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THE AMERICAS

William F. Foote is an Institute Fellow examining the economic substructure of Mexico.

On A Crash Course With Modernity

Privatizing Mexico's national railroad system

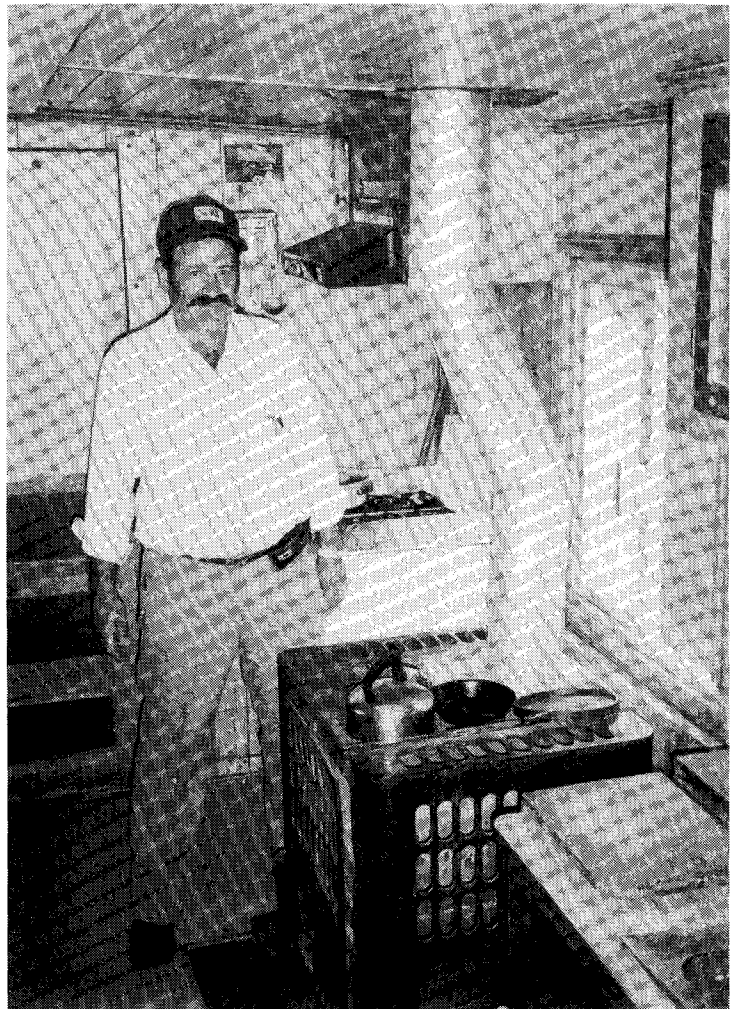
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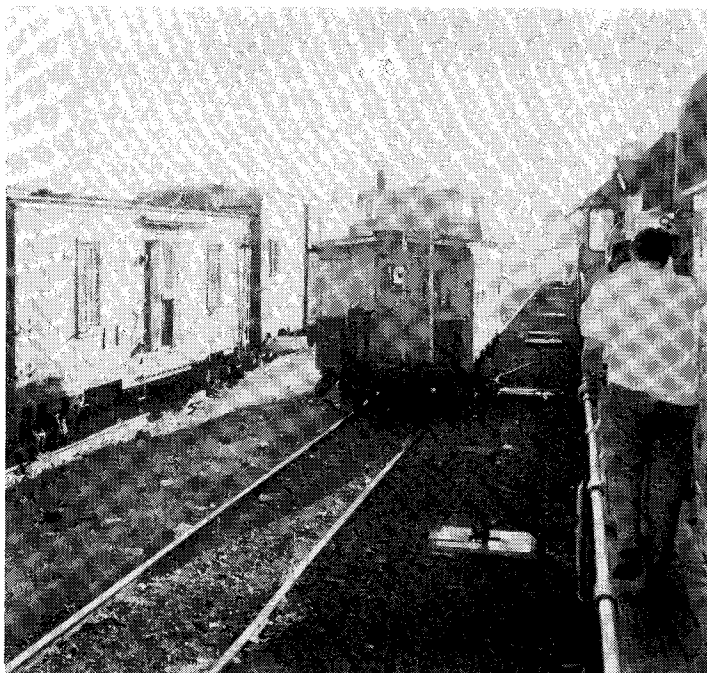
By William F. Foote

The view from Raul Armando Mendoza's yellow caboose is magnificent in the cool, hazy sunshine of a Mexican autumn: the western slope of the Sierra Madre, a river winding through a jungle of green shrubs, the pines and oaks clinging to steep gullies. Rolling through the landscape, we near a work gang hammering spikes into wooden railroad ties. The whistle blows and they step aside, waving us on in our slow ascent up the snaky switchbacks — across wild ravines, through tunnels bored into the mountainsides, over lonely iron bridges.

The scene inside speaks eloquently of Mr. Mendoza's position as the chief supervisor of this length of track on the Chihuahua-Pacific line: new wood paneling, vintage log-burning stove, kitchen sink, twin beds, high-fi system, an old photograph of the steam engine his father once serviced as a railroad mechanic.



Armando Mendoza stands next to a wood-burning stove inside his yellow caboose



Mendoza's caboose sidelined in San Raphael, Sonora

"I custom decorated it all myself," boasts Mendoza, a 30-year veteran of the state-owned railroad network, Ferrocarriles Nacionales de Mexico (FNM). Built in 1957, his caboose ostensibly belongs to FNM. Yet as our train grinds to a halt in the dusty town of San Rafael — the end of his daily route that begins in the coastal city of Los Mochis in the western state of Sinaloa — Mendoza unhitches the caboose, replacing it with a spare one that he has dragged up behind his own.

"Old yellow always stays with me," he explains, sidelining his rail-bound mobile home. About 15 minutes later, already an hour behind schedule, our train lurches forward. As I wave good-bye to Mendoza, the brakemen swing their signal lanterns between rail cars and the station master telegraphs to the next town to announce our arrival.

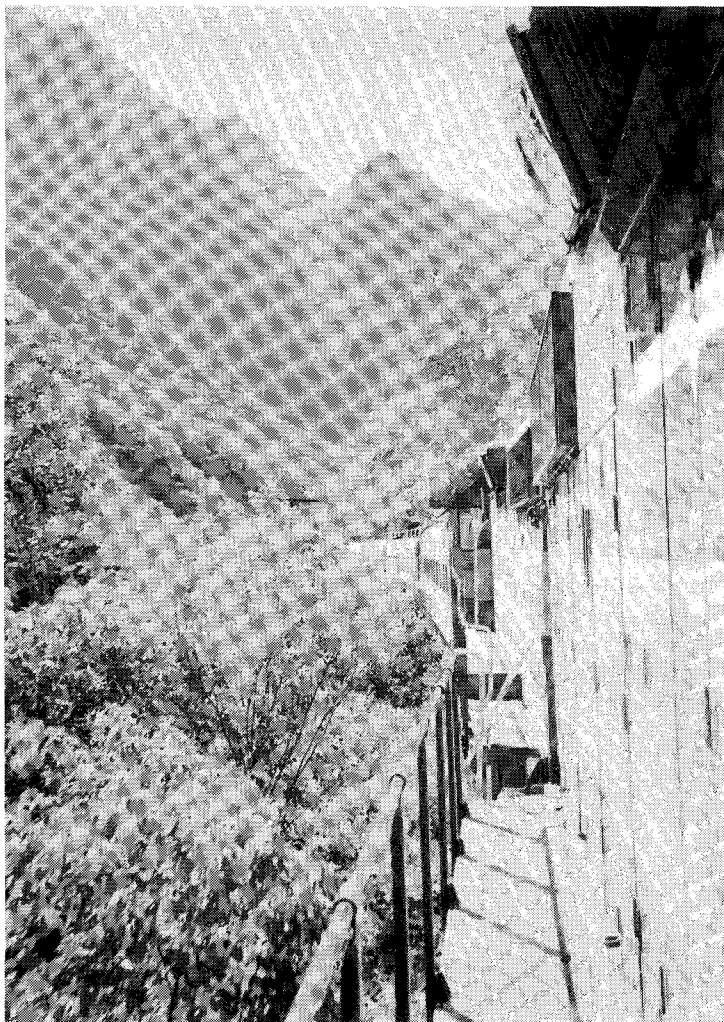
It was a romantic ride, a trip into another time. But there's a problem: the rolling railroad museum described above is no museum. The Chihuahua-Pacific, a 938-mile line that connects Texas to Mexico's Pacific coast, is an integral and typical component of Mexico's antiquated train network. Would that private cabooses and pampered conductors were its only problems.

Like most railway systems in developing countries, the FNM is a heavily regulated, monolithic organization saddled with uneconomic lines and over-employment. For decades, the preservation of jobs and the increasing of employees' earnings have taken precedence over

productivity. Today, over 26 million dollars in federal subsidies offer life support each year to one of Mexico's last great dinosaurs. In an effort to eliminate that expense, the government has set its old-fashioned railroads on a crash course with modernity.

The race is on to privatize FNM. On the block are four principal lines plus dozens of short routes (including the Chihuahua-Pacific). In a series of auctions, the state expects to net between 1 and 2 billion dollars over the next two years. Through 50-year concessions to run each line, investors will gain control over hundreds of pieces of rolling stock and 16,000 miles of rail. Given the economic synergies of Mexico and the U.S., most of the major American railroad companies have expressed interest in what is being hailed as a significant step toward Mexico's economic recovery.

"What we really need is investment," says Ernesto Marcos, a private consultant to a Mexican bidder teamed up with a U.S. investor. According to him, FNM currently transports just



Rolling through the Sierra Madre on the Chihuahua-Pacific line

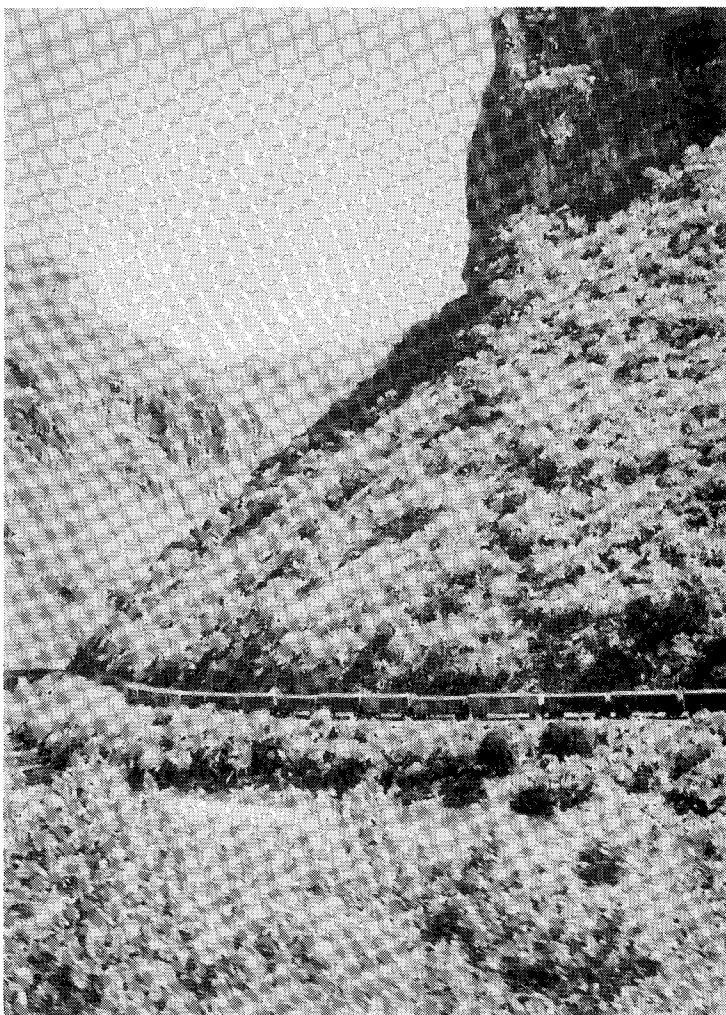
12 percent of national cargo traffic, an extremely low figure considering that, unlike the U.S. or Europe, Mexico has virtually no navigable rivers. But things could change quickly. "With a successful privatization," argues Marcos, "our under-utilized trains could boost their proportional freight capacity by four or five times in a few years."

To prepare for the sale, the government began restructuring FNM five years ago. Since 1990, the work force has been cut nearly in half, shrunk from 83,300 to 46,280. With a velvet boot, the government sacked FNM veterans, offering generous severance packages through the so-called Voluntary Retirement Program. Last summer, rail officials and union representatives also renegotiated over 3,000 obsolete work rules that had hamstrung train operations for decades. In general, the restructuring aims to free future concessionaires from the painful process of downsizing, enabling them to focus their investments in more productive areas, like improving delivery time on exports to the U.S.

Many pitfalls remain. No one knows, for example, how to remove the thousands of squatters living on railroad property, all of whom represent legal liabilities for future U.S. operators. Despite streamlining efforts the union payroll is still considered to be bloated by about 50 percent. As for the thousands of railway workers who will surely be rehired by the foreign operators, someone will have to change their hidebound corporate culture, which is unaccustomed to promoting business by providing services.

Notwithstanding these issues — and the failure of the first auction last October due to unacceptably low bids for the Chihuahua-Pacific line — the prospects for FNM's privatization are good. Unlike Pemex, Mexico's state-owned oil company, FNM is not a cash cow pumping high-priced products for sale onto the world market. As a nonproductive drain on the state coffers and a serious detriment to Mexico's international trade, FNM has few ardent defenders. The railroad privatization offers a unique example of a state sell-off where issues of national sovereignty have withered away.

At the same time, the FNM has considerable trade and rolling stock (locomotives, rail cars) and thousands of well-trained engineers. The key to a successful privatization lies in injecting these valuable assets with modern management techniques and new technology: computers, radios, communication towers, refrigerator cars, container cranes. The stakes are high. If all goes well, imported know-how and inputs will help resurrect the country's moribund railways, preparing Mexico's slow-



The view from Mendoza's caboose

moving trains for the fast track of the 21st century.

"What we suffer from is ancestral inertia," says Marcos. But in this age of NAFTA, when trade with the U.S. represents 30 percent of Mexico's gross national product, privatizing the trains could yield extraordinary returns. "I think we're going to see home runs here," adds Marcos, "both for the home team and the visitors."

A SYMBOL OF MEXICO'S REVOLUTION

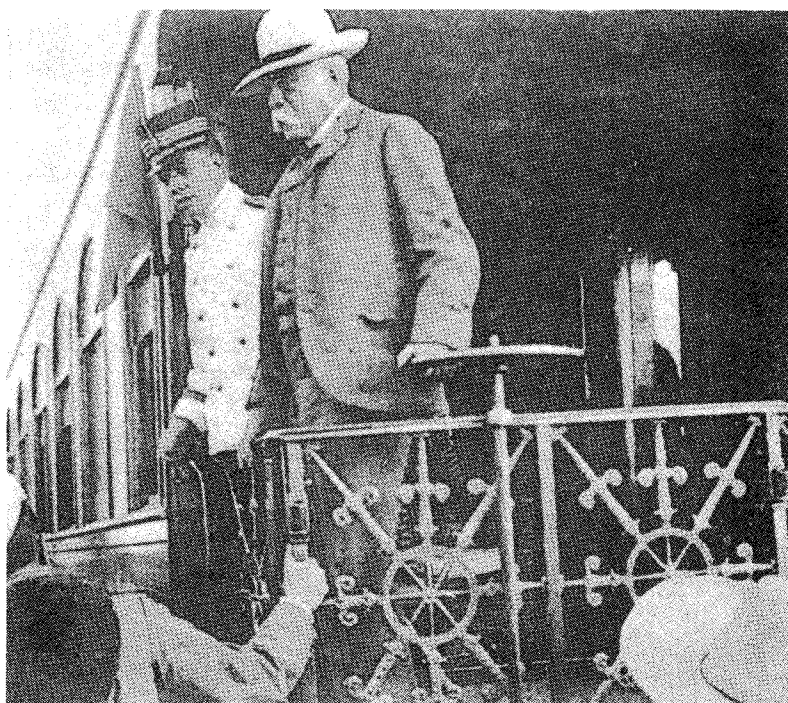
Hanging from a wall in FNM's behemoth Mexico City headquarters, a black-and-white photo shows a female soldier climbing a boxcar to join dozens of armed peasants sitting on high. During the Mexican Revolution, trains hauled, housed and hospitalized troops. With no other mass transport system in existence, rolling armies waged battle along the railways. While trains symbolized conflict then — and inefficiency now — the railroads were, once upon a time, the epitome of progress.

Hampered by high mountains and deep ravines, Mexico finally conquered its daunting geography during

the late 19th century. Porfirio Diaz, the country's repressive-yet-modernizing dictator, blanketed Mexico with railroads built and owned by foreigners (American and British, mostly). In the 1870s, Mexico had only four hundred miles of track. By 1910, eleven thousand more miles had been laid. Spanning rugged terrain once thought impassable, the railroads became one of the basic foundations for Mexico's accelerated economic growth.¹

But there were problems. Development under dictatorship was harshly uneven, due in part to the trains. The benefits of Mexico's transportation revolution were heavily skewed in favor of the wealthy and thus served to polarize society. Mining, agriculture and industrial concerns reaped profits as transportation costs plummeted. In exchange for building the railroad network, foreigners received 50 percent rebates on freight costs for raw materials and finished goods destined for export. *Hacienda* owners enjoyed subsidized cargo rates for export crops such as coffee, sugar and tobacco. Meanwhile, basic necessities like corn and beans — produced and consumed by poor Mexicans — absorbed the full cost of freight. Thus the downtrodden helped subsidize development. As food prices rose, so did the people's discontent.

Revolution ripped through Mexico in 1910. The next year, on May 26th, Porfirio Diaz left Mexico City for exile in Europe on a presidential train bound for the port of Veracruz. Interestingly, Mexican railroad workers were some of the first revolutionary converts. For



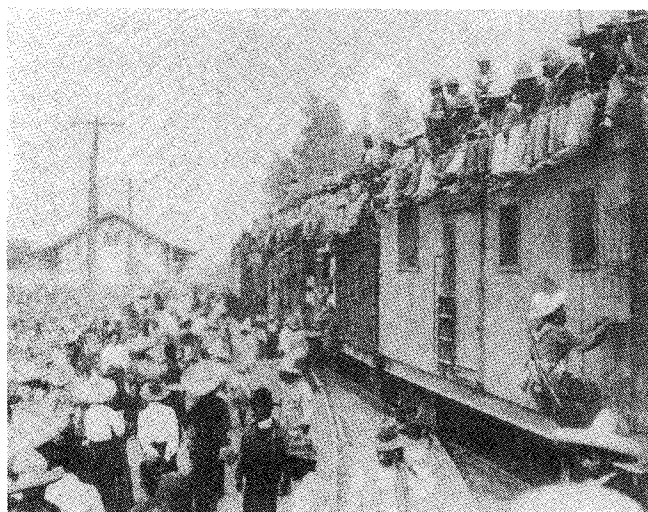
May 26, 1911: Mexican dictator Porfirio Diaz leaves for exile in Europe on a presidential train bound for the port of Veracruz.

years, they had endured second-class professional status as foreigners received higher wages and faster promotions within the train system. Throughout the civil war, native railway rebels, together with the trains themselves, would play a central role in the struggle, forever binding Mexico's railroad history to the country's revolutionary folklore.

When the fighting ended in 1917, the railways lay in ruin. Not only had the warring factions neglected their upkeep, they had also used rail sabotage as a military weapon. The country had attained peace, yet with its transportation system crippled, Mexico was paralyzed. Enter the railroad workers again. Laboring hard to rebuild the shattered network, they would soon become Mexico's post-revolutionary heroes, admired as models of the new proletariat.

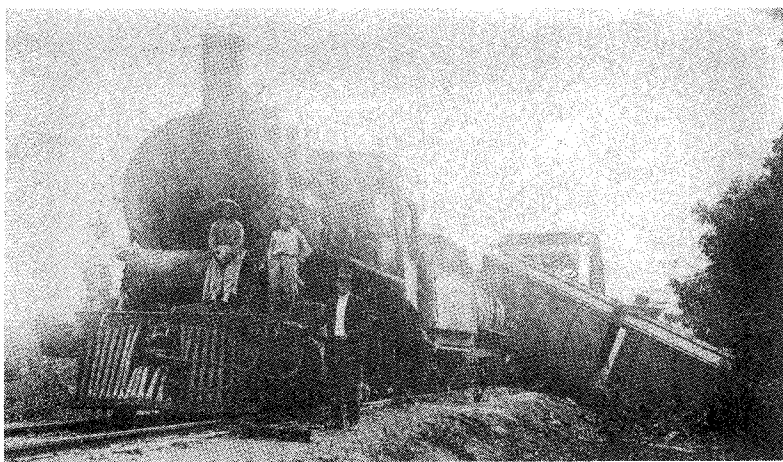
Railroad life was good. Salaries exceeded the average working-class wage. In the early 1930s, labor organizers founded the railroad workers' union with 47,000 members (which later swelled to 100,000). In 1937, President Lázaro Cárdenas nationalized the network, just months before expropriating Mexico's foreign-controlled oil industry. On both counts, global investors declared the country a Soviet satellite and an international pariah. Yet these measures, one can argue, were understandable given the politics of the time.

Mexico's post-revolutionary leaders longed for stability. The country emerged from civil war not under



Railroads served as transportation, homes and weapons during the Mexican Revolution

1. Historical information in this chapter comes from interviews with FNM employees and private consultants as well as two books: Beatriz Uriás, *Los Ferrocarriles de México: 1837-1987*, Ferrocarriles Nacionales de México (1987); and Jonathan Kandell, *La Capital*, Random House (1988), pp. 367-369.



A derailed boxcar during the Revolution

the control of Emiliano Zapata, or any other peasant idol from the poor South, but rather in the hands of middle-class intellectuals from the North. To preserve their revolutionary credentials while avoiding anarchy, the bourgeois leaders adopted the rhetoric of the radical left. Personal ideology, it would seem, was immaterial.

Their strategy worked: 67 years later, Mexico's official party, the PRI, remains the longest-lasting, non-communist, "revolutionary" government in the world. Through the decades, the ruling elite has achieved the seemingly incongruent objectives of nationalistic legitimacy and political control by doing as the Catholic Church does — manipulating the power of symbols — only the PRI's icons are not religious but revolutionary. Trains are one of them.

At the same time, the PRI astutely controlled labor groups like the railroad workers' union. In this case, the process of political co-optation began with the aforementioned nationalization. In 1937, Cardenas turned over management of the entire train system to union leadership. While that experiment in workers' management ended in 1940, the gesture foreshadowed things to come.

In modern Mexico, FNM stands out as the only state-owned concern in the country whose union leaders, on repeated occasions,

have formally administered the company's operations. "Obviously," says Ernesto Marcos, who served as Chief Financial Officer of Pemex in the mid-1980s, "labor management is going to favor its workers' interests over those of the market."

The PRI made that possible. Of course, in a five-decade span the rail workers had their differences with the government.² For the most part, however, they were staunch allies of the PRI apparatus. With few exceptions, their union bosses have enjoyed cozy relations with the ruling party, offering votes and obedience in exchange for special treatment for them-

selves (e.g., private cabooses) and their rank-and-file.

Yet the price the PRI paid for labor loyalty does not account for all of FNM's current problems. Economic policy also helped undo the railroads. From the 1950s to the early 1980s, the Mexican government used the train system to pursue a strategy of import substitution. As in most Latin American countries during this period, Mexico's economic program favored industrial growth fueled by low prices for raw materials and reduced costs for goods and services offered by the public sector, including transportation.

Train fares were set below costs. Over time, subsidized freight and passenger rates inhibited the railroads from generating sufficient income to finance modernization or increase capacity. As rolling stock deteriorated and truck and plane transportation became more competitive, rail traffic switched to roads and sky. Thus FNM entered into a vicious circle with demand plummeting and costs soaring thanks to obsolete equipment and a bloated work force. To appreciate the magnitude of the resulting inefficiencies, one needs only to compare FNM with its northern counterparts: in 1990, U.S. railroads produced 45 times the ton-miles of the Mexican railroads with only 2.6 times the employees.³

Something had to give. That level of backwardness — typical



A rail-bound revolutionary

2. During the late 1950s, a dissident faction of the railroad workers' union campaigned against the union leadership and against the state-owned railroad corporation. Their famous leader, Demetrio Vallejo, led massive rail strikes to demand better wages for the workers. In response to his actions, the PRI government sentenced Vallejo to 16 years in prison — a longer sentence than murderers usually receive in Mexico, according to Jonathan Kandell (*La Capital*, Random House (1988), pp. 513-515).

3. Ernesto Estrada, "Pricing Policies for the Mexican Railroads," a 1993 doctoral thesis written at the University of Chicago.

of most public enterprises in Mexico — prompted the PRI to rethink its past. In the late 1980s, former President Carlos Salinas de Gortari broke with tradition and abandoned the ruling party's revolutionary rhetoric. From 1988 to 1993, the government pulled out of more than 220 businesses, rolling back decades of nationalization. Salinas made it look easy. With the stroke of a pen, he eliminated one of the greatest of PRI revolutionary icons: agrarian reform.

The trains, however, were more troublesome. By 1989, FNM had over 85,000 employees and an annual operating deficit of a half billion dollars.⁴ Common sense said privatize. But how could Mexico sell a company so reflective of the legacies of the Mexican Revolution — workers' rights, an authoritarian political machine, a protected economy? Simple, replied the global market: restructure.

TOUGH LOVE: RESTRUCTURING

Pedro Gastruita grew up in an abandoned boxcar. A member of the railroad work gangs, his father helped build the Chihuahua-Pacific line, which was not completed until 1961. The family's rail-bound home belonged to FNM, which often lent condemned rolling stock to its itinerant workers as housing. At fourteen, Pedro dropped out of school to lay train tracks. Today, thirty-two years later, he works as a brakeman on the line he helped build. With notable pride, he carries the trappings of that title: a vintage railroad lantern.



Pedro Gastruita holding his old-fashioned signal lamp

On a recent trip through Sinaloa, as our train rounded bends and forded tunnels, Pedro communicated with his colleagues several car lengths away with coded flashes. Swinging their lamps over the side of the speeding train, the brakemen enacted a railroad ritual that disappeared in the U.S. over 40 years ago.

"They do have radios, you know," said Gustavo Vaca, the operations supervisor of the controller department back at FNM's Mexico City headquarters. "Problem is, many of our brakemen prefer the old signal lamps. It's tradition. They don't want to change."

They may have to. When FNM is privatized, Pedro will no doubt lose his lantern, if not his job. In preparation for the auction block, the Chihuahua-Pacific, along with the rest of Mexico's railroad network, is undergoing a massive restructuring program that began in 1990. Intent on saving its ailing railroads, the Mexican government has offered five years of tough love to one of its most pampered offspring.

On an organizational level, FNM has decentralized its operations and divided the country's principal train lines into separate, geographically-focused, 50-year concessions. That was the easy part. Downsizing the work force and loosening its hidebound labor practices is harder. As reflected by their lanterns, some workers have resisted change. Many dread the sell-off. Privatization, after all, means no more private fiefdoms, boxcars or cabooses.

Modern train operators are demanding. Perhaps most importantly, they want a "flexible" work force. To achieve that, rail officials and union leaders met last June to hammer out a new contract that would eliminate 3,000 separate work rules that had crippled FNM's operations for decades. Some regulations, dating from the age of steam engines, were backward even by the standards of Latin American parastatals.

"There were mountains of rules," said Vaca, an FNM

4. *ibid.*

representative in the negotiations. "The union guys considered all of them to be hard-won workers' rights. But when we sat down to review them, one by one, the leaders saw how obsolete many had become."

Take the train schedules. Until this summer, conductors on certain routes refused to drive after eleven p.m. This was tied to a safety measure established during the days when trains lacked electricity to illuminate boxcars and locomotives after nightfall. Decades after the advent of modern lighting, numerous Mexican railways continued to lose 10 to 12 hours of daily operation time vis-à-vis other train systems due to this regulation.⁵

In the old days, trains had to be stopped every 50 kilometers to check the level of oil in freight-car wheel boxes to avoid accidents from overheating. That was the rule. Until this summer, many conductors still stopped the trains every 50km, despite the fact that modern technology had long since eliminated wheel boxes.

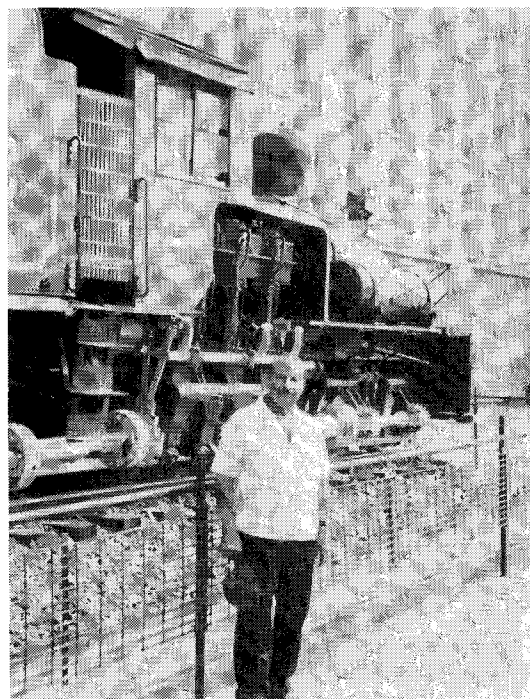
(Incidentally, Mexican trains also stop — often incessantly — to take on railway refreshment vendors. These salesman, I am told, are often retired train workers whose union chums brake on their behalf.)

And the list goes on. Irrational as these archaic practices might sound, however, there was an economic logic behind them. Until last year, FNM's compensation system encouraged such behavior. For example, while receiving a fixed sum per kilometer traveled, train operators were also paid for any additional duties or unexpected delays. Conductors made money each time they executed an order telegraphed from a station dispatcher: sideline the train, drop a freight car somewhere, etc. If the trip was late as a result, they were also paid overtime.

In 1995, rail officials changed this payment system. Train operators now receive a fixed sum per trip, with no incentives for delays or other inefficiencies. That reform, combined with the elimination of the aforementioned work rules, has helped to achieve the labor flexibility demanded by a modern railroad system.

Flexibility is one thing, fat is another. Whittling excess jobs from FNM's bloated payroll represents another restructuring challenge. This process has already begun. For starters, the government eliminated uneconomic lines and granted concessions for tertiary railroad services. Specifically, FNM canceled express trains and all freight service of less than one full rail car; significantly reduced highly-subsidized passenger service; and privatized eight repair workshops for locomotives and rolling stock.⁶

At the same time, to ease layoffs, the government has



An opponent of privatization, railroad veteran Manuel Cortez stands outside the Buenavista Station in Mexico City.

offered generous severance packages to any veteran willing to quit — three months' wages plus three weeks' salary for each year of service. Since the early 1990s, the so-called Voluntary Retirement Program has worked, witness the FNM's payroll shrinkage from 83,300 to 46,280 workers.

Many veterans are content. Take Armando Mendoza, the man with the yellow caboose. If he chooses to retire, he will receive as much as 10,000 dollars and remain eligible for a pension. Given his operating expertise, Mendoza also stands a good chance of being rehired by the new owners. Says the supervisor: "I feel relaxed about my future."

Others are not. "It's terrible, just terrible," says Manuel Cortez, 68, who worked for 29 years as a welder at the Buenavista train yard in downtown Mexico City. Passing the time outside that station, Cortez complained recently that an important source of Mexican employment is disappearing. Although he retired in the late 1980s, before restructuring began, Cortez has watched many of his friends leave FNM and quickly spend their severance packages. "Once they were dignified men," he says. "Now they're bums."

Despite FNM's considerable downsizing, estimates indicate that cutting personnel by another half would still not affect the level of service. A case in point, the Chihuahua-Pacific line currently has 2,200 employees, down from 4,000 three years ago. Yet local managers

5. These examples of outmoded work rules were provided by Gustavo Vaca, the supervisor of operations of FNM's Controller Department.

6. Four multinational companies, three from the U.S., won these concessions. *La Reforma*, Nov. 7, 1996.

suggest the line remains 50 percent over-employed. That said, the privatization of the Chihuahua-Pacific is scheduled for this month. With downsizing unfinished, will the new owners have to negotiate labor contracts all over again?

"Absolutely," states Marcos. "Due to political and time constraints, the government can only go so far."

In an ideal world, private operators would prefer individual contracts to collective obligations. Recently, press reports on the train sell-off have mentioned 89-day contracts renewable on the basis of worker productivity.⁷ Such agreements are sacrilege in union circles, however. Hiring on an individual, temporary basis runs counter to the collective spirit that has dominated Mexico's state-labor relations for decades. If the government itself cannot defy this tradition, how can gringo operators be expected to do it?

"They won't have to," says Marcos. "That's the local partner's job."

He is consulting one of them: Ingenieros Civiles Asociados (ICA), Mexico's largest construction company and a probable bidder on several large railway lines. Lined up with Union Pacific and Southwestern Bell, ICA offers valuable experience in hammering out new contracts with former state-employed workers. In past privatizations, the construction company has demonstrated its ability to make labor costs fit the price structures of international markets.

Consider the auction of Mexico's ports. Last year, ICA and Union Pacific successfully bid for the privatization of freight-loading services in the port of Veracruz, which handles about 40 percent of Mexico's ocean-container traffic. Just one week after assuming operational control, ICA had negotiated a new labor contract by which crane operators and freight movers could be hired by the hour. Today, their container service is, in some respects, more efficient than that of Houston, according to Marcos.

"The port of Veracruz has been transformed," he claims. "The railroads will be, too."

Betting on that prospect, virtually all major U.S. train operators have lined up with Mexican partners to bid on the privatization: Burlington Northern, Union Pa-



On a bridge somewhere in Sonora, the jobs of these railway repair men are hanging in the balance.

cific, Kansas City Southern, Illinois Central, etc. Last year, the government divided FNM into four main routes plus dozens of short-lines. The most coveted concessions are Mexico's three major trunk routes.

The jewel of the network is the Northeast Railroad, over which 60 percent of the country's rail cargo moves. The 2,455-mile network links Mexico City with Laredo, Texas, with spurs to some of Mexico's major industrial centers — Queretaro, Saltillo, Monterrey — and both coasts. The line may fetch up to one billion dollars⁸

Another trunk route, the Pacific North, crosses the heart of Mexico's fresh-produce territory. American rail carriers, like Union Pacific and Burlington Northern, value this line as they can pick up fruits and vege-

7. *La Reforma*, Oct. 10, 1996.

8. To date, five joint bidders have registered to compete for the sell-off of the Northeast Line. Each consortium comprises a Mexican partner (financial institutions, construction and transportation companies) and foreign railroad operators: ICA-Union Pacific; TMM-Kansas City Southern; a French consortium led by Gec Arshton; Illinois Central; and Grupo Mexico-Denver Central Railroad.

tables right on the California border.

On the other end of the map, the Southeast line cuts across Mexico at its shortest point, the Isthmus of Tehuantepec. With the right kind of investment, this route could offer a cheaper alternative to the Panama Canal and compete for ever-increasing rail-container traffic now moving from San Diego through Chicago to New York.

U.S. rail operators, along with the investment community as a whole, are optimistic about the train auction. In many respects, Mexico has successfully restructured FNM. By downsizing and deregulating the railroads, the government has freed future concessionaires to focus on more productive investments. Of course, not everyone is happy about change; and restructuring will have to continue after privatization. But with the relatively simple improvements mentioned above — computers, communication towers, refrigerator cars, container cranes — the trunk lines (especially the northern routes) could be profitable almost immediately.

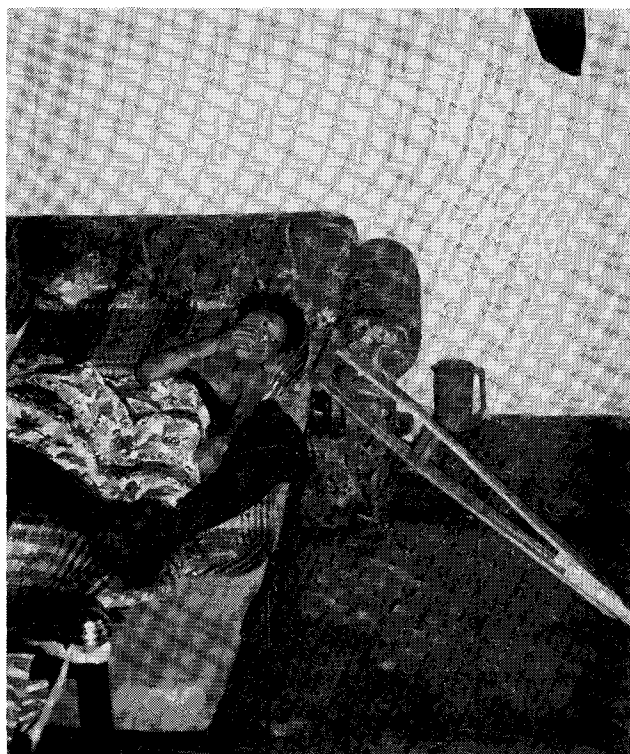
It looks like the tough love worked. Once the state's dependent offspring, FNM has been largely reformed for life on its own in the private sector. Yet as the foreign adoption process nears, one big question remains: what will happen to FNM's unwanted children — namely, thousands of squatters inhabiting railroad property scattered across Mexico? How to remove these permanent trespassers who, living flush against the tracks, are too close for operating comfort? These issues have yet to be addressed. Until they are, for foreign owners, each illegal settler is a liability suit waiting to happen.

THE SQUATTER PROBLEM

Hugo didn't wait for the train to pass. It was late September, not far from the Cuernavaca railroad station. On his way to buy tortillas, the eleven-year-old was crossing the tracks as one must to exit this working-class neighborhood. Suddenly, he tripped beneath a slow-moving train and lost his right foot. "If there had been a bridge over the rails," says his mother, Maria Juarez Domingo, "my son would never have gotten hurt."

Hugo grew up in La Pera, a squatter community of some 720 families that takes its name from its location: a pear-shaped plot of land framed by a loop of railroad track. Founded in the early 1970s, La Pera is a haphazard assemblage of makeshift buildings. Some are condemned rail cars adapted for housing, most are fashioned from materials pilfered from passing freight trains.

Locals know the land belongs to FNM. In their eyes, however, property rights pale in importance to La Pera's attractions: free electricity (pirated from railroad power lines); free building materials and food (concrete, plaster and corn salvaged from sidelined boxcars); central location (three blocks from the wholesale market where many residents work as street ven-



Hugo Juarez Dominguez bedridden but recovering in La Pera, Cuernavaca

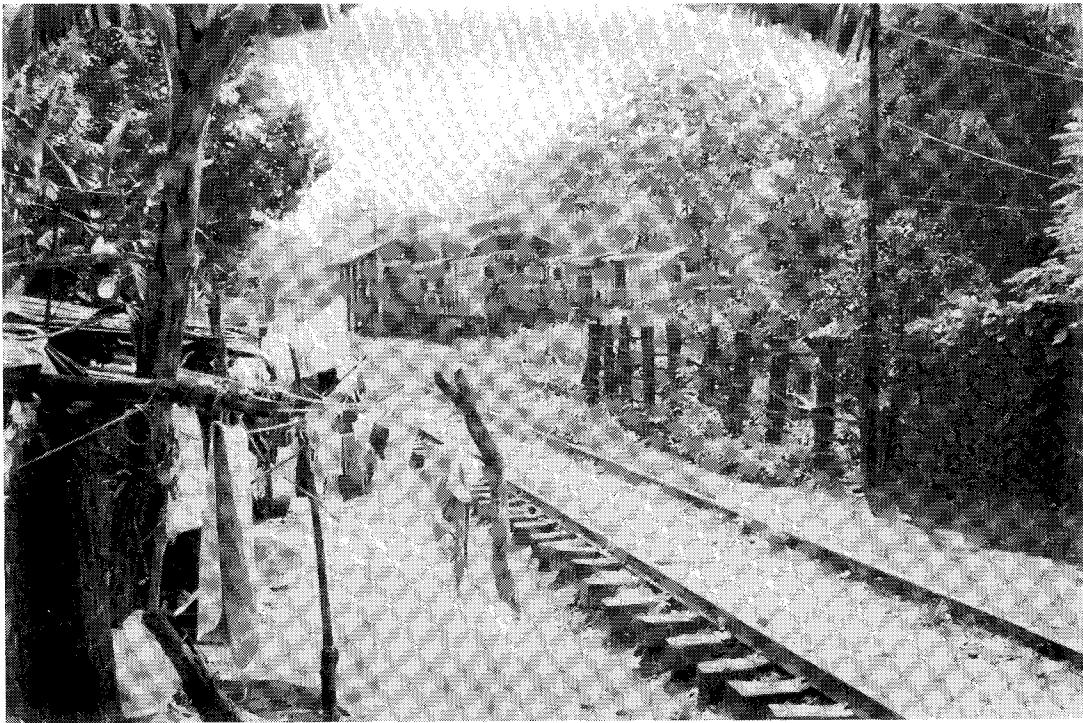
dors). The kids like it here too; after all, what child wouldn't want to play on real-life trains?

"I was not playing," affirms Hugo, bedridden but recovering in the one-room house he shares with Maria and his four sisters. Leaning against his cot, a pair of new wooden crutches recalls his great mishap and the magnitude of Mexico's railroad squatter problem.

Hugo's accident illustrates a potential handicap for the railroad privatization. In the murky world of Mexican property rights, foreign operators will no doubt face onerous and uncertain liability issues. Granted, this is not a litigious society. A case in point, the state of Morelos offered to pay Hugo's hospital bill, nothing more, and no one complained. But this could change if people like Maria knew the kind of damages she might claim had her son been run over in the U.S.

Also, given the sheer number of squatters, personal injury cases are bound to proliferate. Over the years, throughout Mexico irregular settlements not unlike La Pera have multiplied inside the "rights of way" of FNM's railways (about 15 meters on either side of the track). These, together with some 6,000 abandoned boxcars, currently provide housing for thousands of dirt-poor Mexicans. All live inside a danger zone; few have any intention of leaving.

"We're not going anywhere," declared Francisco Coronel, 66, a long-time La Pera resident who has been fighting to regularize the community's land claims since 1990. Like most people in La Pera, Mr. Coronel



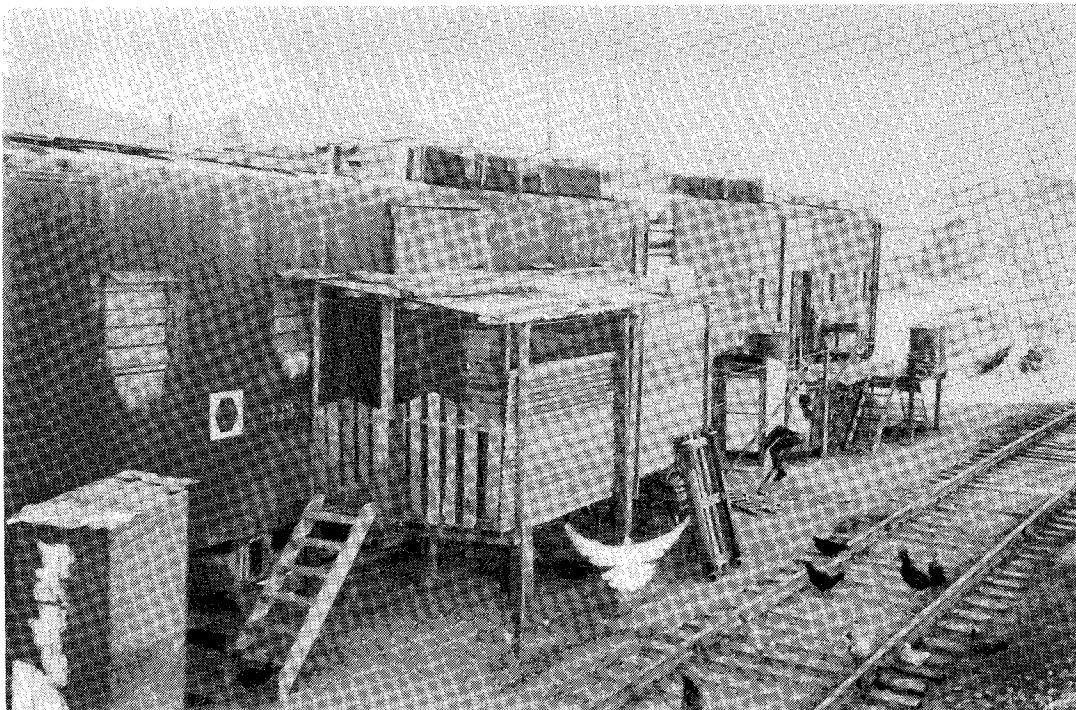
Rail-side squatter housing in La Pera

belongs to Antorcha Campesina, a radical peasant group affiliated with the PRI that vigorously — and violently — defends rural and urban squatters' rights throughout Mexico. In 1994, after repeated protest marches through downtown Cuernavaca, the state government agreed to a plan for La Pera: divide FNM's occupied property into four lots and build a public housing project on one of them. Yet, as Mr. Coronel

brandished that document with the governor's signature, he lamented how useless it has been.

"Two years have passed and nothing has happened," he said, adding that "until something does, we're staying put."

The railroads are not alone with their squatter prob-



Two of approximately 6,000 abandoned boxcars that provide housing for poor people across Mexico

lem. Like FNM, both the Federal Electricity Commission and Pemex suffer from widespread land invasions inside their operational "rights of way." In these two cases, in fact, the situation is considerably worse, as people, sometimes entire villages, settle illegally beneath live wires or above natural gas mains. In recent years, the death toll from explosions and electrocutions has far surpassed that of the occasional train crash or maimed child.

Nevertheless, the railroad risks remain. Judged by the example set by CFE and Pemex, moreover, they will not soon disappear. After all, if those almighty parastatals have failed to solve their squatter problems, imagine the prospects for U.S. operators ousting the railroad invaders.

In the final analysis, the squatters represent an obvious liability for future concessionaires. The solution seems clear: People like Hugo, his mother and Mr. Coronel must be relocated and offered alternative housing. This will not be easy. Moving entire communities requires considerable investment as well as commitment and cooperation from local authorities, many of whom draw political support from the squatters.

Foreign operators are aware of the problem. They also know that, in dealing with the squatters, their Mexican partners must play a leading role. As with post sell-off labor negotiations, local companies are better prepared to handle the political and social aberrations of Mexico's idiosyncratic economic development. They know that squatters are part of the game that is business in modern Mexico. For those not intimately familiar with the playing field, accepting their presence is, as Marcos put it, "just part of the entrance price."

TRAINING INTO THE FUTURE

Shooting into the mountainside, just beyond the city of San Luis Potosi, our locomotive began to shake. I pulled on the whistle before we reached the dark tunnel's end. "Oh Lord!" shouted the assistant conductor, slamming on the brakes as we burst into daylight, barreling toward a sharp curve. "We're going to derail!"

Suddenly everything froze — wind, sound, motion. "O.K.," said the voice over the loud speaker, "that's enough."

As the lights turned on, laughter filled the simulator room. The American visitor had unquestionably failed the brakeman diagnostic test. Climbing out of the life-size locomotive cabin, I observed the computer monitors blinking like a Christmas tree with emergency lights. The technician, still chuckling, clicked off the wall-size movie projection as he re-



The locomotive simulator at FNM's Brakeman Training Center

moved a video cassette — live footage of the rails outside San Luis Potosi. "Don't worry," he said, "that's one of the trickiest pieces of track in Mexico."

This scene occurred at the Brakeman Training Center.⁹ Located in the town of Tula, 90 miles north of Mexico City in the state of Hidalgo, the school is one of five academies that comprise FNM's Railroad Training Institute (RTI). Founded in 1957, the school was traditionally staffed and managed by the Railroad Workers' Union. As part of the restructuring program, private business consultants now administer the organization. Current director Miguel Angel Ruiz, a human resources expert who has trained the likes of TV, banking and government personnel, explained why his job matters.

"It's very simple," he affirmed. "We're preparing the railroad employees to be rehired by the Americans."

According to Angel Ruiz, FNM's outmoded rolling stock, rules and culture will impede U.S. operators

⁹. In this context, "Brakeman" is the equivalent of a U.S. "Engineer."

from implementing changes immediately. To accelerate the transition from public to private management, RTI has assumed dual responsibilities: on one hand, academies like the Brakeman Training Center are offering two-week courses to help railroad operators improve their technical skills. On the other, administrative personnel from across the network receive classroom instruction on client management and services.

"Who's the fairest of them all?" shouted Angel Ruiz before a Mexico City auditorium filled with train station masters from 14 different states. "The client!" replied the class in thundering unison. Not long ago, this scene would have been laughable. Ranging in age from early-twenties to mid-seventies, these railroad workers belong to a corporate culture long unaccustomed to promoting services. For decades, in 522 train stations throughout Mexico, hostility ruled, not hospitality.

"Nobody ever told me how to do things right before," said Luis Hernandez, a 50-year veteran who learned his trade from his father. "I've spent my whole life in a small station in Hidalgo where I developed a lot of bad habits. But now, after this course, I'm ready to make my station the best in the country."

Back at the Brakeman Training Center, Angel Ruiz is handing out diplomas to 32 graduating train operators. The men are all smiles. As they file toward the podium, many are still laughing at the *corrido* (traditional Mexican song) a guy from Veracruz composed about the dreaded locomotive simulator. Yet their jokes and high fives cast a thin veil over the emotional tension. Tomorrow, everyone will return home to their respective railways, armed with training certificates and high hopes of working for a foreign operator.

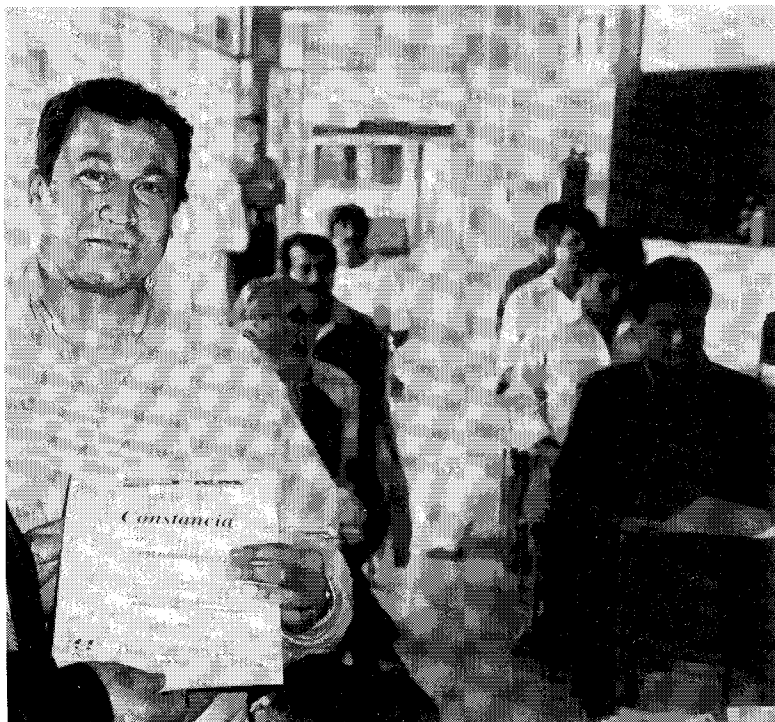
As the brakemen take their seats, a middle-aged man rises to address Angel Ruiz. "The railroads, Mr. Director, are my life," says Jorge Alberto Lopez as the others nod in agreement. "I think I speak for everyone when I say that our experience here proves that FNM workers do not fear change. We just want to be part of it."

Or do they? Half way across Mexico, on the crest of the Sierra Madre Occidental, change could not seem farther away. Climbing the switchbacks up the Chihuahua-Pacific line, fourteen rail cars roll through a wild ravine past the primitive farms of Tarahumara and Mexican settlers: plank and split-shake cabins, log corrals, silvery cornstalks. Flowers dress the shoulder of the tracks in shades of October.

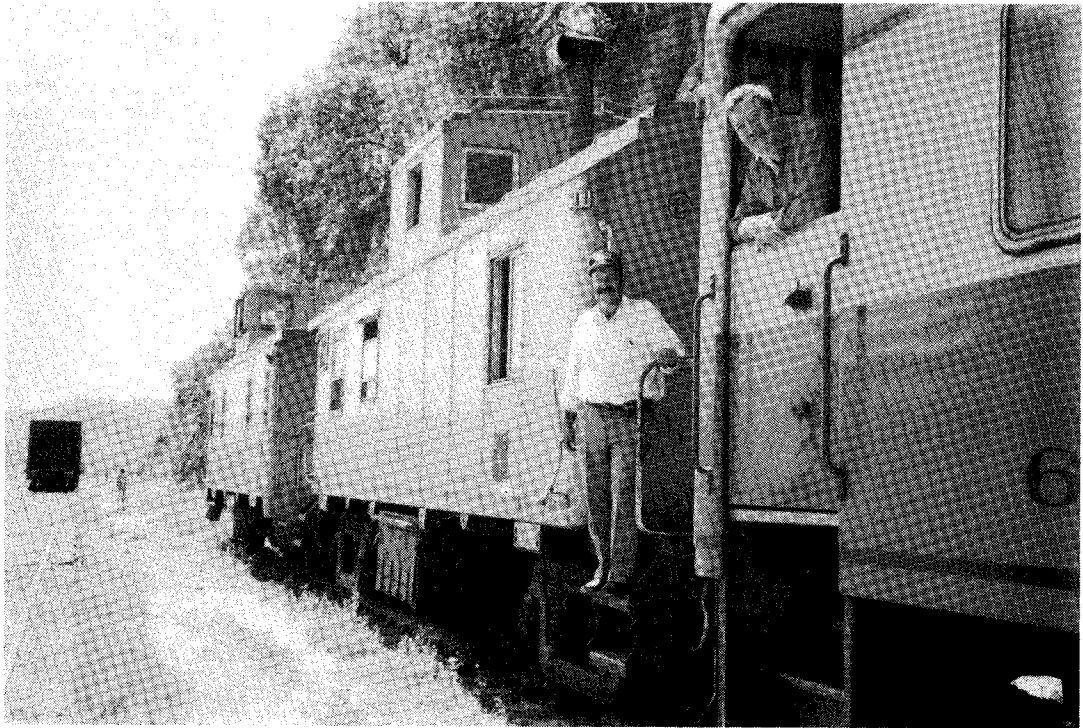
"This is my garden," says Armando Mendoza, taking in the view from a narrow running board at the prow of the locomotive. Gripping the horizontal safety bar, he squints into the wind, studying the landscape from this place where he comes to be alone.

"I've been riding this train since I was three," he remarks. Mendoza's father, another railroad man, used to take the family on vacation to Copper Canyon, a spectacular gorge located four hours north of San Rafael by rail. A career steam-engine mechanic, Mendoza senior would live to see his son climb FNM's union ranks, from work crew member to brakeman to conductor. He died in 1989, however, one year before Armando made chief supervisor, with all its powers and privileges.

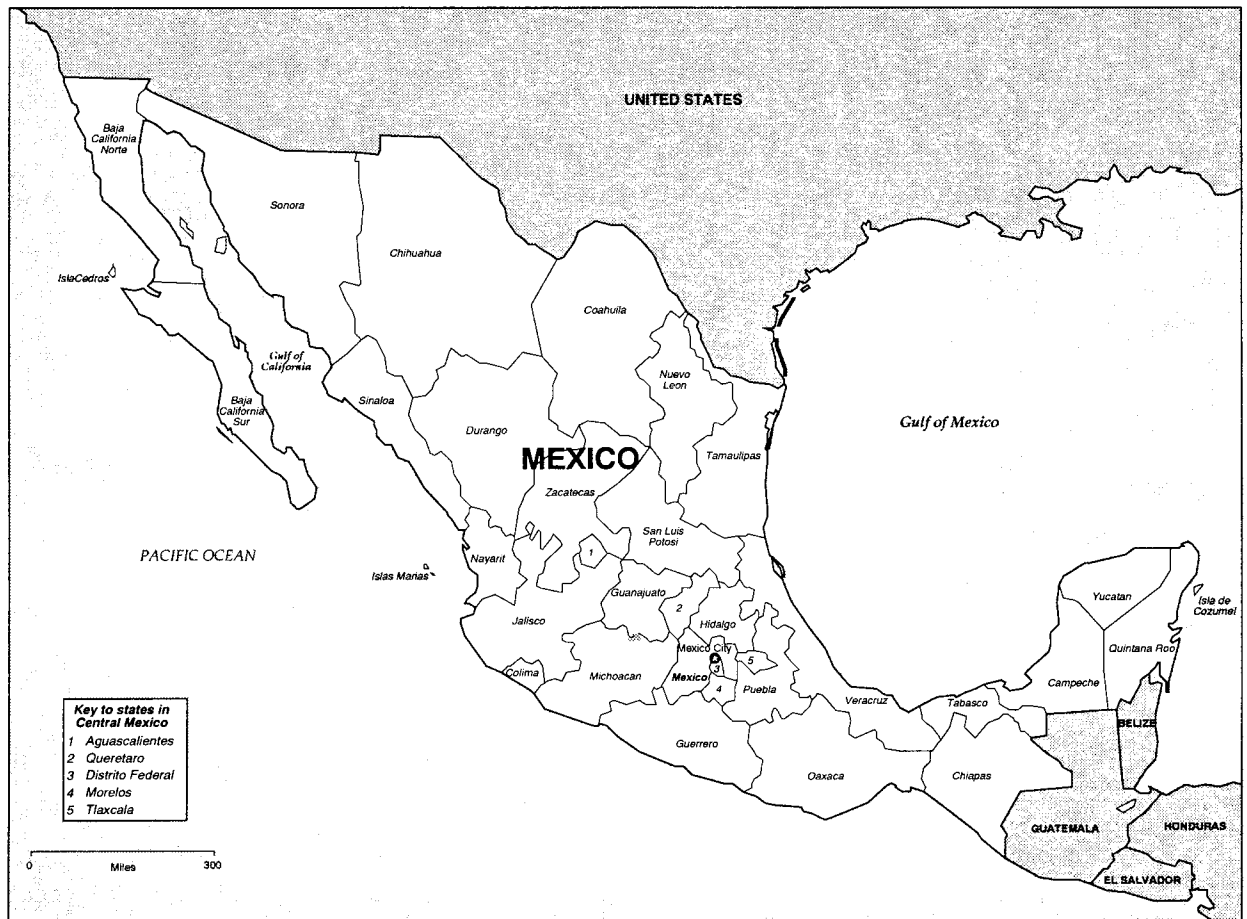
"It's one of my great regrets," Mendoza concludes, glancing back beyond the boxcars. "He never saw my caboose." □



FNM brakeman Jorge Alberto Lopez receiving his RTI training certificate



Armando Mendoza poses with a friend beside his yellow caboose on the Chihuahua-Pacific line in San Rafael, Sonora.



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Fellows and their Activities

Adam Smith Albion. A former research associate at the Institute for EastWest Studies at Prague in the Czech Republic, Adam is spending two years studying and writing about Turkey and Central Asia, and their importance as actors the Middle East and the former Soviet bloc. A Harvard graduate (1988; History), Adam has completed the first year of a two-year M. Litt. degree in Russian/East European history and languages at Oxford University. [EUROPE/RUSSIA]

Christopher P. Ball. An economist, Chris Ball holds a B.A. from the University of Alabama in Huntsville and attended the 1992 International Summer School at the London School of Economics. He studied Hungarian for two years in Budapest while serving as Project Director for the Hungarian Atlantic Council. As an Institute Fellow, he is studying and writing about Hungarian minorities in the former Soviet-bloc nations of East and Central Europe. [EUROPE/RUSSIA]

William F. Foote. Formerly a financial analyst with Lehman Brothers' Emerging Markets Group, Willy Foote is examining the economic substructure of Mexico and the impact of free-market reforms on Mexico's people, society and politics. Willy holds a Bachelor's degree from Yale University (history), a Master's from the London School of Economics (Development Economics; Latin America) and studied Basque history in San Sebastian, Spain. He carried out intensive Spanish-language studies in Guatemala in 1990 and then worked as a copy editor and Reporter for the *Buenos Aires Herald* from 1990 to 1992. [THE AMERICAS]

Sharon Griffin. A feature writer and contributing columnist on African affairs at the *San Diego Union-Tribune*, Sharon is spending two years in southern Africa studying Zulu and the KwaZulu kingdom and writing about the role of nongovernmental organizations as fulfillment centers for national needs in developing countries where governments are still feeling their way toward effective administration. [sub-SAHARA]

John Harris. A would-be lawyer with an undergraduate degree in History from the University of Chicago, John reverted to international studies after a year of internship in the product-liability department of a Chicago law firm and took two

years of postgraduate Russian at the University of Washington in Seattle. Based in Moscow during his fellowship, John is studying and writing about Russia's nascent political parties as they begin the difficult transition from identities based on the personalities of their leaders to positions based on national and international issues. [EUROPE/RUSSIA]

Pramila Jayapal. Born in India, Pramila left when she was four and went through primary and secondary education in Indonesia. She graduated from Georgetown University in 1986 and won an M.B.A. from the Kellogg School of Management in Evanston, Illinois in 1990. She has worked as a corporate analyst for PaineWebber, an accounts manager for the world's leading producer of cardiac defibrillators and manager of a \$7 million developing-country revolving-loan fund for the Program for Appropriate Technology in Health (PATH) in Seattle. Pramila is tracing her roots in India, and studying social issues involving religion, the status of women, population and AIDS. [SOUTH ASIA]

John B. Robinson. A 1991 Harvard graduate with a certificate of proficiency from the Institute of Kiswahili in Zanzibar, John spent two years as an English teacher in Tanzania. He received a Master's degree in Creative Writing from Brown University in 1995. He and his wife Delphine, a French oceanographer, are spending two years in Madagascar with their two young sons, Nicolas and Rowland, where he will be writing about varied aspects of the island-nation's struggle to survive industrial and natural-resource exploitation and the effects of a rapidly swelling population. [sub-SAHARA]

Teresa C. Yates. A former member of the American Civil Liberties Union's national task force on the workplace, Teresa is spending two years in South Africa observing and reporting on the efforts of the Mandela government to reform the national land-tenure system. A Vassar graduate with a *juris doctor* from the University of Cincinnati College of Law, Teresa had an internship at the Centre for Applied Legal Studies in Johannesburg in 1991 and 1992, studying the feasibility of including social and economic rights in the new South African constitution. [sub-SAHARA]

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