

May 11, 1984

AN AGENDA FOR THE U.S. - MEXICAN SUMMIT

INTRODUCTION

On May 15, 1984, President Ronald Reagan and Mexican President Miguel de la Madrid meet in Washington to discuss U.S.-Mexican relations. The meeting offers an opportunity for President Reagan to bring U.S. concerns over Mexico's internal difficulties and left-tilted Central American policy directly to de la Madrid's attention while at the same time offering positive incentives for Mexican policy shifts to take U.S. views into account.

President Reagan will be on solid ground if he points out that Mexico's recent moves to increase the already swollen state sector of the Mexican economy are a mistake. He should offer incentives to Mexico to shift toward strengthening the private sector. At the same time, the U.S. should begin to develop a long-range approach to Mexico's and Latin America's debt problems.

Mexico traditionally has been sensitive about its foreign policy and has felt the need to be viewed as totally independent of the U.S. President Reagan, of course, should be sympathetic to this sensitivity, but must also explain the importance of developments in Central America to de la Madrid just as he recently did to the Congress and the U.S. public. Reagan must make clear that U.S. vital interests are at stake in Central America and that, while the U.S. accepts Mexican foreign policy independence, it insists that policies actively undercutting U.S. security in the region must end.

Finally, the Administration should use the de la Madrid visit as the catalyst for the beginning of a long-range assessment of how the U.S. best can encourage the development of forces within Mexico to strengthen its private sector and its orientation toward the Western world. Mexico cannot be taken for granted and the U.S. must begin at once to assure that Mexico will not become

a strategic problem for the U.S., but will continue to be an independent but friendly neighbor.

BACKGROUND

When Miguel de la Madrid became President of Mexico in December 1982, many observers believed that he would depart somewhat from the policies of his predecessors, Luis Echeverria and José Lopez Portillo. They had increased state control over the economy and asserted a strident anti-U.S., pro-left foreign policy. The perception that de la Madrid would follow a different course was based primarily on the new economic pressures assaulting Mexico, the most important of which is the \$80 billion that Mexico owes foreigners. Some \$24 billion of this is owed to U.S. banks. This economic problem, resulting from a fall in demand for oil, also led to a decreased emphasis on external matters. As a result, Mexico's image as an economic and political giant in Latin America has been shrinking.

Because of domestic pressures, de la Madrid has modified Mexico's policies--but only a bit. He has continued Mexico's traditional anti-U.S. foreign policy, although in a more subdued fashion. His economic policies have reflected the trend accelerated under Lopez Portillo to increase state economic control; state ownership of the economy is estimated at 80 percent.

De la Madrid's failure or inability to depart from the course established by Echeverria and Portillo largely reflects the pressures exerted on Mexican presidents by the PRI (Partido Revolucionario Nacional), the party whose rule has been uninterrupted and unchallenged for 50 years. Although de la Madrid has considerable power to establish laws and policies, he is inextricably part of a system of powerful interests, particularly organized labor, which has allowed him little room for maneuver.

Yet the economic crises that began in 1981 have fueled pressures from outside the PRI that have led to minor, but possibly significant, shifts in de la Madrid policies. These changes are inconsistent with PRI objectives but have been tolerated by the most powerful interests in the PRI. For example, de la Madrid has agreed to private sector demands for the return of shares in 400 companies acquired by the government when Lopez Portillo nationalized the banks at the end of 1982. Although de la Madrid's concession did not significantly improve the economic strength or power of the private sector, it was opposed by strong pro-socialist elements within PRI.

THE ECONOMIC CRISES

Mexico's trade account has moved from a deficit of \$3.1 billion to a surplus of \$13.6 billion in the past two years, due more to reduced imports than to increased exports. Although

import reduction has improved relations between the Mexican government and the International Monetary Fund and the U.S. banks, this has had serious consequences for domestic output. Many plants and production lines have been forced to close down because they lack vital imported machinery and parts. Most industries, in fact, are operating at 50 percent of capacity.

In addition, the 81 percent inflation rate has led to low savings and investment, capital outflows, and significantly decreased foreign investment. Mexico's economy is thus very weak and susceptible to changes in the world economy. These problems are exacerbated by the growing dominance of the inefficient and corrupt state or public sector.

The outlook for economic growth and management of the enormous debt burden is not bright. Though the Mexican government has managed to postpone the debt amortization payments for now, this simply means much larger payments later. Public debt amortization for 1984 has been reduced from \$5.4 billion to \$1.3 billion while new credits from 1983 and 1984 will bring total amortization to \$14 billion in 1987. It is crucial that its economy grow if Mexico is to avoid an even worse crisis at that time.

NEW SOCIAL AND POLITICAL PRESSURES ON THE PRI

One of the groups most affected by the economic crises and the sudden nationalization of the banks in 1982 by Lopez Portillo has been the middle class. Its opposition to the government was clear in last summer's municipal and state elections when the PRI suffered major electoral losses for the first time since it came to power in 1934. So impressive were the victories of the opposition National Action Party (PAN), for which the middle class voted, that PRI officials stepped in and cancelled the results and in some cases stuffed the ballots before the polls were opened. In anticipation of the forthcoming gubernatorial elections, the PRI has been substituting more palatable moderate candidates for its incumbents, who are mainly from the national labor union (CTM), in order to undercut PAN opposition. So far the powerful head of the CTM, Fidel Velazquez, has acquiesced in the removal of his members from political positions to keep PRI in power, but it is unlikely that he will tolerate further inroads into his power base.

Velazquez also is cooperating so far with the government's efforts to meet IMF-directed austerity measures by accepting small wage increases. But pressure on Velazquez from his members to be more demanding is growing. In addition, rival labor unions further on the left are gaining a foothold for the first time, thereby placing new pressures on the PRI as well as on Velazquez.

With widespread disaffection over economic conditions on the rise, the issue of corruption takes on new significance. Many Mexicans blame the extent of the country's problems, especially

the enormous foreign debt, on the inordinate profiteering of the previous administrations. To restore the PRI's image, de la Madrid made corruption a major theme in his inaugural address. However, his "campaign of moral renovation" has not brought the worst offenders to account and has so far only resulted in the conviction of a few officials from the state oil monopoly PEMEX. De la Madrid has avoided open confrontation with the notoriously corrupt and Mafia-like oil workers' union which is part of the PRI system, because of the need to keep oil revenues flowing into the country. The continued presence of these officials in the government, together with PRI's intervention in the polls last summer has discredited the stated good intentions of de la Madrid and further distanced the party from the Mexican people.

DE LA MADRID, THE U.S., AND CENTRAL AMERICA

Mexico continues to attempt to play a major role in Central America but no longer from the same position of strength that it enjoyed previously. This is due partly to the decreased oil demand which had enhanced Mexico's role in Latin America during the oil crises of the last decade. It is also due to the changed attitudes of many Latin American countries and the U.S. toward the Central American crisis as reflected in increased support for the democratic process developing in El Salvador and decreased support for leftist revolutionary movements and regimes such as Nicaragua's. These new perceptions are at odds with Mexico's policies and revolutionary rhetoric.

Very few countries in Latin America support the leftist guerrillas fighting in El Salvador against its elected government. In 1981, President Lopez Portillo joined French President Francois Mitterrand in endorsing the guerrillas as the only legitimate political force in El Salvador. Mexico continues to give them tacit support, including permission to set up their headquarters in Mexico City. Moreover, de la Madrid has yet to comment on the elections in El Salvador, which have been lauded by most other Latin American governments.

While other Latin American countries have been critical of Nicaragua, and some, such as Costa Rica, have challenged the Sandinista regime at the Organization of American States for acts of overt aggression, Mexico continues to defend and support Managua economically and diplomatically. And while nations like El Salvador, Costa Rica, and Honduras have asked for U.S. support against Nicaragua, Mexico continues to condemn the U.S. for its intervention in the region.

The Mexican government's leftist foreign policy is vulnerable, however, to internal pressures. The private sector and the middle class are beginning to express opposition to the pro-left position of the government on Central America. These sectors are adopting a clearly anti-communist stance which may have increasing impact in the future.

Despite these new pressures and the lessened credibility of Mexico's leadership in Central America, de la Madrid thus far has not altered the course established by his predecessors. This is due primarily to the strong influence of the PRI's left wing, which has gained considerable influence since the time of Echeverria. De la Madrid also may be worried about the potential threat of Soviet-Cuban support for alienated leftist factions in Mexico--a threat which many believe is now blunted only by Mexico's support of the left in Central America.

A very strong force that potentially could affect the direction of Mexico's foreign policy is the economic crisis which is forcing Mexico to turn inward and away from regional problems. As a Mexican newspaper pointed out: "The perspective of the Mexican government is very complex...but what will determine the [foreign policy] attitude which de la Madrid adopts will be the internal situation of the country...Time works against the Mexican government's position in Central America given how vulnerable is the economy and social stability."¹

THE SUMMIT

In this fifth summit between Presidents Reagan and de la Madrid, the Mexican leader will be in a considerably weaker position than before. Though this is due primarily to the economic crises, it also results from the growing political and social challenges to his administration and the ruling PRI party.

De la Madrid is faced with a dilemma. To favor the middle class and private sector could weaken the state's hold over the economy and would meet stiff and possibly violent resistance from powerful interests within the PRI, who advocate continuing the process of socialization in Mexico. Yet for Mexico to continue in the same economic and social direction could mean further economic stagnation and greater social upheaval, as well as greater electoral opposition if free and competitive elections take place as scheduled next year.

The best option for de la Madrid would be an economic recovery benefitting all sectors and undermining political opposition. To achieve this, he needs U.S. assistance. This should be rendered with the condition that there should be greater private sector participation in the economy. The U.S. should not continue to pour aid and bank bailout money into Mexico only to have it disappear into poorly designed state projects and private bank accounts. Rather, this money should be targeted for those non-state industries or sectors of production of proven dynamism but which are weak from lack of capital and vital parts and machinery. Not only will the strengthening of the private sector benefit the

¹ ACCION, March 26, 1984, p. 8.

Mexican people and the U.S. by making the economy more productive and eliminating the need for future bailouts and emergency credit paid for by the American taxpayers, but it will also weaken the political elements within the PRI who favor the further socialization of Mexico and a left leaning and anti-U.S. foreign policy.

President Reagan, therefore, should press for policies that will strengthen Mexico's private sector and the middle class as well as the less ideological elements within the PRI who have the potential, if given some leverage, to moderate the increasingly leftist direction of the leaders of that party.

Reagan should come to the negotiating table with positive proposals as well as firm requirements for U.S. assistance, especially for resolving the debt crisis. He should offer to approach the debt problem of Latin America on a regional rather than a country by country basis. It is possible that de la Madrid, following his recent Latin American tour, will make a similar proposal.

Specifically, President Reagan could offer to unify the approach and management of the Latin American debt by the various federal departments--Treasury, State, Commerce, and the Federal Reserve System. These departments have been following short-term crisis management policies and often have been at odds with each other in their proposed solutions. For example, the State Department's concern with the political consequences of austerity measures in a Latin American country has conflicted with the Commerce Department's concern about the same country's ability to increase exports at the same time that Commerce is setting lower quotas on steel, sugar, textiles, coffee, and other major export items from Latin America. The Treasury and Federal Reserve, meanwhile, hasten to provide these countries with bridge loans that only postpone and enlarge the debt burden these countries face.

Nothing is really solved by this approach. The U.S. government must not automatically make bank priorities its own. Regional stability is the stated goal of U.S. policy; a better debt management will go a long way toward reaching this goal and will reassure de la Madrid as to the positive purposes of U.S. involvement in the Central American region.

Trade is another critical area where President Reagan has positive options. With the economic crises and world recession, a growing protectionism has affected severely the economies of many Latin American countries. Since the U.S. is Mexico's largest trading partner, the rise in U.S. protectionist policies directly affects Mexico's economy. Most recently, the U.S. has imposed countervailing duties on Mexican steel, leather goods, ceramic tiles, toy balloons, lead oxide, and quotas on textiles, dairy products, cotton, sugar, peanuts, as well as restrictions on grapes and beef.

The U.S. should offer to lift restrictions on those items which would benefit Mexico's private sector. By promoting a greater diversification of export industries, this would help correct the internal structural weakness of Mexico's economy, which has been too dependent and vulnerable on oil export markets.

FOREIGN POLICY

Events in Central America clearly are the most delicate and intractable issue between Mexico and the U.S. Four Reagan-de la Madrid summits have done little to alter this fact; it is unlikely that the fifth summit will either. However, some modifications in Mexico's foreign policy more in line with U.S. policy objectives are possible, given the new pressures affecting de la Madrid.

In the last year Mexico has muted noticeably its strident revolutionary anti-U.S. rhetoric and stressed the Contadora proposals which call for, among other things, nonintervention and free elections. While it is apparent that Mexico has used the Contadora Group, of which it is a member, to criticize U.S. involvement in the region and has ignored Soviet supported Cuban intervention in the region, Mexico nevertheless has committed itself to some very important principles to which the U.S. should call attention.

Given the pressures coming from leftists in Mexico, de la Madrid may not be able to cut off support for Nicaragua's Sandinista regime. Mexico has been an important ally of the Sandinistas. Without Mexican oil and credit they would have collapsed economically by now. De la Madrid should be encouraged to use this important influence to pressure the Sandinistas toward genuine political openings and an end to Nicaragua's assaults on its neighbors.

The U.S. cannot expect Mexico to shift from its traditional foreign policies overnight; the U.S. can only use its economic leverage in a limited way to effect subtle but important modifications that could in the future bring Mexico closer in line with U.S. goals of establishing stable democracies in the Central American region. Real change will depend on the internal Mexican balance of power. By supporting the democratic and productive forces in Mexico, the U.S. can best achieve its goals in Central America as well as promote a stable and productive Mexico.

CONCLUSION

Despite four summits between President Reagan and President de la Madrid, the Reagan Administration has failed to advance significantly important U.S. interests in its relationship with Mexico. Although the foreign debt crises have brought the two countries closer, Washington has not gone beyond IMF-imposed measures to push strongly for significant changes in Mexico's

economic policy that would prevent future crises and the need for subsequent "bail-outs."

On important foreign policy issues, Mexico clearly has opposed important U.S. interests. Despite increasing Latin American support for U.S. actions in Central America, the U.S. has not seriously challenged Mexico's efforts to undermine and discredit U.S. policies vital to the interests of the free and democratic countries in the region.

More than ever the U.S. is in a position of strength to bargain seriously with Mexico. President de la Madrid is facing a crisis in his own country and confronts many difficult decisions. The U.S. must encourage and assist him to make the choices that will strengthen moderate democratic forces in Mexico.

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