



Central
Intelligence

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Mexico: Midterm Electoral Prospects

National Intelligence Estimate
Memorandum to Holders

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June 1985*

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**Memorandum to Holders of NIE 81-84,
*The Outlook for Mexico***

**MEXICO: MIDTERM
ELECTORAL PROSPECTS**

Information available as of 20 June 1985 was used in the preparation of this Estimate, which was approved by the National Foreign Intelligence Board on that date.

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THIS ESTIMATE IS ISSUED BY THE DIRECTOR OF CENTRAL INTELLIGENCE.

THE NATIONAL FOREIGN INTELLIGENCE BOARD CONCURS.

The following intelligence organizations participated in the preparation of the Estimate:

The Central Intelligence Agency, the Defense Intelligence Agency, the National Security Agency, and the intelligence organizations of the Departments of State and the Treasury.

Also Participating:

The Assistant Chief of Staff for Intelligence, Department of the Army

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SCOPE NOTE

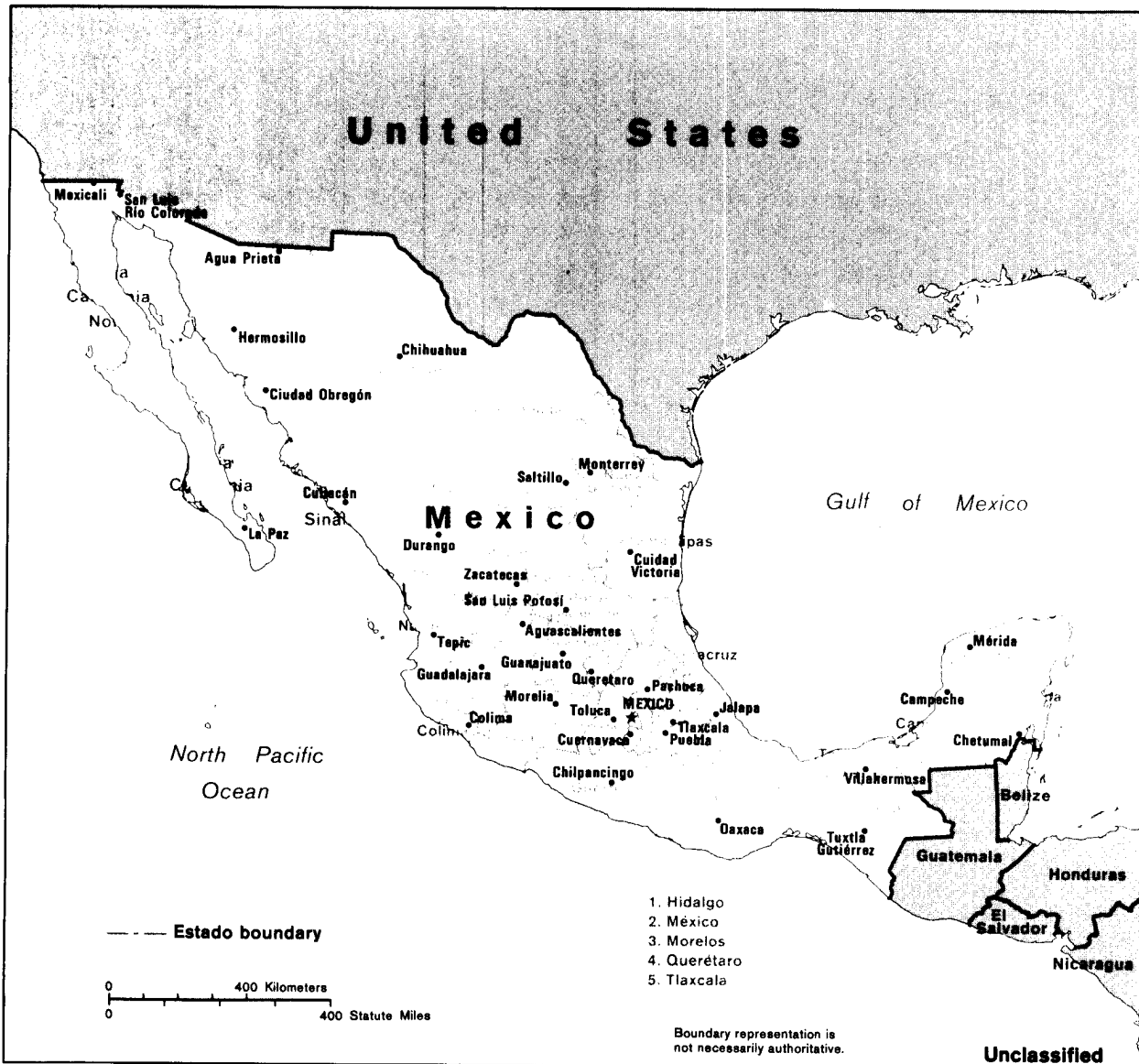
In our April 1984 National Intelligence Estimate 81-84, *The Outlook for Mexico*, we warned that "the Mexican political system is under greater stress today than at any time in the last 30 years," and that, ultimately, "the preservation of Mexico's stability will rest on the skill and competence of its leaders and on the strength of its political fabric." The Intelligence Community was divided over the prospects for political destabilization in Mexico in the next several years, but there was unanimous agreement that in the coming years Mexico will suffer a series of political and economic crises, which the United States will need to monitor closely to protect its own vital interests.

This Memorandum to Holders updates that Estimate, with particular attention to the implications of the coming (July 1985) legislative and gubernatorial elections on near-term political prospects. The Memorandum also assesses the longer term implications of Mexico's continuing economic difficulties.

The foregoing Scope Note is

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Figure 1
Administrative Units



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KEY JUDGMENTS

Mexican President de la Madrid was able to demonstrate strong leadership during the earlier part of his six-year term by dramatically reversing the grave economic crisis that confronted him when he took office in 1982. He took advantage of a broad Mexican consensus that new policies were needed to solve the country's difficulties by pushing economic austerity as well as political reform and moral renovation. This consensus has eroded over the past year or so as a result of pressure from conflicting government and party interests, and he has had to modify his goals in order to achieve an acceptable compromise. He has relaxed his economic austerity program, thereby enhancing support for his party in the coming 1985 midterm elections. He has also [redacted] [redacted] to win elections and altered his strategy on curbing corruption by generally not targeting top-level officials. These actions partially reflect a pragmatic recognition of the economic and political restraints facing him as well as political infighting among his advisers, including maneuvering by several major subordinates to succeed him.

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De la Madrid's leadership will be put to the test on 7 July 1985, when Mexico will hold elections for all seats in the Chamber of Deputies, for seven governorships, and for numerous local offices. The elections are particularly important because they will come at a time when the ruling party's prestige and popularity appear low by historical standards. A victory by the Institutional Revolutionary Party (PRI) without widespread violence or blatant fraud would reaffirm de la Madrid's overall standing, possibly increasing his leverage with powerful opposing interests. However, de la Madrid's influence would be weakened if the party were forced to concede a key governorship [redacted] [redacted]. The outcome will also affect the pace at which de la Madrid believes he is able to move forward with reform of the political system and will test the nationwide appeal of the opposition.

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The center-right National Action Party (PAN) currently poses the greatest political challenge to the PRI, but the PAN's strength is concentrated primarily in the northern states. Elsewhere in the country, the PAN is generally small and presents little threat to the ruling party. Mexico's weak and divided leftist parties will provide only token competition for the PRI, in our judgment. We expect the USSR, Cuba, and other Communist states to have little, if any, influence on the outcome of the elections. In the near term, the Soviets almost certainly



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do not want to jeopardize their present bilateral relationship with Mexico, because it enables them to promote a number of their interests, including a large intelligence apparatus in the capital and valuable access to Central American subversive groups.

Opposition parties will seek to capitalize on dissatisfaction with the PRI's performance and are likely to emphasize continued economic problems, [redacted] and drug trafficking. Although de la Madrid's austerity policies have brought Mexico back from the brink of financial disaster, they have involved high social costs. Budget cuts have reduced subsidies for food and other consumer goods and, we estimate, the real purchasing power of most Mexicans has fallen by a third since de la Madrid assumed office.

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In preparation for the election year, the government shifted to more stimulative policies in mid-1984 as a means of creating more jobs and arresting the decline in living standards. As a result, the Mexican economy grew by some 3.5 percent in 1984. These actions, however, have kept inflation high and will probably cause Mexico to miss some key IMF targets, particularly the budget deficit. Furthermore, the balance of trade surplus has fallen sharply so far this year, the peso has again become overvalued, and capital flight is once more a serious problem.

We believe [redacted]

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[redacted] that the de la Madrid administration is attempting to sweep the elections by pumping extra resources into its campaigns [redacted]

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Electoral irregularities, in our judgment, may spark violent protests by PAN supporters in Sonora and possibly elsewhere in the north, particu-

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[redacted] We anticipate that civil disturbances for the most part will be localized and without strong leadership. Incidents of violence may be magnified by international media coverage, but they are likely to be quickly tamped by the Army and other security forces.

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We envision several scenarios:

- The greatest likelihood is that the PRI will retain control of the vast majority of elective offices, including all governorships, with minimal violence [redacted]
- We believe it is less likely that, while the PRI will win most contests, including all governorships, such victories will be marred by serious and widespread disorders.
- There is only a remote possibility that the PRI will acknowledge a PAN victory in any state. We believe PAN's best chance of capturing a governorship is in Sonora.

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Even if the de la Madrid administration emerges from the 1985 elections relatively unscathed, the government is likely to face continued economic and political difficulties through the end of the President's term in 1988. In 1986, the ruling party is scheduled to face an even greater number of gubernatorial contests, and the administration's economic policies will remain contentious. In addition, we judge that he will be unable to make major reforms in the political system [redacted]

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[redacted] Moreover, the constraints on the de la Madrid administration are likely to grow during the remaining three years of his term.

De la Madrid's difficulties probably will be most acute on the economic front. A continuation of present policies, while temporarily spurring economic growth, will prevent Mexico from meeting most of its 1985 International Monetary Fund targets. Furthermore, the weak trade performance, combined with large interest payments on its foreign debt, may cause Mexico to experience its first current account deficit since the financial crisis of 1982.

Following the elections, we believe de la Madrid will attempt to continue essentially stimulative policies while implementing some belt-tightening measures to cool the overheated economy and placate the IMF and the international banking community, including more rapid devaluation of the peso and cuts in government spending. Nevertheless, we expect Mexico's economic difficulties will continue, and as a result, de la Madrid is likely to face increased and conflicting pressures from influential sectors in the government and the ruling party. These pressures are likely to mount as the 1986 elections approach, placing greater political constraints on his ability to make difficult economic and other decisions.

Despite these problems, we do not expect the July 1985 elections to have major repercussions for US-Mexican relations in the short term under the most likely scenario. The importance de la Madrid attaches to the bilateral relationship is somewhat offset by general anti-American resentment, which can quickly surface in Mexico, as it did following US allegations of corruption at high levels within his government. Thus, it is problematic whether de la Madrid will be more receptive to greater cooperation in areas of key concern to the United States, such as narcotics control, immigration, and Central America.

Relations could be seriously aggravated in the less likely event of serious disorders in the north, [redacted]

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[redacted] Such violence would also discourage international investment and foster greater illegal

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[Redacted]

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migration. Should PAN capture a governorship, the de la Madrid administration would be wary of any links between the opposition and US groups, possibly introducing greater discord in bilateral relations.

Whatever the election outcome, we believe the situation in Mexico will continue to present problems for key US interests [Redacted]

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[Redacted] The existing constraints on the de la Madrid administration, combined with Mexico's continued economic problems, are likely to sustain the potential danger of political instability. In the event of a major domestic crisis, the PRI may be tempted to exhort traditional anti-American feelings, which run deep through Mexican society, in order to rally public support and retain political backing. The Soviet Union and Cuba are likely to watch such developments closely for opportunities that might benefit their relationship with Mexico.

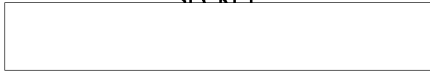
The foregoing Key Judgments section is [Redacted]

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DISCUSSION




1. Mexico's Institutional Revolutionary Party (PRI) has enjoyed a virtual monopoly on power since its inception in the late 1920s. It has never lost the presidency or a governorship, and it has dominated most lesser offices (see inset on next page). The PRI has maintained its hold on power by integrating key groups into the political process, centralizing political and economic power, identifying itself with the Mexican Revolution, co-opting or coercing opposition groups. 


Also contributing to the ruling party's longevity have been the economic gains Mexico has achieved under its tutelage. From the 1930s through 1981, the country experienced a fairly steady, diversified growth averaging 6 to 7 percent annually. Although the middle and upper classes benefited disproportionately, other groups also improved their lot. 

2. This impressive record, perhaps unparalleled in Latin American experience, was suddenly challenged in 1982 when Mexico confronted its gravest financial crisis in a half century. Several years of rapid growth based on rising oil export earnings and massive foreign borrowing came to a sudden halt as international oil prices fell, capital flight soared, and creditors withdrew. Newly elected President Miguel de la Madrid adopted a stabilization program aimed at lowering the country's triple-digit inflation rate, reducing the burgeoning public sector deficit, and restoring international confidence in the government's policies. At the same time, he sought to disassociate himself from the Lopez Portillo administration by fostering "moral renovation," a euphemism for curtailing official corruption, and promising to respect electoral outcomes. As a result of such policies, most international observers awarded de la Madrid high marks for his performance, crediting him with cooling the overheated economy, turning the external payment accounts around, and preventing a social explosion during a prolonged period of austerity. In our view, he was able to demonstrate strong leadership during his first months in office in part by manipulation of the prevailing consensus among virtually all groups in Mexico that past policies had failed and that new ones were needed to solve the country's difficulties. 


3. In the past year or so, however, that consensus has eroded, and de la Madrid's policy goals on a number of issues—the economy, political reform, and the "moral renovation" drive—increasingly have been subjected to conflicting pressures from influential sectors in the government and ruling party. In each case, de la Madrid has modified his own goals in order to achieve an acceptable compromise. On the economic front, for example, the President shifted in mid-1984 from his policy of austerity to one of stimulation to create more jobs and halt the slide in living standards and thereby enhance support for the PRI in the midterm elections, set for July 1985. 

4. De la Madrid also has adjusted his strategy on political reform and curbing corruption. 



 His "moral renovation" drive has brought the dismissal of numerous low-ranking officials but has generally avoided targeting top-level officials. 

5. De la Madrid's actions reflect in part a pragmatic recognition of the political and economic constraints facing him, as well as political infighting among his advisers.  strong differences have emerged among key Cabinet officers over the direction of the country's economic policy.



Meanwhile, a number of de la Madrid's subordinates, including Salinas, Silva Herzog, Sepulveda, and Government Minister Bartlett, are visibly maneuvering to succeed him at the end of his term in 1988. 

Significance of the 1985 Races

6. A major test of the de la Madrid administration will occur on 7 July 1985, when Mexico will hold elections for all seats in the national Chamber of Deputies, seven state governorships (see figure 2), and numerous local offices. 



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The PRI Revitalization Effort

Mexican President de la Madrid's efforts to revitalize the ruling party have met with only limited success so far in recovering lost popular support for the Institutional Revolutionary Party (PRI) and improving internal party control. Public disillusionment over the 1982 economic crisis, widespread cynicism regarding the revelations of corruption of the Lopez Portillo administration, and unexpectedly broad support for the National Action Party (PAN) in the 1983 municipal elections convinced de la Madrid and the PRI leadership that the ruling party was in need of reform. Disagreements within the ruling elite over the nature of the changes required and resistance from local party chieftains—the "caciques," whose entrenched positions might be threatened by change—have hampered the effort.

Improving Internal Control

The economic hardship of the past few years has reduced the government's ability to respond to the interests of the PRI's three major mass-based organizations—campesinos (farmers), labor, and the "popular sector"—as readily as in the past. The campesino sector continues to lobby ineffectively for concessions on land reform, and labor has had to accept wage settlements resulting in declining real purchasing power for the past few years. Labor support for the administration's policies could significantly decline if labor kingpin Fidel Velazquez retires in 1986, as he has indicated he will. Policy demands emanating from the popular sector are more diffuse, since it is a diverse grouping of middle-class organizations representing self-employed tradesmen, salaried teachers and other professionals, and federal workers.

Rivalries within the PRI also take the form of competition for legislative seats, state governorships, and other political offices. Labor and the popular sector have both succeeded in increasing their legislative representation at the expense of the campesinos. In this way, labor, in our judgment, is being rewarded for accepting sacrifices necessitated by the government's austerity program. The popular sector, in contrast, is gaining influence because its candidates have the most

appeal in the heavily urbanized constituencies where the PAN mounts its most successful campaigns.

Expanding the Base of Support

Both the government and the ruling party realize that demographic changes are eroding the PRI's traditional base of support. Organized labor and the campesinos are a much smaller portion of the population now than they were 20 years ago. In recent years, the PRI has sought to broaden its base by organizing services and co-opting leaders in the urban slums, and by targeting women, youth, and ethnic minority groups for special attention. Nonetheless, efforts of some leaders of the popular sector to promote formal inclusion of business and commercial interests in the PRI have met with strident opposition from labor leader Velazquez and have been dropped.

The PRI has also sought to expand its base of support by fielding more appealing candidates for public office. It has experimented with intraparty primaries in some localities, although party bosses have continued to dominate the nomination processes. In key state and federal races, however, Mexico City has more often designated PRI candidates of its choosing. Resulting slates have contained many fresh faces and considerable talent but have been heavy on technocrats and light on experienced politicians who command significant popular support.

The revitalization effort probably will continue to meet with mixed success. Competition between the principal sectors of the party is likely to grow so long as the economy does not perform well. Resource constraints will limit the PRI's capacity to rally public support for government policies, inhibit expansion of its popular base, and hamper the administration's ability to maintain policy coherence. Nevertheless, it is unlikely, in our judgment, that any of the main pillars of the PRI will formally break with the party, since none—either on its own or with the help of the PAN or the Unified Socialist Party of Mexico (PSUM)—could garner enough support to break the PRI's virtual monopoly on power.

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the President is concerned about his popularity and wants the PRI to do at least as well in the coming elections as it has in past midterm races. The results are likely to affect de la Madrid's ability to continue his campaign against corruption and to allow greater political pluralism. The PRI would tarnish its image, for example, and further discredit the President's reform efforts if it resorts to obvious fraud to win key contests. On the other hand, a PRI victory without

widespread violence or blatant fraud would reaffirm de la Madrid's overall standing, possibly increasing his leverage with powerful opposing interests.

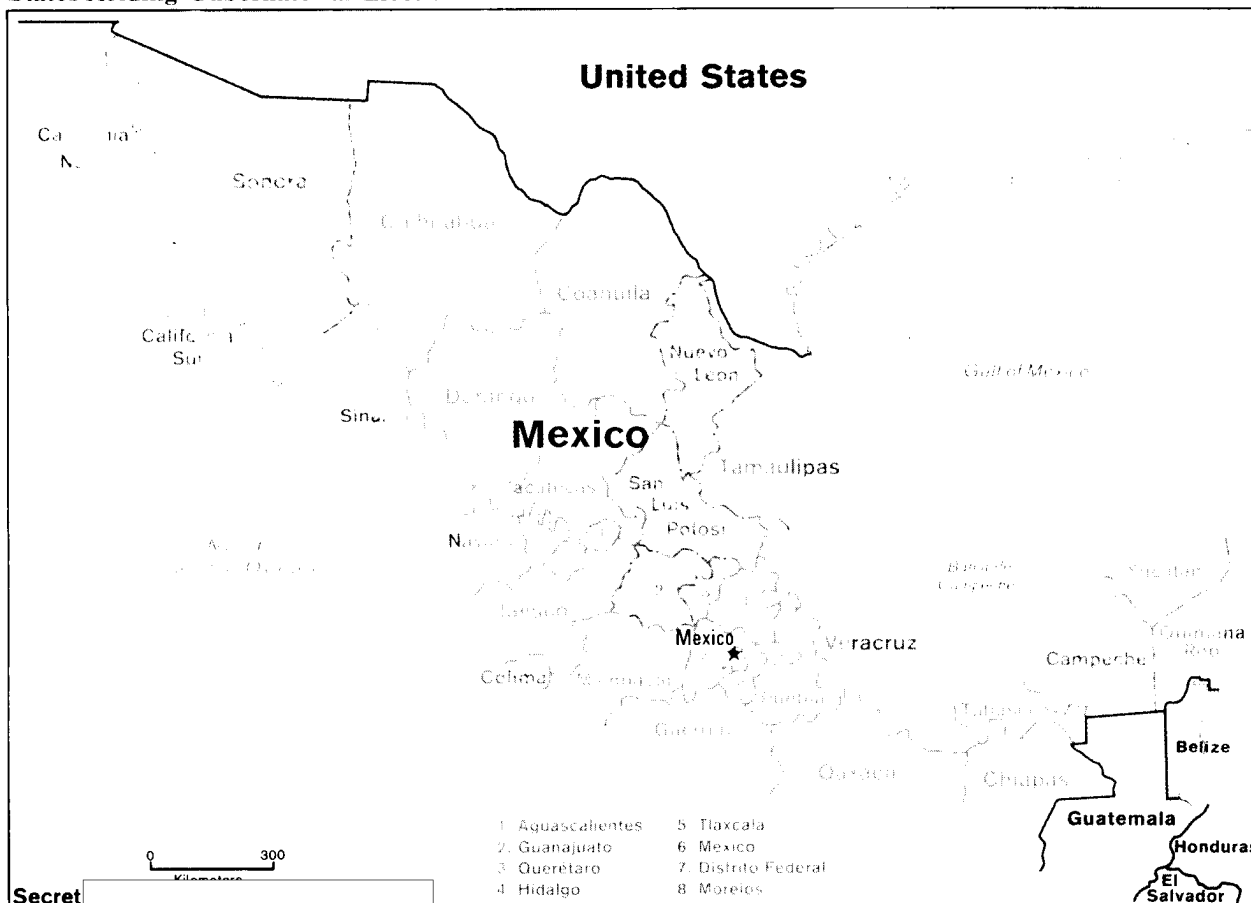
The Opposition Challenge

7. Opposition parties (see table, page 10) view the elections as a major opportunity. The center-right National Action Party (PAN), which officially received about 18 percent of the vote in the 1982 elections for

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Figure 2
States Holding Gubernatorial Elections



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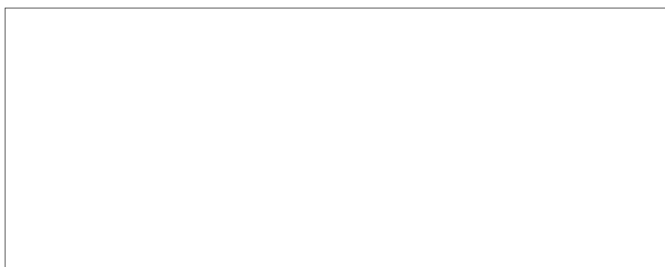
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federal deputies and senators, currently poses the greatest potential challenge to the PRI. That challenge will be concentrated primarily in the northern states, however, where the PAN increasingly has attracted support among the urban middle class and business interests. Elsewhere, the PAN generally remains small and ineffective, and presents little threat to the ruling party (see inset on page 11).

8. The PAN's strength in the north was demonstrated in 1983 when the party swept to victory in a number of key municipal contests (see figure 3). In July of that year, the party won mayoral races in Durango and Chihuahua, both capitals of northern states, and 10 other cities in the two states. The year before it had captured Hermosillo, the capital of Sonora. The opposition victories in Durango and Chihuahua lent credibility to de la Madrid's pledge before assuming office to conduct honest elections, but they also apparently caused significant concern among top officials in the ruling party.

9. As a result, we believe, de la Madrid subsequently resolved not to allow such losses to be repeated.



PAN sympathizers in the northern state of Coahuila, where PRI manipulation of the elections was most evident, however, seized or burned several town halls to protest election rigging. At least one person died and dozens were injured in related rioting.

10. Leftist parties, which captured about 5 percent of the congressional vote in 1982, show no sign of mounting a threat to the electoral dominance of the PRI (see cartoon). The largest and most active, the Unified Socialist Party of Mexico (PSUM), was formed in 1981 when the now defunct Mexican Communist Party joined with four smaller groups in an attempt to pool resources and votes. The PSUM draws its greatest

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Major Mexican Political Parties

Party and Year Formed	Leaders	Estimated Membership	Orientation
Institutional Revolutionary Party (PRI), 1929	Adolfo Lugo Verduzco, president	12-14 million	Moderately leftist but membership includes variety of factions and outlooks; nationalistic, identifies with revolutionary ideals
National Action Party (PAN), 1939	Pablo Emilio Madero, president Bernardo Batiz, secretary general	250,000	Center-right, proclerical, probusiness, favors more limited role for government in the economy
Unified Socialist Party of Mexico (PSUM), 1981	Pablo Gomez Alvarez, secretary general	35,000	Marxist, espouses "scientific socialism"
Popular Socialist Party (PPS), 1948	Jorge Cruickshank Garcia, secretary general	3,000-4,000	Espouses "scientific socialism" but works closely with PRI
Socialist Workers Party (PST), 1975	Rafael Aguilar Talamantes, secretary general	5,000	Advocates a government of workers but works closely with PRI
Mexican Workers Party (PMT), 1974	Heberto Castillo, president Jose Luis Diaz Moll, secretary general	30,000-35,000	Marxist, nationalist
Revolutionary Workers Party (PRT), 1976	Ricardo Pascoe Pierce, member of National Secretariat	12,500	Trotskyist, strongly supports human rights
Mexican Democratic Party (PDM), 1972	Ignacio Gonzalez Gollaz, president	10,000	Generally viewed as rightist, rejects both capitalism and Marxism
Authentic Party of the Revolution (PARM), 1954	Carlos Cantu Rosas, secretary general	3,000	Right of center, strongly nationalistic, works closely with PRI

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support from Mexicans in the capital and areas of southern and central Mexico, but personality, ideological, and tactical conflicts have weakened the coalition. Earlier this year, about 20 percent of PSUM's members bolted, announcing they would form a new hardline Marxist party that would look to Moscow and Havana for support.

on the outcome of the elections. In our view, Moscow has not provided extensive financial and other assistance to Mexico's leftist parties because it views them as weak and ineffectual. More important, the Soviets almost certainly do not want to jeopardize their present bilateral relationship, which enables them to promote a number of their interests. These include a large and active KGB presence in Mexico City, a valuable conduit for advice and support to Central American groups the Soviets favor.

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Soviet-Cuban Role

11. More generally, we expect the USSR, Cuba, and other Communist states to have little, if any, influence

12. We believe that the Soviets will continue to cooperate with Mexico City, rather than attempt to undermine it, in the near term. In our judgment, they



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The National Action Party

The PAN, which was formed in 1939, has demonstrated growing strength with the electorate in recent years. At present, it controls 51 of the 400 seats in the Chamber of Deputies, as well as a number of state legislative posts and mayoralties. PAN officials charge, [redacted] that they would hold additional offices were it not for fraud the governing party has practiced in past elections. [redacted]

The PAN is organized at district, regional, and national levels. It is strongest in northern Mexico, where residents are more conservative and enjoy a higher standard of living than in the rest of the country. Although PAN officials assert they represent no special class or economic interests, support for the party has traditionally been greatest among the middle and upper classes, particularly within business and professional circles. In recent years, the PAN has benefited from the protest votes of many Mexicans who, while not PAN loyalists, have sought to express their displeasure with the PRI. [redacted]

The current national leader of the PAN and its presidential standard bearer in the 1982 elections is Pablo Emilio Madero. He is independently wealthy and is a former federal deputy. He also is a scion of Francisco Madero, one of the fathers of the Mexican Revolution. [redacted]

The PAN's political ideology favors less government involvement in the economy and greater free enterprise. Madero has been critical of the PRI's nationalization of Mexican banks in September 1982, for example,

but asserts his party is no less nationalistic than the PRI. The PAN also advocates reform of the anticlerical provisions of the Mexican Constitution and has called for a truly independent judiciary and more powerful legislature. [redacted]

The PAN's limited financial resources and weak organization have hampered its drive to attract greater public support. It is the only major political party in Mexico that has consistently refused to accept any official subsidies. For this reason, it cannot afford to field candidates in all parts of the country or to maintain a full-time salaried party leadership or senior staff. [redacted]

The PAN leadership also has had to paper over differences between activists and traditionalists within the party. The activists assert the PAN needs a younger, more dynamic leadership, and they dismiss as futile the party's continuing attempts to gain power through elections. The traditionalists, such as Madero, counsel patience and favor continued participation in the political process. Although Madero and other party leaders seek to play down such differences, as recently as 1976 the schism proved so divisive the PAN was unable to agree on a presidential candidate. [redacted]

PAN leaders probably will not endorse violence as a means to protest electoral irregularities, especially so long as Madero remains party head. In recent months, however, Madero has warned that violence is inevitable unless the government permits fair elections. [redacted]

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are likely to realize few dramatic breakthroughs in their ongoing efforts to enhance their influence, although de la Madrid is likely to visit Moscow before he leaves office. What limited gains they achieve, we believe, will not alter Mexico's nonaligned foreign policy or threaten US interests in Mexico. We consider it unlikely that the Soviets and Cubans, given the benefits they now derive from their relationship with Mexico, will change their policy significantly in the next few years. [redacted]



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We see little prospect leftist parties will command significantly greater support in the next several years. Nor do we believe there is much chance they will withdraw from the electoral system, since they receive government subsidies under the country's election laws. [redacted]

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Election Issues

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The Economy

13. Mexico's leaders, for their part, appear less concerned about opposition from the left than the right. [redacted]
year [redacted]

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14. Party loyalty has long been the principal factor influencing voter behavior in Mexico, but other concerns also will affect the balloting in July. Economic issues are likely to be a major target of opposition parties, and they will attempt to exploit dissatisfaction with inflation, unemployment, and declining living standards. Although de la Madrid's previous austerity policies brought Mexico back from the brink of financial disaster, they involved high social costs. Budget

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Figure 3
Major Mexican Municipalities Controlled by Opposition Groups, May 1985



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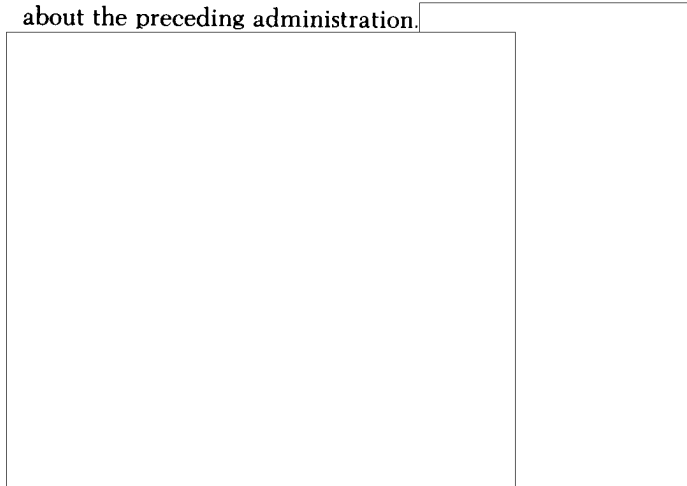
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cuts reduced subsidies for food and other basic consumer goods and, we estimate, the real purchasing power of most Mexicans has fallen by one-third since de la Madrid assumed office. Although increased economic growth since mid-1984 has eased some hardships, the average Mexican is still faced with high inflation and greater shortages of basic consumer goods.

Stalled Anticorruption Drive

15. The government's failure to reduce corruption significantly despite de la Madrid's much publicized "moral renovation" campaign may have an impact on the election. At a minimum, the opposition will try to take advantage of it. The effort was initially greeted

with broad approval particularly following revelations about the preceding administration.



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Police Chief Arturo Durazo, who now is in Los Angeles awaiting extradition, could implicate other members of the present administration. More generally, we believe public cynicism about the de la Madrid administration's commitment to halting corruption will continue to grow. [redacted]

Other Issues

17. Local issues and candidate appeal also will influence voters' choices. For this reason, as well as the PAN's strong base of support in the north, the governor's race in Sonora (see inset on page 14) is being hotly contested, according to press and other reports. Foreign policy, on the other hand, is likely to have only a minor impact on the campaign. De la Madrid almost certainly will portray his administration as a defender of peace in Central America, a champion of world disarmament, and a leader among Third World governments, but at least one opinion poll has indicated that international issues are not of great concern to the electorate. [redacted]

Election Tactics

18. We believe the PRI is using a broad strategy consisting of legal and extralegal tactics in attempting to make a strong showing in the elections. The ruling party is endeavoring to use its superior organizational and financial resources, as well as its control over the media, to good advantage. At the same time, the PRI will remind voters that it is the party that best embodies the ideals of the Mexican Revolution and that it is responsible for the considerable economic progress the country has realized under its leadership. In addition, the government has introduced more expansionary spending policies since mid-1984 to soften the effects of austerity and has lavished public works projects on districts where it expects close races. It is taking account of the elections in timing economic policy announcements, and it probably will postpone exchange rate adjustments until after the 7 July election date. [redacted]

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16. The opposition is attempting to exploit the fact that the government, with few exceptions, has not filed charges against senior officials of the past or the present administration. The most prominent person now behind bars on corruption charges is Jorge Diaz Serrano, the former head of the state oil company, but he has not been brought to trial [redacted]

[redacted] The government apparently fears that Diaz Serrano, like former Mexico City



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Sonora: A Key Gubernatorial Race

Nowhere will the PRI face stiffer competition, in our judgment, than in the northwestern border state of Sonora. The PAN gubernatorial candidate, Adalberto Rosas Lopez, is well known throughout the state and highly popular. [redacted] In contrast, the ruling party candidate for governor, Rodolfo Felix Valdes, has not lived in Sonora since 1941 and presides over a divided state party organization. [redacted] we expect the ruling party to take whatever measures are necessary to retain control of Sonora's statehouse. As a result, civil disturbances are likely, and the government probably will have to call upon the security forces, including the Army to maintain order. [redacted]

Sonora, which borders Arizona and is Mexico's second largest state, is known for its sprawling ranches and farms. The state also has a reputation for having an independent-minded citizenry and frontier outlook. Sonorans are proud that the Mexican revolution began in their state and that four of the country's presidents—Huerta, Obregon, Rodriguez, and Calles—were natives. Sonora's violent history gives ample precedents for a spirited reaction if the PRI goes too far in tampering with electoral results. [redacted]

Although the ruling party has long dominated Sonoran politics, the PAN in recent years has made significant inroads. The center-right opposition now controls three cities: Hermosillo, the capital, San Luis Rio

Colorado, and Agua Prieta. We believe [redacted] that the PAN would have captured additional municipalities had honest elections been held in 1983, when Sonorans last went to the polls. [redacted]

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President de la Madrid's selection of an outsider as the PRI candidate for governor apparently was based on his belief there was no party leader in the state who could unify the PRI. Felix, a 62-year-old engineer, was then serving in Mexico City as Minister of Communications and Transport. De la Madrid probably was aware of Felix's reputation for being a shrewd middle-of-the-road politician and, in contrast to the current governor, relatively honest. [redacted]

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[redacted] Rosas, the PAN candidate, is widely respected in Sonora and has the strong support of the state party organization. Rosas, who is 42 and an agronomist by vocation, formerly was the PAN mayor of the state's second-largest city, Ciudad Obregon. He is said to be an electrifying public speaker with a charismatic personality. [redacted]

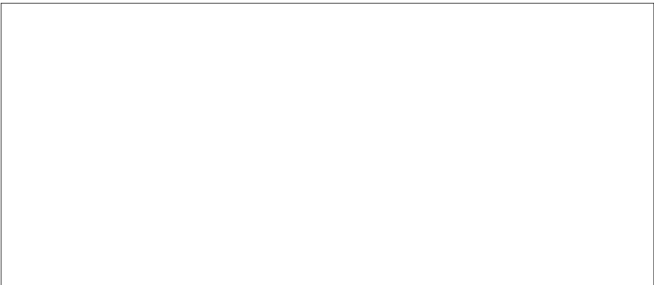
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[redacted] we think it unlikely the ruling party will surrender the statehouse in Sonora or in any other state in the coming elections. Even PAN leaders concede they would have to win by a landslide for the government to acknowledge an opposition victory. [redacted]

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limited political base and to shed its reputation for being an elitist party backed by US interests. (C NF)

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Election Prospects

21. In view of the ruling party's considerable resources and its willingness to use extralegal measures where necessary, we believe the PRI will easily win most of this year's races and remain the dominant political force in the foreseeable future. No opposition party has officially won a governorship in the past 56 years, and we are confident—we view it as a 90-percent probability—this record will not be broken in the coming elections [redacted]

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20. The PAN, for its part, will concentrate its more limited resources on selected races, particularly in the northern states. The party has placed a special emphasis on finding attractive, popular candidates, most of whom are drawn from local business and professional circles. [redacted]

PAN also is attempting to present an image of clean politics in order to highlight the corruption issue. PAN leaders believe that absenteeism is a major reason why their party has not done better in the past and that increased popular involvement in the elections will make it more difficult for the ruling party to steal the contests. The PAN also will strive to broaden its

[redacted] PRI leaders believe the loss of even one governorship would be taken as a sign of weakness and would make it more vulnerable to future opposition challenges. Moreover, in order to placate PAN partisans and reduce the possibility of disorders, the PRI may cut a

[Redacted]

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deal with the opposition parties allowing them to win some local and congressional elections in order to keep the governorships and other key positions [Redacted]

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22. Nevertheless, the opposition also is unlikely to improve its position greatly in the Chamber of Deputies. At present, parties other than the PRI control 101 of the 400 deputy seats, of which 100 by law are reserved for the opposition. We expect the ruling party's opponents to pick up fewer than a dozen seats in the chamber.¹ The PRI is likely to experience its toughest challenge in a number of municipal elections, particularly in the north. Local races will be held in 14 states, including Sonora, where the PAN, in our judgment, stands at least an even chance of retaining control of Hermosillo, the capital. We believe the PRI will respect opposition victories in federal and state deputy races and local contests that rival parties have won by wide margins. It will allow such victories in order to maintain the appearance of democracy, counter allegations of vote rigging, and give other parties limited incentives to work within the system.

[Redacted]

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23. Nonetheless, opposition parties are likely to charge the PRI with a variety of electoral irregularities, even before the official results are announced. If large numbers of voters do not consider the results valid, they almost certainly will organize demonstrations and occupy town halls. Some may engage in short-lived hunger strikes, but such activities, in our judgment, are unlikely to reverse election outcomes.

[Redacted]

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24. PAN supporters in the north, as well as unemployed youths, are the most likely to engage in violent outbursts protesting government electoral fraud. PAN leader Pablo Emilio Madero stated publicly last October there almost certainly will be violence in Sonora if fair elections are not held. We anticipate civil disturbances associated with the elections will be localized but may well be magnified by extensive international media coverage. There is only a remote possibility that the unrest in the north or elsewhere will severely tax the resources of local security forces and the Army.

[Redacted] the military remains staunchly loyal to the government and is likely to use whatever degree of force is necessary to restore order. [Redacted]

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¹ No seats in the 64-member Senate are at stake in this election. Senators are elected concurrently with the President, and all now belong to the PRI. Neither legislative body has much influence on public policy; each essentially is a rubberstamp for the President's legislative agenda. [Redacted]

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[Redacted]

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31. De la Madrid's difficulties probably will be most acute on the economic front. Expansionary economic policies begun in mid-1984 resulted in a positive economic growth of some 3.5 percent last year, but the overheated economy is undercutting Mexico's agreement with the IMF for 1985. Preelection spending is keeping the public sector deficit well above target levels, and inflation is continuing at nearly 60 percent, far above the 45 percent set by the International Monetary Fund. Moreover, external accounts are deteriorating because of the overvalued exchange rate and the soft world oil market. Mexico's trade surplus diminished some 40 percent in the first quarter of 1985 because of falling oil revenues, the decreasing competitiveness of nonoil exports, and rising imports. Furthermore, overvaluation of the peso and negative interest rates caused capital outflows of \$2-3 billion during the same period.

[Redacted]

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32. A continuation of present policies, while temporarily spurring economic growth, will prevent Mexico from meeting most of its 1985 IMF targets. Furthermore, the weak trade performance, combined with large interest payments on its foreign debt, may cause Mexico to experience its first current account deficit since the financial crisis of 1982. Until the de la Madrid administration corrects exchange rates, capital flight will remain a problem. Under these circumstances, Mexico will be forced to draw more from its foreign exchange reserves, rather than adding to reserves, as called for in the IMF program. Mexico may also be forced to seek loans in international capital markets that exceed IMF program limitations.

[Redacted]

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Implications for de la Madrid's Rule

30. Even if the de la Madrid administration emerges from the 1985 elections relatively unscathed, the PRI, in our judgment, is likely to face continued economic and political difficulties through the end of the President's term in 1988. In 1986 the PRI is scheduled to face an even greater number of gubernatorial contests, and the administration's economic policies will remain contentious. In fact, we believe that the de la Madrid administration may face the prospect of growth rates of less than 3 percent in the closing years of its term as a result of the likely failure to attract sufficient new foreign investment and the need to cut back on government spending to meet IMF guidelines. In addition, we judge that the President will be unable to make major reforms in the political system or to root out much of the corruption that is endemic in Mexico. Moreover, the constraints on de la Madrid's administration are likely to grow during the remaining three years of his term.

[Redacted]

33. Following the elections, de la Madrid will have to pursue one of three general economic courses: to continue essentially stimulative policies, to revert to more austere ones, or to liberalize trade and investment strictures in an attempt to use the private sector as the primary vehicle for spurring economic growth. We believe,

[Redacted]

that he will attempt to pursue the first course while implementing some belt-tightening measures to cool the overheated economy and placate the IMF and the international banking community.

[Redacted]

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34. Mexico City probably will find it more politically feasible to adopt some austerity measures soon after the July 1985 elections, to bring economic policy in closer compliance with IMF guidelines, including more rapid devaluation of the peso and cuts in government spending. Nevertheless, the influence of Finance Minister Silva Herzog and other Cabinet ministers who advocate Mexico's adherence to the

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IMF adjustment program has been declining, while that of Budget Minister Salinas, Foreign Minister Sepulveda, and others favoring greater government spending has been increasing. [REDACTED]

35. A return to economic stabilization policies prescribed by the IMF would be likely to lead to further hardship over the near term. Mexicans once again would face declining living standards, rising unemployment, and decreased availability of goods as the de la Madrid administration clamped down on government spending. Inflation would remain high because of further cuts in subsidies and rising costs caused by devaluation of the peso. Any improvement in the balance of payments over the near term most likely would result from a contraction in imports that would hurt consumers and dampen further private-sector recovery. The longer reforms are postponed, the harsher will be the measures ultimately needed to sustain long-term growth. [REDACTED]

36. If Mexico's economic difficulties continue, as we expect they will, de la Madrid is likely to face increased and conflicting pressures from influential sectors in the government and the ruling party. In addition, as the 1986 elections approach, there are likely to be greater political constraints on his ability to make difficult economic and other decisions. Moreover, the planned retirement of Mexican labor kingpin, Fidel Velazquez, in February 1986, may introduce new political uncertainties. [REDACTED]

Implications for the United States

37. Under the most likely scenario, we do not expect the midterm elections to have major repercussions for US-Mexican relations in the short term. Following the elections, we anticipate that de la Madrid will generally eschew tactics that would aggravate relations with the United States. Serious strains have emerged between the two countries since the

murder of a US Drug Enforcement Administration official earlier this year, and we believe de la Madrid desires to improve relations and keep them on an even keel. He almost certainly knows he needs US help on trade, financial, and other matters. However, the importance he attaches to the bilateral relationship is somewhat offset by the political potency of anti-Yankee resentment that has resurfaced in Mexico following US allegations of corruption at high levels in the government. It is thus problematic whether, after the elections de la Madrid will be more receptive to greater cooperation in areas of key concern to this country, such as narcotics control, immigration, and Central America. Recent Mexican criticism of US policy toward Nicaragua and resumption of oil shipments to Managua may be indicators of this kind of backlash. [REDACTED]

38. Bilateral relations could be seriously aggravated, moreover, in the event of serious disorders in Sonora, if the Mexican Government believed it were being pressured by the United States to accede to claimed PAN victories. If major violence in the north accompanied the elections, tensions could spill over the border, as they did last year after local election disputes prompted PAN supporters to seek refuge across the border and resurrected charges of US backing of the PAN. The damage to bilateral relations would be commensurate not only with the level and duration of violence, but also with the degree of perceived US support being accorded to the PAN. Violence would discourage international investment and foster illegal migration. Should the PAN capture a governorship, the de la Madrid administration would grow more wary of alleged links between the opposition and US groups, possibly introducing greater discord in bilateral relations. Meanwhile, the Soviet Union and Cuba almost certainly would watch such developments closely for opportunities that might benefit their relationship with Mexico. [REDACTED]

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