to improve the Mexican economy. For that reason, some of the interviewees could not hide their discomfort when neoliberalism and the Washington Consensus were mentioned:

> *You don't have to be from the alt-right to believe on the positive or negative aspects of pro-market reforms. In Mexico, neoliberal is a derogatory term directed to those with pro-market ideas. Neo-liberal is equal to 'unleashed capitalism', 'savage capitalism', and who knows all the judgmental coined terms, and I don't believe is the case in Mexico, at least no more. Energy reform fully understands that hydrocarbons need to be regulated, therefore the strengthening of the CRE. The hydrocarbon transportation [networks] are natural monopolies, and they need to be regulated. The reform also provides the CNH with a clear understanding that hydrocarbons exploration, exploitation, and production are activities encompassed by a large number of externalities, for which the state needs to mediate, ensuring that who owns an oil reserve can exploited the best they can, following best practices, which at the end is translated into social benefit. In other words, the state understands that in both sides of the spectrum, social and private benefits are always different, hence, they need to be regulated. I believe this reform was cunningly designed, is modern, clear, opened, and provided the state and the oil sector, removed the exclusiveness, but at the same time avoided privatisation. I don't know if avoiding privatisation was right or not, but is in fact a reform in which if someone mentions neoliberalism in a derogatory way, because of 'unleashed savage capitalism', I don't agree at all. It is a reform in favour of markets, which considers that markets need to be opened as wider as necessary, but at the same time, implement regulations where needed. (Interviewee 6)*

> *Look, I have a book about that topic, is called__________. You might notice that my critics towards these reforms are very harsh, but I suggest not to miss the point. I don't think on the idea of 'me being neoliberal and you not', or either if a reform is neoliberal, or if the Washington Consensus; that is irrelevant. What is relevant is the specific elements of the reform; if they are post-, neo-, or ex-, or whatever name you want to give them, it is necessary to fill it out with real shape and context. Otherwise, we start missing the point by qualifying somebody of being neoliberal, which by the way, what that*

supposed to mean? Is intended as an insult or is a noble adjective? Since liberals are those who believe in the market, well, in that case in the XVIII century there was a guy named Adam Smith, who believed in the market; or are you talking about Salinas, and Zedillo [former Mexican presidents]. (Interviewee 9)

Participants felt that in some ways debates between neoliberals and anti-neoliberals were 'pointless', and that there is a problem defining exactly what 'neoliberal' means:

Just to be clear, I actually place these neoliberals and anti-neoliberals in the same place as Don Quixote, chasing windmills, and developing fantastic pointless debates. In the first instance, we are not even certain what neoliberalism is, so in that case I find these debates absolutely irrelevant. (Interviewee 9)

Well, I don't know how can you measure a level of neoliberalism, but I believe Mexico has been adopting economic policies that favours the market; I'm an economist, and I don't think there is someone, either a person or economy, that can say 'I am a neoliberal'. These are pro-market policies and being pro-market shouldn't have a negative association. It is possible to be pro-market, and at the same time make your economy to grow, your social and welfare programmes, to reach superior social security as well as a broader coverage. (Interviewee 6)

The Mexican state understands that on both sides of the spectrum – neoliberal and anti-neoliberal – the imperatives are very different, and there is a need for regulation to resolve clashes between stakeholders. The oil reform opens the market and liberalises the oil industry whilst avoiding the privatisation of Pemex, following the examples of Malaysia, China, and Russia. The reform has opened the oil industry while at the same time regulating and intervening in the market to provide certainty and fairness, something that is not contemplated within a purely neoliberal agenda.

Is not easy to forecast what will happen, and I don't know the candidate [López Obrador] to the level where I can be certain when talking about it. Nevertheless, I can tell you that these reforms are all positive for Mexico, regardless of the political party's colours. As I mentioned, this is an extremely balanced reform, that really aims to increase Mexico's social welfare; it manages to involve the market and private sector into many more activities, whilst relieve Mexican state of the obligation from being the only entity investing into the oil sector, an activity that is incapable to keep doing.

So first, despite colours in government, energy reform is really well grounded in a constitutional change, and second, it will start showing its efficiency by removing government's obligation and responsibility of hydrocarbons exploration, production, transportation, refining, and gas processing; that is something very positive. Further, Pemex won't be dissolved or privatised, but it necessarily needs to refocus and adapt to the new conditions. Same conditions will apply to all state enterprises, because now they're not only sources for employment, now are enterprises that are committed to produce revenue for the state, and if is not happening, something is wrong. (Interviewee 6)

Mexico adopted a particular sui generis model, which includes the non-privatisation of Pemex, but it still allows investment flows based on other countries' experience. If this reform had happened back in the 1990s, nobody would believe it. After the experience of Malaysia, China, and Russia, (...) we realised that is was possible to allow foreign investors, to invest in the oil sector without compromising Pemex ownership. (Interviewee 13)

Mexico has experienced almost constant growth of 2% per annum over the last 10 years. The structural reforms as a whole were an extraordinary initiative aimed at increasing Mexico's GDP. Not all the reforms have had the same economic impact as the oil reform, but some are showing immediate results such as the telecommunications initiative. Other reforms are planned to be effective in the longer term. Overall, as Interview 14 pointed out, all of the reforms were aimed at developing the Mexican economy:

In general, as I mentioned before all reforms are oriented to development, although some will have more impact than others. For example, the financial reform has also shown a positive impact, as seen during 2015, where credits in general increased to a two digit rate, that is, about 11–12%, and that increase is linked to the financial reform, easing the path for better loans, but also decreased the risk for those banks that are keen to lend. That is positive for the population in general. Now, another reform, and the one that perhaps will have the strongest impact is the education reform. It was initiated as education reform, although, is more related to education staff labour situation, and how to put the education union under control. I believe further on it will start focusing on how improve our education programmes and performance levels. When we see the PISA tests (international tests of primary level performance), Mexico is located a way below OECD levels. The current education in Mexico is not preparing students for future challenges, is not adapted for the so-called fourth industrial revolution, which requires a broader technological and innovation capacity. If we don't change this path, soon we will be even more lagged than we currently are. (Interviewee 14)

I know there are plenty of critics about the reforms, however I sincerely think that reforms are well directed to boost Mexico's economic growth, boosting investment, incrementing the opportunities for new projects through development banks, such as NAFIN, BANOBRAS [state development bank institutions]. They also expect to provide proper conditions for those small and medium enterprises aiming to boost productive projects. At the end, I believe the intention is economic growth, to boost wealth and welfare for the population; I'm fully convinced of that. (Interviewee 14)

6.3.2. SAPs and Labour Reform

The critics of labour reform are focused on the erosion of workers' rights. However, for many, labour reform remains sociably responsible. The reform is, for its supporters, well balanced because it is looking to reactivate the labour market and secure the rights of workers across all industries. The different positions are seen in the following participant comments:

I think reforms are necessary. The idea is very good, but the implementation part is quite bad. There should be a better way to implement these reforms, and a programme to implement them, such as stages, or step by step. They also need to analyse better the possible outcomes and consequences surrounding these reforms. More planning is necessary. (Interviewee 15)

If your question is, if labour reform aims to send a message about 'we care about our people, over all other reforms', my personal opinion is no. To think that is to bring a holistic integral intelligence to our current government, but indeed, I'm pretty sure that is not the case. I think he's conquering the political side because they come back to the government, and they intend to place their name, as the administration that reformed Mexico, to demonstrate that they were capable of doing it. I think, that is the case, but they forgot that is not just to approve it, but there is a long way to implement it. Let's use an example: Let's put SAP software as an example, if you are looking to fix some of the processes in your company you acquire SAP, but is not only to get the software. The problem comes after you install it, when you realise that this won't fix anything. You actually need to spend a lot of time planning, changing, and training your employees in order to succeed with your strategic implementation. It is the same issue here, I think they've just bought the system, which is the approval of the reforms, now the most challenging is about to come. (Interviewee 11)

Labour reform places a big emphasis on the need for a dynamic labour market. Prior to the reform, hiring a worker was a difficult decision for an enterprise. The labour law required the enterprise to put the potential employee on a three-month trial. If the skills showed by the employee are not suitable for the job after the trial, the person would not be hired. Still, the company would need to compensate that person with an extra three months' salary. That situation has now changed, and companies are less hesitant to hire someone as they will not run into further expenses. It also provides potential candidates with little or no experience with opportunities to undergo trials and demonstrate their skills.

> *I believe labour reform comprises a social intention. As far as I remember, the essence of this reform rests on the intention of provide better opportunities to work for those persons whose opportunities were getting narrower, and have the possibility of being considered for a position. Previous to reform, it was difficult for an enterprise to hire someone. When put him/her into a two or three months trial period, if his/her performance was not satisfactory for the enterprise, just to fire him/her the enterprise should pay a three-month salary after letting him/her go. Whereas now, enterprises can just fire the worker after the trial period with no extra costs in case that his/her performance was not the desired. That gives organisations the flexibility of not hesitating to hire a person, fearing a low performance. Also, social security, and taxes caused by new contracts are less costly for an enterprise. This reform is also quite relevant in terms of FDI and GDP, these changes makes very attractive to boost foreign investment, since it contains elements attractive for corporations exploring the possibility for investment. (Interviewee 17)*

Moreover, the labour reform still includes a contrasting social element in its legal implementation. The post-revolutionary labour laws were fully oriented to workers' protection. In the case of Pemex, Mexico's largest SOE and union, a special set of laws granted exceptional labour conditions. The Mexican state has always been strict in applying this differentiated regulatory framework. Furthermore, the new labour reform is extending its protection to non-traditionally unionised sectors such as household workers. There is also the case of an NGO trying to create unions for green workers, creating different categories such as cardboard collectors and aluminium can collectors, who do have access to social security because of the lack of access to a union (Bensusán Areous, 2013).

> *The problem with labour reform has to be with the implementation of labour laws, because post-revolutionary labour laws are oriented to workers protection. Pemex being the largest SOEs and its union, have a set of labour*

laws granting exceptional labour conditions, and social and safety. When comparing these laws with any other industry such as mining, the difference is huge, and the Mexican state have always very strict in this regulatory framework. All reforms are linked to labour in the way that regulations allow the Mexican state, to keep providing this social protection and its implementation; and sometime even relaxing some of the regulations, so in those terms I believe labour reform still have a social orientation. (Interviewee 13)

The oil reform does not address issues of social provision in a strict sense, except for those related to labour laws and labour (Anguiano Orozco & Ortiz Magallón, 2013). Equally, whilst it was originally socially aligned towards bio-fuel production from organic waste, in order to provide cleaner energy, the latest revision of the reform included an important tax to reduce competition with hydrocarbon fuels. In this case, instead of promoting green fuel businesses, the reform blocked or limited their development.

Now, oil reform per se, I don't think they have a social orientation. I believe they're been designed for large enterprises. The only sector in which the reform is socially aligned is on bio-fuels production, so any enterprise can produce bio-diesel from organic wastes, making cheaper for them to use it, whilst providing a cleaner energy source. However, the last revision of the reform, included an important tax, to avoid competition with hydrocarbon fuels. This is very interesting, because instead of promoting this type of business, the reform is blocking them to avoid competition, and the government is justifying this, as green fuel was avoiding taxes. In terms of neoliberal policies, oil reform is not a reform for the population, it is a reform to compete, attract FDI, to offer more affordable supplies and raw materials. Nevertheless, it is a reform to attract investment, and create jobs. There is also a new trend when opening a market, and is summarised in saying 'yes' to the market and 'no' to privatisation; in fact, OECD have recently incorporated this trend to his rules where is possible to have SOEs, and make them productive, as long as you set the necessary rules to make it happen. (Interviewee 13)

6.4. Economic Growth and Development

This section evaluates in detail the issue raised previously – the extent to which the Mexico oil sector reform is a neoliberal reform, adapted to the political and institutional conditions in Mexico, or a resurrection of the traditional Latin America development model adapted to domestic conditions now found in Mexico and new constraints imposed by the global economy. It also notes that history and culture have played a significant role in the Mexican reform process.

Structural reforms in Mexico are the subject of vigorous debate and endless discussion. The reforms seek to improve Mexico's economic development, and ultimately should result in higher growth, higher employment, and improved living standards. For example, access to energy is guaranteed as one of the core values of the energy reforms. At the same time, all former SOEs will now operate as SPEs, which are more autonomous and flexible entities whose target is primarily profit. With the oil reform, new SPEs emerged to support the oil industry after the dissolution of Pemex's vertical integration. These SPEs received a whole new set of responsibilities that would not be managed by Pemex. Thus far, the new SPEs have proven to be successful productive enterprises. Furthermore, they are expanding their services into new locations, and sourcing from other distributors in order to continue improving their services.

> *If you read the entire legal framework, you'll see that indiscriminative access is an important part of the energy reform. We, as a SPE, once separated from Pemex we signed a large number of contracts, so Pemex can continue doing some other things. Our SPE is creating a new set of responsibilities from a company that didn't had the way to do it. At the beginning, Pemex had legal services, financial, accounting, along with operation and maintenance, but all corporative services you can name were provided by Pemex. Nowadays we are an independent entity, and we have our own services. Not only we are becoming very successful and productive, but now we are expanding to other geographic locations to continue improving our services. Since our services are related to transportation, we need to ensure demand is covered, building new facilities that allow us to grow. Since our services are also gas related, energy reform opens the possibility to acquire gas from somewhere else, and Pemex despite of being our natural and logic supplier, we don't need to buy exclusively to Pemex anymore. (Interviewee 6)*

Many administrations attempted these reforms but did not achieve consensus, primarily due to great political differences. While President Calderon was able to instigate the first changes, with a few modest accomplishments, the lack of agreement between political parties stalled negotiations. It was not until President Peña Nieto's administration that the different political factions reached an agreement to approve the constitutional changes required to boost economic growth and development. Because of that consensus, it will certainly be difficult to reverse the structural reforms, as the same type of agreement would be necessary to reverse them. Before the implementation of the reforms, the average annual FDI inflow into Mexico was US$23 billion (from 1999 to 2012). From 2013 to 2018 the annual average FDI inflow was US$33 billion (Secretaría de Economía, 2018). Unquestionably, a number of areas that need to be improved, such as health, education, and food distribution, among others, but these reforms represent an extraordinary new economic path for Mexico.

> *In theory, in general terms I think that reforms have a clear objective that is to boost economic growth. Of course, when implementing there are multiple factors that can affect their progress in a negative or positive way, and that is precisely what we are currently seeing. I believe is remarkable that from the very beginning of this administration, the government tried to launch these reforms, taking full advantage of people's support, and the posture of all political parties to approve them. Certainly, during the discussion of these reforms, there were people on favour and against reforms, but beyond any doubt, these reforms are crucial for Mexico's growth and development. Some indicators are now positive, and FDI in Mexico is entering in a faster pace after the reform; although there is also a long path to walk, some areas such as health, education, food, still have a big gap for improvement. I believe, Mexicans will weigh the scope of these reforms, and perhaps you'll see this evaluation reflected during the next elections. (Interviewee 14)*

6.4.1. Cultural Issues and Corrupt Behaviour

History plays a central role in the idiosyncrasy that is a nation, and in this matter Mexico is no exception. Octavio Paz (1959) offers an outstanding description of how the history and roots of Mexicans determined its current situation. Before the Mexican Revolution (1910–1920), Mexico was a nation exploited by a modernising and reformist dictator. His idea of development was based on that practised by France and other developed European countries, although his methods of workers exploitation bore little relation to European methods. The government established after his dictatorship, in the aftermath of the Revolution, had a strong socialist base with a profoundly paternalistic government. Ever since then, Mexicans have had great expectations of their government.

> *Mexico is a country in which the majority of Mexicans are quite dependent on their government; a very old fashion paternalistic mentality. The ordinary Mexican awakes thinking about the government, everything needs to be provided by government, and everything negative is government's fault. For most of the Mexican population, prominent rich people are rich because they were helped by the government, and the contrary applies for poor people. The problem is that the government is not more in the position of continue providing everything, and not only that, the government itself needs to do something to stop promoting this type of idiosyncratic behaviour. (Interviewee 3)*

One participant neatly summed up modern-day Mexico, in which one of the consequences of a need for urgent action is that corruption becomes normalised in society:

> *Everything in Mexico is urgent, our idea is to make things happen, and once done you can fix them later. That is one of the problems I find in the reforms, into the legislation level: since is urgent, you need to involve chambers, deputies, ancient laws, senators, lobbyists, interests' groups, and secretaries, and many other stakeholders. That expands the problem, making it also more complicated to solve, so we ignore if the reform is actually enough to fix the problem it aims to attack. Additionally, as time pass the problem becomes a cultural issue, everybody seems to believe that this is the normal path, and starts developing abusive and corrupt behaviour, lack of transparency, etc. (Interviewee 3)*

These are perhaps generalisations, but the comment is made by someone that was born and raised in Mexico, therefore it clearly reflects the prevailing oil working culture. It captures the reason why Mexicans lack confidence in their public servants, as corruption is embedded in society, from the humblest worker to the top leadership in the government. But at the same time, as more than one participant underlined, Mexicans are changing, and Mexico's traditional culture is being challenged by a new wave of people with new ideas. People are emerging in the government and the private sector that truly believe in a transparent and accountable system, with new and best practices. As their intentions for reform affect traditional institutions and organisations, traditionally privileged positions are being threatened, as Interviewee 3 noted:

> *So why some ideas of the current status in Mexico are confronted? They're challenging the status quo because we have this new wave of people with new ideas, in the industry and within the government that really believe in a system of transparency, implementation of new and better practices. These new people who are promoting the reforms shock with the traditional 'way of thinking', perhaps because the reforms are affecting institutions and organisations that have been operating in certain way, or seeing themselves threatened, because some privileges are going to be drawn. (Interviewee 3)*

> *Many people voted for Peña Nieto, I mean, I shouldn't be judging him, but I have the idea that his knowledge level is quite poor. Let's face it, they voted him because he is handsome, and sadly that is the path that all political parties are following. It is simply marketing, as if they were selling a product, and now see the results. I'm optimistic that new generations can judge more based on capabilities, to read, questioning, and pushing for something better that this. It is true, democracy has advanced in Mexico, and despite that we still see corruption, Mexican can still define our better future and we have the means to do it, but education is crucial. (Interviewee 18)*

Corruption is a generalised problem, and is found in different degrees across all countries, both developed and developing ones. Corruption is particularly dangerous when it becomes institutionalised in a country, embedded in the legal system, as noted by Interviewee 7:

> *Corruption is also part of the security issue. Corruption has beaten many countries, it has beaten the United States, and almost every country in one way or another; either way, today or a century ago, you just have to deal with it. Corruption is feeding under poor and under-privileged, so if you can 'even the playing field' and make everybody more middle class, then it would be less corruption, less for the corruption to take advantage of, and depends where you go, it stills there. India, Brazil, it is everywhere, and takes different forms, all the way to legal corruption. You have smart lawyers that include terms under contracts which legalise corruptive practices that are not right but are now legal, so just have to deal with it. In the case if Mexico, we know that Pemex union is very corrupted, and we see it as a domestic problem that has to be fixed. And we hope that it can be fixed, and is not easy to do, and it probably results in a lot of people losing jobs, and it's going to take time. (Interviewee 7)*

A common example of institutionalised corruption is contracts with 'hidden' clauses, that might be completely illegal but upon signing turn into legal instruments. An equally common practice that affects Pemex is the 'reclaim industry', which was elaborated on by Interviewee 13.

> *'Reclaim industry' or 'industry of claims' is a term used in Mexico for a group of lawyers dedicated to sue Pemex for any possible reason. It goes from environmental, land owners, to retirement issues. Labour reform set new instances to deal with this type of controversy and legal problems. To deal with this type of problem has cost Pemex a fortune. This type of corruption links internal Pemex departments who leak valuable information, with external lawyers. As expected, Pemex union is also involved in this type of corruption, because a number of enterprises part of the 'industry of claims' belong to union leaders. This type of corruptive practices are now bounded by labour reform. (Interviewee 13)*

6.4.1.2. Transparency

One of the aspects that is changing the oil industry is the government's drive towards transparency. The government invested large sums of money to make the latest oil negotiating rounds as transparent as possible. Anyone could find online all the information relating to the rounds, participants, bidders, alliances, and joint ventures, and the final bids and decisions are easily accessible. All potential investors have equal access to information. The bidding round's transparency was a truly ground-breaking development. One of the participants (who was not part of the government) commented:

> *If you look at the first phase ..., they were very wise in not putting the most attractive stuff first, and [to] use it as kind of a learning process, and if you look at the commentary after phase 1, a lot of what you heard was that this was the most transparent process that you have ever seen in an emerging market, that has moved to open a commodity process, so Mexico got 'good marks' for that. And it was also a process that allowed for inputs from investors in a way that the second phase then reflected what is more competitive and more attractive, given the fact, that we were operating in a market that was very challenging, and that was down; so, the second phase was even better. (Interviewee 4)*

Participants felt that the federal government needed to advance its transparency agenda and strengthen its regulatory and supervision institutions. The old anti-corruption model neither identified corruption cases on time, nor identified possible risks. The size of the corporation is also important. In small enterprises it is more difficult to hide corruption practices than in large enterprises.

However, despite the general lack of transparency and a perception of widespread corruption in Mexico, participants expressed confidence that the private sector would be much more transparent than the public one. Some industries have the explicit trust of foreign investors. Automotive manufacturing has a history of extraordinary performance, and the quality of labour is outstanding. Confidence is widespread in more technical industries with higher standards, such as aeronautics, with airplanes now being fully assembled in Mexico. Central and Northern Mexico now represents a market fully integrated with the North American market through NAFTA. Mexico also produces highly talented engineers. Some private universities can sometimes claim a competitive advantage over US universities because they produce engineers in a relatively shorter period of time. These newly trained engineers and scientists are arguably less affected by traditional corrupt practices.

6.4.2. FDI

In broader terms, the oil industry's recent challenges acted as pressure on Mexico to open its market. Neither Pemex nor the Mexican government had the necessary capital to continue supporting the industry. Mexico therefore had to open its energy market to foreign investment in order to allow countries/enterprises to fill the industrial gaps with their capital. Mexico is already capturing a large amount of income as a result of the reform. That of course was a key goal of this reform, to increase Mexico's capital reserves, along with increasing its oil production. But that goal could only be achieved by taking the step to open up the market:

> *… open your market to the world and ask those countries/enterprises with capital to come. Let's tell them to bring their money and with a clear, transparent bid process, taxes, quotas, tariffs, etc. is how Mexico is planning to capture a large amount of income. That is part of the goals of this reform,*

to increase our capital reserves, and increase our oil production, the ultimate goal is summarised in a single word: capital. (Interviewee 10)

Oil reform is a reform to boost competition, attract FDI, and offer more affordable supplies and raw materials. However, is a reform designed to attract investment and create jobs. The hydrocarbon market in Mexico is going to grow, and it won't be because of Pemex, but because of all other enterprises. Yet, Pemex still will be in charge of important matters, such as supplying fuels where any other enterprise will be interested to access, and Pemex will keep being an important support for the state. Also, in case of those enterprises that fail to pay, or happen to bail out, Pemex will still have the capacity to be in charge of those projects. (Interviewee 13)

As other participants observed, opening up the industry to foreign investment will mean huge opportunities for the whole of Mexico's oil industry:

This is a huge business for the whole industry, it will be big for the operators that get licenses because there is going to be a lot of revenue in oil reserves, and it will be a big business for all the service companies that support it. It will definitely open markets and opportunities, and for our company we probably see opportunities beyond capping systems [the company's expertise] at some point in time. (Interviewee 7)

We are talking about upstream right now, but if you get to see downstream, you already manage to see a large and great integration in terms of pipelines, and if you look into energy reform, and you take the impact that lower-cost gas moving into Mexico, is going to have in the generation of electricity, and manufacturing, that's very significant. So, even though, oil and gas upstream stuff is more sexy, there is a lot of investment coming up to downstream, and in terms of electricity generation, being able to move lower cost gas into Mexico, is very good for manufacturing; so you are going to start to see some economic activity and economic growth that is a by-product to the energy reform. (Interviewee 3)

The third phase for the first negotiating round proved particularly important for the development of Mexico's domestic oil industry, as one participant explained:

The third phase [1.3] is sort of interesting, because it attracted a lot of domestic activity. You saw a lot of consortiums that were formed or were granted to Mexicans investors, and that too tells me a couple of things: one, you are starting to see the growth of the Mexican energy sector, second, that is the domestic energy sector, but in a competitive market; not the domestic energy sector that was run by Pemex, and third, if you look at the economic side, in spite of how challenging the market is, they put building blocks in the place, so they can attract more foreign investment, and stimulate the *development of the domestic market, and I think that is pretty smart. (Interviewee 3)*

As might be expected, the government sometimes pursues actions that contradict the aim of FDI attraction. For Interviewee 1, for example, the main goal of the reform is being frustrated because whilst petrol and gas prices are distorted, since these prices are not regulated by the market in Mexico, imported fuel will be over-taxed in order to align it with the pricing of Pemex's petrol franchises:

For me, allowing imports faster than originally planned is a contradiction. Because whilst petrol and gas price is distorted, since is a price not regulated by the market, imported fuel will be exposed to an over-taxation, to align the price to Pemex petrol franchises. Starting in 2018, is expected that a series of new petrol stations, will be stablished, besides Pemex franchises. The date to import gas has been pulled in by 8 months, however there is no type of incentive to import that fuel. For example, where are all the pipelines for its transportation? Well, they haven't been built yet, and their construction is still under a bidding process. (Interviewee 1)

6.4.3. Innovation and Technology

Mexico's economy has long had a strong orientation towards manufacturing. The NAFTA competitive advantage for Mexico is based on manufacturing, and proof of that is the number of *maquiladoras* placed by MNEs across the northern Mexican border. Mexico, in spite of having a respectable, and in some areas outstanding, technology orientation, is still underdeveloped. The lack of government support, and the low levels of R &D innovation in the private sector has caused skilled workers to seek jobs in other countries. Interviewee 19 argued that Mexico was decades behind the world's leading economies:

In Mexico, we are lagging behind about 40 years. The reason is – I believe – quite clear in the book Why Nations Fail? I think you find several references about Mexico, even [telecommunications tycoon Carlos] Slim is mentioned, and its main critique is about lack of innovation. He is who he is because of the Mexican government. The book also mentions Mexico's economic elite, whose its ultimate goal is to take full advantage of the population and resources in the minimum possible time. (Interviewee 19)

In the oil sector the story is no more promising. Pemex created its own institution for R&D, the Mexican Institute of Petroleum (IMP) in 1965, but bureaucratic practices and lack of serious commitment to innovation reduced IMP to a simple training institution for new engineers. When Mexico had the resources to invest in R&D it failed to do so, and nowadays the only way in which it can capture capital to invest in technology development is in conjunction with FDI. It is not a matter of lacking capable human capital. Mexico excels in that area, as noted above. However, there is a urgent need for larger support from state institutions, and that cannot come if the state keeps subtracting more than half of Pemex's oil revenue, as one participant explained:

> *In order for Mexico to be competitive, it have to open itself to foreign investment, and secondly, you know, if you grew up in Veracruz just as I grew up in Texas, the things that you learned only by listening, and one of those things is that Pemex was becoming uncompetitive as an old company; and the reason is not because it lacks talent, because it has amazingly talented engineers. It is becoming less competitive, because in a way it wasn't having to compete with real market pressures, so you can have a much larger bureaucracy that you've ever seen in a major oil company. You could have the government basically taking 60% of what Pemex produce of revenues; then basically underwrite 30% of the federal budget, so that money is never reinvested back in Pemex. Along with all these problems, you have the dramatic changes in the industry, where they can no longer access the kind of technology that's been utilised in some other parts of the world, make them even less competitive. (Interviewee 4)*

Another participant neatly explained how Pemex could benefit being exposed to foreign expertise:

> *My experience with Pemex is that they follow the rules, and as we get in the deeper waters, the rules change a little bit, so there is a gap in experience, that Pemex like Petrobras, has to close so they are qualified to be able to do the work, and some ways opening up the market to foreign companies brings the expertise they can learn from: best practices, safety in this new environment. Drilling as well is the same as drilling in here or there, but learning what are the lessons learned, not only for the safety stand point, but for the commercial as well. Plus, when you bring those companies in, and they bring their money in, and they start paying for a lot of operation, where Pemex doesn't have to do it, and you never going to get out there to do it. So, I think a lot of these decisions are driven by the need to get more revenue.*

Mexico is seeing other countries doing it, and they say, 'Why not us? (Interviewee 7)

6.4.4. Politics and Political Economy

For decades, the Mexican economy has depended greatly on oil as a major contributor to GDP. Mexico started to diversify its economy in the early 1980s during President Miguel de la Madrid's administration. However, the dependence on oil revenue continued due to, among other things, Mexico's low taxation rates, as explained by Interviewee 3:

> *If you look at structures like Pemex, it is mixed, 80–85% is exploration and production, the rest [refining, gas, chemicals, petrochemicals, etc.] is very small. Results were good financially when oil was around US$100 a barrel, with those prices it doesn't matter how bad you manage the company you are still making a lot of money. So, you get caught in these political games, where part of the government, particularly the Secretary of Finance which has been constantly using Pemex's revenue to cover Mexico's lack of taxation. Pemex nowadays [2016] should look differently. It needs to look more like a real company in the sense of its operational efficiency; getting state-of-the-art technology and developing willingness to screen out inefficiencies. The Secretary of Finance needs to realise that for Pemex it is not possible to keep dragging that financial burden. (Interviewee 3)*

Perhaps, one of the most relevant aspects of the 2013 structural reforms is that political parties for the first time in the modern history of Mexico agreed on what economic path to follow in the form of the Pacto por Mexico,[18] which was the antecedent to the 11 structural reforms. These reforms were the realisation that Mexico could not wait one more day to join the development wave. The following comments reflect the genuine optimism felt by some participants about the future direction of Mexico's economy:

> *I also believe that it is very smart that reforms are products of the Pacto por Mexico, which means that there is sufficient commitment from different groups, and all the major political players from Mexico. That says, 'Ok, we are all in this together, so we all look good, or we all look bad, but we have to remain committed to it.' I think there is a political will, and political*

[18] National political agreement signed in December 2012 by the legislators of all political parties to a) strengthen the Mexican state, b) democratise the economy and politics, and c) ensure the participation of citizens as key actors of implementation and evaluation of public policies.

commitment, and also recognition across all the political parties. (Interviewee 4)

I think Mexican society has been growing and becoming more mature, has been also more participative in economics and politics about the path we want to walk. Thus, I think that is a strong counterweight that goes far beyond theories and schools of thoughts and is actually the compass in which our society wants to walk. We are already telling the government what we are expecting in terms of development for our country. (Interviewee 14)

6.5. Conclusion

This chapter has used the primary data gathered from the semi-structured interviews to explore the complex political and institutional environment in which the 2013 Mexican energy reforms took place. It has also analysed the scope and limitations of SAPs and the neoliberal foundations of these programmes, and investigated the degree to which the 2013 reforms could be said to be neoliberal, thereby answering Research Question 2 of this study. The following chapter discusses the findings presented in this chapter in relation to the existing literature on SAPs.

CHAPTER 7. DISCUSSION

The empirical findings of this research deepen our understanding of the nature and scope of the 2013 oil industry structural reform in Mexico. It was a pro-market reform designed to open the oil industry up to private investment, reduce the participation of the state, and fragment the vertically integrated oil industry in order to redefine the role of Pemex. The reforms were encouraged by organisations such as OECD, and financially supported by the IMF. In general, a key difference of the 2013 SAP – compared to Mexico's previous ones – is the lack of conditionality.

As previously discussed, SAPs are designed on a neoliberal platform. They have been the subject of criticism over their impact on economic performance and wealth distribution. The 2013 SAP was granted to Mexico with more favourable conditions because the country was not experiencing financial distress – the context in which SAPs are usually delivered to recipient countries. Under those conditions, the IMF can avoid criticism of its harsh conditionality and the main goal of SAPs remains as originally designed: a sustained application of neoliberal policies.

This chapter compares and contrasts the findings of this study with those of the existing SAP literature. It also explores the institutional change that Mexico is experiencing with the oil structural reforms. The chapter is divided in three major sections. The first section analyses the impact of neoliberalism at national and industrial level in Mexico. The second section examines the changes the 2013 SAP is delivering in Mexico. Finally, the third section contains a general insight into the application of SAPs, and a reflection on the Mexican SAP experience and its implications for the future applications of SAPs.

7.1. The Mexican Oil Sector

Historically, Mexico's oil sector has not walked a particularly easy path. The initial years were characterised by the exploitation of Mexican oil by foreign oil companies,[19] and nearly four decades of the adverse consequences of this were the main cause of the industry's nationalisation. Up until 2013, the oil industry had been kept as a state-owned monopoly exclusively exploited by the Mexican state with no significant private investment. Mexicans learned in elementary school about the authoritarian and abusive behaviour of foreign companies during the period of foreign exploitation. This helps to explain why the industry was never opened up to privatisation as other industries were under the first privatisation wave in the early 1980s.

The state-owned monopoly contained many of the elements promoted by a developmental state – elements rejected by neoliberalism. The logic that Mexico followed by accepting some neoliberal measures in certain industries and activities contrasted with its approach to its oil industry. At a first glance, it appears that Mexico is following a neoliberal approach known as neoliberal policy adjustment (Schmidt, 2002). The Mexican state changed regulations and has created organisations in order to liberalise the oil industry. Nevertheless, its oil SOE, Pemex, is still owned by the Mexican state, which contradicts the pure neoliberal approach.

The reasons why Pemex will not be privatised were continually brought up by interviewees, and include the enormous financial liabilities held by Pemex which makes it unattractive as an acquisition. There were also other reasons identified by a number of the participants: Pemex is the heart of the traditional Mexican political economy and is also the last icon of 'social conquest' standing in Mexico – its privatisation might trigger serious social unrest. Besides,

[19] See Chapter 4 for full background on the Mexican oil industry.

Pemex is framed in a political context, which creates a fundamental obstacle to privatisation. The conditions, the context, and the even the will to privatise do not exist, regardless of the incumbent political party.

Since the 1980s, at the recommendation of both the IMF and OECD, Mexico has put aside most of the elements of a developmental state based on Keynesian economics. In the case of Latin America, that signified rejection of the ISI model of development. Arguably, one of the major economic errors of Mexico was the attempt to apply neoliberalism by the book, abandoning its industrial policies. An industrial policy can be defined as *"any type of selective intervention or government policy that attempts to alter the structure of production towards sectors that are expected to offer better prospects for economic growth than would occur in the absence of such intervention"* (Pack & Saggi, 2006, p. 2).

Jaime Serra Puche, Secretary of Commerce and Industry during the Carlos Salinas de Gortari administration (1988–1994), said that the best industrial policy was a non-existent one (Castañeda, 2014). This suggests that the Mexican government was then open to neoliberalism, and willing to avoid the use of industrial policy. Ironically, the experience of some Asian countries such as South Korea, Taiwan, and Singapore has demonstrated that a well-planned and developed industrial policy can be central in promoting growth and development (Weiss, 2010). More recently the Inter-American Development Bank (IADB, 2014) recognised that Latin America was better off 50 years ago, and that their position today is the result of abandoning their industrial policy settings. This is perhaps the result of the lack of international consensus about the use of industrial policy.

The privatisation wave started in Mexico in the 1980s following the trend initiated by Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States. It was considered at that time vital in order to achieve financial stability, and was presented by the IMF and the

World Bank as a symbol of modernisation, efficiency, and healthy finances. Privatisation in Mexico started with the steel, sugar, fertiliser, rail, airport/airlines, banking,[20] and telecommunications sectors (Sacristán Roy, 2006). In general, the objectives pursued by the Mexican government of strengthening public finances, obtaining improved capital stakes, and the modernisation of the domestic industry were not reached. Overall, in the privatisation process, the cost of change surpassed the additional revenue gathered. Moreover, other than the telecommunications and rail sectors, there is no clear evidence of superior efficiency improvements being reached in any of the privatised sectors (La Porta & López de Silanes, 1999; Sacristán Roy, 2006).

The oil industry was not privatised during this time or even allowed any type of direct private investment. It was only after three decades of privatisation that the oil industry was finally opened to private investment – but the dominant force in the industry, Pemex, remains an SOE. Throughout the years Pemex did not evolve as an enterprise because investment in technology remained modest and corruption throughout the entire structure of the enterprise remained a normal part of operations. In effect, the top management have never considered Pemex to be competitive. It is rather considered as a large bureaucracy. The nexus that has characterised the government, Pemex, and its union explains why Pemex found itself in the precarious situation it was in prior to the 2013 reform.

Not all states develop high levels of corruption within SOEs, but it is the norm in Mexico. The Mexican government, irrespective of the governing party, does not regard Pemex as an entity with the potential to maximise revenue. Neoliberalism also advocates for an increase in taxation rates in order to avoid dependence on revenues obtained by sources such as SOEs. By

[20] The banking sector was originally private but was nationalised by the José López Portillo administration in the late 1970s, before being and re-privatised by President Carlos Salinas in the 1990s.

relying on SOEs as a source of revenue, the Mexican government settled into a comfort zone. Subsequently, Pemex experienced significant fiscal liabilities, and hence was overly susceptible to a decrease in international oil prices.

Neoliberalism in Mexico started with Miguel de la Madrid (1982–1988) and continued during the Carlos Salinas (1988–1994) and Ernesto Zedillo (1994–2000) administrations; all these presidents were members of PRI. After Zedillo came Vicente Fox's administration (2000–2006). Fox was the first president to be elected democratically.[21] The neoliberal changes enacted in Mexico occurred while democracy was at best weak in the country. The major neoliberal changes occurred in the last three PRI administrations; neoliberalism in Mexico therefore found its ideal environment in non-democratic regimes. This is aligned to the intellectual tenets of neoliberalism, that views democracy as creating a potentially negative environment for the successful operation of the free market.

Still, increased democracy did not stop the neoliberal wave, as the subsequent democratically elected presidents came from the National Action Party (PAN), a right-wing Christian democratic party founded by business tycoons. Indeed, it was Felipe Calderon (2006–2012), the predecessor president of Enrique Peña Nieto (2012–2018), who initiated changes to open the oil industry to private investment. PAN is a political party owned by the private sector that pushes for reforms that benefit business elites by strengthening property rights, market opening, and privatisation.

[21] Presidential elections have been held in Mexico since the end of the Mexican Revolution, but the electoral institutions were controlled by the President, until the Electoral Federal Institution became independent and controlled by non-partisan citizens prior to Vicente Fox's election in 2000.

7.1.1. MNEs and FDI

Within neoliberal thought, one of the core reasons for privatisation of SOEs is to allow the free flow of FDI. According to neoliberalism, privatisation allows the increase in scope of the market, reducing the participation of the public sector and allowing the increase of competition and consumer choice. This aligns with some of the reasons for the oil industry opening up in Mexico – to allow MNEs from around the world to participate in the Mexican oil sector. FDI is argued to be positive for both Mexico and the foreign investors. For Mexico it represents capital inflow and job creation in an industry that was in decline. For investors there is a more stable environment in which to invest, a guarantee of their property rights, and full control of their operations otherwise impossible under indirect investment.

The segregation of the different eras of relationships between MNEs and states theorised by Boddewyn (2016) was discussed in Chapter 2, and helps to explain the Mexican oil industry across the different eras. The era of confrontational relations (1945–1979) includes the end of WWII and covers the Keynesian economic period. In this context, MNEs represent for researchers a complex territory. On the one hand, for governments MNEs are potential trespassers on sovereignty; on the other hand, for MNEs foreign environments pose the constant threat of asset seizure. This was particularly true in the late 1970s around the world, which led to the ILO and OECD developing property rights protection mechanisms (Jones, 2005).

In the 1970s Mexico was a state-planned economy using the ISI development model. Industry was growing, and enterprises enjoyed multiple protectionist benefits. The economy was not opened to foreign investment but rather focusing on exports. The global oil industry had two major crises in this period: the 1973 OPEC embargo and the 1979 crisis caused by the Iranian Revolution. Overall, however, Mexico enjoyed high oil prices and a boom in exports, which allowed the state to pursue a full vertical integration of the Mexican oil industry. However, despite of the success of the global industry, the Mexican government failed to pursue a business model that promoted long-term competitive success, and sought reserves to cover its public expenditure.

During the second era, that of accommodating relations (1980–2000), the market environment for MNEs passed through a radical evolution with extensive policy change oriented towards liberalising markets around the world. This era was marked by the spread of neoliberal policies, including in Mexico. It saw the penetration of a vast number of MNEs into the Mexican market, privatisation of SOEs and the implementation of NAFTA. Nevertheless, despite this liberalisation, the energy sector (apart from natural gas distribution) remained fully owned by the state. During this period a number of severe global crises occurred, in part a product of neoliberal policies, in particular those policies supporting floating exchange currencies enforced by the IMF. Examples are the Latin America crises (Tequila (1994), Samba (1998) and Tango effects (1999)) and the 1997 Thai baht crisis that directly affected Taiwan, South Korea, and Singapore (Pranesh & Kumar, 2018).

This series of crises was directly or indirectly caused by neoliberalism: Mexico was the first economy to experience the impact of a crisis caused by neoliberal policies (Stiglitz, 2009). Nevertheless, direct investment in Mexico boosted both its inflows and outflows. Despite the wave of FDI in Mexico, labour laws remained highly protective of workers' rights. The majority of the Mexican industries benefited from liberalisation, particularly the manufacturing and automotive industries. Also NAFTA, which was originally designed to revive the economy of the northern Mexican border, was showing results in other regions and industries in Mexico; that is, trade liberalisation was producing benefits for Mexico.

The Mexican oil industry allowed contractors to initiate exploration operations and offer technical support because of their technological superiority. International oil field service companies such as Schlumberger and Haliburton have long been present in Mexico, closely supervised by the Mexican government. None of these companies were exploiting oil reserves, and Pemex was still the only company extracting, distributing, and refining oil and derivatives.

Finally, the era of competing relations (2001–the present) is marked by a surge of emerging market MNEs (EMNEs). In Mexico, a number of these new EMNEs were the product of SOE privatisations, the most prominent case being Telmex. Many other Mexican MNEs with a long tradition and history in Mexico became global players, some of them the largest players in their industry, such as the case of Grupo Bimbo (bakeries) and Cemex (cement and ready-mix concrete) (Huesca-Dorantes et al., 2018).

As previously mentioned, Mexico started privatising its SOEs in the 1980s, but until 2013 the oil industry remained state-owned. It is in this era that Mexico has finally opened its energy market across all sectors. Perhaps the only major sector that now remains in the hands of the state is education. The role of the Mexican government has been considerably reduced during this time. As pointed out by Eden, Lenway, and Schuler (2005), MNEs are now negotiating and lobbying with governments, as has been the case with the Mexican government and the shaping of policies concerning the oil industry. The influence of the government, although reduced, is still significant, and its approach is more associated with seeking to reduce inequality than letting the market act by itself.

The liberalisation of the oil industry also corresponds to a government with a different set of priorities than those of neoliberalism. The government seems to understand that, regarding FDI, the amount is not as important as the destination. The oil industry does not have the priority it had in the past, with Peña Nieto's administration, for example, prioritising other types of investments involving technology, entrepreneurial activities, and projects that might generate backward and forward linkages, as suggested by CEPAL (Moreno-Brid, 2015).

The consequences of SAPs are still open to debate. Cases such as China's unprecedented economic success brings into question how neoliberalism was avoided in the China and yet its economy became the most dynamic. There are also examples of other Asian countries that relied on *sui generis* successful industrial policies, which contradict what is promoted by neoliberalism. Mexico is seeming to follow a similar path, with the difference that is prioritising growth and development *with social equity*. In general, all these factors are better aligned to CEPAL's neostructuralist thought rather than Washington Consensus prescriptions, as workers wellbeing is not, and has never been, a main concern of neoliberalism.

7.1.2. Labour

Traditionally, the state influence in an economy was extended to areas such as corporate governance, education, and labour (Hall & Soskice, 2001). The state worked as a facilitator that helped society and the market to function (Weiss, 2010). Mexico's changes to its labour laws – and some other laws and regulations – are the consequence of the liberalisation of the energy sector, and are consistent with the concept of 'capitalism homogenisation' (Hall & Soskice, 2001). This concept suggests that changing regulations in one area of the economy forces the introduction of changes in other areas (e.g., oil industry liberalisation and labour reform).

In Mexico, Pemex oil workers traditionally enjoyed better conditions than workers from any other company or industry. Pemex salaries have been among the highest in Mexico, and Pemex workers have had their own health service provider developed exclusively by and for Pemex. Labour laws in general protect Mexican workers extensively, providing them with good working conditions and free healthcare provided by the state general social service, IMSS. For most Mexican workers, IMSS is the health service designated in law, but not for Pemex workers. Legally, Pemex workers should be part of the IMSS system, but the reality is different. They enjoy a special health service that is extremely costly for Pemex. This is an example of the extra rights to which Pemex workers have become accustomed.

These conditions are now changing not only for Pemex, but for all workers in Mexico, as labour reform has introduced more flexible policies, allowing employers, for example, a less costly lay-off process. As discussed in Chapter 6, it also sets Mexican labour policies in line with world labour market standards, setting aside labour law traditions that derive from the Mexican Revolution. What the labour reform does is to equalise all industries under the same legal framework, including non-traditional industries and non-unionised workers such as household workers and cardboard and recycling material collectors. While it certainly will be a step back for some workers, the scope of the reform is broad and inclusive, and that, in general, is a positive development.

Neoliberalism calls for more flexible labour markets in which enterprises can hire and lay-off workers easier and faster with minimal cost. In societies where workers rights are minimal, this approach lacks justification, and is unfair and potentially inefficient. In the case of Mexico, where some workers have markedly better conditions than the rest, the new policies give equity to all workers.

Furthermore, with the labour reform workers do not need to be affiliated to a union to enjoy social security and healthcare.[22] While it undoubtedly makes the labour market more flexible and better adapted to the globalisation era, it maintains a concern that has existed since the Revolution: a sense of the social responsibility for the less favoured of the population. What is

[22] Unions in Mexico, primarily those known as 'red unions', are often affiliated to political parties, traditionally to the PRI. Examples include the Pemex union (STPRM) and the Mexico Workers Confederation (CTM).

clear is that even if the intentions of the government were more radical towards implementing neoliberalism, Mexico's social conditions would not allow a comprehensive application of neoliberal policies.

In summary, the scope of the oil structural reform in Mexico do not correspond to neoliberal tenets. It is indeed a pro-market reform by a state seeking to move forward by fostering technological efficiency and human capital, following the prominent examples of economies such as Singapore and South Korea. The new labour laws aim to make the labour market fairer and more efficient while adapting to market conditions.

7.2. SAPs: Lessons from Mexico

Despite the privatisation wave from 1990 to 2008, Latin America as a region achieved a modest 3.2% annual average GDP growth per capita. In contrast, Southeast Asia achieved an average 4.1% GDP growth per capita during the same period. In terms of annual average nominal GDP per capita, Latin America obtained only 1.7%. This average is the same as the United States, with the difference that the United States' nominal GDP per capita was almost six times larger than Latin America's (CEPAL, 2014b). After two decades of harsh neoliberal programmes with meagre results, the myth of the intrinsically efficient and self-regulating market was exploded. We are now witnessing the return of the state as a legitimate market intervening agent, with fresh new projects of sustained and inclusive growth (Boyer, 2015).

CEPAL explains why Mexico has not reached GDP growth rates over 5% despite relatively large FDI inflows (Moreno-Brid, 2015). One of the reasons for the negative impact is the lack of an active and targeted industrial policy. This has also been indicated by the IABD as the reason why Latin America was better off five decades ago. CEPAL's neostructuralist position re-incorporates Keynesian and Schumpeterian elements. For CEPAL, it is vital to orientate the productive forces towards a high-demand, long-term markets. This emphasises production processes, manufacturing and innovation and technology rather than low wages (CEPAL, 2014a). It would also target investment through backward and forward linkages, investing in particular projects that boost investment in other stages of the same project (Moreno-Brid, 2015).

In broader terms, this study of the 2013 Mexico structural reforms has generated three possibilities. First, the reforms may be based on an orthodox neoliberalism with certain modifications to cope with the contemporary state of the global economy. Second, the reforms are grounded on a hybrid developmental model of both developmental state and neoliberalism. Finally, there is the possibility that the reforms are the result of a new model, 'neostructuralism', theorised by CEPAL. The difference between classical structuralism and neostructuralism is that in the latter reforms are adapted to the conditions of the global economy.

This research conducted in the Mexican oil sector provides a broad understanding of the relationship between the 2013 SAP and the previous ones received by Mexico in the 1980s and 1990s. It is, nevertheless appropriate to be cautious when seeking to generalise about a different economy or experience based on this study. The conceptualisation of this study may be suitable as a point of reference, but the nature and the conditions of countries and regions vary geographically and historically.

Neoliberalism and SAPs are intrinsically linked. Indeed, SAPs are tools designed by neoliberal institutions to advance the spread of neoliberalism in those economies reluctant to reform their financial and institutional structure. SAPs, which were traditionally endowed with conditionality, seek to drive rigorous structural changes that aim for market and economy liberalisation in recipient countries. The main criticism of SAPs lies in the compulsory nature of that conditionality, with SAPs being financial loans usually received in periods of economic crisis.

Since their initial implementation, SAPs have experienced virtually no changes. In 1982, as the first economy to receive a SAP, Mexico did so during what was perhaps one of the worst financial crises the country has experienced. That has also been the situation for all other economies in Latin America obtaining SAPs. But then, in 2013, Mexico received a SAP whilst enjoying a period of growth and development. During this study a number of themes emerged from the data analysis. From those emerging themes, I have identified several factors that help us understand better the role and operation of SAPs: a) their evolutionary nature; b) adaptability; c) political commitment; d) consistency with neoliberalism; and e) re-institutionalisation. These factors are discussed individually below.

7.2.1. Evolution of SAPs

The evolution of SAPs has been a long process. There were years of unchanged conditionality from the early applications in the 1980s, later reinforced by the Washington Consensus and its harsh policies. Decades of scholarly criticism based on empirical analysis caused little to no effect on the policies of the World Bank and the IMF on SAP conditionality. The only views and tools that seemed to count for IGOs were those in favour of SAPs, often based on self-interested opinions rather than data, such as in the case of the Washington Consensus in 1990.

Nevertheless, the IMF's experience in Mexico offered once again the opportunity to test a new type of SAP with different objectives. This new type contrasts with the traditional SAP in two ways: first, it eschews severe short-term conditionality; and second, it is applied in an economy while enjoying growth, development, and financial prosperity. The evidence suggests that the Mexican government has closed any possibility to neoliberal policies, as a result of the poor results obtained at early stages. Mexico's economic growth during the neoliberal era has not been spectacular – growth based on GDP rarely passes 3%.

In terms of FDI, neoliberal reforms doubled the FDI inflows, but little positive impact on growth and poverty rates. As CEPAL argues, in Latin America it is not the quantity of FDI inflows, but the destination of these investments that needs to change. FDI is needed in industries other than just the primary and low-wage sectors. SAPs as was originally known may no longer exist. Its primary goal of market liberalisation, as opposed to economic growth has changed. In the case of the 2013 oil reform, the Mexican government used a SAP as a resource for growth, which aligns more with CEPAL's neostructuralist philosophy.

7.2.2. Adaptability

The experience of neoliberalism in Mexico raises an intriguing question. Either neoliberalism has evolved to manifest an adaptive non-orthodox capacity to fit it to any society regardless of its historical and cultural settings; or perhaps there is no longer room for orthodoxies, and neoliberalism should no longer be seen as a sustainable economic model. As has been previously discussed, an orthodox neoliberalism was perhaps most possible in an authoritarian regime such as Pinochet's dictatorship in Chile. However, Pinochet's system and circumstances no longer apply in Latin America.

That does not mean that neoliberalism is extinct. Economists around the world still support the neoliberal model. However, the evidence from Mexico, from proponents of both the left and right wing, rejects its validity in that country. For them, the only existing neoliberalism in Mexico is the one utilised in political campaigns to denigrate opponents, where the term 'neoliberal' is a synonym for traitor. So, in spite of its adaptable capacity, in Mexico political cultural, historical, and even its persistent corruption has made Mexico resilient against policies negatively affecting the working classes.

The adaptive capacity of neoliberalism is perhaps a factor in its survival. A system based on an inflexible orthodoxy is also doomed to perish. However, after the efforts to direct the country towards neoliberalism in the 1980s, and the second privatising wave of the 1990s, the results were disappointing. Further, Peña Nieto's administration, which has been seen as a continuation of Salinas' neoliberalism, instead actively intervened in the market.

The SAPs of the 1980s and 1990s were textbook for the time and came with stifling conditionality. In the case of the 2013 reforms the story is quite different. In 2013, the IMF and OECD were involved in the reforms, as was CEPAL. The 2013 reforms sought social and economic development; a different focus to the two previous SAP experiences. The OECD's role in the reforms was related to transparency, to ensure that the legal environment in Mexico is up to the standards of developed economies. Hence, if in the past these organisations acted as rivals, now they are collaborating towards development and social equity as a priority, while still being pro-market.

Contemporary reforms may entail elements of neoliberalism in relation to markets, but in contemporary Mexico, the national, political, historical, social and cultural characteristics prevent the application of unbridled neoliberalism. A number of characteristics of the Mexican society converge to block more aggressive economic liberalisation. Laws and institutions are designed to preserve Mexico's post-revolutionary cultural heritage, from the social-oriented economy to the normalised corruption of society. It is therefore, appropriate to conclude that in Mexico neoliberal adaptation has been location and time-specific. The main reason for the labour market reform is to equalise worker rights, rather than minimise them, which reflects development with a social objective rather than a neoliberal one.

7.2.3. Political Commitment

The policy changes experienced during the 2013 structural reforms required complete political commitment. Agreement on the reform programme was reached in 2013 with the full commitment of all political parties. The reforms were proposed by a centre-left government and supported by both right- and left-wing parties. A large number of interest groups and lobbyist were involved in the process. The Congress and Senate represented many political parties during Peña Nieto's presidency such that Mexico's people were fairly well represented. The defeat of PRI government in 2018 was related to the blatant corruption condoned by the president and his aides, rather than Andres Manuel López Obrador being seen as a superior president (Bustos Jácome, 2018).

President's López Obrador's radical left party, the National Regeneration Movement (Morena)[23] has dramatically risen from insignificance to holding a majority in both the Congress and Senate. His election campaign promised the reversal of all structural reforms, which he has consistently labelled as neoliberal. This is inaccurate, however, as the reforms might be positive from the economic and financial perspectives, and organisations created by oil reform are still state organisations. Furthermore, an enterprise such as CENAGAS is not only part of the Secretary of Energy, it is a newly created SOE.

All Mexican political parties voted in favour of the reforms, in order to strengthen the economy. The most important aspect of the reforms as a group is the social orientation of education and labour reform. Particularly, education reform is targeting technological development and entrepreneurship. These two reforms are arguably what made the left-wing parties agree to the

[23] 'Morena' is a condensation of the Spanish name of the party, Movimiento de Regeneración Nacional.

reform programme as a whole. They are not antagonist to market, and their goal is Mexico's social development.

7.2.4. Consistency with the Neoliberal Model

Globally, contemporary structural reforms are usually pro-market reforms. They tend to be neoliberal in focus, with their core purpose being market liberalisation. But neoliberalism is bounded by the elements of each society it is introduced into, and some are more receptive to its tenets than others. In the Mexican case, the oil reform, on the one hand liberalises the oil industry – a key neoliberal goal. However, on the other hand, the reform maintains Pemex as a SOE and creates supplementary enterprises and organisations owned and controlled by the state. This is in direct opposition to the neoliberal agenda. The Mexican government is not deregulating in the way demanded by neoliberalism. It is actually adding more regulations to provide more control and certainty for financial operations – and that same time improving transparency.

In this context, it is not possible to conclude that the 2013 Mexican structural reforms followed an orthodox neoliberal economic model. They, instead, took a heterodox approach. The neoliberal philosophy is present elsewhere in the reforms when the purpose is privatise, but that purpose is nowhere present neither in oil or any other reform. Besides, Mexico's institutional constructs have proven to be resilient to any attacks on its post-revolutionary social construction. None of the structural reforms are completely based on neoliberal ideas. In each one of them is present the social orientation of the Mexican state. A clear example can be seen in the labour reform, which makes the labour market more flexible but it still ensures access to healthcare and social security to all Mexican workers.

7.2.5. Re-institutionalisation

As has been discussed previously in this study, the de-regulation praised by the Mont Pèlerin Society is indeed a *re*-regulation. Since the free market is a utopia (Chang, 2010), de-regulation oriented towards market liberalisation is in fact new regulation introduced by neoliberal reforms. It might be argued that policy changes and the creation of new organisations are being made to pave the path to neoliberalism. Still, the policy changes are also a matter of capitalism homogenisation, and not necessarily a sign of neoliberalism.

Besides, part of the institutional change that occurred in Mexico has generated more bureaucracy and creates new SOEs/SPEs. Those organisations are strongly dependent on the Secretariat of Energy, meaning that the state is growing its influence, contrary to neoliberalism's tenets. This aligns with the assessment of one participant about the continued desire of the Mexican government to intervene and distort the market. The re-institutionalisation in Mexico is not neoliberal; these organisations aim to regulate (and therefore, distort) the market. In theory, the new SPEs are more independent and autonomous than the former SOEs. The reality is that there is still the requirement in place that they report directly to the president and the Secretariats of Energy and Finance, which still largely control the SPEs.

The constitutional changes to Articles 25, 27, and 28 were introduced to open the oil industry to investment without the privatisation of Pemex. The opening is a move towards diversification as well as strengthening other important economic sectors. In conclusion, the 2013 oil and labour reforms are not intended for privatisation. As one interviewee pointed out, OECD is for Mexico a benchmark and compass to help determine what direction the country is following. The human capital lag needs to be reduced before long; that is one of the functions of OECD in Mexico.

7.3. Development of SAP Applications and the Implications for Other Economies

After 40 years of neoliberalism and 30 years of SAPs, the world – with few exceptions – began to realise that the neoliberal economic model does not work. But this realisation entails a broader problem: what will come next? The faster growing economies of China and India never pursued a neoliberal path. Moreover, these economies were depositories of vast market distortions and protectionist barriers. As the evidence suggests, the role played by the state is crucial for development, and economies should reconsider the state as one of the most important elements. This, by any means, does not signify closing borders and embarking on over-protectionism, but rather, a tool for fostering growth through institutions and economic incentives.

The evidence obtained in this research in the oil industry in Mexico is an illustration of the importance of the state. More importantly, it is an indication that an alternative to neoliberalism is developing in Mexico. The findings suggest that this is CEPAL's neostructuralism or a type of hybrid heterogeneous model. However, the implications of the erosion of neoliberalism, is resulting in a global polarisation over different economic arguments. From a set of alternatives, four arguments are the most distinctive: centre-left reformist, far-left populism, far-right nationalism, and the progressive capitalism.

Centre-left reformist are the proponents of globalisation and the continuation of financing driven by Wall Street. The Far-left is represented by the extreme socialist populism, basing its policies in the nationalisation of enterprises and sometimes whole industries. Far-right nationalism is followed by those former economic hegemons that blame immigration and foreigners for all the problems affecting the economy; they also see trade and international relations as confrontational. Finally, progressive capitalism, is the most moderate and systematic political alternative of all. The term is used by Sainsbury (2013) and Stiglitz (2004, 2019) as a heterodox formula that combines economic growth, freedom, and social equity.

Progressive capitalism proposes to reinstall a balance between civil society, markets, and the state. Inequality, financial instability, and environmental issues are seen to be problems of the markets and they will not be solved by the market itself. The most viable agent helping to solve these problems is the state, through its institutions and regulations. Additionally, the focus on technology, health and education needs to be supervised by the state. Technology and education are vital for growth, as is, scientific development. A number of Keynesian and Schumpeterian elements are involved in this concept.

Stiglitz (2019) underpins how detrimental concentrated market power can be for an economy. The power possessed by large corporations is what has boosted neoliberalism. Under the guide of neoliberalism the corporations promote liberalisation of foreign economies, while at the same time demanding protectionism from their own government. A strong state is needed along with dispersed economic powers, and diluted economic power. These two concentrated forces create a vicious cycle of influence in governments.

For this research the evidence suggests that this is roughly what CEPAL neostructuralism proposes. Further, it is what CEPAL is trying to achieve in Latin America. This can be summarised in two ideas: first, to reverse the excessive market power produced by SAPs and neoliberalism; and two, reduce the social inequality produced by both. Growth and social equity are not contradictory terms. The Southeast Asia experience with well-developed industrial policies are proof of that possibility.

In general, SAPs have not evolved to become better tools for economic development. Instead, SAPs have eroded economic development. Thus, it has been replaced by other economic policies. The most significant finding of this research, is the substitution of orthodox neoliberalism by other development models, some of them hybrids of different school of thoughts. Elements of neoliberalism can be found in most of the economies, but they usually come with other policies that contradicts their basic neoliberal tenets. Once again, the experience of Southeast Asia, is crucial to understand the base of a successful model. Some of the states combine the liberalisation of industries that were historically closed while still retaining and supporting SOEs. This is what happened with the 2013 oil reform in Mexico.

With the decline of neoliberalism, economies have begun to develop their own developmental hybrid model, with elements of developmental state, neoliberalism, and a range of other influences, from Ricardo, Keynes, Schumpeter, to Hayek. CEPAL gave to Latin America the path for tangible reforms that work. In Latin America, neostructuralism is the progressive capitalism described by the aforementioned authors. Today CEPAL's heterodoxy is back into the Latin America economic arena.

In regards to this research, scholars should be cautious before extrapolating or generalising based on the Mexican experience of neoliberalism and oil industry reform. Indeed, this caution should be extended to any economy. In Mexico's experience, crucial factors have been shown to be in play: historical, cultural, social, economic, and political. The interrelationships of these factors made Mexico resilient to more aggressive neoliberal experiments during the 1980s and 1990s. Of all the aforementioned factors, I would argue that the historical ones are the most significant.

7.4. The Mexican Experience: The Impact for other Economies, Industries, and Firms

SAPs' conditionality and its "forced neoliberal" agenda needs to be considered by those economies under SAPs policies, or when applying for a SAP loan. Mexico's experience has proven that SAPs' conditionality is detrimental for most economies under the need of a SAP. For those economies which are recipient of loans from the IMF and the World Bank should be open to suggestions from these institutions, but have the vision and flexibility of applying the funds in areas where, and whenever, these are needed.

This is of particular importance for emerging economies, which are often more vulnerable than developed economies, due to their dependence on developed economies. Emerging economies have limited financial reserves to cope with the impact of financial crises, as many of the Latin America economies have experienced. For emerging economies, developing projects are by far, more important, than applying SAP funds to fix problems with their balance of payments. In broader terms, future projects which focus on economic development and infrastructure are more important that the application of these funds for non-developmental purposes. Thus, the role of the state is crucial, as it needs to work as a designer of pro-market reforms, but important economic decisions and crucial actions should not be solely leave to the market. The state should be a regulator, and not the simple 'night watchman" proposed by the Austrian school of economic thought.

In regards to industries, SAPs are deployed for the purpose of breaking apart monopolies and privatising SOEs. However, the experience in several countries, including Mexico shows that SOEs are not necessarily detrimental to an economy. As highlighted in this thesis, SAPs were not targeted towards privatising, but to bring about market access. Therefore, governments should have the option to protect local industries. Moreover, past experience has shown that the privatisation of basic social needs such as education, water, and health services has placed those economies that has chosen to privatise such services in a precarious situation.

Firms are perhaps the more broadly affected. For example local firms can benefit by industry liberalisation as they can participate in formerly restricted markets. Yet, those service providers that prior to liberalisation benefitted from a monopoly, would be under the new circumstances, affected by competition. Foreign firms usually profit the most from liberalised markets, nevertheless, the risk of reversal policies can cause a negative impact on them. For example, the liberalisation of the construction market in Venezuela attracted international enterprises, however, a few years later, Hugo Chavez's regime nationalised the whole industry thus absorbing the assets of foreign and local enterprises.

7.5. Conclusion

This chapter has discussed the findings of this empirical research and concludes that the 2013 Mexico oil industry reform and perhaps all other reforms undertaken at that time were not aiming to impose a neoliberal model. The neoliberal euphoria of the 1980s and 1990s has passed. President Salinas in the 1980s predicted a progressive Mexico taken by the hand of neoliberalism. A path that would redefine the country as an economic hegemon. That euphoria bought Mexico a place within the OECD, considered by one participant in this study to be a club of rich European neoliberal economies. However, the neoliberal model only exacerbated the disparities between rich and poor, and caused one of the harshest financial crises ever experienced in Mexico. Furthermore, the policies derived from the Washington Consensus in the early 1990s produced the lowest growth rates in Latin America (CEPAL, 2014b).

Since then, the Mexican government has been cautious about the application of neoliberal measures. Subsequent governments have pursued policies seeking growth, not liberalisation.

That is why think-thanks such as CEPAL are so important: their studies focus on economic and social development exclusively for Latin America. Those studies have shown that massive amounts of FDI are meaningless for Latin America economies if those investments are in the same non-value-added activities (Hirschman, 1968, 1995). So, FDI into technology-oriented activities, which links further investment in complementary activities, is ideal for the region (Moreno-Brid, 2015).

The role of CEPAL decreased during the 1970s and 1980s, but it regained importance in the late 1990s. After the failure of the Washington Consensus development agenda, CEPAL returned with a fresh philosophy that brought back the importance of social equity. Latin America had lost two decades of development due in large part to neoliberal policies, without mentioning corruption, bad governments, unstable presidential regimes, reversed policies, and alterations between left- and right-wing regimes. It is true that neoliberal policies cannot be fully blamed for the region's lag, but the worst economic performance of Latin America happened during the neoliberal frenzy, and the lost decade of the 1980s can definitely be laid at the door of the Mont Pèlerin Society.

The following chapter is the conclusion of this study. It presents the limitations, and the directions for further research derived from the findings. I also engaged in a personal reflection about the possible future for the oil industry under the administration of the new President Andrés Manuel López Obrador.

CHAPTER 8. CONCLUSION

8.1. Initial Remarks

This research started as a personal inquiry about the influence of neoliberalism in the Mexican economy. One of my main motivations was a need to understand why neoliberalism never really worked in Mexico like it appeared to do in other countries. Even with successive SAPs in the 1980s and 1990s, the country's growth never reached the desired levels, despite following the IMF and the World Bank's neoliberal agenda. As my research progressed, I began to realise that liberalisation under strict terms of conditionality has never fully transformed any economy for the better.

My subsequent exploration of the history and evolution of SAPs came to the general conclusion that at least, in the case of Mexico's 2013 structural reforms, the neoliberal orthodoxy of the 1980s and 1990s has been abandoned. The new reforms adopted a different ideological stance. By conducting semi-structured interviews with key oil industry stakeholders, and comparing the insights gained from them with the existing literature on SAPs, I discovered that two IGOs formerly considered ideological rivals – the IMF and CEPAL – were now beginning to use their combined knowledge to help the Latin America region to thrive.

Globalisation is in decline, which can be seen in the increasing numbers of protectionist policies being applied around the world. Those polices are carried by the very hegemons that were once the leading economies supporting liberalisation. This is precisely where CEPAL's neostructuralist system finds relevance in Latin America's development. The state is being brought back as a chief participant in the economy, only this time to foster projects prioritising technical expertise and entrepreneurship. The economic scope has been narrowed to the international scale rather than the global one. Privatisation is no longer the only priority, and the value of social equity has been reconsidered as having core significance for an economy.

In Mexico, SAPs are not about structural adjustment anymore. They have become more like traditional loans to be used for development purposes. However, since the IMF and the World Bank are no longer imposing a conditionality on loans, their role is to provide expertise in the best way they can be applied, along with other IGOs such as the OECD and CEPAL. There is no imposition of conditionality this time because Mexico applied for this loan in a non-traditional manner; that is, not under the pressure of a financial crisis, but in a favourable economic situation.

What's next after neoliberalism? It is hard to tell, as it was created by right-wing ideologists, and right-wing movements (liberal in Europe, conservative in the United States) are expanding around the world, including in Brazil. But, in the case of Latin America, it is increasingly clear that Washington Consensus is dead, despite the efforts of authors, such as John Williamson, to revive it. It did not work back in the 1990s, and it will never work. The possibility of taking elements of successful industrial policies as sought in Southeast Asia and apply to other economies and regions is compelling. Further, even, the application of some neoliberal measures may be useful within a heterodox model, but in an adaptive approach rather than radical, and by agreement, rather than enforced.

Regardless of the fate of neoliberalism, it is still a formidable and interesting economic model. Its historical impact in the Latin American region is huge. Its benefits for the rich classes, the disparities and inequality caused by it, and the erosion of democracy favouring particular interests are lessons that need to be learned. As a society, we need to use the market in our favour. After all, it is created by a society for a society. It is a fallacy to think that the 'free' market is not going to be controlled by a higher entity, meaning large corporations. So, in the same that the state is still important for development, we need to learn how to balance power between the state and the market. After all, everything in life is arguably about balance.

8.2. Limitations of the Study

This section addresses the limitations of this study. Perhaps its main limitation is that the research is bounded within the Mexican oil industry. It has been argued that multiple case studies should be favoured over single case (Eisenhardt, 1989). However, ground-breaking qualitative studies are often those led by single cases. Such studies can allow the visualisation of new theoretical relationships (Dyer & Wilkins, 1991).

Data access in this study was an important constrain. Two factors are linked to this limitation. The first, the geographic distribution of the oil industry in Mexico, with headquarters in Mexico City, and productive activities across Mexico. And second, the access to a highly politicised company such as Pemex, whose workers have little to no interest to participate in any study. The reasons vary from a lack of time, to the fear of being framed or spied on by top management.

Another limitation is the use of data obtained through interviews, as interviewees are often absorbed by retrospective sense-making. This refers to the process whereby the *"sequence in which people concerned by identity in the social context of other authors engage ongoing circumstances from where they extract cues and make plausible sense retrospectively, while enacting more or less order into those ongoing circumstances"* (Weick et al., 2005, p. 409). In order to reduce this concern of identity in the social context, Eisenhardt and Graebner (2007) suggest obtaining interview data from different perspectives, since the possibility that different participants are part of the same sense-making is quite narrow.

Furthermore, these findings from the Mexican oil industry, cannot be generalised across other sectors, not even other oil industries. The selection of participants, too, led to the limitation that circumstances such as convenience, geographical location, time, and funding are factors that determined the scope of this research. This research is also limited by the potential bias brought from both the participants and the researcher. As interpretive research, this study is subject to the lenses applied by each of the participants of the study. Further, the background of the researcher, despite all his efforts to ensure otherwise, may have affected his interpretations of the data provided by the participants.

8.3. Contributions of the Study

A key contribution that this research makes is to the SAPs literature and the impact of SAPs conditionality on privatisation and economic development. Conditionality has been extensively used by the IMF and the World Bank to pressure economies under SAPs to open their markets without tangible benefit for those economies under SAPs, and even less benefit for the population. This thesis also makes a contribution to the IB literature, as it contributes to the literature on business-governments interactions, and policy design market access/pro-market reforms, as opening a formerly state-owned industry requires extensive policy change, re-institutionalisation, and adaptation to new rules and norms.

Furthermore, this thesis adds to both, the MNEs and EMNEs literature, as the liberalisation of the Mexican oil industry affects MNEs from both developed and developing economies. This phenomenon is extended to both state-owned and private MNEs. For the EMNEs, this study can be of particular interest to Latin America SOEs and MNEs. Thus also contributing to the multilatinas (MNEs from Latin America) literature. Finally, the managerial contribution of this study is modest by nature, as the focus of the study is largely oriented to the oil industry in general, a world political economy phenomenon.

8.4. Future Research

The findings of this research provide fertile ground for future studies. Researchers may extend the findings of this research to economies in Latin America, as they were also subject of SAPs but under different contexts and circumstances. Latin America might share cultural similarities between its economies, but the history of each is totally different. As the use of structural reforms has been extended in the region recently, it would be of considerable interest to analyse both their scope and subsequent results. Moreover, it would be interesting to explore if the neostructural approach can be seen in industries elsewhere, and the possibility of neostructuralism as a replacement for neoliberalism.

Future studies might also explore the application of industrial policies in different sectors, and how that has, or has not, been reconciled with social equity and economic development. Since industrial policy is experiencing a comeback, as seen in some countries of Southeast Asia, its application in Latin America countries could be explored with a comparative study. Further, a potential research direction is the investigation of the neostructuralist approach in industries, and in particular economies where it has been recently applied such Uruguay and Chile.

8.5. A Personal Reflection

As it has been highlighted in this study, Mexican society today is the result of its history. The Mexican poet Octavio Paz's magnum opus, *The Labyrinth of Solitude* (1950) is both a poetic and accurate portrait of Mexico and her people. Paz maintains that, for Mexicans, resignation is a key virtue. Mexicans are more attracted to the strength required to face defeat than the light that emanates from the torch of victory, and this is something that is embedded in the Mexican culture. Other countries have at times taken advantage of this trait. This occurred when foreign companies exploited Mexico's oil during the early 1900s, and it happened again with the imposition of the strict conditionality of neoliberalism in the 1980s and 1990s.

SAP conditionality was traditionally intransigent as the SAP were only offered when countries were at their most vulnerable. Despite decades of failure across the world, the IMF and World Bank maintained the same, failing recipe. It eventually become evident that aid and assistance have never been the goal of SAPs. It is true that neoliberalism brings some short-term dynamism to an economy, but it is not a way to achieve real, long-term development. It is actually the antithesis of development, as it serves only certain privileged interests. Neoliberalism was designed by and for Western societies. For collective societies, concepts such as 'individualism' are neither justifiable nor well received. Mexico is a country that was founded on a collective base that was enhanced by historical moments such as its Independence War, and the Mexican Revolution. Because of its history, the Mexican state evolved into a highly paternalistic one that provided rather than encouraged development. Its system of cultural beliefs is the product of centuries of customs and habits installed into the collective conscience. Dissipating this system and radically altering this mindset would take generations.

This thesis does not place itself in opposition to the market and pro-market reforms. As an international business researcher, I fully understand the significance of business for a society. My arguments are directed towards promoting a market that is accountable and functions with responsibility. More and more corporations are pursuing broader corporate social responsibility, and some governments and IGOs are increasingly moving in the same direction. The oil industry, with its prices controlled by cartels such as OPEC and its continued exploitation of fossil fuels in an era of drastic climate change, would be wise to follow in their footsteps.

In the case of Mexico's oil industry, I believe that opening the industry to private investment was the best thing that has happened in the industry in the last three decades. But, once again, Mexico is receiving the gift of "uncertainty". A new president with a far-left populist political position has been elected. As I have previously stated, I do not believe in political extremes. The new President, Andrés Manuel López Obrador, is a person with little knowledge of economics. His detractors believe that he spent long time (about 18 years) chasing the presidency, to the extent he did not have the time to prepare for this role.

President López Obrador's plan, is to bring the oil industry back to its greatest times. He is currently reviewing the reforms, with the idea to reverse the opening of the industry. Further, he is doing the same with other important reforms, such as education. His position towards the oil reform has already been felt internationally, as the credit rating agency Fitch has downgraded Pemex by two notches. This is a result of the decline in production, its negative cash flow, and the President's new policies towards Pemex.

López Obrador won the presidential race due to the extreme corruption happening in Peña Nieto's administration. López Obrador portraits businessmen as undesirable. The fear that investment drops persists latently. I am not in general too optimistic in the short term for Mexico's future. For this President, even the new CEPAL's policies are seen as extreme.

In conclusion, I would like to think that this research has reaffirmed that history matters, and that each society needs to know their own history. My greatest hope for this research is that it in some way helps us avoid committing the same mistakes we have made in the past.

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