Facing the Present Crisis

Mexico's economic crisis cannot be solved —or even understood— outside of the global context which led to it.

While Mexico renegotiates its foreign debt oscillating between euphoria and uncertainty, the national debate surrounding these crucial decisions intensifies. Given VOICES OF MEXICO's desire to portray the heterogeneous and pluralist voices that conform Mexico, we present an analysis by Economist Ifigenia Martínez, a member of the Foreign Policy Advisory Commission of the Ministry of Foreign Affairs. A former director of the School of Economics of Mexico's National University (UNAM), Ms. Martínez has been outspoken in her fears that the country is in the process of losing its sovereignty as a result of the de-nationalization and de-capitalization of its economy. Her views:

The relationship between Mexico and the United States regarding issues of trade, finance and labor is so complex now that problems can no longer be taken up on a case by case basis, isolated from a more unified view that takes into account medium and long term implications, relating those problems to the past and carrying them into the future.

The impoverishment of the Third World is already having a depressive effect on world-wide demand, and there are ominous tidings in the First World due to a decrease in industrial production in the United States, West Germany and even Japan. These are symptoms of the need for change in international economic policies, of the need to revitalize the measures of international economic cooperation proposed by political forces that represent anti-conservative positions. This was the broad context for the recent meeting of the Presidents of our two nations.

It is perhaps important to remember that part of President Reagan's popularity is due to improved economic conditions in the U.S., to the strong rise in consumption and to the relative decrease in unemployment. It would seem to be an economic "miracle:" financing a rapid increase in the arms race without inflation and without raising taxes, while creating enormous budget and trade deficits. What's more, the "miracle" violates all of the orthodox rules set by the IMF for poor countries. To a large extent, the "miracle" could happen because of the prevailing international economic system, which transfers imbalances at the center of the system to the periphery and accepts the dollar as the dominant currency for international reserves. The Reagan era of prosperity for the United States has been accompanied by a development crisis in other parts of the world, prolonging hunger and misery in many decolonized countries of Africa and further impoverishing debtor nations, especially in Latin America and in particular, Mexico.

It is also important to remember that there is strong opposition to Reaganomics in more liberal sectors in the United States because the overvalued dollar has hurt the competitiveness of certain sectors, particularly agriculture and manufacturing, and most recently the oil-producing states. And this does not take into account the social costs of the "miracle," of consumerism increasingly expressed in drug addiction and other manifestations of the broken moral fiber of an overly-commercialized society.

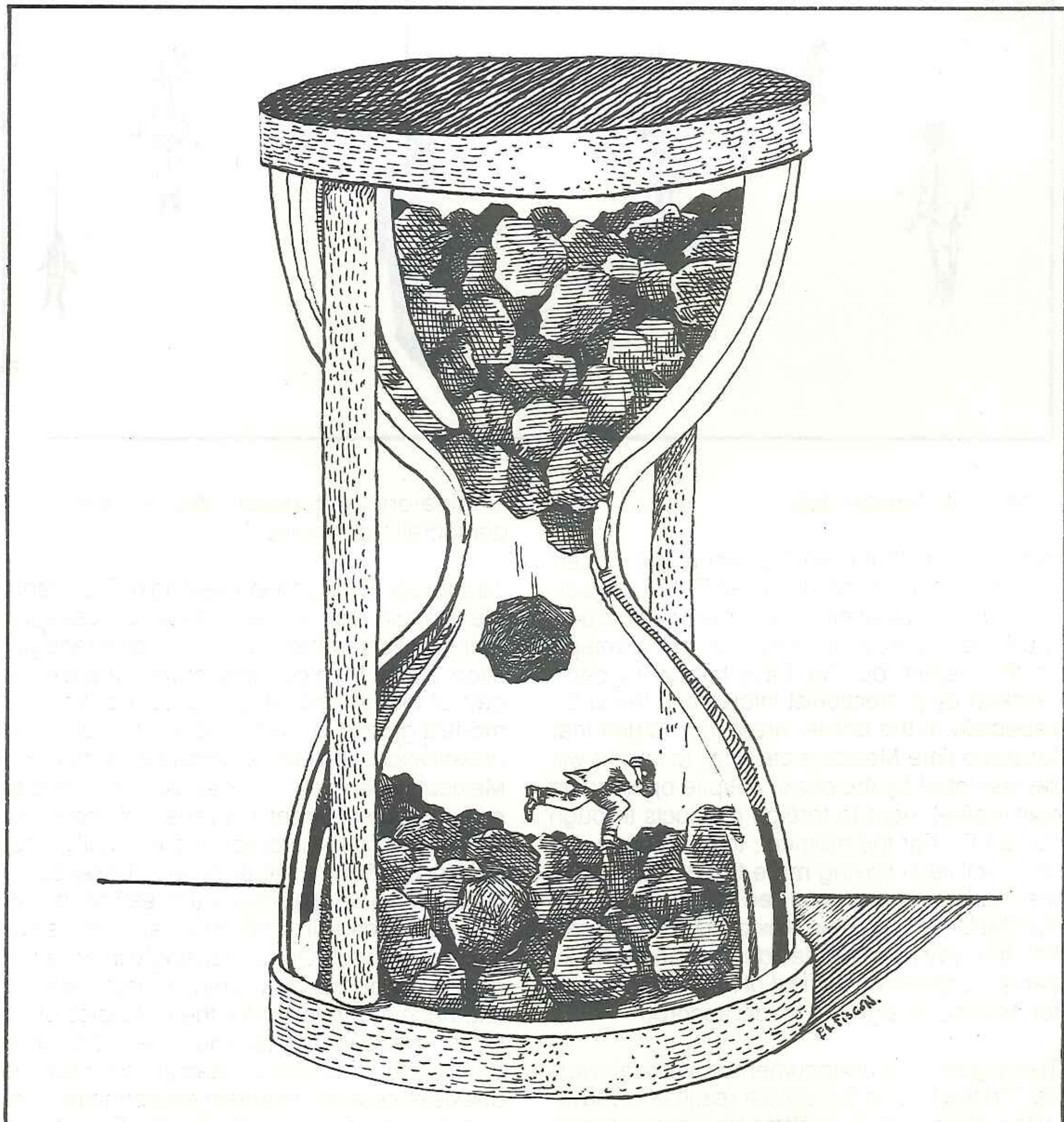
The problems between Mexico and the United States unfold in this context. In financial matters, without a doubt the main problem is the foreign debt. While it is true that only about one-third of Mexico's 96 billion dollar debt (in 1986) is with private U.S. banks, most creditors generally follow the policies set by the U.S. government. Thus, bilateral discussion of these issues is crucial. By signing a new agreement with the IMF, Mexico avoided the possibility of having to declare an "involuntary moratorium." And because the agreement does not represent a deep or equitable solution, Mexico's decision also created an opportunity to raise fundamental aspects of the problem with clarity and realism. For the moment, transitory measures were approved that preserve the rules of a game in which the odds are stacked against us. For Mexicans it is clear that a real solution lies in the the search for mutually acceptable measures that reduce the debt burden, both the principal and the interest, to bring it into line with our real capacity to pay and with our right to development. Given that Mexico's prudence has helped save the blossoming international "banking industry" from chaos, the country is on firm ground when it proposes solutions based on our national interests.

World history has shown that when a foreign debt burden grows to the point that it threatens to paralyze economic activity in the debtor country, it is mutually beneficial for the creditor to reduce the burden. That is what was done after the First World War with Germany's reparations debt and with France's debt for military equipment. And it was also done with the Soviet Union and Western allies under the World War II Lend-Lease Program.

At least since mid-1981, Mexico's debt crisis has provoked sharp drops in imports of manufactured goods and food products from the United States, severely affecting manufacturers and farmers alike in the U.S. Thus, despite additional credits that provide temporary relief for Mexico, the United States government should consider other mechanisms that could bring more lasting solutions to these problems. Examples of some feasible measures include: a) provide tax credits to banks for their losses on loans that have been less productive than expected because of forces not controlled by the producing unit; b) cancel governmental debts; c) approve reductions in principal, interests and commissions (spreads) on loans by private U.S. banks when those loans are redocumented to longer terms. The huge profits earned by U.S. banks since 1981 makes it possible to adopt such measures. Legally, the institutions that regulate U.S. banks, the Federal Reserve and the Federal Deposits Insurance Corporation, could make these kinds of concessions (based on their March 1986, ruling no. 15) without seriously affecting capital or profits in the banking system. Without a doubt, these measures would encourage economic recovery in both Mexico and the United States.

In trade matters, there are two issues of special interest to Mexico in its bilateral relations with the U.S.: the oil market and the GATT.* Regarding the first, as a result of the rapid expansion of Mexico's oil production the

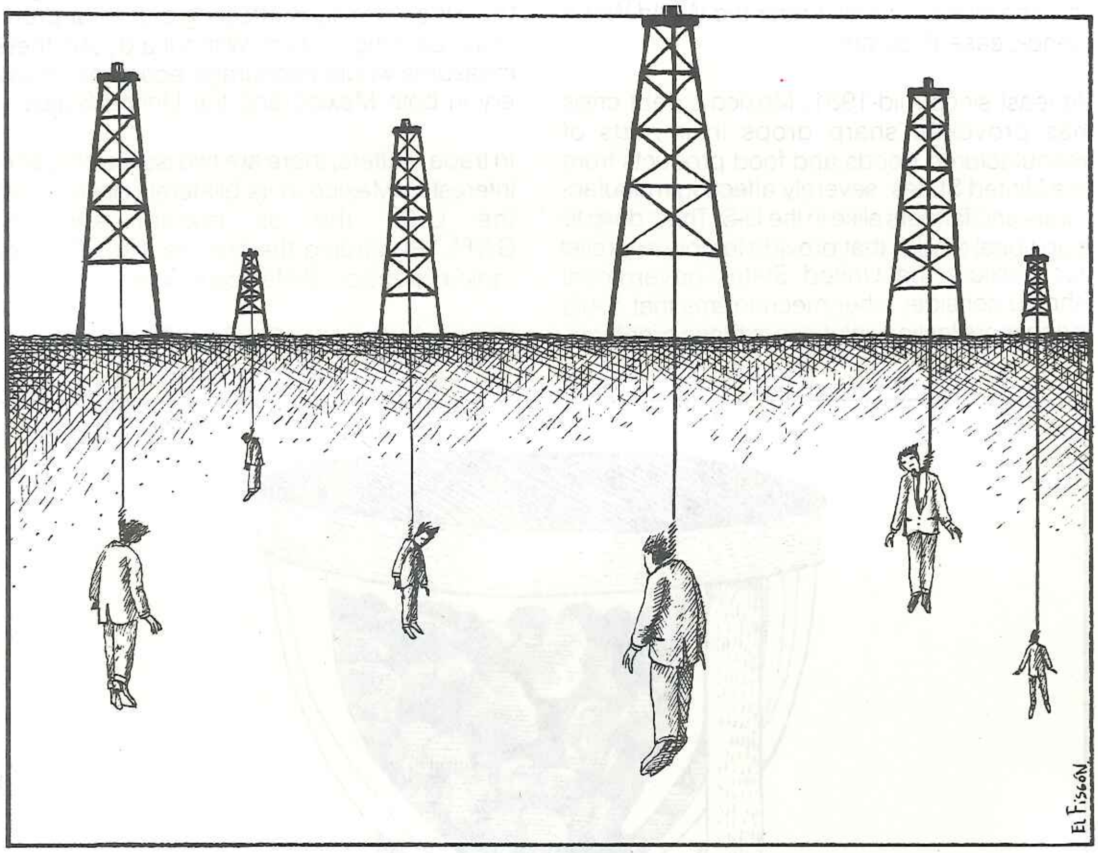
*General Agreement on Tariffs and Trade.



El Fisgón

Times of Crisis

U.S. was able to replace the volatile Middle East as its major foreign source of oil and rely on Mexico, its secure next door neighbor. And it was able to fill its strategic reserves at a very inexpensive, and perhaps even subsidized, price. Mexico's present economic problems are in part the result of the massive financing provided for the rapid expansion of its oil industry, which sent way beyond potential profitability, given the country's overall economy. While there is no way to compensate Mexico for the enormous benefits received by the United States throughout this process, Mexico's contribution should be given some weight in seeking solutions for its foreign debt.



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With regards to the second issue, it is hoped that Mexico's signing of the GATT will provide immediate protection for a variety of its export products that have a comparative advantage on the market, but that have frequently been blocked by protectionist interests in the U.S., especially in the border area. It is natural that for some time Mexico's capacity to import will be restricted by the crisis, despite opening its own market more to foreign products through the GATT. For the moment, then, the benefits may well lie in having more flexible access to the markets of industrialized countries. Given that the United States is Mexico's principal market, the way the U.S. decides to handle Mexican exports will be the test of how useful it was for Mexico to sign the trade accord.

The migration of undocumented Mexican workers to the U.S. is the simple result of the laws of the labor market; workers go where salaries are highest. While the situation began years ago, it has increased with the recent economic crisis and obviously has an impact on both countries' economies. Mexico hopes to reestablish its rate of development in order to provide more jobs in the country. But this can only happen by strengthening the mixed economy and setting adequate protective controls, both measures which go counter to the Reagan administration's economic dogmas.

Aside from economic issues, Mexico has insisted that the human and labor rights of Mexican workers in the U.S. be respected. It has also condemned certain measures that are discriminatory and racist, that violate basic democratic principles.

To sum up: in the annual meeting of Presidents, Mexico did not win any easy concessions. Rather, it seems that in the recent debt renegotiation, Baker Plan conditions were imposed as part of the accord. This implies a chance for modest growth in exchange for the continued privatization, and hence transnationalization, of Mexico's economy. The decision has generated strong resentment in a variety of social sectors, including the intellectual community. Their positions reflect a rather broad consensus in the country that Mexico should reaffirm its right and its political will to move forward with its own national project. Our increasingly interdependent world demands a commitment to detente, tolerance and respect for the principles of the United Nations Charter and other documents developed to facilitate peaceful international coexistence;a commitment and principles frequently ignored or evaded by the Reagan administration.★