Once the Salinas administration came to power in December 1988, it took dramatic steps to deepen and extend the opening up of the economy. In 1989 the financial system was liberalized and foreign investment restrictions were overhauled enabling new areas of the economy to be opened up to foreigners and, in some circumstances, 100 per cent foreign ownership to be automatically approved.\(^1\) As part and parcel of the overall acceleration and deepening of these policies, an ambitious programme was launched to sell off the majority of Mexico’s largest public enterprises. In 1990, a divestiture unit was set up within the SHCP which helped to speed up and professionalize the privatization process.\(^2\) Between 1989 and 1994, state-owned companies were sold off rapidly including TELMEX, the national airline Mexicana, steel mills including Altos Hornos (AHMSA) and Sicaltsa, dozens of sugar mills, the insurer ASEMEX, automobile companies including Dina, branches of CONASUPO, mines including Cananea and all 18 of Mexico’s commercial banks.\(^3\) The public sector consequently shrank from 1155 firms in 1982 to around 220 by 1994.\(^4\)

Many governments have justified privatization programmes in economic terms, such as claiming that it will promote competition and efficiency. Most of the literature published on privatization in Mexico has tended to focus on financial and business aspects.\(^5\) Only a small proportion has been concerned with the politics of privatization.\(^6\) In the ‘business’ analysis, the political dynamics and consequences of privatization are usually ignored. Similarly, most political analysts have not integrated the consideration of economic or financial factors into their accounts. It is, however, important to take economic and financial aspects of privatization into consideration when explaining...
the politics of the privatization, in order to investigate how economic factors influenced political decisions and vice versa.\textsuperscript{7}

In this chapter, the politics of industrial restructuring and privatization of the Salinas administration are analysed, with particular attention to the primary role – financial and political – played by TELMEX and the telephone workers’ union in this process. An attempt is made to disentangle political factors from financial aspects, but in practice this is not always possible since they are often tightly intertwined. In addition, although industrial restructuring and privatization are distinct policies, many companies were restructured prior to being sold in Mexico, and thus restructuring policies must be interpreted as being directly linked to the privatization programme.\textsuperscript{8}

The sale of TELMEX in itself was the most important single instance of privatization in Mexico for two principal reasons. First, the revenue generated by the sale for the Mexican Treasury – which totalled around US$6 billion – was easily the largest sum obtained from the sale of any single firm, and constituted around 30 per cent of all privatization revenues during the Salinas sexenio, which totalled US$20 billion. In comparison with privatization during the De la Madrid administration, the sale of TELMEX alone generated four times the revenue raised by the totality of public enterprise sales in that sexenio.\textsuperscript{9} Second, TELMEX was chosen by Salinas as the ‘launching pad’ from which the rest of the sales were carried out.\textsuperscript{10} Salinas believed that a successful sale would set an upbeat tone for the other privatizations that would follow. The sale of TELMEX was used to send a loud and clear message to potential investors both at home and abroad that the privatization programme in Mexico was changing in both qualitative and quantitative terms, and that the government was serious about its plan to sell off large, profitable and attractive firms.

The sale of TELMEX in December 1990 was used to further important political ends. In the run up to, and throughout the process of, privatizing TELMEX, the government made a special alliance with the telephone workers’ union. Principally, Salinas offered presidential protection to the union if it agreed fully to cooperate with the restructuring (or the ‘modernization’ as it was called in Mexico at the time) of its labour contract, which was signed in April 1989, and with the privatization of TELMEX, which took place from December 1990. The way in which the STRM cooperated with the restructuring of the labour contract distinguished it from the previous pattern of union behaviour which had been to resist change, often by calling strikes, such as the cases of Aeroméxico and Cananea. The cooperation of the